

# **BNY Mellon Fund Managers Limited**

**Directors' report and financial statements**

**Registered number: 1998251**

**For the year ended 31 December 2008**

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# **BNY Mellon Fund Managers Limited**

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# BNY Mellon Fund Managers Limited

## Directors' report

The Directors present their report and financial statements for the year ended 31 December 2008.

## Principal activities

The principal activity of BNY Mellon Fund Managers Limited ("the Company") is the management and administration of unit trusts and Investment Companies with Variable Capital (ICVC). In its role, the Company acts as the Authorised Corporate Director (ACD) for such products.

The ACD of a fund is responsible for managing and administering the products in accordance with Financial Services Authority (FSA) and Treasury Regulations. The ACD may delegate its management and administration functions to third parties including associates subject to the FSA Regulations. The Company has delegated the investment management of all unit trusts and ICVC's to Group companies, Newton Investment Management Limited and Walter Scott & Partners Limited. Additionally, part of the administration of the aforementioned products has been delegated to The Bank of New York Mellon (International) Limited. The Board regularly reviews the service levels from these companies to ensure continual delivery of quality to the customer.

The Company is authorised and regulated by the FSA, pursuant to the Financial Services & Markets Act 2000. All the Company's activities during the year, including any new business activities, are regulated and conducted within the permissions granted to the Company by the FSA.

## Results and dividends

The profit for the year after taxation amounted to £1,172,000 (2007: £934,000).

The Directors do not recommend a dividend for the year ended 31 December 2008 (2007: £nil).

## Business review

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

	2008 £000	2007 £000	Change %
Turnover	7,743	7,540	3%
Administration expenses	(7,898)	(7,955)	(1%)
Net assets	13,624	12,452	9%

Turnover has increased by 3% during the year. Income is generated from daily fund valuations and, whilst funds under management as at 31 December 2008 were £14,117,370 (2007: £15,720,000), these varied significantly during the year. As at 31 December 2008, funds under management represented the lowest quarter-end valuation during 2008.

Administrative expenses were broadly consistent with the prior year, decreasing marginally by 1%.

The profit after taxation for the year was £1.2m (2006: £0.9m).

Net assets of the Company as at 31 December 2008 were £13.6m (2007: £12.5m); the increase predominantly reflects the current year profit. The balance sheet is set out on page 9.

## Future developments

During 2009, the Company will aim to continue momentum in funds under management growth through launching new products and servicing existing clients.

# **BNY Mellon Fund Managers Limited**

## **Directors' report - continued**

### **Risk management process**

The Company is a UPRU firm and is regulated by the FSA. Capital and other financial returns are prepared and submitted to the regulator on a quarterly basis. At 31 December 2008, surplus regulatory capital, as reflected within the Company's regulatory returns, amounted to £9.3m (2007: £7.4m).

### **Governance and policies**

Policies and procedures are in place to govern and manage the business, which are common to all BNY Mellon entities. 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 carried out through a regular meeting of the Board of Directors. The Board is responsible for the ongoing success and development of the Company's business as well as assisting the risk management framework.

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

The key Group committees include:

1. Asset Liability Management Committee
2. Credit Portfolio Management Committee
3. Market Risk Committee
4. Operational & Technology Risk Committee

In addition there are a number of regional key oversight committees in place to build on the U.S Corporate Global Risk Management Framework.

- The BNYM EMEA (Europe, Middle East, and Africa) Risk Committee has an oversight responsibility covering the major risk sources (except Liquidity risk), including Compliance of the EMEA region.
- The EMEA Risk Committee has representation from the key risk sources as well as Business Heads. Reports are provided and reviewed covering the risk sources and any issues that need monitoring.
- The EMEA Asset & Liability Committee has oversight responsibility for the balance sheets of the U.S branches in EMEA as well as local legal entities and its focus is primarily overseeing that Liquidity risk is managed effectively.

### **Risk management process**

The lines of business are responsible for actively identifying their risks associated with key business processes, identifying and assessing the quality of controls in place to mitigate risk and assigning accountability for the effectiveness of those controls. The objective of this detailed self-assessment is to prevent or minimise:

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

### **Credit risk**

Credit risk covers default risk from counterparties or clients for loans, commitments, securities, and other assets where realisation of the value of the asset is dependent on counterparties ability to perform. The level of residual operational risk is managed by rigorous operating policies, procedures and controls.

# BNY Mellon Fund Managers Limited

## Directors' report - continued

### Market risk

Market risk is the risk of loss due to adverse changes in the financial markets. Market risk arises from derivative financial instruments, such as futures, forwards, swaps and other options, and other financial instruments, including loans, securities, deposits and other borrowings.

### Operational risk

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

### Liquidity risk

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

### Business risk

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

### Compliance risk

Compliance risk covers the risk relating to earnings or capital from violation, or non-conformance with laws, rules, regulations, prescribed practices or ethical standards which may, in turn, expose the firm and its executors to fines, payment of damages, the voiding of contracts and damaged reputation. This risk is mitigated through senior management culture, training, integration of compliance policies and controls into business processes and independent compliance monitoring and oversight.

### Directors

	<u>Appointment</u>	<u>Resignation</u>
M Allpress	-	22 May 2008
G A Brisk	-	-
P Feeney	22 May 2008	-
I Harvey	-	-
A Mearns	-	-
M G Rayward	-	-

### 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 1985. Indemnity provisions of this nature have been in place during the year but have not been utilised by the directors.

# BNY Mellon Fund Managers Limited

## Directors' report - continued

### Disclosure of information to auditors

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 auditors are 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 Group's auditors are aware of that information.

### Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be re-appointed and KPMG Audit Plc will therefore continue in office.

By order of the Board



A Mearns  
Director

BNY Mellon Fund Managers Limited  
160 Queen Victoria Street  
London  
EC4V 4LA  
24 April 2009

# **BNY Mellon Fund Managers Limited**

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The Directors are responsible for preparing 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).

The Company's financial statements are required by law to 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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Director's 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.

# BNY Mellon Fund Managers Limited

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BNY MELLON FUND MANAGERS LIMITED

We have audited the financial statements of BNY Mellon Fund Managers Limited for the year ended 31 December 2008, which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 6.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

8 Salisbury Square  
London  
EC4Y 8BB

24 April 2009



# BNY Mellon Fund Managers Limited

## Profit and loss account for the year ended 31 December 2008

	Notes	2008 £000	2007* £000
<b>Turnover</b>	2	7,743	7,540
Administrative expenses		(7,898)	(7,955)
<b>Operating loss</b>		(155)	(415)
Interest receivable and similar income	6	1,799	1,752
Interest payable and similar charges	7	(5)	(2)
<b>Profit on ordinary activities before taxation</b>		1,639	1,335
Tax on profit on ordinary activities	8	(467)	(401)
<b>Profit for the financial year</b>		1,172	934

\* Certain prior year numbers have been reclassified to be consistent with current year presentation.

Notes 1 to 15 are integral to these financial statements.

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

The Company has not prepared a separate statement of total recognised gains and losses as all gains and losses are reflected in the profit and loss account above.

# BNY Mellon Fund Managers Limited

## Balance sheet at 31 December 2008

	Notes	2008 £000	2007 £000
<b>Current assets</b>			
Debtors	9	83,936	72,079
Investments	10	786	976
Cash at bank and in hand		21,465	15,279
		<u>106,187</u>	<u>88,334</u>
Creditors: amounts falling due within one year	11	(92,563)	(75,882)
<b>Net assets</b>		<u>13,624</u>	<u>12,452</u>
<b>Capital and reserves</b>			
Called up share capital	12	1,625	1,625
Share premium account	13	6,000	6,000
Profit and loss account	13	5,999	4,827
<b>Shareholders' funds</b>	13	<u>13,624</u>	<u>12,452</u>

Notes 1 to 15 are integral to these financial statements.

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



A Meams  
Director  
24 April 2009

# **BNY Mellon Fund Managers Limited**

## **Notes to the financial statements At 31 December 2008**

### **1. Accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

#### **Basis of preparation**

The financial statements have been prepared on the going concern basis in accordance with applicable UK accounting standards and under the historical cost accounting rules.

#### **Turnover**

Turnover, which is stated net of value added tax, comprises management fees and the gross profit arising from the sale of units and shares, after deducting discounts, commissions, stamp duty and other costs. Turnover is accounted for on the accruals basis.

#### **Segmental reporting**

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Currently, the Directors consider that its services comprise one business segment (being the provision of investment management services) and that it operates in a market that is not geographically segmented (United Kingdom).

#### **Investments**

Investments represent the stocks of units and shares held and are carried at fair value through profit and loss. These are initially recognised at fair value and associated transaction costs are expensed in the profit and loss account. Gains and losses arising from changes in the fair value based on quoted market prices are recognised through the profit and loss account.

#### **Foreign currencies**

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined.

#### **Interest, fees and commission**

Interest, fees and commission, both income and expense, are treated on an accruals basis.

#### **Taxation**

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years.

# **BNY Mellon Fund Managers Limited**

## **Notes to the financial statements - continued**

**At 31 December 2008**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when a legal right to offset exists in the entity.

### **Related party transactions**

Under Financial Reporting Standard 8, the Company is exempt from the requirement to disclose related party transactions within the Group on the grounds that more than 90% of the voting rights are controlled within the Group and the consolidated financial statements of the ultimate parent Company are publicly available.

### **Cash flow statement**

The Company was a wholly owned indirect subsidiary of the ultimate parent company, The Bank of New York Mellon Corporation, for the year ended 31 December 2008, and is included in the consolidated financial statements of that company, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996).

# BNY Mellon Fund Managers Limited

## Notes to the financial statements - continued At 31 December 2008

### 2. Analysis of turnover

#### By activity

	2008 £000	2007 £000
Management fees	162,612	170,803
Gross sales of units and shares	4,970,245	3,523,527
Total turnover	5,132,857	3,694,330
Net costs of units and shares created / liquidated	(1,283,909)	(249,690)
Repurchases of units and shares	(3,570,101)	(3,189,760)
Discounts	(112,577)	(79,777)
Commissions and other costs	(158,527)	(167,563)
Total cost of sales	(5,125,114)	(3,686,790)
Net Turnover	7,743	7,540

### 3. Notes to the profit and loss account

Profit on ordinary activities before taxation is stated after charging:

	2008 £000	2007 £000
Auditors' remuneration		
Audit of these financial statements pursuant to legislation	13	9
Other services pursuant to legislation	12	1
	25	10

### 4. Staff costs

The Company had no employees during the year ended 31 December 2008 (2007: nil).

### 5. Directors' emoluments

The Directors did not receive any remuneration for their services in respect of the Company (2007: £nil).

No Director exercised share options in the ultimate parent company, The Bank of New York Mellon Financial Corporation, during the year (2007: one).

### 6. Other interest receivable and similar income

	2008 £000	2007* £000
Interest earned on short-term deposits	1,546	1,737
Net foreign exchange gain	111	15
VAT refund	106	-
Other income	36	-
	1,799	1,752

\* Certain prior year numbers have been reclassified to be consistent with current year presentation.

# BNY Mellon Fund Managers Limited

## Notes to the financial statements - continued At 31 December 2008

### 7. Interest payable and similar charges

	2008 £000	2007 £000
Interest paid on bank loans and overdrafts	5	2

### 8. Taxation

	2008 £000	2007 £000
Taxation is based on profit before tax for the year and comprises: Current corporation tax charge for the year at 28.5% (2007: 30%)	467	401

The UK standard rate of corporation tax changed from 30% to 28% from 1 April 2008 (2007: 30%). The current corporation tax charge for the year is equal to (2007 equal to) the standard rate of tax for the year.

	2008 £000	2007 £000
Profit on ordinary activities before tax	1,639	1,335
Tax charge on profit on ordinary activities at standard rate	467	401

### 9. Debtors

	2008 £000	2007 £000
Trade debtors	69,395	46,205
Due from fellow Group undertakings	4	10,157
Prepayments and accrued income	14,537	15,699
Other debtors	-	18
	83,936	72,079

### 10. Investments

	2008 £000	2007 £000
Units held	786	976

Investments represent units held at the end of each day in each of the unit trusts managed by the Company.

# BNY Mellon Fund Managers Limited

## Notes to the financial statements - continued At 31 December 2008

### 11. Creditors: amounts falling due within one year

	2008 £000	2007 £000
Trade creditors	62,832	51,483
Due to fellow Group undertakings	28,983	22,884
Taxation and social security	245	1,101
Accruals and deferred income	178	399
Other creditors	325	15
	<u>92,563</u>	<u>75,882</u>

### 12. Called up share capital

	2008 £000	2007 £000
Authorised, allotted and fully paid 1,625,000 ordinary shares of £1 each	<u>1,625</u>	<u>1,625</u>

### 13. Reserves

2008	Share capital account £000	Share premium account £000	Profit & loss account £000	Total £000
At 1 January	1,625	6,000	4,827	12,452
Profit for the financial year	-	-	1,172	1,172
At 31 December	<u>1,625</u>	<u>6,000</u>	<u>5,999</u>	<u>13,624</u>

2007	Share capital account £000	Share premium account £000	Profit & loss account £000	Total £000
At 1 January	1,625	6,000	3,893	11,518
Profit for the financial year	-	-	934	934
At 31 December	<u>1,625</u>	<u>6,000</u>	<u>4,827</u>	<u>12,452</u>

### 14. Transactions involving Directors, officers and others

At 31 December 2008 there were no loans and other transactions made to Directors and Officers of the Company (2007: £nil).

# **BNY Mellon Fund Managers Limited**

## **Notes to the financial statements - continued** **At 31 December 2008**

### **15. Parent company**

The immediate parent of the Company is BNY Mellon Asset Management International Holdings Limited, a company incorporated in England and Wales. Copies of accounts for BNY Mellon Asset Management International Holdings Limited can be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.

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

The Secretary  
The Bank of New York Mellon Corporation  
One Wall Street  
New York, NY 10286  
USA