# Newton Investment Management Limited

Strategic report, Directors' report and financial statements

Registered number 1371973

31 December 2019

# Newton Investment Management Limited

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# Newton Investment Management Limited

## Board of Directors and other information

**Directors**
GA Brisk
K J Carter (Non-Executive Director)
C W Custard
A T Downs
M Harris
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.

The ultimate parent company is The Bank of New York Mellon Corporation ("BNY Mellon" or "Group").

**Business review**

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

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 pooled investment vehicles. 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 wealth of its clients through consistent, long-term performance.

**Financial key performance indicators**

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

| | **2019** | **2018** | **Change** | **Change** |
|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **%** |
| Revenue | 179,742 | 190,974 | (11,232) | (6)% |
| Administrative expenses | 119,910 | 113,165 | 6,745 | 6% |
| Profit before taxation | 61,844 | 79,155 | (17,311) | (22)% |
| Net assets | 376,552 | 318,255 | 58,297 | 18% |
| Average assets under management | 42,198,960 | 44,668,692 | (2,469,732) | (6)% |

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. In common with other firms in the Investment Management industry, the Company is facing pressures to its business model, including; downward pressure on fees, the impact of the switch from active to passive fund management and continuing regulatory change. In response to these pressures, the Company is undertaking a series of actions including reducing revenue concentration by geography and investment strategy, investing in technology and strategic hiring to augment the investment team.

Global equity markets grew strongly during the 2019. The MSCI World (USD) Index closed at 2,358 on 31 December 2019, 25.2% higher than the 31 December 2018 close of 1,884. The average 2019 MSCI World (USD) Value was up 2.4% compared to 2018. The exchange rate between Sterling and the US Dollar fluctuated during the year due to uncertainty over the impact of Brexit as well as divergence in monetary rate policy. The average USD/GBP fx rate was 4% lower in 2019 (1.277) compared to 2018 (1.335). This movement in exchange rates had a positive impact on the GBP reporting financials, as revenue earned in USD was worth more in GBP.

Fund performance was strong in 2019 across most strategies, at the end of 2019 63% of Newton's strategies were 1st or 2nd quartile over 1 year, 80% were 1st or 2nd quartile over 3 years and 86% were 1st or 2nd quartile over 5 years.

Despite the strong investment performance above, the Company continued to experience net outflows in 2019. There were a number of macro-reasons for this including the continued switch to passive and the pooling of Local Authority Pension Schemes. The net outflows for the year were £4.1bn (£6.1bn in 2018) mainly in the UK Real Return and Global Equity Strategies.

Revenue decreased by £11,232,000 (6%) during the year, which is driven by outflows during 2018 as well as the factors described above.

Administrative expenses increased by £6,745,000 (6%) compared to 2018, a significant portion of this increase related to a one time impairment of an intangible asset under development (see Note 10 to the financial statements for details).

Net assets increased by £58,297,000 (18%) during the year, predominantly reflecting the current year profit after tax.

**Principal risks and uncertainties**

The principal risks and uncertainties affecting the business have been considered and addressed in the Directors' report on pages 7 to 12.

**Directors' duty**

Under section 414 of the UK 2006 Companies Act (the "Act"), the Company is required to include a section 172 statement, describing how it has had regard to those matters set out in section 172 of the Act during the period in question. In addressing these matters, we would like to expand on the following:

***Business relationships with suppliers, customers and others***

- As part of the Company's governance framework, a Vendor Management Oversight Group meets monthly with the aim to provide oversight of the management of all the Company vendor relationships, escalating any material issues as required.

- BNY Mellon Accounts payable team ensure payments are made on behalf of the Company to suppliers on a timely basis and in a controlled manner. The Company publishes data in line with the Reporting on Payment Practices and Performance Regulations.

- The Board receives quarterly updates on key milestones and progress against plan underpinning the delivery on the agreed strategy.

- In light of the evolving commercial, economic and regulatory environment, the Company took a strategic review of the structure of its group and as a result of this review the Board decided to simplify the legal structure of Newton. The Board approved the novation of Newton Investment Management (North America) Limited (NIMNA) client contracts to the Company. Clients were contacted accordingly with the novation effective 1 January 2020.

- The Board acknowledged the strategic and emerging risks impacting the Company's business, in particular Brexit. The Board delegated oversight of Brexit preparations to the Board Risk Committee, as part of BNY Mellon's Brexit Programme and was provided regular updates on the Company's risk assessment, internal preparations and scenario planning of Brexit.

- The Board received updates and sought assurance from the Company in relation to the implementation and embedding of regulatory change initiatives and compliance with ongoing regulatory requirements.

- The Company was part of the BNY Mellon Investment Management rebrand initiative during 2019 aligning the global fund renaming across the UK fund range with the aim to simplify a consistent brand identification for its clients.

• The Company undertakes an annual Greenwich Associates survey with clients to obtain client feedback. Results and associated action plans are discussed at the Newton Board Risk Committee

• The Company publishes data in line with the Modern Slavery Act, which is approved by the Board Risk Committee.

*Employees*

• In recognition that improving diversity in decision-making increases innovation, provides better feedback from key market segments, improves outcomes and drives employee engagement, the Company established an Inclusion and Diversity Council, which is chaired by the Company's Chief Investment Officer.

• The Company participates in non-traditional employee talent sources, including a Returning Military Programme, Vocational Trainee Programme and an Emerging Leaders programme.

• The Company undertakes regular CEO all staff briefings focussing on the financial and economic factors affecting the performance of the company, The Company undertakes CEO and CIO lunches with employees consulting employees on decisions likely to affect their interests.

• The Company undertakes an employee share scheme- 'LTIP for all award', where each employee is awarded a sum with a three year vesting period.

• The Board acknowledges the importance of driving a more diverse culture and the positive impact diversity has on the long-term success of the business. In November 2019, the Board approved a corporate-wide diversity statement and became a member of the UK diversity project, as part of a wider initiative aimed at driving a more diverse and inclusive culture across the investment industry.

• In March 2019 the Company released its 2018 Gender Pay Gap Report. The Company is determined to reduce its gender pay gap going forward, and while it is making progress, it is aware more work needs to be done. The Company has put in place a number of specific actions and initiatives that aim to improve its gender balance and act as a positive influence on its gender pay gap over time.

***Impact on the Community and Environment***

• The Company has been a signatory to the Principles for Responsible Investment ("PRI") since 2007. As part of this commitment to the PRI, it is required to report annually on its approach to, and implementation of environmental, social and governance ("ESG") integration throughout its investment process, During 2019, the Company was awarded an A+ rating overall for the third consecutive year.

• The Company runs a broad range of equity, fixed-income and multi-asset strategies, with a particular expertise in sustainable investing. The Company considers ESG issues in relation to every company in which it invests. The Company has a 'Get Involved Committee', which facilitates the organisation of sports, social, and charitable events for Newton employees.

***High Standards of Business Conduct***

• The Company is regulated by The Financial Conduct Authority (the "FCA") and operates within the rules of the FCA and the restrictions as defined within its regulatory licence.

• The Board oversaw the implementation of new internal controls and processes within the Company, to ensure it complied with the FCA's new Senior Managers and Certification Regime by 9th December 2019. All Senior Managers and Certified Persons completed external SMCR training in 2019.

• Company employees' activities, are carried out in accordance with applicable process and procedures and where issues arise from liaisons with clients, market practice, regulators or vendors that require senior level consideration, they are addressed through the escalation mechanisms that are built into the robust, Board approved governance framework.

• The Board promotes a high performance culture by managing talent, strengthening employee engagement and ensuring effective employee communications. The Board Remuneration Committee supports the Board to achieve this goal.

• The Board recognises the importance of having greater representation of women on the Board and in senior management positions. During 2019 there were seven Board members, two of which were female.

• The Board recognises the importance of risk management in the execution of its strategy and the Board has defined the levels of risk acceptable to the Company. This is formalised and monitored through a risk appetite statement.

• The Board retains overall responsibility for approval of Newton's risk appetite and strategy, including capital adequacy and liquidity of financial resources. The Board Risk Committee is responsible for ensuring that frameworks exist to identify, assess, manage and monitor risk; and for considering the material outputs from these frameworks

*Acting fairly between members of the Company*

• Newton's Board of Directors includes representatives from its corporate shareholder BNY Mellon. It maintains an open relationship with BNY Mellon where ideas and strategic objectives are exchanged and shared. The Newton board are fully committed to ensuring due regard to the interests of other stakeholders as described above.

**Coronavirus ("COVID-19")**

As a result of the COVID-19 outbreak, there has been global uncertainty on the likely impact of the pandemic on Companies, government policies, financial markets, among others. The Company has performed an impact assessment on the specific risks it could be exposed to as a result. This has been explained within the '*Risk Management*' section of the Director's report on page 10.

**Business and future developments**

During 2020, the Company will continue to develop and launch new products and services to clients and seek to optimise fund management capabilities within the Group.

The Directors of an affiliated entity, Newton Investment Management North America Limited have decided to transfer the business to the Company. The Company have acquired the requisite licenses to service the current portfolio of clients. The transfer was completed on 1st January 2020.

The UK formally left the European Union ("EU") on 31 January 2020 and has ceased to be a member state. The departure will lead to a transition period, lasting until the end of 2020, which effectively keeps the UK in the EU from the perspective of companies and individuals and their respective rights and obligations. The UK's withdrawal from the European Union ("Brexit") is expected to have a lower impact on the Company than it may have on some of its financial services industry peers, due to the majority of the Company's customers being domiciled outside the European Union post-Brexit.

As part of the BNY Mellon Brexit Programme, the Company continues to monitor the UK's withdrawal from the European Union and is proactively engaging with clients on their key concerns and considerations. The programme's analysis and planning has taken into account a range of potential economic scenarios and impact on the Company's operating model, aligned with regulatory and supervisory guidance which has been communicated industry-wide.

Specific risks to the Company's business include the impact of potential regulatory changes and retention of Assets Under Management ("AUM") by the Company. By working closely with regulators, and establishing a full Communications and Client Engagement work stream as part of the wider BNY Mellon Brexit programme, a proactive approach has been taken to mitigate these risks wherever possible, and to support clients with their post-Brexit transition.

Other risks due to the implications of Brexit include the ability to recruit and retain qualified employees due to the impact on the freedom of movement of labour from the EU, potential changes to the legal framework in which the Company operates and the impact of potential adverse movements in financial market values on the Company's financial performance and liquidity.

As the Brexit transition progresses, BNY Mellon's Brexit Programme continues to monitor new developments and any regulatory implications that may impact the Company's services.

**Approval**

By order of the Board

A T Downs
Director

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

17 April 2020

Registered number: 1371973

The directors present their report and financial statements for the year ended 31 December 2019.

### Principal activities

The principal activity of the Company is investment management.

### Results and dividends

The profit for the year after taxation amounted to £49,253,000 (2018: £57,010,000).

Interim dividends paid during the year amounted to £nil (2018: £106,000,000). The directors do not recommend a final dividend for the year ended 31 December 2019 (2018: £nil).

### Future developments

See 'Business and future developments' section in Strategic report for details.

### Political Donations

The Company made no political donations or incurred any political expenditure during the year.

### Risk management

The Company is a Banks, building societies and investment firms Prudential sourcebook ("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 2019, surplus regulatory capital as reflected within the Company's regulatory returns amounted to £128,105,000 (2018: £80,513,000).

### 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 firm also has a Head of Compliance, she has an independent reporting line into the Europe, Middle East and Africa ("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
- Newton 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, business changes or external threats, 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:

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

The Company utilises the Group Operational Risk Platform to facilitate the above. The platform is used to maintain risk and control self assessments, key risk indicators and tracking of operational risk events. Risk Management works in partnership with the business to ensure that there is adequate understanding and assessment of, and accountability for, all risks that relate to the Company.

The Risk Appetite for the Group 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. 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.

Risks associated with the Company's operations are measured through production and assessment of key risk indicators and other analysis, the results of which are formally reported to the Risk and Compliance Committee on a monthly basis as part of the risk management framework which has been adopted. This includes an analysis of the Company's financial resources against the applicable regulatory capital requirements and liquidity risk management framework.

***Credit risk***

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

The Company's Risk Appetite limits the holding of cash or cash-like funds to investment grade counter-parties only. Therefore cash deposits are held at either BNY Mellon London Branch or highly rated external banks or financial institutions (S&P equivalent of AA-, Moody's equivalent of Aa-).

Established operational policies, procedures and controls exist around the collection of receivables and identification and follow-up of at-risk balances

***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.

The main source of market risk to the Company is through currency exposure on fees received and expenses paid in non functional currencies. These exposures are actively managed through a monthly spot sell off process of non sterling currency balances by Group Treasury.

***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.

### Risk management process - continued

*Operational risk - continued*

A dedicated Operational Risk Team oversee the Newton Risk Framework which includes business line RCSA, error reporting and resolution, risk assessments and other risk management activities such as Board and committee reporting. Sources of operational risk are monitored through regular Key Risk Indicators ("KRIs") and the RCSA process. A number of key operational controls are tested through the annual Compliance Monitoring Plan and independently audited through the ISAE 3402/SSAE 18 Type II report conducted by KPMG LLP.

***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.

The Company is subject to the Group Liquidity Policy. It is the responsibility of all BNY Mellon firms to maintain liquid resources that are adequate in both amounts and quality. The Company has adopted an internal liquidity policy (based on the Group policy) which has been approved by the Board of Directors and outlines the liquidity framework, annual stress testing programme and liquidity risk tolerance levels. Monthly liquidity trend analysis is carried out by the Finance function and breaches to tolerance are reported to the Board Risk Committee and/or Newton Risk and Compliance Committee.

***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.

Business risk is managed through both the Emerging Risk and Strategic Risk frameworks, and key risks are monitored and reported to the Board Risk Committee and Board through the Newton Top Risk framework.

***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.

The Company's compliance arrangements are inherently risk based. Although, and as noted under Operational Risk, Newton measures and monitors broad operational risk areas of the business via the RCSA process, regulatory requirements assessed via a separate Compliance Risk Assessment ("CRA") to identify and measure areas of regulatory risk. The CRA output drives the Annual Training and Compliance Monitoring Plans, focusing on those areas where the regulatory risk to Newton is deemed to pose a higher risk. Governance arrangements are in place to allow for the effective management of key regulatory risks with relevant management information. Governance committees are expected to review to confirm that the risks continue to be mitigated effectively.

***Conduct risk***

Conduct risk is defined as the risk that detriment is caused to clients, the market, the Company or its employees because of inappropriate execution of our business activities or inappropriate behaviour by Newton or its employees.

**Risk management process - continued**

*Conduct risk continued*

The Company is subject to Group Conduct Risk Policy and Code of Conduct. It sets out clear expectations of the roles of senior management in setting the appropriate tone and includes examples of good and poor conduct. Employees receive periodic training/briefing on conduct related matters and are required to complete an annual process to confirm adherence to the Code of Conduct. Conduct related management information is captured and provided to the Board Risk Committee and reviews of conduct related matters can be included in the scope of Compliance Monitoring and/or Internal Audit assurance reviews.

*Other macro environmental risks (Including coronavirus)*

Subsequent to December 31, 2019 the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic with various governments and institutions around the world responding in different ways to address the outbreak. This has led to an increased level of uncertainty in the financial markets which has triggered volatility in interest rates, foreign exchange rates and equity prices among others. Whereas the quantification of the impact on the Company is uncertain, management has considered the below specific factors that could affect the Company:

• Client activity and volume: The Company could face a potential reduction in client activity driven by a likely risk averse customer behaviour leading to a reduction in new business and funds under management;

• The reduction in client activity could lead to a fall in revenue triggered by a reduction in the AUM;

• Liquidity: The Company continues to closely monitor the impact of market volatility on its balance sheet. The Company currently has sufficient liquidity in excess of its regulatory requirement to absorb any short-term losses.

• Market fluctuations: Due to the uncertainty, the Company is likely to be exposed to possible volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. Global equity markets are likely to fall which could impact on the Company's revenue derived from the different funds it manages. However, mitigation strategies are adopted and monitored on a periodic basis to reduce exposure.

• Going concern consideration: Management has performed an assessment to determine whether there are any material uncertainties arising due to the pandemic that could cast significant doubt on the ability of the Company to continue as a going concern. This assessment is disclosed in note 1.4 'Going concern' and focuses on the Company's financial and operational resilience 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, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

The Company is continues to carefully monitor and mitigate the risk on an ongoing basis in order to minimise exposure while maintaining a robust balance sheet and sufficient headroom above regulatory capital requirements.

**Pillar 3 risk disclosures**

CCRR 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).

# Newton Investment Management Limited

## Directors' report - continued

### 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 provide 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, 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 | Resigned |
|---|---|---|
| GA Brisk | - | - |
| K J Carter | 1 March 2019 | - |
| C W Custard | - | - |
| A T Downs | - | - |
| M Harris | - | - |
| H Jowitt | - | 15 May 2019 |
| S Noble | - | - |
| H Smits | - | - |

### 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 year but have not been utilised by the directors (2018: £nil).

### 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.

# Newton Investment Management Limited

## Directors' report - continued

**Post balance sheet events**

Subsequent to 31 December 2019, the COVID-19 virus spread into the UK and other countries outside of China. Accordingly, management has considered this to be a non-adjusting post balance sheet event and an analysis of its impact on the Company has been considered within the '*Risk Management*' section.

Starting in March 2020, any employee who receives a portion of the incentive award as deferred compensation will have the deferred portion split equally between awards made under the Newton LTIP Plan (see accounting policy note 1.9 for further details) and a deferred cash award. The deferred cash award will be linked to a selection of daily valued funds where the Company acts as the Investment Advisor. Furthermore the Company will make an investment in these funds equal to the value of LTIP awarded to the employee, plus employers National Insurance to act as hedge against future changes to final vesting liability that will be paid to employees upon completion of the vesting period of 3 years.

**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

17 April 2020

Registered number: 1371973

# Newton Investment Management Limited

## Statement of directors' responsibilities

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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 Company'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

## Opinion

We have audited the financial statements of Newton Investment Management Limited ("the Company") for the year ended 31 December 2019 which comprise the statement of profit and loss and other comprehensive income, balance sheet, statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101: *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

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

### Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; 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

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

### Directors' responsibilities

As explained more fully in their statement set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

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

**The purpose of our audit work and to whom we owe our responsibilities**

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.

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

*Chartered Accountants*
London

22 April 2020

# Newton Investment Management Limited

## Statement of profit and loss and other comprehensive income
**for the year ended 31 December 2019**

| | Note | 2019<br>£000 | 2018<br>£000 |
|---|---|---|---|
| **Revenue** | 2 | 179,742 | 190,974 |
| Administrative expenses | 3 | (119,910) | (113,165) |
| **Operating profit** | | 59,832 | 77,809 |
| | | | |
| Interest receivable and similar income | 7 | 2,036 | 1,346 |
| Interest payable and similar charges | 8 | (24) | - |
| **Profit before taxation** | | 61,844 | 79,155 |
| Taxation on profit | 9 | (12,591) | (22,145) |
| **Total comprehensive income for the financial year** | | 49,253 | 57,010 |

Notes 1 to 25 are integral to these financial statements.

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

During the year the Company had no items going through other comprehensive income (2018: Nil).

# Newton Investment Management Limited

## Balance sheet
**at 31 December 2019**

| | Note | 2019 £000 | 2018 £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangibles | 10 | 8,077 | 11,577 |
| Tangible assets | 11 | 798 | 390 |
| | | 8,875 | 11,967 |
| **Current assets** | | | |
| Debtors | 12 | 52,517 | 50,799 |
| Current asset investments | 14 | 46,883 | 38,701 |
| Cash at bank and in hand | 15 | 311,822 | 255,244 |
| | | 411,222 | 344,744 |
| Creditors: amounts falling due within one year | 16 | (41,501) | (37,019) |
| Net current assets | | 369,721 | 307,725 |
| Total assets less current liabilities | | 378,596 | 319,692 |
| Creditors: amounts falling due after more than one year | 17 | (2,044) | (1,437) |
| **Net assets** | | 376,552 | 318,255 |
| **Capital and reserves** | | | |
| Called up share capital | 20 | 35,500 | 35,500 |
| Other reserves | | 117,041 | 107,997 |
| Profit and loss account | | 224,011 | 174,758 |
| **Shareholders' funds** | | 376,552 | 318,255 |

Notes 1 to 25 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

17 April 2020

Company registered number: 1371973

# Newton Investment Management Limited

## Statement of changes in equity
**31 December 2019**

| | Called up share capital £000 | Other reserves £000 | Profit and loss account £000 | Total equity £000 |
|---|---|---|---|---|
| Balance at 1 January 2018 | 35,500 | 98,401 | 223,748 | 357,649 |
| Total comprehensive Income for the financial year | - | - | 57,010 | 57,010 |
| Equity-settled share based payment transactions | - | 9,596 | - | 9,596 |
| Dividends | - | - | (106,000) | (106,000) |
| **Balance at 31 December 2018** | 35,500 | 107,997 | 174,758 | 318,255 |

| | Called up share capital £000 | Other reserves £000 | Profit and loss account £000 | Total equity £000 |
|---|---|---|---|---|
| Balance at 1 January 2019 | 35,500 | 107,997 | 174,758 | 318,255 |
| Total comprehensive income for the financial year | - | - | 49,253 | 49,253 |
| Equity-settled share based payment transactions | - | 9,044 | - | 9,044 |
| **Balance at 31 December 2019** | 35,500 | 117,041 | 224,011 | 376,552 |

Notes 1 to 25 are integral to these financial statements.

# Notes to the financial statements
**for the year ended 31 December 2019**

## 1 Accounting policies

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

The Company is a private company limited by shares incorporated and domiciled in the UK and registered in England and Wales. The registered address is given on page 1.

These financial statements were prepared in accordance with FRS 101.

The Company's ultimate parent undertaking, The Bank of New York Mellon Corporation includes the Company and all its subsidiary undertakings 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 International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"). The Bank of New York Mellon Corporation's consolidated financial statements are available at https://www.bnymellon.com/us/en/investor-relations/. Accordingly the Company is a *qualifying entity* for the purpose of FRS 101 disclosure exemptions.

Therefore, in preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of adopted IFRSs, but makes amendments where necessary in order to comply with the 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 Statement of cash flows and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of capital management;
- Disclosures in respect of compensation of key management personnel; and
- Disclosures in respect of revenue contracts with customers and significant judgements.

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:

- IFRS 2 *Share-Based Payments* in respect of Group settled share-based payments.
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 *Financial Instrument Disclosures*;

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 Accounting policies - continued

### 1.2 Change in accounting policy

The Company has applied IFRS 16 from 1 January 2019.

**IFRS 16 *Leases***

IFRS 16 replaces IAS 17 *Leases* and introduces a single on balance sheet accounting model for lessees. Lessor accounting remains similar to previous accounting policies.

**Lessee**

Lessees recognise a right of use ("ROU") asset and a corresponding lease liability representing its obligation to make lease payments. The asset is depreciated over the lease term, and the financial liability measured at amortised cost using the effective interest method.

As a result of recognising operating leases on the balance sheet, assets increased by £980,000 and increased financial liabilities by the same amount with no effect on net assets or opening profit and loss account. The Company's incremental borrowing rate ("IBR") applied to determine the lease liability was 1.7571%

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4 *Determining whether an arrangement contains a lease.*

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

**Transition**

The Company applied the modified retrospective approach, and there was no impact on the net assets or opening profit and loss account as the assets and liabilities increased by the same amounts.

**Leases classified as operating leases under IAS 17**

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's IBR as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- applied a single discount rate to a portfolio of leases with similar characteristics; and
- adjusted the right-of-use assets by the amount of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* onerous contract provision immediately before the date of initial application, and subsequently then on impairment going forward.

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of use asset and the lease liability at 1 January 2019 are determined as at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

## Notes to the financial statements - continued
**for the year ended 31 December 2019**

**1 Accounting policies - continued**

**1.2 Change in accounting policy continued**

**Lessor**

The Company leases out a portion of the property included in right-of-use assets. The Company has classified this lease as an operating lease.

The accounting policies applicable to the Company as a lessor under IFRS 16 are not different from those under IAS 17. No material impact on the accounting for operating leases for the Company.

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. However, the Company has applied IFRS 15 *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease component.

The Company sub-leases the 1st floor and 2nd floor. Under IAS 17, the head lease and sub-lease contracts were classified as operating leases. On transition to IFRS 16, the right-of-use assets recognised from the head leases are presented in leasehold property, and measured at fair value on transition to IFRS 16. The sub-lease contracts are classified as operating leases under IFRS 16.

**1.3 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: derivative financial instruments, financial instruments classified as fair value through the statement of profit and loss and liabilities for cash-settled share-based payments. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

**1.4 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 6. In addition, the Directors' report on pages 7 to 12 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.

Due to COVID-19, management has performed an assessment to determine whether there are any material uncertainties arising due to the pandemic that could cast significant doubt on the ability of the Company to continue as a going concern. No significant issues have been noted. In reaching this conclusion, management considered:

- The financial impact of the uncertainty on the Company's balance sheet;
- Stress tests on reasonable plausible scenarios such as significant reduction in revenue over time. This incorporates a reduced level of management and performance related fees charged on assets under management and maintaining these reduced levels for at least a year with the expectation that the volume of assets under management could fall due to COVID-19;
- Liquidity position based on current and projected cash resources. The Company's current cash/liquidity position is able to sustain its current operational costs for at least a year even with a significantly reduced revenue scenario;
- Reverse stress tests, and;

## Notes to the financial statements - continued
**for the year ended 31 December 2019**

**1 Accounting policies - continued**

**1.4 Going concern - continued**

- The Company's operational resilience with respect to the impact of the pandemic on existing processes and key stakeholders such as suppliers, employees, customers and its existing IT systems and infrastructure.

Based on the above assessment of the Company's financial position, COVID-19 impact, 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.

**1.5 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 with notes 7, 12, 15, 17, 23.

**1.6 Foreign currency**

The Company's functional and presentational currency is 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 and other comprehensive income within interest receivable or payable as appropriate.

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.

**1.7 Reclassification**

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

**1.8 Revenue from contracts with customers**

Revenue, which is stated net of value added tax, comprises management fees, performance fees, net management fees receivable from Group undertakings 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 pre-determined valuation 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 FRS 101, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

Revenue is based on terms specified in a contract with a customer, and excludes any amounts collected on behalf of third parties. Revenue is recognised when, or as, a performance obligation is satisfied by transferring control of a good or service

## Notes to the financial statements - continued
**for the year ended 31 December 2019**

### 1 Accounting policies - continued

**1.8 Revenue from contracts with customers continued**
to a customer.

A performance obligation may be satisfied over time or at a point in time. Revenue from a performance obligation satisfied over time is recognised by measuring the Company's progress in satisfying the performance obligation in a manner that reflects the transfer of goods and services to the customer. Revenue from a performance obligation satisfied at a point in time is recognised at the point in time the customer obtains control of the promised good or service.

The amount of revenue recognised reflects the consideration the Company expects to be entitled to in exchange for the promised goods and services. Taxes assessed by a governmental authority that are both imposed on, and concurrent with, a specific revenue producing transaction, are collected from a customer and are excluded from revenue.

**1.9 Share-based payment transactions**

***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 payment 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 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 granted to Code Staff under the European Banking Authority 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 the Company's 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 Statement of profit and loss and a debit to equity.

Where an employee has transferred between different companies within 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 the Company and cash-settled in Newton Management Limited. Awards vest over a three year period and the cost is charged on a straight-line basis during this period to the Company.

## Notes to the financial statements - continued
**for the year ended 31 December 2019**

**1 Accounting policies - continued**

**1.9 Share-based payment transactions - continued**

*Long-Term Incentive Plan continued*

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.

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, although may be partially retained at the discretion of the Investment Management Remuneration Committee. The offset in the holding company is a debit to the LTIP liability and a credit to the cost of investment in the Company. If an employee leaves the Company involuntarily, the proportion of the award up to the date of departure may be exercised in the next redemption window at the discretion of the Investment Management Remuneration Committee, with the remainder being written back, as previously stated.

**1.10 Employee 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 and other comprehensive income 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, and 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 receivable and payable is recognised in the Statement of profit and loss and other comprehensive income, using the effective interest rate method.

Interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

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 and other comprehensive income (see note 1.6). 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.

**1.12 Dividends**

Dividends are recognised as a liability at the date that they are declared, to the extent that they are declared prior to the year end. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

# Notes to the financial statements - continued
**for the year ended 31 December 2019**

## 1 Accounting policies - continued

### 1.13 Taxation

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

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable or receivable 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 other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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 Non-derivative financial instruments - classification and measurement

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings and trade and other creditors.

Financial assets are measured at amortised cost if meeting both of the following conditions and are not designated as at fair value through profit and loss ("FVTPL"):

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets include trade and other debtors.

Financial assets are measured at fair value through other comprehensive income ("FVOCI") only if meeting both of the following conditions:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is classified into one of these categories on initial recognition. However, for financial assets held at initial application, the business model assessment is based on facts and circumstances at that date. Also, IFRS 9 permits new elective designations at FVTPL or FVOCI to be made on the date of initial application depending on the facts and circumstances at that date.

A Financial liability is initially recognised at fair value and in the case of loans and borrowings and trade and other creditors, net of directly attributable transaction costs. After initial recognition, financial liabilities are measured at amortised cost or FVTPL. Loans and borrowings and trade and other creditors are measured at amortised cost using the effective interest rate method.

# Notes to the financial statements - continued
**for the year ended 31 December 2019**

## 1 Accounting policies - continued

### 1.14 Non-derivative financial instruments - classification and measurement continued

**Business model assessment**

Certain financial assets, for example, deposits with central banks and financial institutions, always will be held for collection of contractual cash flows as the nature of the asset means that it cannot be sold. For other financial assets, the Company makes an assessment of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. Information that is considered includes:

- the stated policies and objectives for the portfolio;
- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated; and
- the frequency and volume of historical and expected sales.

The Company generally does not hold assets for trading.

**Assessment of whether cash flows are solely payments of principal and interest**

'Principal' for these purposes is defined as the fair value of the financial asset at initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains contractual terms that would change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

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

Under IFRS 9, the Company generally recognises loss allowances at an amount equal to 12-month expected credit loss ("ECL") (Stage 1, the portion of ECL that results from default events that are possible within 12 months after the reporting date) unless there has been significant increase in credit risk since origination of the instrument, in which case ECLs are recognised on a lifetime loss basis (Stage 2). Exposures that are in default are regarded as credit impaired (Stage 3) and are also measured on a lifetime ECL basis.

## Notes to the financial statements - continued
**for the year ended 31 December 2019**

**1 Accounting policies - continued**

**1.15 Impairment of financial assets (including trade and other debtors) continued**

**Measurement of ECL**

ECLs are a probability-weighted estimate of credit losses and are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- Financial assets that are credit-impaired at the reporting date – the difference between the gross carrying amount and the present value of estimated future cash flows; and
- Financial guarantee contracts – the expected payments to reimburse the holder less any amounts that the Company expects to recover.

**1.16 Offsetting**

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company 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 such as in the Company's trading activity.

**1.17 Intangible assets**

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation is charged to the Statement of profit and loss and other comprehensive income 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

**1.18 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 and other comprehensive income 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
- Right-of-use asset 5 years

**1 Accounting policies - continued**

**1.18 Tangible fixed assets - continued**

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

**1.19 Leases**

**Lessee**

The Company recognises a right-of-use asset and a lease liability with respect to all lease agreements in which it is a lessee at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, and discounted using the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

**Lease modifications**

Lease modifications arise from changes to the underlying contract agreed between the lessee and the lessor subsequent to commencement of the lease. The accounting for the modification depends on whether the modified terms increase or decrease the scope of the lease, and whether increases in scope require consideration to be paid that is commensurate with a 'standalone price' for the new scope of the lease.

**Separate lease**

A lease modification is accounted for as a separate lease if:

## Notes to the financial statements - continued
**for the year ended 31 December 2019**

**1 Accounting policies - continued**

**1.19 Leases continued**

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- fixed payments, including in-substance fixed payments;

If both criteria are met, a lessee would account for the lease on the initial recognition and measurement of lease liabilities and right-of-use assets.

**Not a separate lease**

If a lease modification results in the lessee obtaining additional rights to use one or more underlying assets, but not at an amount that is commensurate with the standalone price for the increase in scope, the liability is remeasured by discounting all of the future lease payments as revised in the modified contract at the lessee's prevailing incremental borrowing rate. The remeasurement of the lease liability is adjusted against the carrying value of the right-of-use asset such that no gain or loss arises as a result of the modification. The same accounting is applied if the term of the original lease is extended without adding any additional rights to use any more underlying assets.

**Under IAS 17**

In the comparative period, as a lessee the Company classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in the statement of profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

**Lessor**

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Company applies IFRS 15 to allocate the consideration in the contract.

The Company recognises lease payments received under operating leases as income on a straightline basis over the lease term as part of 'net occupancy expense' as this activity is not a significant business activity and is part of the Company's customary business practice.

# Notes to the financial statements - continued
**for the year ended 31 December 2019**

## 1 Accounting policies - continued

### 1.19 Leases continued

The accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16. However, when the Company was an intermediate lessor the sub-leases were classified with reference to the underlying asset.

### 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 impairment of intangible assets, the valuation of financial instruments, deferred tax assets, valuation of share-based payments and provisions. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty, are set out in the notes 5, 12, 13, 14 and 21 of the financial statements.

## 2 Revenue from contracts with customers

### Nature of Services and Revenue Recognition

Fee revenue in Investment Management is primarily variable, based on levels of assets under management ("AUM").

Investment management fees are dependent on the overall level and mix of Assets under management ("AUM"). The management fees, expressed in basis points, are charged for managing those assets. Management fees are typically subject to fee schedules based on the overall level of assets managed and products in which those assets are invested.

Investment management fee revenue also includes transactional and account-based fees. These fees are recognised when the services have been complete. Clients are generally billed for services performed on a monthly or quarterly basis.

Performance fees are generally calculated as a percentage of the applicable portfolio's performance in excess of a benchmark index or a peer group's performance. Performance fees are recognized at the end of the measurement period when they are determinable.

### Contract Balances

The Company's customers are billed based on fee schedules that are agreed upon in each customer contract. The receivables from customers were £11,962,000 at 31 December 2019 (2018: £11,791,000). An allowance is maintained for accounts receivable which is generally based on the number of days outstanding. Adjustments to the allowance are recorded in other expense in the Statement of profit and loss and other comprehensive income.

Contract assets represent accrued revenues that have not yet been billed to the customers due to contingent factors other than the passage of time. The Company had £nil contract assets as at 31 December 2019 (2018: £nil).

Receivables from customers are included in other assets and prepayments and accrued income on the balance sheet.

Contract liabilities represent payments received in advance of providing services under certain contracts and were £nil as at 31 December 2019 (2018: £nil).

## Notes to the financial statements - continued
**for the year ended 31 December 2019**

### 2 Revenue from contracts with customers continued

Any changes in the balances of contract assets and contract liabilities would result in changes arising from business combinations, impairment of a contract asset and changes in the timeframe for a right to consideration becoming unconditional or a performance obligation to be satisfied. No such instances were noted.

**Contract Costs**

Contract costs represent either costs which are capitalised relating to incremental costs for obtaining contracts, or costs incurred for fulfilling contract obligations when they relate directly to an existing contract or specific anticipated contract, generate or enhance resources that will be used to fulfil performance obligations and are recoverable. The Company had £nil contract costs as at 31 December 2019 (2018: £nil).

**Unsatisfied Performance Obligations**

The Company does not have any unsatisfied performance obligations other than those subject to a practical expedient election under IFRS 15. The practical expedient applies to (i) contracts with an original expected length of one year or less, and (ii) contracts for which the Company recognises revenue at the amount to which the Company has the right to invoice for services performed.

**By activity**

| | 2019 | 2018 |
|---|---|---|
| | £000 | £000 |
| Management fees | 54,928 | 55,064 |
| Performance fees | 2,420 | 1,366 |
| Net management fees receivable from Group undertakings | 122,394 | 134,544 |
| | 179,742 | 190,974 |

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.

### 3 Administrative expenses and auditor's remuneration

Profit before taxation is stated after charging:

| | 2019 | 2018 |
|---|---|---|
| | £000 | £000 |
| Impairment loss on intangible assets | 5,811 | - |
| Amortisation of intangible assets | 2,166 | 1,273 |
| Depreciation of tangible fixed assets | 177 | 182 |
| Impairment loss on right of use assets | 71 | - |
| Depreciation of right of use assets | 170 | - |

Auditor's remuneration:

| | 2019 | 2018 |
|---|---|---|
| | £000 | £000 |
| Amounts receivable by the Company's auditor and its associates in respect of: | | |
| Audit of these financial statements pursuant to legislation | 79 | 84 |
| Audit related assurance services | 144 | 112 |
| | 223 | 196 |

## Notes to the financial statements - continued
**for the year ended 31 December 2019**

### 4 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year was 296 (2018: 297), of which 3 were directors (2018: 3).

The aggregate payroll costs of these persons were as follows:

| | 2019 | 2018* |
|---|---|---|
| | £000 | £000 |
| Salaries and wages* | 53,436 | 54,238 |
| Share-based payments | 598 | 509 |
| Social security costs | 4,581 | 4,111 |
| Pension costs - defined benefits plan | - | 277 |
| Pension costs - defined contribution plan (see note 19) | 2,574 | 2,541 |
| Other staff costs | 1,000 | 809 |
| | 62,189 | 62,485 |

Salaries and wages includes short term incentives recognised on an accruals basis.

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

### 5 Long-term incentive plan

| | 2019 | 2018 |
|---|---|---|
| | Number of awards | Number of awards |
| | 000's | 000's |
| Balance outstanding at 1 January | 6,057 | 5,990 |
| Additions | 1,913 | 1,156 |
| Forfeitures | (2,758) | (298) |
| Redeemed | (1,204) | (791) |
| Balance outstanding at 31 December | 4,008 | 6,057 |

During the year ended 31 December 2019, 1,913,000 shares (2018:1,156,000) 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 2019 £8,445,000 (2018: £9,143,000) was charged to the Statement of profit and loss and other comprehensive income in respect of the Real Equity Scheme. The 2019 forfeitures includes 2,606 relating to the cancellation of enhanced equity awards for which the accrual was written back during 2016 to reflect long term growth projections.

# Notes to the financial statements - continued
**for the year ended 31 December 2019**

## 6 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.

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Directors' emoluments | 2,714 | 2,901 |
| Amounts receivable under long-term incentive schemes | 442 | 311 |
| Company contributions to money purchase pension plans | 36 | 36 |
| | 3,192 | 3,248 |

Current year Directors' emoluments include short term incentives payments made in February 2019 in respect of 2018 performance.

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £1,623,494 (2018: £1,816,000), and no Company pension contributions were made on their behalf (2018: £nil) to a money purchase scheme. During the year, the highest paid director did not exercise share options but did receive shares under a long term incentive scheme.

| | Number of Directors 2019 | 2018 |
|---|---|---|
| Retirement benefits are accruing to the following number of directors under: | | |
| Money purchase schemes | 3 | 3 |
| The number of directors in respect of whose services shares were received or receivable under long-term incentive schemes was | 4 | 3 |

## 7 Interest receivable and similar income

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Net foreign exchange gain | - | 47 |
| Receivable from Group undertaking | 1,725 | 1,094 |
| Receivable from current asset investment | 311 | 205 |
| Total interest receivable and similar income | 2,036 | 1,346 |

## 8 Interest payable and similar charges

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Payable on lease liabilities | 15 | - |
| Net foreign exchange loss | 9 | - |
| Total interest payable and similar charges | 24 | - |

## Notes to the financial statements - continued
**for the year ended 31 December 2019**

### 9 Taxation

***Recognised in the statement of profit and loss and other comprehensive income***

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| *UK corporation tax* | | | | |
| Current tax on profit for the period | 13,525 | | 15,722 | |
| Adjustments in respect of prior periods | 12 | | 4,093 | |
| | 13,537 | | 19,815 | |
| Total current tax | | 13,537 | | 19,815 |
| *Deferred tax (see note 13)* | | | | |
| Origination and reversal of temporary differences | (1,057) | | 2,692 | |
| Adjustments in respect of prior periods | - | | (79) | |
| Effect of changes in tax rates | 111 | | (283) | |
| | (946) | | 2,330 | |
| Total deferred tax | | (946) | | 2,330 |
| Total tax expense | | 12,591 | | 22,145 |

***Factors affecting total tax charge for the current period***

| | 2019 | 2018 |
|---|---|---|
| | £000 | £000 |
| Total profit for the year | 49,253 | 57,010 |
| Total tax expense | 12,591 | 22,145 |
| Profit excluding taxation | 61,844 | 79,155 |
| Tax using the UK corporation tax rate of 19.00% (2018: 19.00%) | 11,750 | 15,039 |
| Effect of changes in tax rates | 111 | (283) |
| Adjustment in respect to prior years | 12 | 4,014 |
| Non-deductible expenses | 52 | 5 |
| Long Term Incentive Plan | 548 | 3,370 |
| Share Based payments | 105 | - |
| Other | 13 | - |
| Total tax expense | 12,591 | 22,145 |

A reduction in UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset as at 31 December 2019 has been calculated based on this rate. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This will have a consequential effect on the company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax asset would have increased by £445,910.

# Newton Investment Management Limited

## Notes to the financial statements - continued
**for the year ended 31 December 2019**

### 10 Intangible assets

| | Computer software | Intangible assets under development | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| **Cost** | | | |
| At 1 January 2019 | 5,221 | 11,658 | 16,879 |
| Additions | - | 4,540 | 4,540 |
| Transfers | 4,562 | (4,625) | (63) |
| At 31 December 2019 | 9,783 | 11,573 | 21,356 |
| **Amortisation** | | | |
| At 1 January 2019 | 4,438 | 864 | 5,302 |
| Impairment | - | 5,811 | 5,811 |
| Amortisation | 2,166 | - | 2,166 |
| At 31 December 2019 | 6,604 | 6,675 | 13,279 |
| **Net book value** | | | |
| At 31 December 2018 | 783 | 10,794 | 11,577 |
| At 31 December 2019 | 3,179 | 4,898 | 8,077 |

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.

During the year a decision to commence the implementation of a third party vendor technology platform was taken resulting in a £5,811,000 write off of intangible assets under development, relating to an internally developed system that was under construction.

## Notes to the financial statements - continued
**for the year ended 31 December 2019**

### 11 Tangible assets

| | Right of use: leasehold improvements £000 | Office equipment £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2019 | - | 956 | 956 |
| IFRS 16 adoption from 1 January 2019 | 980 | - | 980 |
| Retirements | - | (262) | (262) |
| Transfers | - | 63 | 63 |
| At 31 December 2019 | 980 | 757 | 1,737 |
| **Depreciation** | | | |
| At 1 January 2019 | - | 566 | 566 |
| Accumulated impairment loss | 134 | - | 134 |
| Retirements | - | (179) | (179) |
| Depreciation | 170 | 177 | 347 |
| Impairment loss in income | 71 | - | 71 |
| At 31 December 2019 | 375 | 564 | 939 |
| **Net book value** | | | |
| At 31 December 2018 | - | 390 | 390 |
| At 31 December 2019 | 605 | 193 | 798 |

The Company leases two floors within an office building in Jersey. The non-cancellable period of the lease is 25 years to 2023. The lease payments are mostly static, with incremental increases at stated years within the term of the lease. The impairment losses relate to adjustments booked to align the carrying value with the net present value of future cash flows.

### 12 Debtors

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Trade debtors | 1,285 | 1,093 |
| Amounts due from Group undertakings | 34,751 | 34,744 |
| Other debtors | 86 | 4 |
| Prepayments and accrued income | 12,605 | 12,114 |
| Deferred tax asset | 3,790 | 2,844 |
| | 52,517 | 50,799 |
| Due within one year | 51,468 | 50,140 |
| Due after more than one year | 1,049 | 659 |
| | 52,517 | 50,799 |

Debtors include deferred tax of £1,049,000 (2018: £659,000 ) due after more than one year.

## Notes to the financial statements - continued
**for the year ended 31 December 2019**

### 13 Deferred tax assets and liabilities

*Movement in deferred tax during the year*

| | 2019 | 2018 |
|---|---|---|
| | £000 | £000 |
| Provision at 1 January | 2,844 | 5,174 |
| Adjustment in respect of prior years | - | 79 |
| Deferred tax (debited)/credited to profit and loss for the period | 946 | (2,409) |
| Provision at 31 December | 3,790 | 2,844 |

The deferred tax asset has been recognised in full based on its expected recoverability due to the future anticipated profits of the Company. The major components of deferred tax are as follows:

*Recognised deferred tax assets and liabilities*

| | 2019 | 2018 |
|---|---|---|
| | £000 | £000 |
| Fixed assets | 450 | 262 |
| Share-based payments | 3,111 | 2,523 |
| Other | 229 | 59 |
| | 3,790 | 2,844 |

### 14 Current asset investments

| | 2019 | 2018 |
|---|---|---|
| | £000 | £000 |
| **Current asset investments** | | |
| Financial assets designated at fair value through profit or loss | 46,883 | 38,701 |

Current asset investments relate to a holding in the Insight Liquidity ("ILF"). The Company's investment is in the ILF Sterling Liquidity Fund. The Fund is a short-term money market fund which aims to provide investors with stability of capital and daily liquidity. In addition it seeks to offer an income comparable to short-term sterling interest rates.

### 15 Cash at bank and in hand

| | 2019 | 2018 |
|---|---|---|
| | £000 | £000 |
| Cash at bank and in hand | 311,822 | 255,244 |

Cash at bank included £309,991,000 (2018: £255,085,000) of funds on deposit with a UK regulated banking entity within the 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.

## Notes to the financial statements - continued
**for the year ended 31 December 2019**

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

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Bank loans and overdrafts | 5,554 | 3,538 |
| Lease liabilities | 194 | - |
| Amounts owed to Group undertakings | 5,441 | 4,950 |
| Accruals and deferred income | 15,845 | 17,162 |
| Taxation and social security | 11,492 | 8,488 |
| Other creditors | 2,975 | 2,881 |
| | 41,501 | 37,019 |

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

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Lease liabilities (see note 18) | 603 | - |
| Taxation and social security | 1,441 | 1,437 |
| | 2,044 | 1,437 |

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

### 18 Lease liabilities

**Maturity analysis - contractual undiscounted cash flows**

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Expiring within one year | 206 | 207 |
| Expiring between one and five years | 603 | 811 |
| **Total undiscounted lease liabilities at 31 December** | 809 | 1,018 |

The Company leases two floors within an office building in Jersey over a term of 25 years to 2023.

**Amounts recognised in Statement of profit or loss and other comprehensive income**

| | 2019 £000 | 2018 £000 |
|---|---|---|
| Interest on lease liabilities | (15) | - |
| Income from sub-leasing right-of-use assets | 124 | 193 |
| | 109 | 193 |

## Notes to the financial statements - continued
**for the year ended 31 December 2019**

**18 Lease liabilities continued**

*Sub-lease*

| | 2019 | 2018 |
|---|---|---|
| | £000 | £000 |
| **Operating lease** | | |
| Lease income | 124 | 193 |

**Operating lease**

The Company sub-leases the 1st floor and 2nd floor. The Company has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the asset.

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

| | 2019 | 2018 |
|---|---|---|
| **Receivable** | £000 | £000 |
| Less than one year | 58 | - |
| One to two years | 58 | - |
| Two to three years | 58 | - |
| Three to four years | 41 | - |
| | 215 | - |

**19 Employee benefits**

The total pension cost for the year was £2,574,000 (2018: £2,541,000) relating to the defined contribution plan and £nil (2018: £277,000) relating to the defined benefit plan. No amount (2018: £nil) was payable to the schemes at year end.

***Defined contribution plan***

Employees of the Company are eligible to join The Bank of New York Mellon Group Personal Pension Plan. This Plan 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 Group Plan in respect of which the contributions made are affected by surpluses or deficits in the Plan. The Plan is a final salary scheme 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.

## Notes to the financial statements - continued
**for the year ended 31 December 2019**

### 19 Employee benefits - continued

*Defined benefit plans continued*

On 31 December 2018, the Trustee Directors executed a deed to amend the Plan rules to allow future accrual of benefits under the Plan to cease following the completion of the 60 day consultation in 'good faith' required under the pension regulations. This change will result in no additional benefits being accrued by members of the Plan after 31 December 2018. The sponsoring employer, the London Branch of The Bank of New York Mellon, may however incur costs in future periods in relation to the funding of existing obligations under the Plan. Following the change, members were provided with the option to join The Bank of New York Mellon Group Personal Pension Scheme.

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 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.

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 has been valued by qualified actuaries as at 31 January 2019 and the next valuations are due to be carried out in 2022. Within 15 months of effective date 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. It is unlikely that contributions will be due by the company as the Plan is expected to be in surplus at the valuation date.

**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.

**Plan amendments, settlements and curtailments**

There were no Plan amendments, curtailments or settlements over the year.

## Notes to the financial statements - continued
**for the year ended 31 December 2019**

**19 Employee benefits - continued**

***Defined benefit plans continued***

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

| | 2019 | 2018 |
|---|---|---|
| | £000 | £000 |
| Cash and cash equivalents | 3,260 | 5,715 |
| LDI and Liquidity | 290,162 | 495,415 |
| Debt instruments e.g. Government bonds | 434,525 | 132,199 |
| Real estate | - | 38,382 |
| Secured Finance | 161,821 | - |
| Investment Funds | 36,947 | 165,750 |
| Insured liabilities | 6,431 | - |
| **Total** | 933,146 | 837,461 |

In respect of the Mellon Retirement Benefits Plan, the latest actuarial valuation carried out on 31 December 2019 for the purpose of FRS 101 showed a surplus of £167,814,000 (2018: surplus of £205,454,000). Contributions to the fund are no longer required on an ongoing basis following closure to future accrual.

All 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)

| | 2019 | 2018 |
|---|---|---|
| | % | % |
| *Mellon Retirement Benefits Plan* | | |
| Discount rate at 31 December | 2.10 | 3.10 |
| Future pension increases: RPI min 3% max 5% | 3.55 | 3.55 |
| Retail price inflation | 3.05 | 3.00 |
| Consumer price inflation | 2.05 | 2.00 |

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:

Mellon Retirement Benefits Plan

- Current pensioner aged 65: 23.2 years (male), 24.6 years (female).
- Future retiree currently aged 45 upon reaching 65: 24.9 years (male), 26.1 years (female).

## Notes to the financial statements - continued
**for the year ended 31 December 2019**

### 19 Employee benefits - continued

*Defined benefit plans continued*

**Sensitivity analysis**

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions by one percent.

| | 2019<br>£000<br>1% increase | 2019<br>£000<br>1% decrease | 2018<br>£000<br>1% increase | 2018<br>£000<br>1% decrease |
|---|---|---|---|---|
| Discount rate | (160,696) | 222,880 | (131,725) | 182,224 |
| Future salary increases | N/A | N/A | N/A | N/A |
| Medical cost trend | N/A | N/A | N/A | N/A |
| Future pension increases | 131,987 | (105,632) | 106,066 | (84,727) |
| Inflation (RPI, CPI) | 144,686 | (122,802) | 122,793 | (103,157) |

The above analyses assume that assumption changes occur in isolation except in the case of inflation where any change is assumed to have a corresponding impact on inflation-linked pension increases. In practice this is unlikely to occur and some assumptions may be correlated. The same method (projected unit method) has been applied when calculating these sensitivities.

**Funding**

The Plan is funded by a monthly payment to the Plans 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 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.

The Bank of New York Mellon London Branch does not expect to pay any contributions (2019: £8,200,000) in respect of the Mellon Retirement Benefits Plan in 2020. The weighted average duration at the end of the reporting period for the Mellon Retirement Benefits Plan's defined benefit obligation was 25 years (2018: 25 years).

### 20 Capital and reserves

*Share capital*

| | 2019<br>£000 | 2018<br>£000 |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| 35,500,000 ordinary shares of £1 each | 35,500 | 35,500 |

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.

## Notes to the financial statements - continued
**for the year ended 31 December 2019**

### 21 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.

As at 31 December 2019, the Company carried a quoted investment at fair value through the statement of profit and loss and other comprehensive income that relates to a holding in the Insight Liquidity Fund plc with a fair value of £46,883,000 (31 December 2018: £38,701,000). The aim of the fund is to provide investors with stability of capital and daily liquidity. In addition it seeks to offer an income comparable to short-term sterling interest rates. This investment was valued based on Level 1 valuation technique (quoted prices in active markets for identical assets or liabilities).

### 22 Transactions involving Directors, officers and others

At 31 December 2019 there were no loans and other transactions made to directors, officers or other related parties of the Company (2018: £nil).

### 23 Offsetting financial assets and financial liabilities

*Group and 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:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Gross amounts | Amounts offset | Net amounts | Gross amounts | Amounts offset | Net amounts |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Amounts owed by Group undertakings | 37,190 | 2,439 | 34,751 | 35,915 | 1,171 | 34,744 |
| Amounts owed to Group undertakings | 7,880 | 2,439 | 5,441 | 6,121 | 1,171 | 4,950 |

### 24 Subsequent events

Subsequent to 31 December 2019, the COVID-19 virus spread into the UK and other countries outside of China. Accordingly, management has considered this to be a non-adjusting post balance sheet event and an analysis of its impact on the Company has been considered within the '*Risk Management*' section.

Starting in March 2020, any employee who receives a portion of the incentive award as deferred compensation will have the deferred portion split equally between awards made under the Newton LTIP Plan (see accounting policy note 1.9 for further details) and a deferred cash award. The deferred cash award will be linked to a selection of daily valued funds where the Company acts as the Investment Advisor. Furthermore the Company will make an investment in these funds equal to the value of LTIP awarded to the employee, plus employers National Insurance to act as hedge against future changes to final vesting liability that will be paid to employees upon completion of the vesting period of 3 years.

# Notes to the financial statements - continued
**for the year ended 31 December 2019**

## 25 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.

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 2019 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 it's registered address.

The Secretary
The Bank of New York Mellon Corporation
240 Greenwich Street
New York, NY
10286
USA.