

# **BNY Mellon Fund Managers Limited**

Strategic report, Directors' report and financial statements

Registered number 1998251

31 December 2015

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# **BNY Mellon Fund Managers Limited**

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# **BNY Mellon Fund Managers Limited**

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

### **Directors**

G A Brisk

H Lopez

J F Lubran (Non-Executive Director)

D M Turnbull (Chairman)

### **Secretary**

BNY Mellon Secretaries (UK) Limited

160 Queen Victoria Street

London

EC4V 4LA

### **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**

1998251

# BNY Mellon Fund Managers 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 BNY Mellon Fund Managers Limited ("the Company") business and future developments, a description of the principal risks and uncertainties facing the Company and key performance indicators.

### Business review

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

### Financial key performance indicators

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

	2015 £000	2014 £000	Change £000	Change %
Turnover	15,414	15,933	(519)	(3)%
Administrative expenses	(11,830)	(12,101)	(271)	(2)%
Net assets	22,820	19,967	2,853	14%
Year end funds under management	33,477,000	37,362,000	(3,885,000)	(10)%
Average funds under management	35,751,000	35,890,000	(139,000)	(0.4)%

Net turnover decreased by £519,000 (3%) during the year. This is primarily due to net outflows in 2015. Within turnover (Note 2), management and performance fees decreased by £20,918,000, with commission and other costs also decreasing by £20,423,000. The trend of lower management fees and commissions reflects in part the continued impact from the Retail Distribution Review in the UK. Management fee income is generated from daily fund valuations.

Administrative expenses decreased by £271,000 (2%) during the year as result from decreased activity in the year.

Net assets increased by £2,853,000 (14%) during the year, reflecting current year profit after tax.

The decrease in average and year end funds under management reflects the volatility in equity markets during the year, together with the net outflows from the Asian Income strategy fund.

### Principal risks and uncertainties

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

### Business and future developments

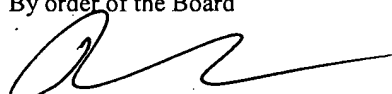
During 2016, the Company will continue to focus on funds under management growth through launching new sub-funds, or sub-fund modifications and servicing existing clients.

# **BNY Mellon Fund Managers Limited**

## **Strategic report**

### **Approval**

By order of the Board



D M Turnbull  
Director

BNY Mellon Fund Managers Limited  
BNY Mellon Centre  
160 Queen Victoria Street  
London  
EC4V 4LA

19 April 2016

Registered number: 1998251

# **BNY Mellon Fund Managers Limited**

## **Directors' report**

The directors present their report and financial statements for the year ended 31 December 2015.

### **Principal activities**

The principal activities of 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 Conduct Authority ("FCA") and Treasury Regulations. The ACD may delegate its management and administration functions to third parties including associates subject to the FCA Regulations. The Company has delegated the investment management of all unit trusts and ICVCs to the following Bank of New York Mellon group companies: Newton Investment Management Limited, Walter Scott & Partners Limited, Insight Investment Management (Global) Limited and The Boston Company Asset Management LLC. Additionally, part of the administration of the aforementioned products has been delegated to The Bank of New York Mellon (International) Limited and the distribution and operational activities has been delegated to BNY Mellon Investment Management EMEA Limited. The Board regularly reviews the service levels received from these companies to ensure continual delivery of quality to the customer. The Company is authorised as a full scope UK Alternative Investment Fund Manager under the Alternative Investment Fund Managers Directive by the FCA.

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

### **Results and dividends**

The profit for the year after taxation amounted to £2,853,000 (2014: £3,048,000).

The directors do not recommend a dividend for the year ended 31 December 2015 (2014: £nil).

### **Risk management**

The Company is a non BIPRU limited licence firm and is regulated by the FCA. Capital and other financial returns are prepared and submitted to the regulator on a quarterly basis. At 31 December 2015, surplus regulatory capital, as reflected within the Company's regulatory returns, amounted to £12,996,000 (2014: £9,138,000).

### **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.

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. Significant issues arising from these committees may be reported up to the appropriate Investment Management Committee.

# **BNY Mellon Fund Managers Limited**

## **Directors' report**

### **Risk management - continued**

#### *Governance and policies - continued*

The key committees include:

- **IM EMEA Executive Committee:** The IM EMEA Executive Committee is the senior governance and decision making forum within IM EMEA and is made up of directors and senior managers.
- **Fund Companies Risk and Compliance Committee:** The monthly Management Companies Risk and Compliance Committee is chaired by the Head of Compliance and attended by the Head of Risk Management, directors and other senior managers who also consider the risk and compliance issues of the Company. The committee receives a report from the Head of Risk Management on current risk issues and activities.

There are a number of key oversight committees in place as part of the U.S Corporate Global Risk Management Framework. The BNY Mellon Investment Management Risk Committee, which has an oversight responsibility covering the major risk sources, is the most senior committee. The BNY Mellon Investment Management Risk Committee is made up of senior Investment Management business managers and risk and compliance officers. Reports are provided and reviewed covering the risk sources any issues that need monitoring.

### **Risk management process**

The lines of business are responsible for actively identifying the risks associated with their key business processes, business change or external threats, 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 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 BNY Mellon Operational Risk Platform to achieve 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 at Bank of New York Mellon Corporation group ("the Group") level is set and owned by the BNY Mellon Board of directors, giving the overall strategy and willingness to take on risk at a global level. 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 of the Company are measured, reported and monitored monthly to the Fund Companies Risk and Compliance Committee as part of the risk management framework which has been adopted.

#### *Credit risk*

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

#### *Market risk*

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

# BNY Mellon Fund Managers Limited

## Directors' report

### Risk management process - continued

#### *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.

### Pillar 3 risk disclosures

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

### Directors

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

	Appointed	Resignation
G A Brisk	-	-
H Lopez	18 February 2016	-
J F Lubran	-	-
M Oomen	-	10 December 2015
D M Turnbull	-	-

### 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 (2014: £none).



# **BNY Mellon Fund Managers Limited**

## **Directors' report**

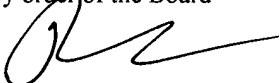
### **Disclosure of information to auditor**

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

### **Auditor**

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

By order of the Board



D M Turnbull  
Director

BNY Mellon Fund Managers Limited  
BNY Mellon Centre  
160 Queen Victoria Street  
London  
EC4V 4LA

19 April 2016

Registered number: 1998251

## **BNY Mellon Fund Managers Limited**

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

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

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

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

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the 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 BNY Mellon Fund Managers Limited**

We have audited the financial statements of BNY Mellon Fund Managers Limited for the year ended 31 December 2015 set out on pages 10 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101: *Reduced Disclosure Framework* ("FRS 101").

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 auditors' 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**

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

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

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

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

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

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

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



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

15 Canada Square  
London  
E14 5GL

19 April 2016

## BNY Mellon Fund Managers Limited

### Statement of profit and loss for the year ended 31 December 2015

	Note	2015 £000	2014 £000
Turnover	2	15,414	15,933
Administrative expenses	3	(11,830)	(12,101)
<b>Operating profit</b>		<b>3,584</b>	<b>3,832</b>
Interest receivable and similar income	5	91	124
Interest payable and similar charges	6	(98)	(73)
<b>Profit on ordinary activities before tax</b>		<b>3,577</b>	<b>3,883</b>
Taxation on profit on ordinary activities	7	(724)	(835)
<b>Profit for the financial year</b>		<b>2,853</b>	<b>3,048</b>

Notes 1 to 18 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.

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

# BNY Mellon Fund Managers Limited

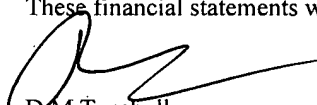
## Balance sheet at 31 December 2015

	Note	2015 £000	2014* £000
<b>Current assets</b>			
Debtors	8	70,892	121,673
Current asset Investments	9	-	835
Cash at bank and in hand	10	19,977	28,817
Other assets	11	10,000	-
		<u>100,869</u>	<u>151,325</u>
Creditors: amounts falling due within one year	12	(78,049)	(131,358)
Net current assets		<u>22,820</u>	<u>19,967</u>
 Total assets less current liabilities		<u>22,820</u>	<u>19,967</u>
<b>Net assets</b>		<u>22,820</u>	<u>19,967</u>
 <b>Capital and reserves</b>			
Called up share capital	13	1,625	1,625
Share premium		6,000	6,000
Profit and loss account		15,195	12,342
<b>Shareholders' equity</b>		<u>22,820</u>	<u>19,967</u>

\*The Company has adopted FRS 101 in preparing its 2015 financial statements. An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position and financial performance is set out in notes 1 and 18.

Notes 1 to 18 are integral to these financial statements.

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

  
D M Turnbull  
Director

19 April 2016

Company registered number: 1998251

# BNY Mellon Fund Managers Limited

## Statement of changes in equity

31 December 2015

	<b>Called up Share capital £000</b>	<b>Share Premium account £000</b>	<b>Profit and loss account £000</b>	<b>Total equity £000</b>
Balance at 1 January 2014	1,625	6,000	9,294	16,919
Profit for the year	-	-	3,048	3,048
<b>Balance at 31 December 2014</b>	<b>1,625</b>	<b>6,000</b>	<b>12,342</b>	<b>19,967</b>

	<b>Called up Share capital £000</b>	<b>Share Premium account £000</b>	<b>Profit and loss account £000</b>	<b>Total equity £000</b>
Balance at 1 January 2015	1,625	6,000	12,342	19,967
Profit for the year	-	-	2,853	2,853
<b>Balance at 31 December 2015</b>	<b>1,625</b>	<b>6,000</b>	<b>15,195</b>	<b>22,820</b>

Notes 1 to 18 are integral to these financial statements.

# BNY Mellon Fund Managers Limited

## Notes to the Financial Statements for the year ended 31 December 2015

### 1 Accounting policies

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

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

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). These are the Company's first financial statements produced under FRS 101.

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

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

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position and financial performance of the Company is provided in note 18.

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

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital;
- Disclosure in respect of capital management;
- The effects of new but not yet effective IFRSs;
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy, the correction of error, or the reclassification of items in the financial statements (see note );
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 *Financial Instrument Disclosures*; and
- The disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value and are not either held as part of trading portfolio or derivatives.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 balance sheet at 1 January 2014 for the purposes of the transition to FRS 101.

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 1.14.

# **BNY Mellon Fund Managers Limited**

## **Notes to the Financial Statements for the year ended 31 December 2015**

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

#### **1.2 Measurement convention**

These financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments classified as fair value through the profit or loss.

#### **1.3 Going concern**

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

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

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

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

As the Company is a wholly owned indirect subsidiary of the ultimate parent company, The Bank of New York Mellon Corporation, it has taken advantage of the exemption contained in IAS 24 and has therefore not disclosed transactions or balances with entities which form part of the Group.

#### **1.5 Turnover**

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

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

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the company's trading activity.



# **BNY Mellon Fund Managers Limited**

## **Notes to the Financial Statements for the year ended 31 December 2015**

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

#### **1.6 Interest receivable and interest payable**

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in the statement of profit and loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange gains or losses that are recognised in the statement of profit and loss (see foreign currency accounting policy). Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

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

#### **1.7 Taxation**

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; 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.

#### **1.8 Foreign currency**

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

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

# **BNY Mellon Fund Managers Limited**

## **Notes to the Financial Statements for the year ended 31 December 2015**

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

#### **1.9 Classification of financial instruments issued by the Company**

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy.

#### **1.10 Non-derivative financial instruments**

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

##### *Trade and other debtors*

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

##### *Trade and other creditors*

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

#### **1.11 Trading assets (managers box)**

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.

#### **1.12 Offsetting**

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

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

# BNY Mellon Fund Managers Limited

## Notes to the Financial Statements for the year ended 31 December 2015

### 1 Accounting policies - continued

#### 1.13 Derivative financial instruments

The Company uses derivative financial instruments mainly forward currency contracts. Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

#### 1.14 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 investment securities, the valuation of financial instruments, deferred tax assets, provisions and assessment of fund investments as structured entities. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty, are set out in the notes on the financial statements.

#### 1.15 Segmental reporting

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

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

### 2 Turnover

#### *By activity*

	2015	2014
	£000	£000
Management fees	305,324	326,740
Performance fees	1,943	1,445
Gross sale of units and shares	6,446,882	10,378,417
Total turnover	6,754,149	10,706,602
Net costs of units and shares created/liquidated	4,483,872	(962,252)
Repurchases of units and shares	(10,930,634)	(9,404,829)
Discounts	(55)	(11,247)
Commissions and other costs	(291,918)	(312,341)
Total cost of sales	(6,738,735)	(10,690,669)
Net turnover	15,414	15,933

# BNY Mellon Fund Managers Limited

## Notes to the Financial Statements for the year ended 31 December 2015

### 3 Expenses and auditor's remuneration

Auditor's remuneration:

	2015 £000	2014 £000
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of these financial statements pursuant to legislation	38	40
Other assurance services	26	17
	<u>64</u>	<u>57</u>

### 4 Directors' emoluments

	2015 £000	2014 £000
Directors' emoluments	19	-
	<u>19</u>	<u>-</u>

The aggregate of emoluments of the highest paid Director was £19,000 (2014: £nil).

The emoluments disclosed above relate to 1 Director of the Company (2014: none). The emoluments of the other directors for their service as directors of the Company were borne by fellow group undertakings.

### 5 Other interest receivable and similiar income

	2015 £000	2014 £000
Receivable from external third parties on bank deposits	49	72
Receivable from group undertaking	42	52
Total interest receivable and similar income	<u>91</u>	<u>124</u>

### 6 Interest payable and similiar charges

	2015 £000	2014 £000
Net foreign exchange loss	63	27
Payables on loans from third parties	35	46
Total other interest payable and similar charges	<u>98</u>	<u>73</u>

# BNY Mellon Fund Managers Limited

## Notes to the Financial Statements for the year ended 31 December 2015

### 7 Taxation

#### *Recognised in the profit and loss account*

	2015	2014
	£000	£000
<i>UK corporation tax</i>		
Current tax on income for the period	724	835

#### *Reconciliation of effective tax rate*

	2015	2014
	£000	£000
Profit for the year	2,853	3,048
Total tax credit	724	835
Profit excluding taxation	3,577	3,883
Tax using the UK corporation tax rate of 20.25% (2014: 21.50%)	724	835
Total tax expense	724	835

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the company's future current tax charge accordingly.

An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the company's future current tax charge accordingly. The effect of the reduction from 18% to 17% has not been quantified.

### 8 Debtors

	2015	2014*
	£000	£000
Trade debtors	44,127	83,997
Amounts owed by group companies	-	4,967
Other debtors	85	29
Prepayments and accrued income	26,680	32,680
	70,892	121,673
Due within one year	70,892	121,673

\* The Company has adjusted certain amounts reported previously in financial statements prepared in accordance with UK GAAP. An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position and financial performance is set out in notes 1 and 18.

# BNY Mellon Fund Managers Limited

## Notes to the Financial Statements for the year ended 31 December 2015

### 9 Current asset investment and other financial assets

	2015	2014
	£000	£000
<b>Current asset investments</b>		
Financial assets designated as fair value through profit or loss	-	835

Investments represent units held in each of the quoted collective investment trust schemes managed by the Company.

### 10 Cash and cash equivalents

	2015	2014
	£000	£000
Cash at bank and in hand	19,977	28,817

Cash at bank included £13,689,000 (2014: £23,011,000) of funds on deposit with a UK regulated banking entity within the BNY Mellon group.

The Company is exposed to foreign exchange risk between the date of recognition and settlement of foreign currency income and expenses. To mitigate this the Company maintains foreign currency cash balances to offset the net currency position. This activity can result in foreign currency overdrafts that mitigate the risk of foreign currency receivables. All overdrafts are with the Bank of New York Mellon London Branch with which the Company has executed a master netting agreement in 2015.

### 11 Other assets

	2015	2014
	£000	£000
Other assets	10,000	-

Under the Prudent Segregation Policy, the Company is required to segregate an amount of its assets in a client money account to ensure its clients are protected from loss in the event of the Company's insolvency. £10,000,000 was transferred into the client money account on 1 June 2015.

# BNY Mellon Fund Managers Limited

## Notes to the Financial Statements for the year ended 31 December 2015

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

	2015	2014*
	£000	£000
Bank loans and overdrafts (see note 10)	738	-
Trade creditors	60,734	101,797
Amounts owed to group undertakings	15,832	28,774
Accruals and deferred income	64	57
Taxation and social security	681	730
	<u>78,049</u>	<u>131,358</u>

\* The Company has adjusted certain amounts reported previously in financial statements prepared in accordance with UK GAAP. An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position and financial performance is set out in notes 1 and 18.

### 13 Capital and reserves

#### Share capital

	2015	2014
	£000	£000
Allotted, called up and fully paid		
1,625,000 Ordinary shares of £1 each	<u>1,625</u>	<u>1,625</u>

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

### 14 Offsetting financial assets and financial liabilities

#### Group and Company

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

	2015			2014		
	Gross amounts	Amounts offset	Net amounts	Gross amounts	Amounts offset	Net amounts
	£000	£000	£000	£000	£000	£000
Due to group undertakings	19,548	3,716	15,832	28,774	-	28,774
Due from group undertakings	3,716	3,716	-	4,967	-	4,967

# **BNY Mellon Fund Managers Limited**

## **Notes to the Financial Statements for the year ended 31 December 2015**

### **15 Related parties**

During the year, the Company received income from the 42 funds (2014: 42 funds) it manages and which are classified as related parties. During the year, the Company received £307,267,000 (2014: £328,185,000) in gross management fees and performance fees. As at 31 December 2015 the Company had £26,927,000 receivable from those funds (2014: £33,373,000).

### **16 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 2015, the Company had quoted investments charged to the statement of profit and loss that relate to unit holdings in each of the collective investment trust schemes managed by the company with a fair value of £nil (2014: £835,000). These investments are valued based on the Level 1 valuation technique by using quoted prices.

As at 31 December 2015, the Company had no derivative financial instruments charged to the statement of profit and loss. As at 31 December 2014, the Company had derivative financial instruments as follows: a forward foreign exchange contract to sell 852,098 USD against Sterling on 30 January 2015 at a rate of \$1.55/£1. As at 31 December 2014, when these financial instruments were entered into, the fair value was £nil. These contracts are valued based on the Level 2 valuation technique by using inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

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

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

The ultimate parent company as at 31 December 2015 was The Bank of New York Mellon Corporation, incorporated in the United States of America. The consolidated accounts of the ultimate parent company may be obtained from:

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

### **18 Explanation of transition to FRS 101 from old UK GAAP**

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2015, the comparative information presented in these financial statements for the year ended 31 December 2014 and in the preparation of an opening FRS 101 balance sheet at 1 January 2014 (the Company's date of transition).



# BNY Mellon Fund Managers Limited

## Notes to the Financial Statements for the year ended 31 December 2015

### 18 Explanation of transition to FRS 101 from old UK GAAP - continued

In preparing its FRS 101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

#### Reconciliation of equity

		1 January 2014			31 December 2014		
	Note	UK GAAP £000	Effect of transition to FRS 101 £000	FRS 101 £000	UK GAAP £000	Effect of transition to FRS 101 £000	FRS 101 £000
<b>Current assets</b>							
Trade debtors		108,840	-	108,840	83,997	-	83,997
Amounts owed by group undertakings	a	-	10,415	10,415	-	4,967	4,967
Other debtors		31	-	31	29	-	29
Other financial assets		31,303	-	31,303	32,680	-	32,680
Investments		658	-	658	835	-	835
Cash at bank and in hand		26,365	-	26,365	28,817	-	28,817
		167,197	10,415	177,612	146,358	4,967	151,325
<b>Creditors: amounts due within one year</b>							
Trade creditors		(129,848)	-	(129,848)	(101,797)	-	(101,797)
Amounts owed to group undertakings	a	(19,794)	(10,415)	(30,209)	(23,807)	(4,967)	(28,774)
Taxation and social security		(352)	-	(352)	(427)	-	(427)
Other creditors		(246)	-	(246)	(303)	-	(303)
Accruals and deferred income		(38)	-	(38)	(57)	-	(57)
<b>Net assets</b>		16,919	-	16,919	19,967	-	19,967
<b>Capital and reserves</b>							
Called up share capital		1,625	-	1,625	1,625	-	1,625
Share premium account		6,000	-	6,000	6,000	-	6,000
Profit and loss account		9,294	-	9,294	12,342	-	12,342
<b>Shareholders' equity</b>		16,919	-	16,919	19,967	-	19,967

# BNY Mellon Fund Managers Limited

## Notes to the Financial Statements for the year ended 31 December 2015

### 18 Explanation of transition to FRS 101 from old UK GAAP - continued

#### *Reconciliation of profit for 2014*

		2014	
		Effect of	
	UK GAAP	transition to	FRS 101
Note	£000	FRS 101	£000
		£000	
<b>Turnover</b>	15,933	-	15,933
Administrative expenses	(12,101)	-	(12,101)
<b>Operating profit</b>	3,832	-	3,832
Other interest receivable and similar income	124	-	124
Interest payable and similar charges	(73)	-	(73)
<b>Profit on ordinary activities before taxation</b>	3,883	-	3,883
Taxation	(835)	-	(835)
<b>Profit for the year</b>	3,048	-	3,048

#### *Notes to the reconciliation of equity and profit*

a) Under UK GAAP, the netting of asset and liability balances in the balance sheet is only allowed when there is the ability to insist on net settlement. Under IAS 32 the offsetting of financial assets and financial liabilities is only allowed when there is a legally enforceable right to offset and the intention to settle net. This has increased the Company's total assets by £4,967,000 as at 31 December 2014 (£10,415,000 as at 1 January 2014).