

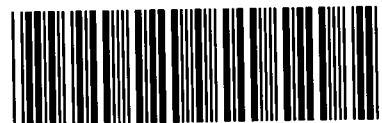
# **Newton Investment Management Limited**

Strategic report, Directors' report and financial statements

Registered number 1371973

31 December 2016

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# **Newton Investment Management Limited**

## **Contents**

Board of Directors and other information	1
Strategic report	2 - 3
Directors' report	4 - 7
Statement of directors' responsibilities	8
Independent auditor's report	9
Statement of profit and loss	10
Balance sheet	11
Statement of changes in equity	12
Notes to the financial statements	13 - 32

# **Newton Investment Management Limited**

## **Board of Directors and other information**

### **Directors**

G A Brisk

A T Downs

M Harris

J M Helby

H Jowitt (Non-Executive Director)

E H Ladd

R J Munroe

S Noble (Chair and Non-Executive Director)

H Smits

### **Secretary**

I I Partridge

### **Auditor**

KPMG LLP

Chartered Accountants

15 Canada Square

London

E14 5GL

### **Registered Office**

BNY Mellon Centre

160 Queen Victoria Street

London

EC4V 4LA

### **Registered Number**

1371973

# Newton Investment Management Limited

## Strategic report

In accordance with Section 414A(1) of the Companies Act 2006, we have prepared the Strategic report which includes a review of Newton Investment Management Limited ("the Company") business and future developments, a description of the principal risks and uncertainties facing the Company and key performance indicators.

### Business review

The Company has continued to operate profitably and there have been no significant changes in the Company's core operations during the .

The Company's sole activity is investment management and the business is built around the following principal client bases: Institutions (including government bodies, local authorities and corporations), charities and retail investment funds.

The Company continues to manage a variety of products including multi-asset, specialist equity and fixed income mandates and is in a position to offer existing and potential clients an extensive range of focussed services. The Company's investment management services are provided through segregated portfolios or ranges of pooled investment vehicles.

The overall aim of the Company is to increase the real wealth of its clients through consistent, long-term performance.

### Financial key performance indicators

The Company's key financial and other performance indicators during the were as follows:

	2016 £000	2015 £000	Change £000	Change %
Turnover	200,046	202,784	(2,738)	(1)%
Administrative expenses	120,155	108,157	11,998	11%
Profit for the financial year	59,731	74,232	(14,501)	(20)%
Net Assets	327,989	308,003	19,986	6%
Average Assets Under Management	45,825,095	45,216,088	609,007	1%

The Company's revenues are driven in the main from the value of assets under management and as such the business is susceptible to volatility in equity, fixed income and currency market levels. In order to sustain profit margins in times of market downturn the Board regularly reviews the Company's cost base and is investing heavily in systems development over the next few years to ensure the operational platform is as efficient as possible. There is some strategic risk associated with changes in the products demanded in the market, although the Company is partially protected from such changes through its varied product offering. The main business risk stems from sustained periods of under-performance on flagship funds and instability in the fund management teams. The latter risk is partly mitigated by the use of an equity incentive arrangement for the key investment professionals, whilst investment performance is regularly scrutinised by the Board.

Despite the political uncertainties of 2016, global equity markets hit new all-time highs in the second half of the year. The MSCI World closed at 1,751 on 31 December 2016, 5% up on December 2015 close (1,663). Due to volatility in the first six months of the year, the average MSCI World was down 3%. Sterling weakness had a positive impact on the translation of non-GBP source revenue streams and portfolios holding non-GBP denominated assets.

Fund performance relative to the benchmark across the core strategies has been mixed in 2016. The Company's two largest funds, Newton Real Return and Newton Global Income, out-performed over their respective benchmarks of 1 month sterling LIBOR +4% and FTSE W World (GBP) over a 12 month period. Despite delivering a positive absolute return, the Newton Global Equity Fund under-performed its comparative index (MSCI AC World), impacting on performance fee revenues which have decreased by £5,492,000 year on year. The reduction in performance fees over the period is the largest contributor to the decrease in overall turnover from 2015, as non-performance fee turnover increased by £2,754,000, buoyed by strong equity markets and new business flows in the second half of the year.

# **Newton Investment Management Limited**

## **Strategic report - continued**

2016 was a challenging year across the asset management industry with regards to new business flows, and despite experiencing net outflows of £1.2bn at the year close, the Company performed relatively well compared to the market. Notably, Quarter 3 experienced net inflows for the first time in recent years, primarily driven by strong flows into the BNY Mellon Global Real Return fund. Gross sales into the core strategies continue to remain strong and the new business pipeline is positive.

Turnover decreased from 2015 by £2,738,000 (1%), which is driven by the factors described above.

Administrative expenses increased by £11,998,000 (11%) compared to 2015, primarily driven by unusually low long term incentive plan costs in the prior year due to the departure of several senior staff members and the write back of the Newton enhanced equity scheme accrual to reflect long term growth projections, as well as 2016 severance and legal costs.

Profit for the financial year decreased by £14,501,000 (20%) compared to 2015, mainly due to the decrease in turnover and increase in administrative expenses described above.

Net assets increased by £19,986,000 (6%) during the , primarily due to higher cash and intercompany balances.

### **Principal risks and uncertainties**

The principal risks and uncertainties affecting the business have been considered and addressed in the Directors' report on pages 4 to 7

### **Business and future developments**

During 2017, the Company will continue to develop and launch new products and services to clients and seek to optimise fund management capabilities within the BNY Mellon group.

### **Approval**

By order of the Board



A T Downs  
Director

Newton Investment Management Limited  
BNY Mellon Centre  
160 Queen Victoria Street  
London  
EC4V 4LA

13 April 2017

Registered number: 1371973

# **Newton Investment Management Limited**

## **Directors' report**

The directors present their report and financial statements for the ended 31 December 2016.

### **Principal activities**

The principal activity of the Company is investment management.

The Company is authorised by the Financial Conduct Authority ("FCA"). All the Company's activities during the year were regulated and conducted within the scope of permissions granted to the Company by the FCA.

### **Results and dividends**

The profit for the after taxation amounted to £59,731,000 (2015: £74,232,000).

Interim dividends paid during the amounted to £50,000,000 (2015: £55,000,000). The directors do not recommend a final dividend for the ended 31 December 2016 (2015: £nil).

### **Risk management**

The Company is a BIPRU limited license firm and is regulated by the FCA. Capital and other financial returns are prepared and submitted to the regulator on a semi-annual basis. At 31 December 2016, surplus regulatory capital as reflected within the Company's regulatory returns amounted to £115,416,000 (2015: £92,814,000).

### **Governance and policies**

Policies and procedures are in place to govern and manage the business. Suitable policies and procedures have been adopted by the Company in order to ensure an appropriate level of risk management is directed at the relevant element of the business.

Governance of the Company is the ultimate responsibility of the Board of Directors. The Board is responsible for the ongoing success and development of the Company's business as well as setting the risk appetite for the firm as part of the risk framework. The Board includes a dedicated Newton Chief Risk Officer. The firm also has a Head of Compliance. She has an independent reporting line into the BNY Mellon EMEA Head of Risk and Compliance for Investment Management.

Key committees are in place to oversee compliance and risk management of the business to ensure adequate risk management and controls are in place. Each committee has clearly stated terms of reference and reporting lines.

The key committees include:

- Newton Board Risk Committee
- Newton Risk and Compliance Committee
- Newton Investment Oversight Committee
- Treating Customers Fairly and Conflicts of Interest Committee

### **Risk management process**

The lines of business are responsible for actively identifying the risks associated with their key business processes, identifying and assessing the quality of controls in place to mitigate risk and assigning accountability for the effectiveness of those controls. This is done through the Risk Control Self-Assessment Process (RCSA). The objective of this is to prevent or minimise:

# **Newton Investment Management Limited**

## **Directors' report - continued**

### **Risk management process - continued**

- Errors or service delivery failures, especially those with visible impact on clients
- Financial losses
- Compliance breaches
- Reputational damage

The risk appetite at Bank of New York Mellon Corporation group ("the Group") level is set and owned by the BNY Mellon Board of Directors, giving the overall strategy and willingness to take on risk at a global level. A Risk Appetite Statement and accompanying management information also exists at the Company level. The Company's approach to risk management is to ensure that all material risks in each business are defined, understood and effectively managed by well-designed policies and controls. The Company's risk appetite is commensurate with local business and regulatory requirements, within the guidance set by the Group and in coordination with the relevant business expertise.

From September 2010, risks of the Company have been measured, reported and monitored quarterly as part of the EMEA risk management framework which has been adopted by the Company. The reporting measures risk and capital against their regulatory capital requirements as well as monitoring Pillar 2 risk assessments, the internal capital adequacy processes (ICAAP) and liquidity assessments.

#### ***Credit risk***

Credit risk covers default risk from counterparties where realisation of the value of the asset is dependent on counterparties' ability to perform.

#### ***Market risk***

Market risk is the risk of loss due to adverse changes in the financial markets. Market risk arises from foreign exchange exposure in respect of revenue; expenses, and interest rate exposure on cash balances.

#### ***Operational risk***

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events: including the potential for loss that arises from problems with operational processing, human error or omission breaches in internal controls, fraud, and unforeseen catastrophes.

#### ***Liquidity risk***

Liquidity risk is the risk that a firm, although balance sheet solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.

#### ***Business risk***

Business risk includes risk to a firm arising from changes in its business, including the risk that the firm may not be able to carry out its business plan and its desired strategy.

#### ***Compliance risk***

Compliance risk covers the risk relating to earnings or capital from violation, or non-conformance with laws, rules, regulations, prescribed practices or ethical standards which may, in turn, expose the firm and its executors to fines, payment of damages, the voiding of contracts and damaged reputation.

# Newton Investment Management Limited

## Directors' report - continued

### Pillar 3 risk disclosures

CRR Pillar 3 disclosures about the Company (capital and risk management) are covered by the BNY Mellon Investment Management Europe Holdings Limited group disclosures which can be found on the group website: (<https://www.bnymellon.com/us/en/investor-relations/other-regulatory.jsp>).

### Employees

The Company is committed to a best practice approach to consult with employees on matters that are likely to affect their interests. Information of general interest to employees is provided through the intranet, newsletters and notices and general dialogue between line managers and employees, all of which seeks to achieve a common awareness of the financial and economic factors which impact on the Company's performance. In addition the Company participates in the UK Employee Information & Consultation Forums at both a local and European level. The Forums build on existing communication channels and provides more formal opportunities for dialogue between management and employees.

The Company adopts a total rewards and pay for performance remuneration philosophy. Any remuneration elements awarded in respect of bonus and long-term incentives are discretionary, based on individual and business unit performance together with other factors as determined from time to time in the context of the Company's operating plans and results and may be subject to deferral. All employees have the opportunity to purchase stock through the Group's Employee Stock Purchase Plan and the key business drivers are eligible to participate in a long term incentive scheme consisting of an existing award scheme vesting over a three year period and enhanced equity award scheme vesting over a five year period, which links their compensation to the growth in value and financial performance of the Company.

The Company is also committed to providing relevant training and development opportunities, to include achievement of professional qualifications, to enable each employee to successfully fulfil their job responsibilities, and in addition, meet regulatory requirements. The Company adheres to the principles of Equal Employment Opportunity, and through our diversity and inclusion framework, we empower our people to reach their full potential.

### Directors

The directors who served during the year and up to the date of the report were as follows:

	Appointed	Resignation
G A Brisk	8 May 2016	-
C D Cowie	-	17 June 2016
A T Downs	-	-
M Harris	-	-
J M Helby	-	-
H Jowitt	-	-
E H Ladd	-	-
H L Morrissey	-	31 December 2016
R J Munroe	-	-
S Noble	-	-
H Smits	11 August 2016	-

### Directors' indemnity provision

The articles of association of the Company provide that in certain circumstances the directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the Companies Act 2006. Indemnity provisions of this nature have been in place during the but have not been utilised by the directors (2015: £nil).



# **Newton Investment Management Limited**

## **Directors' report - continued**

### **Disclosure of information to auditor**

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### **Auditor**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board



A T Downs  
Director

Newton Investment Management Limited  
BNY Mellon Centre  
160 Queen Victoria Street  
London  
EC4V 4LA

13 April 2017

Registered number: 1371973

## **Newton Investment Management Limited**

### **Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements**

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101: *Reduced Disclosure Framework* ("FRS 101").

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, including FRS 101, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Newton Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **Independent auditor's report to the members of Newton Investment Management Limited**

We have audited the financial statements of Newton Investment Management Limited for the ended 31 December 2016 set out on pages 10 to 32. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of director's responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic report and the Directors' report for the financial are consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**Neil Palmer (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*

15 Canada Square  
London, E14 5GL  
13 April 2017

# Newton Investment Management Limited

## Statement of profit and loss for the year ended 31 December 2016

		2016	2015
	Note	£000	£000
Turnover	2	200,046	202,784
Administrative expenses	3	(120,155)	(108,157)
<b>Operating profit</b>		<b>79,891</b>	<b>94,627</b>
Interest receivable and similar income	6	910	1,050
Interest payable and similar charges	7	-	(90)
<b>Profit before taxation</b>		<b>80,801</b>	<b>95,587</b>
Taxation on profit	8	(21,070)	(21,355)
<b>Profit for the financial year</b>		<b>59,731</b>	<b>74,232</b>

Notes 1 to 24 are integral to these financial statements.

All items dealt with in arriving at the Company's results for the financial and prior year relate to continuing operations.

The Company has not prepared a separate statement of other comprehensive income as all the income and losses are reflected in the Statement of profit and loss above.

# Newton Investment Management Limited

## Balance sheet at 31 December 2016

	Note	2016 £000	2015 £000
<b>Fixed assets</b>			
Tangible assets	9	475	208
Intangible assets	10	4,920	3,396
		<u>5,395</u>	<u>3,604</u>
<b>Current assets</b>			
Debtors (including £3,491,000 (2015: £3,774,000) due after more than 1 year.)	11	54,132	41,970
Investments	13	37,420	38,578
Cash at bank and in hand	14	284,276	267,554
		<u>375,828</u>	<u>348,102</u>
Creditors: amounts falling due within one year	15	(49,424)	(40,980)
Net current assets		<u>326,404</u>	<u>307,122</u>
 Total assets less current liabilities		 331,799	 310,726
 Creditors: amounts falling due after more than one year	16	 (3,810)	 (2,723)
<b>Net assets</b>		<u><u>327,989</u></u>	<u><u>308,003</u></u>
 <b>Capital and reserves</b>			
Called up share capital	18	35,500	35,500
Other reserves		86,557	76,302
Profit and loss account		<u>205,932</u>	<u>196,201</u>
<b>Shareholders' equity</b>		<u><u>327,989</u></u>	<u><u>308,003</u></u>

Notes 1 to 24 are integral to these financial statements.

These financial statements were approved by the Board of Directors and were signed on its behalf by:



A T Downs  
Director

13 April 2017

Company registered number: 1371973

# Newton Investment Management Limited

## Statement of changes in equity

31 December 2016

	Called up share capital £000	Other reserves £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2015	35,500	69,363	176,969	281,832
Profit for the	-	-	74,232	74,232
Equity-settled share based payment transactions	-	6,939	-	6,939
Dividends	-	-	(55,000)	(55,000)
<b>Balance at 31 December 2015</b>	<b>35,500</b>	<b>76,302</b>	<b>196,201</b>	<b>308,003</b>

	Called up share capital £000	Other reserves £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2016	35,500	76,302	196,201	308,003
Profit for the	-	-	59,731	59,731
Equity-settled share based payment transactions	-	10,255	-	10,255
Dividends	-	-	(50,000)	(50,000)
<b>Balance at 31 December 2016</b>	<b>35,500</b>	<b>86,557</b>	<b>205,932</b>	<b>327,989</b>

Notes 1 to 24 are integral to these financial statements.

# Newton Investment Management Limited

## Notes to the financial statements for the year ended 31 December 2016

### 1 Accounting policies

#### 1.1 Basis of preparation and statement of compliance with FRS 101

The Company is a private company incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

The Company's ultimate parent undertaking, The Bank of New York Mellon Corporation includes the Company in its consolidated financial statements. The consolidated financial statements of The Bank of New York Mellon Corporation are prepared in accordance with U.S. Generally Accepted Accounting Principles, which are *equivalent* to Adopted IFRS. The Bank of New York Mellon Corporation's consolidated financial statements are available at [www.bnymellon.com/us/en/investor-relations](http://www.bnymellon.com/us/en/investor-relations). Accordingly the Company is a *qualifying entity* for the purpose of FRS 101 disclosure exemptions.

Accordingly, in preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosure in respect of capital management;
- The effects of new but not yet effective IFRSs;

As the consolidated financial statements of The Bank of New York Mellon Corporation include equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

The following standards are not yet effective, and are not expected to have a material impact on these financial statements:

# Newton Investment Management Limited

## Notes to the financial statements - continued for the year ended 31 December 2016

### 1 Accounting policies - continued

#### 1.1 Basis of preparation and statement of compliance with FRS 101 - continued

- IFRS 9 *Financial Instruments*, the Company is currently assessing the potential impact of the standard as part of its IFRS 9 project, deployed in 2016 and plans to adopt the new standard when mandatorily effective. Analysis of the application of the classification and measurement requirements of the standard was completed in 2016. Overall, the results show no impact from those requirements on the measurement of in-scope financial instruments for the Company. An IFRS 9 impairment project is currently being implemented, preliminary analysis of the application of IFRS 9 to the Company has identified no significant impact from the new impairment model.
- IFRS 15 *Revenue from Contracts with Customers*, the Company is currently assessing the impact of the standard as part of its IFRS 15 project, initiated in 2016, and plans to adopt the new standard when mandatorily effective, for annual periods beginning on or after 1 January 2018. Preliminary analysis of the application of IFRS 15, including contract reviews and disclosure requirements, has been performed and no significant areas of impact to the Company's revenue recognition policies were identified; and.
- IFRS 16 *Leases*, the Company is currently assessing the potential impact of the standard as part of its IFRS 16 project, initiated in 2016 and plans to adopt the new standard when mandatorily effective, for annual periods beginning on or after 1 January 2019. Preliminary analysis of the application of IFRS 16, including lease inventory classification and review of existing vendors, has been performed and no significant areas of impact to accounting for leases in the Company were identified

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.20.

#### 1.2 Measurement convention

These financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as fair value through the profit or loss, liabilities for cash-settled share-based payments. Non-current assets are stated at the lower of previous carrying amount and fair value less costs to sell.

#### 1.3 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 2 to 3. In addition, the Directors' report on pages 4 to 7 includes the Company's objectives, policies and processes for managing its capital; its financial risk management objective and its exposures to credit and liquidity risk.

The Company has adequate liquidity and capital. The directors perform an annual going concern review that considers, under a stress test scenario, the Company's ability to meet its financial obligations as they fall due, for a period of at least twelve months after the date that the financial statements are signed. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

Based on the above assessment of the Company's financial position, liquidity and capital, the directors have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future (for a period of at least twelve months after the date that the financial statements are signed). Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.



# **Newton Investment Management Limited**

## **Notes to the financial statements - continued** for the year ended 31 December 2016

### **1 Accounting policies - continued**

#### **1.4 Related party transactions**

As the Company is a wholly owned indirect subsidiary of the ultimate parent company, The Bank of New York Mellon Corporation, it has taken advantage of the exemption contained in IAS 24 and has therefore not disclosed transactions with entities which form part of the Group. Balances with other members of the Group are disclosed within notes 11, 14 and 15.

#### **1.5 Reclassification**

Certain prior year numbers have been reclassified to be consistent with current year presentation. This has affected note 4 of the financial statements.

#### **1.6 Turnover**

Revenue, which is stated net of value added tax, comprises management fees, performance fees, net management fees receivable from group companies and other income and is accrued over the period for which these services are provided.

Management fees are fees paid for the management of investment portfolios. These are recognised as services are provided and are calculated on various formulae linked to the value of portfolios at invoicing dates. Performance fees are fees paid on the investment performance in current and previous periods. Revenue is recognised for the element of management fees linked to performance, which is usually billed on a four-year rolling basis, when such fees in respect of each calendar year are receivable in accordance with management agreements.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions.

#### **1.7 Segmental reporting**

A segment is a distinguishable component of the Company which is specific to either the type of product or service (business segment), or to products and services provided within a particular economic environment (geographical segment), where the risks and rewards are different from those of other segments.

Currently, the directors consider that the Company's services comprise one business segment (being the provision of investment management services) and that it operates in the UK market which is not further geographically segmented.

#### **1.8 Operating leases**

Payments made under operating leases are recognised in the statement of profit and loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of profit and loss as an integral part of the total lease expense.

#### **1.9 Employment benefits**

##### ***Share based payments***

Certain employees are issued Restricted Stock Units (RSUs) and options in the shares of The Bank of New York Mellon Corporation (the Company's ultimate parent). All share-based payments issued under these plans are equity settled.

The grant date fair value of the majority of share based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally

# Newton Investment Management Limited

## Notes to the financial statements - continued for the year ended 31 December 2016

### 1 Accounting policies - continued

#### 1.9 Employment benefits - continued

##### *Share based payments continued* entitled to the awards.

Most RSUs issued are measured based on grant date fair value of the shares of The Bank of New York Mellon Corporation. However, certain awards are granted to Material Risk Takers ("MRTs") under the European Banking Authority and are required to be marked to market due to discretionary claw back language contained in their grants. Options are measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted.

Vesting conditions are not factored into the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction, so that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. On a cumulative basis, no expense is recognised for equity instruments that do not vest because of a failure to satisfy non market performance or service conditions.

The fair value of equity instruments that are made available immediately, with no vesting period attached to the award, are expensed immediately. Certain of our share based payment awards vest when the employee retires. For grants of share based payments with this feature, the award is fully expensed by the first date that the employee is eligible to retire. If an employee voluntarily leaves the company before the awards are fully vested, then the shares in relation to the employee are forfeited, with a credit to the income statement and a debit to equity.

Where an employee has transferred between different companies within the BNY Mellon Group, current and future years' amortisation of all types of share based payments issued in prior years will be charged to the new Company from the year of transfer.

##### *Long Term Incentive Plan*

Awards made under the Long Term Incentive Plan (LTIP) are in the form of restricted equity in the holding company, Newton Management Limited. Once shares have reached exercise point, the employee is entitled to acquire the shares from the holding company, accordingly, awards issued under this plan are classified as equity settled in Newton Investment Management Limited and cash-settled in Newton Management Limited as this is the settling entity. Awards vest over a three year period and the cost is charged on a straight line basis during this period to Newton Investment Management Limited.

The value of the shares is assessed on a bi-annual basis by an independent valuer, with mark to market adjustments being recognised in the holding company. The key inputs into the valuation process are five year forecasts, including a discounted cash flow prepared by the Company. Employees may hold their shares for a maximum period of seven years following acquisition. If an employee decides to sell their shares, they may do so in a window following the most recent valuation at the prevailing price per share by exchanging them for cash from the holding company, Newton Management Limited.

If an employee voluntarily leaves the company before the awards are fully vested, then the shares in relation to the employee are forfeited, with a credit to the income statement and a debit to equity. The offset in the holding company, Newton Management Limited is a debit to the LTIP liability and a credit to the cost of investment in Newton Investment Management Limited. If an employee leaves the company involuntarily, the proportion of the award up to the date of departure can be exercised in the next redemption window, with the remainder being written back. This is at the discretion of the remuneration committee.

# **Newton Investment Management Limited**

## **Notes to the financial statements - continued** **for the year ended 31 December 2016**

### **1 Accounting policies - continued**

#### **1.10 Post-employment benefits**

##### ***Defined contribution plans***

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of profit and loss in the periods during which services are rendered by employees.

##### ***Defined benefit plans***

The Company participates in a group wide defined benefit pension plan. As required by IAS 19 Employee Benefits, as there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the Company recognises a cost equal to its contribution payable for the accounting period, as if it were a defined contribution plan. The net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, which is another member of the Group. The assets of the plan are held separately from those of the Company.

#### **1.11 Interest receivable and interest payable**

Interest payable and similar charges include interest payable and net foreign exchange gains or losses that are recognised in the statement of profit and loss (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in the statement of profit and loss as it accrues, using the effective interest method.

#### **1.12 Foreign currency**

The Company's functional currency is GBP. The Company's presentational currency is also GBP. Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are reported net in the statement of profit and loss within interest payable and similar charges, except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Any resulting exchange differences are reported net in the statement of profit and loss within interest receivable or payable as appropriate.

#### **1.13 Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of profit and loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or

# Newton Investment Management Limited

## Notes to the financial statements - continued for the year ended 31 December 2016

### 1 Accounting policies - continued

#### 1.13 Taxation - continued

substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

#### 1.14 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

When parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Depreciation is charged to the statement of profit and loss on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- Office equipment 10 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

#### 1.15 Intangible assets

Other intangible assets that are capitalised by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses. These primarily relate to a project to transition existing front and middle office systems onto a new platform.

##### *Amortisation*

Amortisation is charged to the statement of profit and loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Computer software, other 5 years

#### 1.16 Current asset investments

Investments represent stocks of units and shares held and are carried at fair value through profit and loss. Gains and losses arising from changes in the fair value based on quoted market prices are recognised through the statement of profit and loss.

# **Newton Investment Management Limited**

## **Notes to the financial statements - continued** for the year ended 31 December 2016

### **1 Accounting policies - continued**

#### **1.17 Non-derivative financial instruments**

Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents and trade and other creditors.

##### *Trade and other debtors*

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

##### *Trade and other creditors*

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

#### **1.18 Impairment of financial assets (including trade and other debtors)**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of profit or loss.

#### **1.19 Offsetting**

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under FRS 101, or for gains and losses arising from a group of similar transactions.

#### **1.20 Accounting estimates and judgements**

In preparing these financial statements, management has made judgements, estimates and assumptions about future conditions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Management believes that the Company's critical accounting policies for which judgement is necessarily applied are those which relate to the valuation of financial instruments, deferred tax assets, provisions and impairment of intangible assets. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty, are set out in the notes on the financial statements.

# Newton Investment Management Limited

## Notes to the financial statements - continued for the year ended 31 December 2016

### 2 Turnover

#### *By activity*

	2016	2015
	£000	£000
Management fees	62,637	56,875
Performance fees	10,093	15,585
Net management fees receivable from group companies	127,316	130,324
	<u>200,046</u>	<u>202,784</u>

Net management fees receivable relates to fees receivable from group undertakings for the management of portfolios, for which another group undertaking is the fund operator.

Currently, the directors consider that the Company's services comprise one business segment (being the provision of investment management services) and that it operates in the UK market which is not geographically segmented.

### 3 Expenses and auditor's remuneration

Profit before taxation is stated after charging:

	2016	2015
	£000	£000
Depreciation of tangible fixed assets	84	70
Amortisation of intangible assets	1,300	863

Auditor's remuneration:

	2016	2015
	£000	£000
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of these financial statements pursuant to legislation	61	92
Audit related assurance services	64	62
All other services	41	40
	<u>166</u>	<u>194</u>

# Newton Investment Management Limited

## Notes to the financial statements - continued for the year ended 31 December 2016

### 4 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the was 302 (2015: 303), of which 7 were directors (2015: 7).

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 # £000
Salaries and wages	66,279	61,215
Share based payments (see note 22)	798	734
Social security costs	5,227	3,529
Pension costs	3,249	3,610
Other staff costs	909	1,102
	<u>76,462</u>	<u>70,190</u>

Company

# The Company has reclassified certain prior year numbers to be consistent with current year presentation.

### 5 Directors' remuneration

The aggregate amount of remuneration paid to or receivable by directors in respect of qualifying services is disclosed below. Qualifying services include services as a director of the company, as a director of any of its subsidiary undertakings or otherwise in connection with the management of the affairs of the Company or any of its subsidiary undertakings. The amounts are disclosed irrespective of which BNY Mellon group company actually makes the payment to the directors. Previously, only remuneration paid by this Company had been included in the disclosure. The comparatives have therefore been amended.

	2016 £000	2015 £000
Directors' emoluments	3,985	4,125
Amounts receivable under long term incentive schemes	2,342	1,889
Company contributions to money purchase pension plans	106	142
Company contributions to defined benefit pension plans	28	40
Compensation for loss of office	347	-
	<u>6,808</u>	<u>6,196</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £2,223,000 (2015: £2,548,000), and Company pension contributions of £35,000 (2015: £37,000) were made to a money purchase scheme on their behalf.

	Number of Directors	
	2016	2015
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	6	7
Defined benefit schemes	2	3
The number of directors who exercised share options was	1	1

# Newton Investment Management Limited

## Notes to the financial statements - continued for the year ended 31 December 2016

### 5 Directors' remuneration - continued

	Number of Directors	
	2016	2015
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	4	7

### 6 Interest receivable and similar income

	2016	2015
	£000	£000
Net foreign exchange gain	82	-
Receivable from external third parties on bank deposits	1	3
Receivable from group undertaking	669	878
Receivable from current asset investment	158	169
Total interest receivable and similar income	<u>910</u>	<u>1,050</u>

### 7 Interest payable and similar charges

	2016	2015
	£000	£000
Net foreign exchange loss	-	90
Total other interest payable and similar charges	<u>-</u>	<u>90</u>



# Newton Investment Management Limited

## Notes to the financial statements - continued for the year ended 31 December 2016

### 8 Taxation

#### *Recognised in the statement of profit and loss*

	2016 £000	2015 £000
<i>UK corporation tax</i>		
Current tax on income for the period	16,668	13,589
Adjustments in respect of prior periods	4,122	5,196
Total current tax	20,790	18,785
<i>Deferred tax (see note 12)</i>		
Origination and reversal of temporary differences	(479)	2,091
Reduction in tax rate	546	370
Adjustments in respect of prior years	213	109
Total deferred tax	280	2,570
Tax on profit	21,070	21,355

#### *Reconciliation of effective tax rate*

	2016 £000	2015 £000
Profit for the	59,731	74,232
Total tax expense	21,070	21,355
Profit excluding taxation	80,801	95,587
Tax using the UK corporation tax rate of 20.00% (2015: 20.25%)	16,160	19,356
Effect of tax rate change on timing differences	546	344
Non-deductible expenses	29	62
Losses surrendered by other group entities	-	(3,712)
Under/(over) provided in prior years	4,335	5,305
Total tax expense	21,070	21,355

#### *Factors that may affect current and total tax charge*

Reductions in the UK corporation tax rate from 20% to 19% effective 1 April 2017 was enacted on 26 October 2015 and a further reduction to 17% (effective 1 April 2020) was enacted on 6 September 2016. This will reduce the Company's future tax charge accordingly. The deferred tax asset at 31 December 2016 has been calculated based on these rates.

# Newton Investment Management Limited

## Notes to the financial statements - continued for the year ended 31 December 2016

### 9 Tangible assets

	Office equipment £000	Total £000
<b>Cost</b>		
At 1 January 2016	365	365
Reclassification	351	351
At 31 December 2016	716	716
<b>Depreciation and impairment</b>		
At 1 January 2016	157	157
Depreciation	84	84
At 31 December 2016	241	241
<b>Net book value</b>		
At 31 December 2016	475	475
At 31 December 2015	208	208

### 10 Intangible assets

	Computer software £000	Intangible assets under development £000	Total £000
<b>Cost</b>			
At 1 January 2016	3,416	876	4,292
Additions	-	3,175	3,175
Transfers between classes	1,109	(1,109)	-
Reclassification	-	(351)	(351)
At 31 December 2016	4,525	2,591	7,116
<b>Amortisation and impairment</b>			
At 1 January 2016	896	-	896
Amortisation	1,300	-	1,300
At 31 December 2016	2,196	-	2,196
<b>Net book value</b>			
At 31 December 2016	2,329	2,591	4,920
At 31 December 2015	2,520	876	3,396

Intangible assets under development represent project costs associated with the transition of existing front and middle office technology systems onto a new platform. Once certain project milestones are achieved, these costs are reclassified to Computer software.

# Newton Investment Management Limited

## Notes to the financial statements - continued for the year ended 31 December 2016

### 11 Debtors

	2016 £000	2015 * £000
Trade debtors	1,468	3,104
Amounts owed by group companies	29,281	11,055
Other debtors	10	18
Prepayments and accrued income	18,934	23,074
Deferred tax asset (see note 12)	4,439	4,719
	<u>54,132</u>	<u>41,970</u>
Due within one year	<u>50,641</u>	<u>38,196</u>
Due after more than one year	<u>3,491</u>	<u>3,774</u>
	<u>54,132</u>	<u>41,970</u>

Debtors include deferred tax of £3,491,000 (2015: £3,774,000) due after more than one year.

\* Prior year deferred tax balances due after more than one year have been reclassified to be consistent with current year presentation.

### 12 Deferred tax assets and liabilities

#### Movement in deferred tax

	1 January 2016 £000	Recognised in income £000	Recognised in equity £000	31 December 2016 £000
Tangible fixed assets	36	(111)	-	(75)
Share-based payments	4,677	(167)	-	4,510
Other	6	(2)	-	4
	<u>4,719</u>	<u>(280)</u>	<u>-</u>	<u>4,439</u>

	1 January 2015 £000	Recognised in income £000	Recognised in equity £000	31 December 2015 £000
Tangible fixed assets	42	(6)	-	36
Share-based payments	6,985	(2,308)	-	4,677
Other	261	(256)	-	6
	<u>7,288</u>	<u>(2,570)</u>	<u>-</u>	<u>4,719</u>

# Newton Investment Management Limited

## Notes to the financial statements - continued for the year ended 31 December 2016

### 13 Current asset investments

	2016	2015
	£000	£000
<b>Current asset investments</b>		
Financial assets designated at fair value through profit or loss	37,420	38,578

Current asset investments relate to a holding in the Blackrock Institutional Cash Series plc. The Company's investment is in the ICS Institutional Sterling Liquidity fund. The aim of the fund is to maximise current income consistent with the preservation of principal and liquidity through the maintenance of a portfolio of high quality short-term "money market" instruments.

### 14 Cash at bank and in hand

	2016	2015
	£000	£000
Cash at bank and in hand	284,276	267,554

Cash at bank included £284,247,000 (2015: £266,652,000) of funds on deposit with a UK regulated banking entity within the BNY Mellon Group.

The Company is exposed to foreign exchange risk between the date of recognition and settlement of foreign currency income and expenses. To mitigate this, the Company maintains foreign currency cash balances to offset the net currency position. This activity can result in foreign currency overdrafts that mitigate the risk of foreign currency receivables. All overdrafts are with the Bank of New York Mellon London Branch.

### 15 Creditors: amounts falling due within one year

	2016	2015
	£000	£000
Bank loans and overdrafts (see note 14)	3,226	2,311
Amounts owed to group undertakings	12,798	4,780
Accruals and deferred income	25,998	23,018
Taxation and social security	5,011	8,664
Other creditors	2,391	2,207
	<u>49,424</u>	<u>40,980</u>

### 16 Creditors: amounts falling due after more than one year

	2016	2015
	£000	£000
Taxation and social security	3,810	2,723

The balance comprises National Insurance accrual on long term incentive plans.

# **Newton Investment Management Limited**

## **Notes to the financial statements - continued** for the year ended 31 December 2016

### **17 Post employment benefits**

The total pension cost for the period was £3.2 million (2015: £3.6 million). and no amount (2015: £nil) was payable to the schemes at year end.

#### ***Defined contribution plans***

Employees of the Company are eligible to join The Bank of New York Mellon Group Personal Pension scheme. The group personal pension scheme is funded by a monthly payment to a third party insurer.

#### ***Defined benefit plans***

The Company participates in the Mellon Retirement Benefits Plan ("the plan"), a multi-employer benefit plan in respect of which the contributions made are affected by surpluses or deficits in the plan. The Plan is a final salary plan and provides pension benefits linked to salary at retirement or earlier date of leaving service.

The Mellon Retirement Benefits Plan has been closed to new employees since September 2006. From this date new joiners are eligible to join The Bank of New York Mellon Group Personal Pension Plan

As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the Plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, The London Branch of the Bank of New York Mellon, which is another member of the Group. That entity bears the actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment) risk inherent in the Plan. The Company recognises a cost equal to its contribution payable for the period, which contributions will in the long term be affected by surpluses or deficits in the Plan.

#### **Regulatory framework**

The UK pensions market is regulated by the Pensions Regulator whose statutory objectives and regulatory powers are described on its website: [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk).

UK legislation requires that pension schemes are funded prudently (i.e., to a level in excess of the current expected cost of providing benefits). The Plan was valued by qualified actuaries in 2015 and the next revaluations are due to be carried out in 2018. Within 15 months of the valuation, the Trustee and the Company must agree the contributions required (if any) to ensure the Plan is fully funded over time on a suitable prudent measure. Contributions agreed in this manner constitute a minimum funding requirement.

#### **Governance of the Plan**

The Plan is managed by a Trustee that is legally separate from the Company. The Trustee Directors are composed of representatives appointed by both the employer and employees, and include an independent professional Trustee Director. The Trustee Directors are required by law to act in the interest of all relevant beneficiaries and are responsible in particular for the asset investment policy plus the day to day administration of the benefits. They also are responsible for jointly agreeing with the employer the level of contributions.

# Newton Investment Management Limited

## Notes to the financial statements - continued for the year ended 31 December 2016

### 17 Post employment benefits - continued

#### *Defined benefit plans continued*

##### **Plan amendments, settlements and curtailments.**

On 21 December 2015, The Bank of New York Pension Plan merged with the Mellon Retirement Benefits Plan. A bulk transfer of assets and liabilities took place on 4th of January 2016. No allowance was made within the assets and liabilities of these Plans at 31 December 2015 for the transfer, as the transfer-in happened after the balance sheet date. However, some allowance has been made in the expected contributions and benefits paid for 2016 the next year and subsequent years.

##### **Plan Assets - The Mellon Retirement Benefits Plan**

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Cash and cash equivalents	93,354	2,094
- UK equity	78,157	71,692
- Global equity	245,498	143,688
Debt instruments e.g. Government bonds	154,079	81,256
Real estate	31,319	32,042
Investment funds	117,569	110,420
<b>Total</b>	<b>719,976</b>	<b>441,192</b>

In respect of the Mellon Retirement Benefits Plan, the latest actuarial valuation carried out on 31 December 2015 for the purpose of FRS 101 showed a deficit of £49.8 million (2015: deficit of £46.5 million). Contributions to the fund were determined at the rate of 40.2% of pensionable salaries, depending on member category (2015: 18.5% to 25.7%).

All equity securities and government bonds have quoted prices in active markets. All government bonds are issued by European governments and are AAA- or AA-rated.

There are no transferable financial instruments of the Company held as plan assets; nor is there property occupied by, or other assets used by, the Company.

##### **Actuarial assumptions**

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages)

	<b>2016</b>	<b>2015</b>
	<b>%</b>	<b>%</b>
<i>Mellon Retirement Benefits Plan</i>		
Discount rate at 31 December	2.60	3.60
Future pension increases	3.80	3.75
Retail price inflation	3.45	3.35
Consumer price inflation	2.45	2.35

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

# Newton Investment Management Limited

## Notes to the financial statements - continued for the year ended 31 December 2016

### 17 Post employment benefits - continued

#### *Defined benefit plans continued*

##### Mellon Retirement Benefits Plan

- Current pensioner aged 65: 23.4 years (male), 26.1 years (female).
- Future retiree currently aged 45 upon reaching 65: 25.5 years (male), 28.0 years (female).

#### **Funding**

The Plan is funded by a monthly payment to the Plan's investment manager by The Bank of New York Mellon London Branch and an appropriate amount is recharged to the Company. The funding requirements are based on the on the actuarial measurement frameworks set out in the funding policies of the Plan. The funding of the Plan is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions above. Employees are required to contribute to the Plan at rates specified in the Schedule of Contributions.

Two lump sum payments totalling £90.1 million were made to the Mellon Retirement Benefits Plan, of which £52 million was made prior to year end and reflected in the above deficit, and £38.1 million subsequent to the year end. The Bank of New York Mellon London Branch expects to pay contributions of £8.4 million (2015: £9.8 million) in respect of the Mellon Retirement Benefits Plan in 2017. The weighted average duration at the end of the reporting period for the Mellon Retirement Benefits Plan's defined benefit obligation was 28 years (2015: 28 years).

### 18 Capital and reserves

#### *Share capital*

	2016 £000	2015 £000
<b>Allotted, called up and fully paid</b>		
35,500,000 Ordinary shares of £1 each	<u>35,500</u>	<u>35,500</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

### 19 Operating leases

At the end of the , the Company had the following annual commitments under non-cancellable operating leases relating to land and buildings:

	2016 £000	2015* £000
Expiring in more than five years	<u>207</u>	<u>207</u>

\* Prior year comparatives have been re-stated to be consistent with current year disclosure.

# Newton Investment Management Limited

## Notes to the financial statements - continued for the year ended 31 December 2016

### 20 Financial instruments

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to variable rate financial instruments. Short term debtors and creditors are excluded from financial assets and financial liabilities.

During the year ended 31 December 2016, the Company held investments in Blackrock Institutional Cash Series plc's ICS Institutional Sterling Liquidity fund that are designated at fair value through profit or loss (FVTPL). The fair value of these investments at 31 December 2016 was £37,420,000 (31 December 2015: £38,578,000). Losses recognised in profit or loss relating to movements in fair value on these investments for the year ended 31 December 2016 were £157,780 (2015: £169,052). The aim of the fund is to maximise current income consistent with the preservation of principal and liquidity through the maintenance of a portfolio of high quality short-term "money market" instruments. This investment was valued based on Level 1 valuation techniques by using quoted prices.

### 21 Long term incentive plan

	2016	2015
	Number of awards	Number of awards
	000's	000's
Balance outstanding at 1 January	6,451	8,565
Additions	1,514	1,151
Forfeitures	(90)	(2,065)
Redeemed	(875)	(1,200)
Balance outstanding at 31 December	<u>7,000</u>	<u>6,451</u>

During the year ended 31 December 2016, 1,514,210 (2015:1,151,244) shares were issued by Newton Management Limited to a Joint Ownership Equity trust with regard to Real Equity Awards made to employees of Newton Investment Management Limited. During 2016 £13,035,000 (2015:£5,947,000) was charged to the statement of profit and loss in respect of the Real Equity Scheme.

### 22 Share based payments

Certain employees dedicated to the Company's business participate in a long-term incentive plans which issue shares in BNY Mellon.

#### Restricted stock and restricted stock units (RSU)

These awards are granted at no cost to the recipient. Generally restricted stock and RSUs vest in tranches over a specified period, expire on vesting and are subject to forfeiture until certain restrictions have lapsed, predominantly continued employment by The Bank of New York Mellon Group for the specified vesting period. The recipient of a share of restricted stock is entitled to voting rights and generally is entitled to dividends on the common stock. An RSU entitles the recipient to receive a share of common stock after the applicable restrictions lapse. The recipient generally is entitled to receive cash payments equivalent to any dividends paid on the underlying common stock during the period the RSU is outstanding but does not receive voting rights. For most awards, the fair value of restricted stock and RSUs is equal to the fair market value of The Bank of New York Mellon common stock on the date of grant. However, certain awards are granted to MRTs and are required to be marked to market due to discretionary claw back language contained in their grants. All restricted stock and RSUs are to be settled by physical delivery of shares.



## Newton Investment Management Limited

### Notes to the financial statements - continued for the year ended 31 December 2016

#### 22 Share based payments - continued

##### Restricted share awards

	2016	2016	2015	2015
	Number of	Weighted	Number of	Weighted
	awards	average	awards	average
		exercise		exercise
		price		price
Balance outstanding at 1 January	78,928	33.69	100,624	26.60
Staff transfers	-	-	5,705	26.58
Awarded during the year	26,102	34.93	32,702	39.44
Released / vested in the year	(26,122)	32.22	(60,103)	24.25
Balance outstanding at 31 December	<u>78,908</u>	<u>34.58</u>	<u>78,928</u>	<u>33.69</u>

The weighted-average fair value of restricted share awards in 2016 was \$34.93 (2015: \$39.44).

During 2016, £798,000 was charged to the statement of profit and loss account in respect of restricted share awards settled in equity (2015: £734,000).

As at 31 December 2016, £188,000/ \$232,000 (2015: £229,000/ \$340,000) of total unrecognised compensation costs related to non-vested restricted stock is expected to be recognised over the weighted average period of approximately 1.1 years (2015: 1.2 years). The total carrying value of the restricted stock liability as at 31 December 2016 is £2,214,000 (2015: £1,797,000).

Fair value of restricted stock awarded is equal to the closing price of Bank of New York Mellon Corporation stock on the date of grant. The only exception to this is an award issued to a MRT, this was initially based on the fair value of Bank of New York Mellon Corporation stock on the date of grant, but the unvested portion of the award has subsequently been marked to market on a monthly basis to the latest stock price.

#### 23 Offsetting financial assets and financial liabilities

##### Company

Amounts due to and from certain individual Group undertakings are netted in the balance sheet as settlement is made net. The extent of this netting can be seen below:

	2016			2015		
	Gross	Amounts	Net amounts	Gross	Amounts	Net amounts
	amounts	offset		amounts	offset	
	£000	£000	£000	£000	£000	£000
Due to group undertakings	16,179	3,381	12,798	8,084	3,304	4,780
Due from group undertakings	32,662	3,381	29,281	14,359	3,304	11,055

# **Newton Investment Management Limited**

## **Notes to the financial statements - continued** **for the year ended 31 December 2016**

### **24 Ultimate parent company and parent company of larger group**

The immediate parent undertaking of the Company is Newton Management Limited, a company registered in England and Wales. Newton Management Limited's registered address is 160 Queen Victoria Street, London, EC4V 4LA. Copies of accounts for Newton Management Limited can be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.

The largest and smallest group in which the results of the Company are consolidated is that headed by The Bank of New York Mellon Corporation, incorporated in the United States of America.

The ultimate parent company as at 31 December 2016 was The Bank of New York Mellon Corporation, incorporated in the United States of America. The consolidated accounts of the ultimate parent company may be obtained from:

The Secretary  
The Bank of New York Mellon Corporation  
225 Liberty Street  
New York, NY  
10286  
USA.