BMO Fund Management Limited

(Registered number 2170242)

Annual Report & Financial Statements for the year ended 31 October 2019

Contents

BMO FUND MANAGEMENT LIMITED

DIRECTORS AND ADVISERS

REGISTERED NUMBER:	2170242
DIRECTORS:	R S Fuller D Logan C B Porter R J E Thorpe W M Tonkin R A Watts T Watts
SECRETARY:	K Lam
REGISTERED OFFICE:	Exchange House Primrose Street London EC2A 2NY
SOLICITORS:	Norton Rose Fulbright LLP 3 More London Riverside London SE1 2AQ
AUDITOR:	KPMG LLP Saltire Court 20 Castle Terrace Edinburgh EH1 2EG

BMO FUND MANAGEMENT LIMITED

STRATEGIC REPORT

The Directors present their Strategic Report on BMO Fund Management Limited (the Company) for the year ended 31 October 2019. The Company is an integral part of the BMO Global Asset Management (BMO GAM) business within the BMO Financial Group (BMO).

PRINCIPAL ACTIVITY

The Company is authorised and regulated by the Financial Conduct Authority (FCA) as an Alternative Investment Fund Manager (AIFM) as required by the EU Alternative Investment Fund Managers Directive (AIFMD). The Company acts as Authorised Corporate Director (ACD) to a range of UK Open Ended Investment Companies (OEICs) and is the plan manager of a number of retail investment plans that invest into these OEICs.

The Company also provided investment management services to a number of Alternative Investment Funds (AIFs). This included the BMO Asset Management (Holdings) plc Group's (the Group) Luxembourg-based Liability Driven Investment (LDI) pooled funds and certain Dutch pooled funds. However, as part of the Group's Brexit restructuring activity during 2019, outlined below, BMO Asset Management Netherlands B.V. (BMO NL) was appointed as AIFM to the Group's Luxembourg-based AIFs and Dutch pooled funds during the year, so the Company is no longer the appointed asset manager to these funds.

BUSINESS AND FINANCIAL REVIEW

Results

The Financial Statements show a loss after tax for the 2019 financial year of £2,312,000 (2018: loss of £649,000).

Key performance indicators

The Company uses a number of financial performance measures to monitor the performance of the business. The key performance indicators are shown below:

	2019 £000	2018 £000
Net operating revenue*	41,016	58,336
Operating loss	(2,872)	(853)
Assets under management (at reporting date)	£1.5bn	£16.7bn

* The impact of the adoption of IFRS 15 is disclosed in note 2.2.1.

BMO FUND MANAGEMENT LIMITED

STRATEGIC REPORT (continued)

Trading performance and development of the business

The movements in the Company's assets under management (AUM) during the last two financial years are summarised below:

	1 November 2018 £bn	Inflows £bn	Outflows £bn	Net outflows £bn	Other movements* £bn	Market growth £bn	31 October 2019 £bn
Assets under Management	16.7	1.5	(2.1)	(0.6)	(16.2)	1.6	1.5

	1 November 2017 £bn	Inflows £bn	Outflows £bn	Net inflows £bn	Other movements £bn	Market growth £bn	31 October 2018 £bn
Assets under Management	14.3	3.6	(1.8)	1.8	-	0.6	16.7

* Other movements of £16.2bn in 2019 primarily relates to the transfer of AIFs to another Group company, as the Company is no longer the AIFM of these funds.

As part of BMO's wider strategy to ensure BMO can continue to operate in Europe and deal effectively with the challenges raised by Brexit, BMO NL, a fellow Group subsidiary, was authorised as an AIFM in February 2019. This enables BMO NL to manage a number of the Group's European AIFs and, as a result of this restructuring, in excess of £16 billion of AUM were transferred from the Company to BMO NL during 2019. Furthermore, AUM increased by £1.6 billion as a result of market growth during the year, although a significant element of this related to the LDI Fund.

Net operating revenue for the Company was £41,016,000 in 2019 compared with £58,336,000 in 2018. The decrease in net revenue is primarily driven by the decrease in AUM during 2019.

Operating expenses in 2019 were £43,903,000 compared to £59,189,000 in 2018. Net revenue is the key driver for determining the share of the BMO Asset Management (Holdings) plc transfer pricing Group's (UK transfer pricing Group) UK operating platform costs attributed to the Company. In 2019, the Group incurred a higher level of expenses, including those associated with the Group's cost-saving restructuring plans. This, in conjunction with the lower aggregate revenues earned by the Group compared with 2018, resulted in a higher ratio of costs to revenue for each of the companies in the UK transfer pricing Group. However, as the Company earned a lower level of revenue in 2019, this has resulted in a lower quantum of expenses being allocated compared to 2018, but resulted in a higher operating loss for 2019.

PRINCIPAL RISKS AND UNCERTAINTIES

The Directors manage the risks as part of the overall risk management framework within the Group. Members of the BMO GAM EMEA (Europe, the Middle East and Africa) Regional Committee are responsible for identifying and addressing any material or systematic issues or risks facing their areas of the business. The principal risks and uncertainties facing the Company are broadly grouped as follows:

Indirect earnings risk through client assets

As an asset manager the Company is responsible for managing assets in accordance with the mandates specified by its clients. The assets managed by the Company are subject to varying degrees of financial risk (market, credit and liquidity). While these risks could result in financial loss or gain through a change in the value of AUM, these risks and rewards are fully borne by, or fall to the benefit of, the Company's clients. However, as the majority of the Company's asset management fees are quantified as a percentage of AUM, the Company's revenues are impacted by movements in client assets which are caused by exposure to financial risks. As a result of the direct link between revenues and the value of client assets, the Company's interests are aligned to those of its clients.

STRATEGIC REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Investment performance

A key risk to the business is that of poor investment performance, which could lead to the subsequent loss of client mandates. The delivery of strong investment performance depends upon the successful management of client portfolios against targets, benchmarks and/or peer groups. Failure to meet these objectives could lead to outflows, may impact the Company and Group's ability to win new mandates or assets, and may potentially expose the Company and the Group to greater risk of mandate or regulatory breach.

Fund managers are responsible for implementing investment ideas/strategies whilst effectively managing performance and the risks associated with them. The Group operates an independent Investment Risk Oversight team which monitors and challenges risks within client portfolios and provides appropriate management information. A Performance Review and Risk Oversight Committee meets regularly to ensure an appropriate level of oversight is applied to investment performance and risk. A key role of the Chief Investment Officer of BMO GAM is to monitor the fund performance achieved by the Group's investment professionals. Where it is considered necessary, actions are taken to change investment process or personnel with a view to attaining improved performance.

Financial risk

The Group adopts a low risk approach to treasury management and financial risks in relation to shareholder equity, seeking to manage and preserve its capital. The Group's treasury function ensures that sufficient cash is retained by the Company in respect of short-term working capital and regulatory capital requirements.

Credit risk

As an asset management business which primarily derives revenues which are based on a percentage of client AUM, the Company's exposure to client default is considered to be relatively low.

The quantum of trade receivables and contract assets (being accrued income) at each reporting date is shown in note 3(b). There is a low inherent risk of the non-collection of management fees from clients as the Company's revenues are generally funded from the assets which are managed on behalf of clients. Trade receivables and payables in respect of OEIC creations and cancellations are, as expected, a similar magnitude at the reporting date.

The Company has limited exposure to credit risk on purchases of units in funds operated by the Company that remain unpaid at the settlement date as, in the event of default, it has the ability to cancel units and is entitled to seek reimbursement of costs from investors.

Other than the OEIC and Unit Trust receivables balance, the largest receivable at the reporting dates is in respect of a loan owed by an intermediate parent company. As the Group's regulatory and working capital requirements are monitored on a group-wide basis, the risk of default is considered minimal. However, upon adoption of IFRS 9, an expected credit loss provision has been recognised on this loan, as disclosed in note 11.

The Group's treasury policy limits the exposure to any one counterparty (in respect of cash and cash equivalents), recognising that each counterparty has been approved by the BMO GAM Counterparty Credit Committee. As at 31 October 2019, the Company's largest exposure was £7,872,000 in respect of deposits with an 'A' credit rated bank (31 October 2018: £7,175,000 deposits with a 'A-' credit rated bank).

BMO FUND MANAGEMENT LIMITED

STRATEGIC REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Liquidity risk

The treasury policy set by the Group only allows financial assets attributable to equity holders to be invested in low risk deposits or money market instruments where the risk of capital loss is low, with specific approvals required for any exception to this principle, such as the holdings of the stock of units and shares noted below. The Company holds a stock of units and shares in certain OEIC funds it operates and manages in order to facilitate the creation and redemption of units by investors. The Group's risk appetite statement limits the aggregate value of the units held by the Company to £1m, thereby capping the maximum financial risk exposure associated with these assets.

The overall cash position is monitored by the Treasury team within the Group as a whole and each individual company within the Group draws on the available cash balance to meet its working capital requirements.

Market risk (price risk)

The Company is exposed to direct market risk in relation to the stock of units and shares held in open-ended investment funds managed by the Company. The Group's risk management policy places limits on the overall magnitude of units held and the amount which may be held in any single fund.

The Company also assumed market risk by issuing asset management contracts with investment protection cover whereby the Company agrees to compensate eligible investors in certain share classes within the Lifestyle and Navigator range of OEICs for shortfalls between the original value of their qualifying investments and their market value in the event of death. The Company managed and mitigated this risk by passing on its investment guarantee exposure in full, to an external reinsurance provider. The investment protection guarantee was withdrawn with effect from 31 December 2019.

Failure to deliver Consumer and Institutional growth plans

Over the last few years the Group's client base and revenues have evolved. As the legacy Strategic Partner business has matured and assets have been withdrawn, the Group has sought to significantly expand its Consumer and Institutional business to provide new revenues. Further growth in Consumer and Institutional AUM and, more critically, revenue, is key to the continued success of the Group. Recognising that new business revenues generated by any of the companies in the UK transfer pricing Group would benefit all companies in the UK transfer pricing Group, a lack of growth in new Consumer and Institutional business could stifle the targeted growth in profitability in the Company or even result in further losses arising.

The Group has sought to ensure that its product development, distribution and investment processes are aligned, positioning it to deliver a competitive product offering in areas of key focus. Clearly defined distribution targets allow management to monitor progress in AUM and revenue growth. In 2019, the Group has continued to focus on its distribution and expand its product offering, seeking to capitalise on opportunities available to it.

COVID-19 pandemic

In recent weeks there has been a rise and rapid expansion of the coronavirus (COVID-19) pandemic outbreak across many continents, with many countries, including the United Kingdom (UK), suspending some business operations and imposing travel restrictions and quarantine measures. These measures and policies have significantly disrupted, or are expected to disrupt, the activities of many entities and the wider global economy. As the outbreak continues, it is challenging at this juncture to predict the full extent and duration of its business and economic impact.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

This is a rapidly changing scenario, but the Company, as part of the broader BMO GAM business within the BMO Financial Group, is taking every precaution it can to safeguard employees, continue serving customers and keep operations running effectively. Key actions taken so far include:

- As part of business continuity plans for the BMO Financial Group, a COVID-19 Steering Committee is in place and running the recovery strategy for BMO from Canada. The Chief Operating Officer of Wealth Management is a member of that Committee and provides direct link to the BMO GAM business;
- The BMO GAM business have formed an Emergency Response Team (ERT), comprised of the Heads of key business functions, co-ordinating actions to address the evolving situation;
- The Group have implemented Group-wide working from home options for all roles that can be performed remotely;
- The Group have engaged with the Group's key third-party outsource service providers, seeking to ensure maintenance of normal operations and service levels; and
- BMO GAM EMEA and BMO Financial Group are issuing regular communications to staff.

The Directors consider that as the impact of COVID-19 has arisen since the reporting date, there is no impact on the reported Statement of Financial Position of the Company as at the reporting date. However, it is inevitable that current events will have a direct or indirect impact on the operations, financial position and results of the Company for the year to 31 October 2020 and potentially beyond that date. While the biggest impact is expected to be reduced revenues as a result of the impact of global markets on the value of the assets managed by the Company, it is not possible to estimate the overall future financial impact of COVID-19 on the Company given the unpredictable nature of the outbreak and the inherent uncertainties.

Uncertain economic outlook

The UK and global macroeconomic outlook remains uncertain, particularly recognising the current COVID-19 pandemic referred to above. Client investment preferences, and the Group's AUM and revenue, may be impacted by underlying economic and market conditions. Adverse market conditions in one or more asset classes or changes in economic factors may lead to a reduction in AUM and/or revenue. In addition, actual or perceived changes in market or economic outlook may lead clients to alter their allocations to particular products or asset classes. These changes include the UK's departure from the European Union (EU).

The Group has implemented all necessary arrangements to ensure that its asset management operations can continue doing business effectively in Europe following the expiry of transition arrangements agreed between the UK and EU (currently scheduled for 31 December 2020). However, uncertainties arising from the negotiations between the UK and the EU needed to agree the terms of their future relationship could still have a significant impact on underlying economic and market conditions for European and UK asset classes.

The Group offers competitive products across a broad range of asset classes, including equities, fixed income, alternatives and multi-asset, with this diversified range limiting its exposure to the impact of market volatility in any one market or asset class. Recognising that a significant quantum of the Company's cost base is impacted by the proportion of the Company's revenue relative to the wider UK Group, the Company benefits from the diversity and growth of Group revenues.

Furthermore, a number of the Group's investment-solutions products are much longer term in nature, and their performance and marketability are less impacted by short-term market volatility. The Group continues to closely monitor developments around the departure of the UK from the EU so as to ensure that any adverse impact is appropriately mitigated as far as possible in the management of European and UK asset classes.

BMO FUND MANAGEMENT LIMITED

STRATEGIC REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Loss of key employees

The success of the Company and the Group depends on the support of its employees in key areas including investment, distribution, marketing, product development, operations and support functions. The loss of key employees may prevent the Company or the Group from winning new business or meeting its strategic goals, and may lead to client outflows and the loss of key mandates.

The Group's compensation model targets the retention of key employees. All employees receive an annual appraisal which reviews their performance against clearly defined objectives with the aim of encouraging strong performance. Reliance on key individuals is mitigated by the Group's team-based approach to investment management. Moreover, the Company and the Group seek to reduce their dependence on key staff through the recruitment of suitably-skilled individuals and by ensuring succession plans are in place for senior roles to provide emergency or immediate cover.

Breach of client or portfolio limits

Many of the Group's investment mandates include specific limits, restrictions and/or exclusions on the construction or content of portfolios agreed with the client. In addition, certain pooled fund products may be subject to specific regulatory or fiscal limits, restrictions and/or exclusions. Any breach of a client mandate may render the Group liable to pay financial compensation.

A Group-wide database is utilised to record and monitor mandate-related rules. Fund managers are the Group's first line of defence in ensuring that funds are managed in accordance with each mandate. An independent Mandate Compliance Team is responsible for pre- and post-trade monitoring, and all breaches, whether active or passive, are investigated.

Regulation

The UK, European and global regulatory environments are evolving rapidly. The expectations of financial regulators are changing and regulated groups must embed regulatory compliance in their business models to an even greater extent than previously required. Regulation has become, in many areas, more complex and onerous, and regulated entities are faced with shorter timelines to interpret and implement new regulation. There is substantial complexity from overlapping regulatory directives. Regulatory change may lead to consolidation in the marketplace, the launch of new products, withdrawal or commoditisation of existing products and increased reliance on specialist third-party service providers as asset managers increasingly focus on the core activities of investment management, client servicing and distribution.

The Group Compliance team ensures that key regulatory changes are identified at the earliest opportunity. Their impact is then assessed to allow practical guidance on the proper application and interpretation of any changes to be provided to all relevant business areas. Related business change is supervised through the Group's change management process and oversight provided through both the EMEA Regional Committee and the Group Audit & Compliance Committee. The business has initiated a project to ensure compliance with the changes to FCA rules introduced in response to the findings of its Asset Management Study. There will be some impact on the Company's operating model arising from the implementation of this project including a reduction in revenues arising from the "value for money" assessment, where investors assets are transferred to "clean" share classes.

Reliance on third parties

In pursuing a strategy with a focus on competitive scale, the use of outsourced service providers benefits the Company and the Group by providing cost-effective access to an industry-competitive operating platform. The Group's key outsource partners provide a range of back and middle office, fund accounting, transfer agency and administrative services.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

The Group conducts an extensive selection and due diligence process prior to selecting outsource providers and entering into the related contractual arrangements. The Group has established oversight teams who monitor such third-party service delivery and ensure there is appropriate oversight and effective resolution of issues. Arrangements are in place to ensure that key outsource partners provide the level of service that is required by the Company and the Group, with service levels being regularly monitored as part of the Company's ongoing governance arrangements.

Business continuity and information technology

The Company's success is dependent on access to the Group's robust IT infrastructure and appropriate IT systems. The Group is exposed to the risk that its infrastructure and systems are unable to meet the demands of clients, or regulatory and/or technology change.

The Group has a short- and medium-term IT plan with clear objectives to meet mandatory change requirements, deliver further integration of systems and enhance the agility of the Group. The Group maintains and periodically tests its business continuity arrangements.

Potential cyberattacks

The Group is exposed to a variety of potential cyberattacks, and a failure to prevent or defend against such attacks could have a material adverse effect on operations. Attacks could result in a denial of services, or loss of client data or other sensitive information, thereby potentially impacting the Group financial results and/or its reputation.

The Company relies on the effectiveness of the Group's internal policies and associated procedures, infrastructure and capabilities to protect the confidentiality, integrity and availability of information held on its computer systems, networks and mobile devices. In addition, the Group holds an ISO 27001 security accreditation.

BY ORDER OF THE BOARD

R A Watts
Director
3 April 2020

BMO FUND MANAGEMENT LIMITED

REPORT OF THE DIRECTORS

The Directors present their Annual Report and audited Financial Statements for the year ended 31 October 2019.

RESULTS AND BUSINESS REVIEW

The Company's results for the year ended 31 October 2019 are shown in the Income Statement on page 14. A Strategic Report for the same period is set out on pages 2 to 8.

The Company recognised a loss of £2,312,000 for the year ended 31 October 2019 (2018: loss of £649,000).

DIVIDENDS

The Directors do not recommend the payment of a final dividend (2018: £nil) and no interim dividend was approved or paid during the year ended 31 October 2019 (2018: £nil).

FUTURE DEVELOPMENTS

The Company plans to continue to increase its market share and underlying AUM by focussing distribution on the intermediary and institutional markets. The Directors expect that the Company will benefit directly or indirectly from the distribution activities of the broader BMO Global Asset Management and BMO Financial Groups recognising that revenue is the key driver of the cost sharing arrangements within the UK transfer pricing Group.

DIRECTORS AND THEIR INTERESTS

The Directors who served during the year were as follows:

R S Fuller (Independent Non-Executive)	(appointed 16 July 2019)
D Logan	
J Z Mohammed	(resigned 28 November 2018)
C B Porter (Independent Non-Executive)	(appointed 26 March 2019)
D J Sloper	
R J E Thorpe	
W M Tonkin	
R A Watts	
T Watts	

D J Sloper resigned as Director on 16 January 2020.

K Lam was appointed as Secretary on 26 September 2019.

No individual Director has any direct beneficial interest in the share capital of the Company.

DIRECTORS' AND OFFICERS' LIABILITY

The Group maintains insurance cover in respect of Directors' and Officers' liability.

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.

BMO FUND MANAGEMENT LIMITED

REPORT OF THE DIRECTORS (continued)

ADEQUACY OF THE INFORMATION PROVIDED TO THE AUDITOR

The Directors who held office at the date of approving this Report of the Directors 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 they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

BY ORDER OF THE BOARD

R A Watts
Director
3 April 2020

BMO FUND MANAGEMENT LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE REPORT OF THE DIRECTORS AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Strategic Report, the Report of the Directors 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 FRS 101 *Reduced Disclosure Framework*.

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, 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.

BMO FUND MANAGEMENT LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BMO FUND MANAGEMENT LIMITED

Opinion

We have audited the Financial Statements of BMO Fund Management Limited ("the Company") for the year ended 31 October 2019 which comprise the Income Statement, Statement of Financial Position, Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 October 2019 and of its loss 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.

Strategic Report and Report of the Directors

The Directors are responsible for the Strategic Report and the Report of the Directors. 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 Report of the Directors 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 Report of the Directors;
- 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BMO FUND MANAGEMENT LIMITED (continued)

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 11, 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.

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.

Satish Iyer

Satish Iyer (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
3 April 2020

BMO FUND MANAGEMENT LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 OCTOBER 2019

	Notes	2019 £000	2018 £000
Revenue	3(a)	73,516	61,083
Cost of sales	4	(32,500)	-
Fee, commission and other expenses	4	-	(2,747)
Net operating revenue		41,016	58,336
Net gain on dealing in units and shares	5	15	-
Operating expenses	6	(43,903)	(59,189)
OPERATING LOSS		(2,872)	(853)
Finance income	8	176	62
Finance costs	9	(39)	(42)
LOSS BEFORE TAX		(2,735)	(833)
Tax income	10	423	184
LOSS FOR THE FINANCIAL YEAR		(2,312)	(649)

All amounts are derived from continuing activities.

There are no items of comprehensive income which have not already been presented in arriving at the loss for the current or previous financial years. Accordingly the loss for both financial years is the same as the total comprehensive expense for that year.

The Company adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 November 2018. As the previous years' results have been presented in accordance with the prior revenue standards, the results are not directly comparable with the current year. Further details are disclosed in note 2.2.1.

The notes on pages 17 to 47 form an integral part of these Financial Statements.

BMO FUND MANAGEMENT LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 OCTOBER 2019

(Registered number 2170242)

	Notes	31 October 2019 £000	31 October 2018 £000
ASSETS			
Non-current assets			
Loan receivable	11	16,875	21,978
Deferred tax assets	12	2,544	2,562
Deferred acquisition costs	13	74	-
Total non-current assets		19,493	24,540
Current assets			
Contract assets	3(b)	5,320	-
Trade receivables	3(b)	207	516
Other receivables	14	109,099	69,451
Stock of units and shares	15	31	629
Deferred acquisition costs	13	55	11
Cash and cash equivalents	16	8,246	9,224
Total current assets		122,958	79,831
TOTAL ASSETS		142,451	104,371
LIABILITIES			
Non-current liabilities			
Contract liabilities	3(b),17	310	-
Deferred income	18	-	472
Total non-current liabilities		310	472
Current liabilities			
Trade and other payables	19	119,434	78,808
Contract liabilities	3(b),17	218	-
Deferred income	18	-	264
Total current liabilities		119,652	79,072
TOTAL LIABILITIES		119,962	79,544
EQUITY			
Share capital	20	21,200	21,200
Retained earnings	21	1,289	3,627
TOTAL EQUITY		22,489	24,827
TOTAL LIABILITIES AND EQUITY		142,451	104,371

The Financial Statements were approved by the Board of Directors and authorised for issue on 3 April 2020. They were signed on its behalf by:

R A Watts
Director

The notes on pages 17 to 47 form an integral part of these Financial Statements

BMO FUND MANAGEMENT LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 OCTOBER 2019

	Share capital £000	Retained earnings £000	Total equity £000
At 1 November 2017	13,200	4,276	17,476
Share capital issued to WAM Holdings Ltd	8,000	-	8,000
Loss for the financial year	-	(649)	(649)
At 31 October 2018 (as previously reported)	21,200	3,627	24,827
Effect of adoption of new accounting standards*	-	(26)	(26)
At 1 November 2018 (adjusted)	21,200	3,601	24,801
Loss for the financial year	-	(2,312)	(2,312)
At 31 October 2019	21,200	1,289	22,489

* Amounts adjusted by £99,000 for the adoption of IFRS 15 (as disclosed in note 2.2.1) and (£125,000) for the adoption of IFRS 9 (as disclosed in note 2.2.2).

The notes on pages 17 to 47 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ENTITY INFORMATION

BMO Fund Management Limited is a private company limited by share capital, incorporated and domiciled in England. The Company's registered office and principal place of business is Exchange House, Primrose Street, London, EC2A 2NY.

The results of BMO Fund Management Limited are included in the consolidated Annual Report and Financial Statements of BMO Asset Management (Holdings) plc, which are available from 6th Floor, Quartermile 4, 7a Nightingale Way, Edinburgh, EH3 9EG.

The Company's Financial Statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except where otherwise indicated.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

As the Company meets the definition of a qualifying entity under Financial Reporting Standard 100 *Application of Financial Reporting Requirements*, the Financial Statements have been prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

The Company has applied the recognition, measurement, disclosure and presentation requirements of International Financial Reporting Standards as adopted by the European Union (EU-adopted IFRS), making amendments where necessary to comply with the requirements of the UK Companies Act 2006.

In the application of FRS 101, the Company has taken advantage of the following disclosure exemptions:

(a) Information regarding the entity's objectives, policies and processes for managing capital;
(b) A Statement of Cash Flows and related notes;
(c) Certain disclosures in respect of revenue from contracts with customers;
(d) Financial instruments disclosures, with the exception of financial instruments measured at fair value;
(e) The effects of new but not yet effective IFRSs;
(f) Disclosures of Key Management Personnel compensation; and
(g) Disclosures in respect of related party transactions with wholly-owned subsidiaries.

Measurement convention

The Financial Statements are prepared under the historical cost convention, with the exception of the stock of units and shares, classified as fair value through profit or loss, which are measured at their fair value.

Going concern

As explained in note 26, events after the reporting period, COVID-19 will have an impact on the operations and financial results of the Company for the year to 31 October 2020 and potentially beyond. However, due to the inherent uncertainties it is not possible to quantify the impact of these on the Company. As part of the Directors assessment of going concern they have considered, as best they can, the potential impacts of COVID-19 on the Company. While there can be no absolute certainty, having considered the current results of the Company, the potential impact of COVID-19 on the Company's results and operations and the current liquidity and net assets of the Company, the Directors are satisfied that it remains a reasonable assumption that the Company has sufficient resources to meet both its working capital and regulatory capital requirements for at least 12 months from the date of approval of the Financial Statements, even though further losses are expected to be recognised by the Company during that period. Accordingly, the Financial Statements have been prepared on a going concern basis.

2. ACCOUNTING POLICIES (continued)

2.2 New and amended standards and interpretations

The Company applied IFRS 15 and IFRS 9 for the first time. Details of the changes and effects resulting from adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in the year ended 31 October 2019, but do not have an impact on the Company's Financial Statements. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

2.2.1 IFRS 15 Revenue from contracts with customers
IFRS 15 supersedes IAS 11 Construction contracts, IAS 18 Revenue and related interpretations. It applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Company adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 November 2018.

The Company has applied the following practical expedients on transition to IFRS 15, as permitted by the standard:

- It has not restated any contracts completed prior to the date of initial application.
- It has not restated any contract modifications that occurred before the date of initial application.

The cumulative effect of initially applying IFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings, as disclosed below.

As the previous years' results have been presented in accordance with the prior revenue standards and have not been restated, the prior year results are not directly comparable with the current year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

Impact on Statement of Financial Position as at 31 October 2018 (date of initial application)

While the Company has elected not to restate the comparative period Statement of Financial Position, the impact of adopting IFRS 15 as at 1 November 2018 is as follows:

	Notes	Amounts prepared under IFRS 15 £000	Amounts prepared under previous IFRS £000	Increase/ (decrease) £000
ASSETS				
Non-current assets				
Loan receivable		21,978	21,978	-
Deferred tax assets		2,562	2,562	-
Deferred acquisition costs	(i)	84	-	84
Total non-current assets		24,624	24,540	84
Current assets				
Contract assets	(ii)	5,645	-	5,645
Trade receivables	(iii)	516	-	516
Other receivables	(i),(ii),(iii)	63,783	69,967	(6,184)*
Stock of units and shares		629	629	-
Deferred acquisition costs	(i)	65	11	54
Cash and cash equivalents		9,224	9,224	-
Total current assets		79,862	79,831	31
TOTAL ASSETS		104,486	104,371	115
LIABILITIES				
Non-current liabilities				
Contract liabilities	(i)	349	-	349
Deferred income	(i)	-	472	(472)
Total non-current liabilities		349	472	(123)
Current liabilities				
Trade and other payables		78,808	78,808	-
Contract liabilities	(i)	403	-	403
Deferred income	(i)	-	264	(264)
Total current liabilities		79,211	79,072	139
TOTAL LIABILITIES		79,560	79,544	16
EQUITY				
Share capital		21,200	21,200	-
Retained earnings		3,726	3,627	99†
TOTAL EQUITY		24,926	24,827	99
TOTAL LIABILITIES AND EQUITY		104,486	104,371	115

* This comprises £5,645,000 (contract assets adjustment (ii)), plus £516,000 (trade receivables adjustment (iii)), plus £23,000 (Group relief receivable tax effect of deferred acquisition costs and contract liabilities adjustment (i)), as explained below.

† This comprises £138,000 (deferred acquisition costs adjustment (i)), less £16,000 (contract liabilities adjustment (i)), less £23,000 (other receivables adjustment (i)), as explained below.

BMO FUND MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

Set out below, are the amounts by which each financial statement line item is affected as at and for the year ended 31 October 2019 as a result of the adoption of IFRS 15. The Company's loss for the financial year is the same as the total comprehensive expense for the year, therefore other comprehensive expense has increased by £40,000 as a result of adopting IFRS 15. The first column shows what the amounts would have been had IFRS 15 not been adopted, followed by the IFRS 15 adjustments, resulting in the amounts prepared under IFRS 15 in the final column:

Impact on Income Statement for the year ended 31 October 2019:

	Amounts prepared under previous IFRS *£000*	Reclassification of rebates (note (iv)) *£000*	Gross up of revenue (note (v)) *£000*	Deferred acquisition costs and deferred income (note (i)) *£000*	Reclassification of net gain on dealing in units and shares (note (vi)) *£000*	Amounts prepared under IFRS 15 *£000*
Revenue	43,219	1,281	29,189	(40)	(133)	73,516
Cost of sales	(2,139)	(1,281)	(29,189)	(9)	118	(32,500)
Net operating revenue	41,080	-	-	(49)	(15)	41,016
Net gain on dealing in units and shares	-	-	-	-	15	15
Operating expenses	(43,903)	-	-	-	-	(43,903)
OPERATING LOSS	(2,823)	-	-	(49)	-	(2,872)
Finance income	176	-	-	-	-	176
Finance costs	(39)	-	-	-	-	(39)
LOSS BEFORE TAX	(2,686)	-	-	(49)	-	(2,735)
Tax income	414	-	-	9	-	423
LOSS FOR THE FINANCIAL YEAR	(2,272)	-	-	(40)	-	(2,312)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

Impact on Statement of Financial Position as at 31 October 2019:

	Notes	Amounts prepared under IFRS 15 £000	Amounts prepared under previous IFRS £000	Increase/ (decrease) £000
ASSETS				
Non-current assets				
Loan receivable		16,875	16,875	-
Deferred tax assets		2,544	2,544	-
Deferred acquisition costs	(i)	74	-	74
Total non-current assets		19,493	19,419	74
Current assets				
Contract assets	(ii)	5,320	-	5,320
Trade receivables	(iii)	207	-	207
Other receivables	(i),(ii),(iii)	109,099	114,640	(5,541)*
Stock of units and shares		31	31	-
Deferred acquisition costs	(i)	55	-	55
Cash and cash equivalents		8,246	8,246	-
Total current assets		122,958	122,917	41
TOTAL ASSETS		142,451	142,336	115
LIABILITIES				
Non-current liabilities				
Contract liabilities	(i)	310	-	310
Deferred income	(i)	-	249	(249)
Total non-current liabilities		310	249	61
Current liabilities				
Trade and other payables		119,434	119,434	-
Contract liabilities	(i)	218	-	218
Deferred income	(i)	-	223	(223)
Total current liabilities		119,652	119,657	(5)
TOTAL LIABILITIES		119,962	119,906	56
EQUITY				
Share capital		21,200	21,200	-
Retained earnings		1,289	1,230	59†
TOTAL EQUITY		22,489	22,430	59
TOTAL LIABILITIES AND EQUITY		142,451	142,336	115

* This comprises £5,320,000 (contract assets adjustment (ii)), plus £207,000 (trade receivables adjustment (iii), plus £14,000 (Group relief receivable tax effect of deferred acquisition costs and contract liabilities adjustment (i)), as explained below.

† This comprises £129,000 (deferred acquisition costs adjustment (i)), less £56,000 (contract liabilities adjustment (i)), less £14,000 (other receivables adjustment (i)), as explained below.

2. ACCOUNTING POLICIES (continued)

The nature of these adjustments are described below:

(i) Deferred acquisition costs and deferred income (contract liabilities)
The Company receives initial fees on certain investments into open-ended funds and pays initial commissions in respect of certain new asset inflows into open-ended funds. The initial fees are recognised as deferred income in the Statement of Financial Position and are released to the Income Statement over the estimated period for which the investment is expected to be held. The initial commission costs are recognised as deferred acquisition costs in the Statement of Financial Position and are also amortised over the expected terms of the contracts (a similar period to deferred income). Under IFRS 15, deferred income was reclassified to contract liabilities at 1 November 2018.

The Company has reviewed the period over which the deferred acquisition costs and deferred income should be amortised. As a result of this review, the amortisation periods have been reduced from seven years to five years, reflecting the revised period over which the investments are expected to be held.

Upon adoption of IFRS 15, the Company recognised £138,000 of deferred acquisition costs at 1 November 2018 in addition to the existing £11,000 (£84,000 of this balance is non-current, with £65,000 recognised as a current asset). As at 31 October 2019, IFRS 15 increased deferred acquisition costs by £129,000 (£74,000 of this balance is non-current, with £55,000 recognised as a current asset).

Upon adoption of IFRS 15, the Company recognised additional deferred income of £16,000 at 1 November 2018 (reducing non-current deferred income by £123,000 and increasing current deferred income by £139,000). Both current and non-current deferred income amounts were reclassified as contract liabilities. As at 31 October 2019, IFRS 15 increased contract liabilities by £56,000 (increasing non-current contract liabilities by £61,000 and reducing current contract liabilities by £5,000).

The tax effect of the opening adjustments above resulted in a £23,000 decrease in other receivables (Group relief receivable) at 1 November 2018 and a further £9,000 increase in other receivables during the year ended 31 October 2019, resulting in a net decrease in other receivables of £14,000 at 31 October 2019.

For the year ended 31 October 2019, the changes in deferred acquisition costs and deferred income decreased revenue by £40,000 and increased cost of sales by £9,000. The impact of tax for the year was an increase in tax income of £9,000.

(ii) Reclassification of accrued income as contract assets
Before adoption of IFRS 15, the Company recognised accrued income within trade and other receivables. Under IFRS 15, any earned consideration that is conditional should be classified as a contract asset rather than a receivable. Therefore, upon adoption of IFRS 15, the Company reclassified £5,645,000 from trade and other receivables to contract assets as at 1 November 2018. As at 31 October 2019, IFRS 15 increased contract assets by £5,320,000 and reduced trade and other receivables by £5,320,000.

(iii) Reclassification of trade receivables
As a result of adopting IFRS 15, the Company determined that trade receivables, being amounts invoiced at the reporting date, should be disclosed separately from other receivables, as trade receivables are considered to be contract balances (as disclosed in note 3(b)). As a result, trade receivables of £516,000 are disclosed separately on the face of the Statement of Financial Position at 1 November 2018 and trade receivables of £207,000 are disclosed separately at 31 October 2019.

(iv) Reclassification of rebates
Before adopting IFRS 15, the Company recognised investment management fees and other revenue generated from the Company's asset management activities net of rebates. Following a review of contracts with customers, £1,281,000 of rebates have been reclassified from revenue to cost of sales in the year ended 31 October 2019, as they relate to amounts not payable directly to the customer from whom the revenue was originally received.

2. ACCOUNTING POLICIES (continued)

(v) Principal versus agent consideration
The Company has certain contracts with customers where the satisfaction of certain performance obligations are delegated to other Group companies. Before the adoption of IFRS 15, the Company concluded that, as the economic benefits associated with the transaction did not flow to the Company and there was no increase in the Company's equity, revenue was recognised net of amounts paid for the delegated portfolio management services. Upon the adoption of IFRS 15, the Company has determined that it retains control of such services to customers, as it has the ability to direct the delegated portfolio manager to provide the service on the Company's behalf. The Company also has exposure to the significant risks and rewards associated with the services to be provided to customers. Therefore, the Company has accounted for such delegated portfolio management contracts as a principal. This change will result in increases in revenue from investment management services which are delegated to other asset managers, and a corresponding recognition in cost of sales to reflect the cost of delegated portfolio management activities.

For the year ended 31 October 2019, IFRS 15 increased revenue from contracts with customers by £29,189,000, with a corresponding increase in cost of sales of the same amount.

(vi) Reclassification of net gain on dealing in units and shares
Net gains or losses on dealing in units and shares (the Company's holding of stock of units and shares), were previously included within revenue, with the amounts payable back to funds included within fee and commission expenses (cost of sales). Upon adoption of IFRS 15 (and IFRS 9), all net gains or losses on dealing in units and shares are now disclosed separately on the face of the Income Statement as these are considered to be financial instrument transactions covered by IFRS 9.

2.2.2 IFRS 9 Financial instruments
IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. It brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

The Company has applied IFRS 9 prospectively, with an initial application date of 1 November 2018. The Company has not restated the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings at the date of initial application.

The effect of adopting IFRS 9 as at 1 November 2018 was as follows:

	Notes	Decrease £000
Non-current assets		
Loan receivable	*(b)*	(125)
Total impact on assets		(125)
Equity		
Retained earnings	*(b)*	(125)
Total impact on equity		(125)

The total adjustment shown above has been recognised in equity at 1 November 2018, as shown on page 16.

The nature of this adjustment is described below:

(a) Classification and measurement
Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through OCI. The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest (SPPI)' on the principal amount outstanding.

2. ACCOUNTING POLICIES (continued)

The assessment of the Company's business model was made as of the date of initial application. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification requirements of IFRS 9 did not have a significant impact on the Company's financial instruments. The Company continues to measure at FVTPL all financial assets previously held at fair value under IAS 39, which consist of financial investments.

The following are the changes in the classification of the Company's financial assets:

- Trade receivables and other financial assets, previously classified as loans and receivables at 31 October 2018, are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as debt instruments at amortised cost with effect from 1 November 2018.

The Company has not designated any financial liabilities as at FVTPL. There are no changes in classification and measurement for the Company's financial liabilities.

(b) Impairment

The adoption of IFRS 9 has changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss model with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to recognise an allowance for ECLs for all debt instruments not held at FVTPL and contract assets.

Upon adoption of IFRS 9 the Company recognised additional impairment on the Company's loan receivable of £125,000 at 1 November 2018. Note 11 provides further disclosures on the Company's loan receivable.

Set out below is the reconciliation of the impairment allowances in accordance with IAS 39 to the resulting opening loss allowances determined on the adoption of IFRS 9:

	Allowance for impairment under IAS 39 as at 31 October 2018 £000	Remeasurement £000	ECL under IFRS 9 as at 1 November 2018 £000
Loans and receivables under IAS 39/Financial assets at amortised cost under IFRS 9 and contract assets	-	125	125

No impairment was recognised on the Company's trade receivables, contract assets or cash and cash equivalents as the amounts were considered immaterial.

2.3 Accounting estimates, assumptions and judgements

The preparation of financial statements necessitates the use of estimates, assumptions and judgements. These estimates, assumptions and judgements affect the reported amounts of assets, liabilities, contingent assets and contingent liabilities at the reporting date as well as the reported income and expenses for the reporting periods. While estimates are based on management's best knowledge and judgement using information and financial data available to them, the actual outcome may differ from these estimates.

2. ACCOUNTING POLICIES (continued)

Key judgements made in applying accounting policies are as follows:

- **Revenue - principal versus agent consideration** – The Company has exercised significant judgement in determining whether it acts as a principal or agent in its contracts. The Company enters into investment management contracts, and in some instances delegates certain portfolio management services to other Group companies. The Company considers that it is responsible for and controls the delegated services provided to the customer and is responsible for determining the price for these services. This judgement has resulted in the gross up of certain revenues and cost of sales where the Company delegates certain portfolio management services.

- **Interests in other entities** – The Company has made assessments as to whether it is an agent or principal in relation to the funds it manages, and the level of control it has over the related entities. This involved assessing the power it has over structured entities, the level of variable returns (including management fees and any direct interests held through investments) received from these funds and the linkage between power and variable returns. The related disclosures are provided in note 22.

The key sources of assumptions and estimation uncertainty which could affect the future carrying amounts of assets and liabilities are as follows:

- **Deferred tax assets** – Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the expected timing and quantum of future taxable profits, as estimated at each reporting date. Details of recognised and unrecognised deferred tax assets are disclosed in note 12.

- **Deferred acquisition costs/contract liabilities** – The Company has estimated the period over which investments into open-ended funds will be held in order to determine the period over which the initial fees arising on investments into open-ended funds (contract liabilities) and the commission paid in respect of certain new asset inflows into open-ended funds (deferred acquisition costs) should be released to the Income Statement. Details of deferred acquisition costs are disclosed in note 13 and details of contract liabilities are disclosed in note 17.

2.4 Summary of significant accounting policies

(a) Foreign currencies

The Company's Financial Statements are presented in pounds Sterling, the Company's functional and presentational currency.

Transactions in foreign currencies are translated to the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the exchange rate ruling at the reporting date, and any exchange differences arising are taken to the Income Statement.

Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using the exchange rate ruling at the date of transaction and are not subsequently restated. Non-monetary assets and liabilities stated at fair value in a foreign currency are translated at the exchange rate ruling at the date the fair value was determined. When fair value movements in assets and liabilities are reflected in the Income Statement, the corresponding exchange movements are also recognised in the Income Statement.

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.

2. ACCOUNTING POLICIES (continued)

(b) Revenue

IFRS 15 accounting policy for year ended 31 October 2019

IFRS 15 *Revenue from Contracts with Customers* is applicable for the year ended 31 October 2019. The revised accounting policy for the Company applicable to the current reporting period is detailed below:

A contract with a customer is a formal investment management agreement, or similar agreement, specifying the services to be performed. The Company considers a customer to be a party that has contracted with the Company to obtain investment management and/or associated services. In some instances, the Company will sub-contract or delegate certain of its portfolio management performance obligations to other Group entities.

Revenue is income arising in the course of the Company's investment management and associated activities. The Company considers revenue to be the amount it is entitled to for the exchange of its' investment management and other services, including revenue related to delegated portfolio management services, where the Company is considered to be the principal. The Company has generally concluded that it is the principal in its revenue arrangements, because it controls such services.

The Company also recognises income from services provided to other Group entities. These services include investment management services performed on behalf of other Group entities.

The Company's contracts with customers contain several performance obligations. However, many of these performance obligations are only entered into as a combined package of investment management services to customers and are therefore considered to be a single service within the context of IFRS 15. Where the Company could separately contract for a service, the Company considers this to be a separate performance obligation in the context of IFRS 15.

Most of the Company's revenues are variable in nature, with investment management fees generally being based on a percentage of AUM. Variable consideration is only recognised if it is highly probably that its inclusion will not result in a significant revenue reversal in the future when any uncertainty has been subsequently resolved.

Certain contracts are subject to rebates or discounts. Where the rebates or discounts are due to the customer, then these amounts are reflected in revenue. Where rebates or discounts are payable to parties not considered to be customers, the amounts are disclosed within cost of sales.

When another party is involved in providing services to its customer, the Company determines whether it is a principal or an agent in these transactions by evaluating the nature of its promise to the customer. Where the Company acts as a principal (i.e. it controls the delegated services performed for the customer) it records revenue on a gross basis. However, if the Company's role is only to arrange for another entity to provide services, then the Company is an agent and will record revenue at the net amount that it retains for the services it performs.

Initial fees (known as front-end fees) received in advance, arising on open-ended funds, are recorded in the Statement of Financial Position as a contract liability and released to the Income Statement over the period of provision of the asset management service. The Company enters into standard contractual terms for all investors. Therefore, the period of provision of asset management services is estimated based upon the Company's experience of the average holding periods of investors. The average holding period is reassessed on an annual basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

Investment management fees –
Revenue for investment management fees is recognised when the services are provided, which is generally over time. While investment management services fees are generally quantified at a point in time, the fees are accrued over the relevant contractual period. A receivable is recognised by the Company as the services are deemed to have been provided and the right to consideration becomes unconditional; payment is generally received at a later date.

Other revenues –
Other revenues are recognised as the service is provided, which is generally over time.

Contract balances

Contract assets
A contract asset is the right to consideration in exchange for services transferred to the customer. If the Company provides services to a customer before payment is due, a contract asset is recognised for the accrued income earned that will become payable.

Trade receivables
A receivable represents the Company's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the invoiced amount of consideration is settled).

Contract liabilities
A contract liability is the obligation to provide future services to a customer. If a customer pays consideration before the Company transfers services to the customer, a contract liability is recognised when the payment is received or the payment is due (whichever is earlier). Contract liabilities subsequently become recognised as revenue when the Company performs its services under the contract.

The Company has elected to use the following practical expedients:

- Not to recognise a significant financing component if the period between when a service is transferred to the customer and when the customer pays for that service will be one year or less.
- Recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the entity would have recognised is one year or less.

IAS 18 accounting policy for year ended 31 October 2018

Investment management services and the net profit derived from selling or buying open-ended investment products are recognised in the Income Statement over the period which these services are provided, regardless of when the payment is due.

Revenue is measured at the fair value of the consideration received or receivable, taking into account the contractually defined terms of payment and excluding any taxes. Revenue is stated net of rebates.

Initial fees received in advance, arising on open-ended funds, are recorded in the Statement of Financial Position as deferred income and released to the Income Statement over the period of provision of the asset management service. The Company enters into standard contractual terms for all investors. Therefore, the period of provision of asset management services is estimated based upon the Company's experience of the average holding periods of investors. The average holding period is reassessed on an annual basis.

2. ACCOUNTING POLICIES (continued)

(c) Cost of sales

Fees and expenses incurred by the Company that relate directly to revenue are presented as cost of sales. These expenses include the element of revenue paid as delegated portfolio management fees, the costs associated with gaining new asset management contracts and subsequent commission paid to agents, and rebates not payable directly to the customer from whom the revenue was received.

Fees and expenses are generally based on an agreed percentage of revenue or AUM and are recognised in the income statement as the service is received.

The costs associated with gaining contracts are deferred and amortised over the estimated term of the contracts (in line with the treatment of the associated initial fees received) and are recorded in the Statement of Financial Position as deferred acquisition costs, while the subsequent renewal commission paid to agents is expensed as the services are provided. The capitalised deferred acquisition costs are subject to an impairment assessment at the end of each reporting period.

(d) Finance income

Finance income comprises dividends from the stock of units and shares and interest on intra-group loans and on bank accounts and short-term deposits and is recognised in the Income Statement as it accrues using the effective interest rate (EIR) method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

(e) Finance costs

Finance costs comprise bank interest and charges payable. These costs are recognised in the Income Statement on an EIR basis.

(f) Income tax

The income tax expense or income disclosed on the face of the Income Statement represents the aggregate of current tax and the movement in deferred tax.

Current tax is the expected tax payable to, or receivable from, the taxation authorities on the taxable profit or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and includes any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the Financial Statements and the corresponding tax basis used in the computation of taxable profit or loss, accounted for using the reporting date liability method.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates and laws enacted or substantively enacted at the reporting date.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

2. ACCOUNTING POLICIES (continued)

(g) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. As permitted by IFRS 9, the Company has applied the presumption that a trade receivable does not have a significant financing component if the expected term is less than one year.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amounts outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting cash flows, selling the financial assets or both.

Subsequent measurement
Financial assets are classified into the categories described below:

(i) Financial assets at amortised cost (debt instruments)
Subsequent to initial recognition, financial assets at amortised cost are measured using the EIR method. Gains and losses are recognised in the Income Statement when an asset is derecognised or impaired, as well as through the amortisation process. The Company's financial assets at amortised cost consist of a loan owed by an intermediate parent company, OEIC and Unit Trust receivables, group relief receivable, other receivables, amounts owed by Group subsidiaries and cash and cash equivalents.

(ii) Financial instruments at fair value through profit or loss (FVTPL)
Financial assets at FVTPL are carried in the Statement of Financial Position at fair value with net changes in fair value recognised either as finance income or finance expenses in the Income Statement in the period in which they arise. These assets comprise the stock of units and shares and further details of the fair value measurement are disclosed in accounting policy (h).

Derecognition of financial assets
A financial asset or, where applicable, part of a financial asset, is derecognised when the rights to receive cash flows from the asset have expired.

Impairment of financial assets
The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

2. ACCOUNTING POLICIES (continued)

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. Trade receivables and contracts assets have been grouped based on credit risk characteristics and the days past due, for each product grouping. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward looking factors specific to the debtors and the economic environment.

For loan receivables, the Company uses a discounted cash flow model to determine the expected credit loss. This model assesses the maximum credit exposure, taking in to account inputs concerning probabilities of default.

The corresponding movements in the ECL provisions are recognised in operating expenses.

The Company considers a financial asset in default when contractual payments are past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ii) Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as loans and borrowings or trade and other payables, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities consist of OEIC and Unit Trust payables, amounts owed to Group subsidiaries, accruals, other payables, amounts owed to BMO Group entities and trade payables.

Subsequent measurement
Subsequent to initial recognition, financial liabilities are measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Derecognition of financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

iii) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position, only if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Changes to classifications of financial assets and liabilities compared to the classification under the previous year's accounting policy are disclosed in note 2.2.2. Financial assets and liabilities are recognised and measured under the same policies as the comparative year ended 31 October 2018, with the only change to the previous accounting policy being the measurement of impairment of financial assets.

2. ACCOUNTING POLICIES (continued)

IAS 39 accounting policy for year ended 31 October 2018

The accounting policy for impairment of financial assets applicable to the comparative period ended 31 October 2018 was as follows:

Impairment of financial assets
The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired. An impairment exists if one or more events that have occurred since the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or group of financial assets. If any such indication of impairment exists, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original EIR. The carrying amount of the asset is reduced and the amount of the loss is recognised in the Income Statement. Evidence of impairment assessment includes review of the ageing of trade receivables as a potential indication of financial difficulty.

(h) Fair value measurement

The Company measures the stock of units and shares financial assets at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As the stock of units and shares are traded on a frequent basis the current price is assumed to be at fair value.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances held in a current account with a bank.

(j) Share capital

Share capital is recorded at the proceeds of issue after deducting directly attributable transaction costs.

(k) Investment protection guarantee

Introduction
The Company provides an investment protection guarantee to qualifying investors in certain share classes within the Lifestyle and Navigator range of OEICs whereby the Company commits to pay out any shortfall between the original cost of the investment and the value of the investment on death due to subsequent market movements. The investment protection cover element of the investment product has been classified by the Company as an insurance contract under IFRS 4 *Insurance Contracts*.

The Company's exposure to any guaranteed investment claims is currently passed on, in full, to a third party reinsurance provider.

Measurement of investment protection obligations
The Company performs an overall review, at the reporting date, of the cash flows associated with contracts offering an investment protection guarantee to determine if there is any net exposure to the Company, with any deficiency immediately charged to the Income Statement.

Investment guarantee income
The annual management fees paid by investors in relation to funds offering investment protection are recognised in the Income Statement over the period for which the related services are provided, regardless of when the payment is due.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

(k) Investment protection guarantee (continued)

Investment guarantee payouts (claims)
Investment guarantee claims incurred, which are recognised in operating expenses, comprise the settlement costs of claims arising during the year.

Investment guarantee claims owed to investors are included within trade and other payables in the Statement of Financial Position, with the balance representing outstanding payments on claims incurred.

Reinsurance
Reinsurance premiums are recognised as an expense over the period that the reinsurance is provided and are included within fee, commission and other expenses in the Income Statement. Amounts recoverable from the reinsurer in relation to claims arising during the year are included within operating expenses as reinsurance recovery of investment guarantee claims.

Reinsurance assets are included within trade and other receivables, as disclosed in the Statement of Financial Position, with the balance at the reporting date representing guarantee payout amounts recoverable from the reinsurance provider.

(l) Interests in other entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the decisions about the activities that significantly affect the variable returns earned from the entity are directed by means of contractual arrangements.

The Company controls a structured entity if the Company has all of the following:

i) Power over the entity;
ii) Exposure, or rights, to variable returns from its involvement with the entity; and
iii) The ability to use its power over the entity to affect the amount of the Company's returns.

Where the Company holds power and variable returns, it undertakes an assessment of the linkage between power and variable returns to determine whether it is acting as principal or agent. Power arises from rights held by the Company, which include voting rights, potential voting rights, rights to appoint key personnel, decision-making rights within a management contract and removal or 'kick-out' rights. Power does not arise from protective rights alone. Variable returns include management fees, any performance fees and direct interests held through investments. Structured entities are consolidated where the Company acts as principal, and are not consolidated where the Company acts as agent, with these entities classified as unconsolidated structured entities.

3. REVENUE

(a) Analysis of revenue

	Note	2019 £000	2018 £000
OEIC and Unit Trust sales*		-	4,195,534
OEIC and Unit Trust repurchases*		-	(4,194,236)
Investment management fees		71,532	59,785
Investment management fees – intra-group		1,019	-
Other income		518	-
Fee and commission income	17	447	-
Revenue		73,516	61,083

* Upon adoption of IFRS 15 and IFRS 9, OEIC and Unit Trust sales and repurchases have been reclassified to net gain on dealing in units and shares in the Income Statement (as disclosed in note 5).

Investment management services are provided to OEICs and Unit Trusts and other pooled funds, which included the provision of portfolio management services to the LDI Fund and Dutch pooled funds until BMO NL was appointed as AIFM during the year. The fees earned are generally based on a percentage of the net asset value of each fund and will therefore vary over time. These fees are generally quantified on a daily or quarterly basis and the fee rates earned can vary by asset class, share class and the size of the fund.

Other income comprises: fees earned from providing a Responsible Engagement Overlay service (*reo®*) one of the Group's prominent responsible investment services; the referral fee earned for facilitating the process of appointing BMO NL to manage a number of the Group's European AIFs, previously managed by the Company; and other miscellaneous services.

Fee and commission income relates to the release of deferred initial fees. These fees are received from investors on certain purchases of units in open-ended funds and are deferred and recognised as revenue over the estimated period for which the investment is expected to be held (as disclosed in note 17).

Analysis of the Company's revenue for the year by location of clients is detailed below:

	2019 £000	2018 £000
United Kingdom	71,581	59,226
The Netherlands	1,935	1,857
	73,516	61,083

Revenue is predominantly received in pounds Sterling.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. REVENUE (continued)

(b) Contract balances

Assets and liabilities related to contracts with customers are classified as follows:

	31 October 2019 £000	31 October 2018 £000
Non-current:		
Contract liabilities	310	-
Current:		
Trade receivables	207	516
Contract assets	5,320	-
Contract liabilities	218	-

Trade receivables are non-interest bearing and are generally on terms of 30 days.

Contract assets relates to accrued income which has been recognised as revenue earned at the reporting date but not yet billed. Upon adoption of IFRS 15, at 1 November 2018, £5,645,000 of assets were classified as contract assets. There was no significant difference between the accrued income recognised for performance obligations satisfied at the beginning of the year and the amounts subsequently received for those services during 2019.

As disclosed on page 24, no impairment has been recognised on the Company's trade receivables or contract assets as the amounts were considered immaterial at both reporting dates.

Contract liabilities relate to initial fees arising on investments into open-ended funds. Further details of contract liabilities are disclosed in note 17.

4. COST OF SALES

Cost of sales are split as follows:

	2019 £000	2018 £000
Delegated portfolio management fees – intra-group	29,074	-
Fee and commission expenses	3,189	2,633
Reinsurance premiums	237	114
	32,500	2,747

5. NET GAIN ON DEALING IN UNITS AND SHARES

	2019 £000	2018 £000
OEIC and Unit Trust sales*	2,687,862	-
OEIC and Unit Trust repurchases*	(2,687,847)	-
	15	-

* Before the adoption of IFRS 15 and IFRS 9, OEIC and Unit Trust sales and repurchases were disclosed within revenue (as disclosed in note 3(a)).

6. OPERATING EXPENSES AND AUDITOR'S REMUNERATION

(a) Total operating expenses

Operating expenses can be summarised into the following categories:

	2019 £000	2018 £000
Inter-company recharges	39,831	54,742
Third-party administration expenses	3,156	3,222
Other expenses	797	1,083
Communication and information technology expenses	105	116
Promotion and client servicing expenses	14	9
Investment guarantee claims	80	250
Reinsurance recovery of investment guarantee claims	(80)	(233)
	43,903	59,189

Inter-company recharges comprise the share of the Group's UK operating platform costs attributed to the Company. Net operating revenue is the key driver for determining the share of the Group's UK operating platform costs attributed to the Company.

(b) Operating expenses

Operating expenses include the following:

	2019 £000	2018 £000
Impairment loss reversal on loan receivable	(29)	-
Net foreign exchange loss/(gain)	32	(14)

Audit fees attributable to the Company were £35,000 (2018: £35,000). Amounts receivable by the Company's auditor in respect of services to the Company, other than for the audit of the Company's Financial Statements, have not been disclosed as the information is disclosed on a consolidated basis in the Annual Report and Financial Statements of the Company's parent, BMO Asset Management (Holdings) plc.

The Company had no employees during the year ended 31 October 2019 (2018: nil). BMO Asset Management (Services) Limited, a subsidiary of BMO Asset Management (Holdings) plc, employs all of the Group's staff who provide services to the Company. The cost of employee services applicable to the Company is included within inter-company recharges.

7. DIRECTORS' REMUNERATION

Two Directors (2018: nil) received emoluments for services to the Company as follows:

	2019 £000	2018 £000
Aggregate emoluments	25	-

All other Directors did not receive any remuneration in respect of their services to the Company during the year ended 31 October 2019 (2018: £nil). Their remuneration is paid by BMO Asset Management (Services) Limited.

8. FINANCE INCOME

	2019 £000	2018 £000
Financial assets measured at amortised cost:		
Interest on loan owed by intermediate parent company	156	49
Bank and short-term deposits interest	19	7
Dividend income	1	6
Total finance income	176	62

9. FINANCE COSTS

	2019 £000	2018 £000
Financial liabilities recognised at amortised cost using the EIR method:		
Bank interest and charges payable	39	42

10. INCOME TAX

(a) Analysis of tax income in the year

The major components of tax income recognised in the Income Statement are:

	Note	2019 £000	2018 £000
Current income tax:			
UK Corporation Tax			
Current tax on loss for the year		(524)	(155)
Adjustments in respect of previous periods		83	(344)
Total current income tax		(441)	(499)
Deferred tax:			
Adjustments in respect of previous periods		(87)	315
Adjustments in respect of Corporation Tax rate change		105	-
Total deferred tax	12(b)	18	315
Tax income reported in the Income Statement		(423)	(184)

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. INCOME TAX (continued)

(b) Reconciliation of total tax income for the year

A reconciliation between the actual tax income and the accounting loss multiplied by the Company's domestic tax rate for the years ended 31 October 2019 and 31 October 2018 is as follows:

	2019 £000	2018 £000
Loss before tax	(2,735)	(833)
At the Company's statutory income tax rate of 19.00% (2018: 19.00%)	(519)	(158)
Adjustments in respect of previous periods	(4)	(29)
Corporation Tax rate change	105	-
Non-taxable income	(5)	-
Disallowed expenses	-	3
Tax income reported in the Income Statement	(423)	(184)

(c) Effective rate of tax and factors affecting future tax charges

The current Corporation Tax rate of 19.00% became effective from 1 April 2017, resulting in a statutory UK Corporation Tax rate of 19.00% for the year ended 31 October 2019 for the Company.

A future UK Corporation Tax rate reduction to 17.00% from 1 April 2020 was substantively enacted on 6 September 2016. The reduction in the UK Corporation Tax rate would have led to a Company statutory UK Corporation Tax rate of 17.83% for 2020 and 17.00% from 2021 onwards. Deferred tax assets as at the reporting date were valued on this basis.

The Chancellor of the Exchequer's Budget on 11 March 2020 announced that the UK Corporation Tax rate will remain at 19.00% from 1 April 2020 rather than reduce to 17.00%, and this change was substantively enacted on 17 March 2020. The statutory UK Corporation Tax rate for the Company will therefore remain at 19.00% from 2020 onwards. It is estimated that the effect of this change to the future Corporation Tax rate will lead to an increase in the value of the Company's deferred tax asset at 31 October 2019 of £270,000.

11. LOAN RECEIVABLE

	31 October 2019 £000	31 October 2018 £000
Non-current:		
Loan owed by intermediate parent company	16,971	21,978
Allowance for expected credit losses	(96)	-
	16,875	21,978

The loan is to BMO AM Treasury Limited. The loan is unsecured, repayable on demand and is subject to interest at the 3-month LIBOR minus 0.25% margin. The Company does not expect to receive repayment of this loan within the next year.

An impairment analysis is performed on the loan receivable balance at each reporting date to measure expected credit losses. The calculation reflects the time value of money associated with recovery of the loan receivable. As disclosed in note 2.2.2, on adoption of IFRS 9 the Company recognised an impairment allowance on the Company's loan receivable at 1 November 2018 of £125,000. The impairment allowance was reduced by £29,000 during the year ended 31 October 2019 resulting in an impairment allowance of £96,000 at 31 October 2019.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. DEFERRED TAX ASSETS

(a) Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	31 October 2019 £000	31 October 2018 £000
Unused tax losses	2,466	2,562
Other provisions	78	-
Deferred tax assets	2,544	2,562

Based on profit forecasts, the Directors believe it is appropriate to recognise deferred tax assets at the reporting date because it is considered probable that there will be suitable future taxable profits in the Company in the next five years from which the underlying temporary differences can be deducted. Under current UK Corporation Tax legislation, unused trading losses can be carried forward indefinitely to utilise against future trading profits in the Company.

(b) Movement in temporary differences during the year

	1 November 2018 £000	(Charged)/credited to profit or loss £000	31 October 2019 £000
Unused tax losses	2,562	(96)	2,466
Other provisions	-	78	78
	2,562	(18)	2,544

	1 November 2017 £000	Charged to profit or loss £000	31 October 2018 £000
Unused tax losses	2,877	(315)	2,562
	2,877	(315)	2,562

13. DEFERRED ACQUISITION COSTS

	2019 £000	2018 £000
At 1 November	11	106
Effect of adoption of IFRS 15	138	-
At 1 November (as adjusted)	149	106
Costs deferred in the year	56	-
Recognised as cost of sale in the year	(76)	(95)
At 31 October	129	11

	31 October 2019 £000	31 October 2018 £000
Split as follows:		
Non-current assets	74	-
Current assets	55	11
	129	11

Deferred acquisition costs represent the initial commission paid in respect of certain new asset inflows into open-ended funds. These costs are amortised over the expected terms of the contracts, in line with the initial fees received from investors, as disclosed in note 17.

14. OTHER RECEIVABLES

	31 October 2019 £000	31 October 2018 £000
Current:		
OEIC and Unit Trust receivables†	108,387	56,869
Group relief receivable	573	532
Reinsurance assets	67	521
Other receivables	59	2,475
Prepayments	10	8
VAT receivable	3	476
Accrued income*	-	5,646
Amounts owed by Group subsidiaries	-	2,924
	109,099	69,451

† OEIC and Unit Trust receivables are generally settled within a short timescale.

* As a result of adopting IFRS 15, accrued income has been recognised as a contract asset at 31 October 2019, as disclosed in note 3(b).

The quantum of OEIC and Unit Trust receivables and payables fluctuate significantly during the year; the balance is dependent upon the timing and value of creations and liquidations of units or shares.

In the Directors' opinion there are no discernible differences between the carrying amounts and fair values of the receivable balances disclosed due to the short-term maturities of these receivables.

15. STOCK OF UNITS AND SHARES

	31 October 2019 £000	31 October 2018 £000
Held for trading:		
Stock of units and shares	31	629

The Company holds a stock of units and shares in respect of its OEIC and Unit Trust operations. This stock of units and shares is commonly referred to as the 'manager's box'. These assets have been classified as held for trading (held for the purpose of selling in the short-term) and are measured at fair value through profit or loss. The Company is therefore exposed to market value and credit risk movements in the value of these assets.

The fair value of the stock of units and shares is calculated using the daily quoted prices based on the net asset values of funds. All movements within the stock of units and shares are recorded in net gain on dealing in units and shares in the Income Statement.

The fair value measurement is classified as a level 2 asset within the fair value hierarchy. There have been no transfers into or out of Level 2 in the fair value hierarchy in the current or previous year.

16. CASH AND CASH EQUIVALENTS

	31 October 2019 £000	31 October 2018 £000
Cash at bank and in hand	8,246	9,224

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

The Company determined that the expected credit losses on cash and cash equivalents were immaterial at both reporting dates. The fair value of cash and cash equivalents at the reporting dates is as shown above.

17. CONTRACT LIABILITIES

	Note	2019 £000	2018 £000
At 1 November		736	-
Effect of adoption of IFRS 15		16	-
At 1 November (as adjusted)		752	-
Income deferred in the year		223	-
Recognised as revenue in the year	3(a)	(447)	-
At 31 October		528	-

	31 October 2019 £000	31 October 2018 £000
Split as follows:		
Non-current liabilities	310	-
Current liabilities	218	-
	528	-

17. CONTRACT LIABILITIES (continued)

Prior to the adoption of IFRS 15, contract liabilities were disclosed as deferred income in the Statement of Financial Position as at 31 October 2018, as disclosed in note 2.2.1 and note 18.

Contract liabilities consist of deferred income which comprises initial fees (known as front-end fees) arising on investments into open-ended funds. These fees are initially recognised as contract liabilities and released as revenue over the estimated period for which the investment is expected to be held (2019: five years; 2018: seven years).

The period of release of the initial fees to the Income Statement was reassessed at 31 October 2019 and it was determined that five years should be adopted at the reporting date.

18. DEFERRED INCOME

	2019 **£000**	**2018** **£000**
At 1 November	-	1,241
Amortisation in the year	-	(505)
At 31 October	-	736

	31 October **2019** **£000**	**31 October** **2018** **£000**
Split as follows:		
Non-current liabilities	-	472
Current liabilities	-	264
	-	736

Upon adoption of IFRS 15, deferred income is now disclosed as contract liabilities in the Statement of Financial Position as at 31 October 2019, as disclosed in note 2.2.1 and note 17.

19. TRADE AND OTHER PAYABLES

	31 October 2019 £000	31 October 2018 £000
Current:		
OEIC and Unit Trust payables	108,106	57,324
Amounts owed to Group subsidiaries	8,849	13,197
Accruals	1,539	4,932
Other payables	783	1,043
Amounts owed to BMO Group entities	155	-
Investment guarantee claims owed to investors	2	514
Trade payables	-	1,798
	119,434	78,808

The quantum of OEIC and Unit Trust receivables and payables fluctuate significantly during the year; the balance is dependent upon the timing and value of creations and liquidations of units or shares.

In the Director's opinion there are no discernible differences between the carrying amounts and fair values of the payable balances disclosed due to the short-term maturities of these amounts payable.

20. SHARE CAPITAL

	31 October 2019 £000	31 October 2018 £000
Issued and fully paid:		
21,200,000 Ordinary shares of £1 each	21,200	21,200

	31 October 2019 £000	31 October 2018 £000
At 1 November	21,200	13,200
Share capital issued to WAM Holdings Ltd	-	8,000
At 31 October	21,200	21,200

On 31 October 2018 the Company's immediate parent undertaking, WAM Holdings Ltd, subscribed for an additional 8 million Ordinary shares of £1 each in the Company. The £8m consideration was received in cash.

The holder of the Ordinary shares is entitled to receive dividends as declared from time to time, is entitled to capital distribution rights (including on a winding up), and is entitled to one vote per share at meetings of the Company. The shares do not confer any rights of redemption.

21. RESERVES

The analysis of movements in reserves is disclosed within the Statement of Changes in Equity on page 16. Movements in retained earnings comprise net profits and losses recognised through the Income Statement.

22. DISCLOSURE OF INTERESTS IN OTHER ENTITIES

(a) Significant judgements and assumptions

The Company has made assessments as to whether it is an agent or principal in relation to the funds it manages, and the level of control it has over the related entities. This involved assessing the power it has over structured entities, the level of variable returns (including management fees, and any performance fees and direct interests held through investments) received from these funds and the linkage between power and variable returns.

The Company has determined that it does not control the funds it manages by reviewing fund structures and voting rights, including the rights to remove the Company as fund manager. Accordingly, the Company has categorised these funds as unconsolidated structured entities. The Company has also assessed that segregated mandates managed on behalf of clients do not qualify as structured entities, with these mandates excluded from the disclosures outlined below.

(b) Interests in unconsolidated structured entities

Nature, purpose and activities of structured entities
The Company is the ACD to a range of UK OEICs and a Unit Trust, is the operator to a number of retail investment plans that are invested into these funds and, for part of the year, provided investment management services to a number of Alternative Investment Funds, including LDI pooled funds and certain Dutch pooled funds.

The Company is principally involved in structured entities through provision of investment funds. The structured entities provide a mechanism for clients to invest into various asset management vehicles across a range of asset classes. The Company is generally involved, to varying degrees, in the operation and distribution of these structured entities. While the Company obtains a variable return from these structured entities (in the form of management fees), the level of return and the limited extent of direct interest held are not considered to be sufficient to meet the criteria of control and therefore such investment funds are not consolidated.

The Company considers the following funds to be unconsolidated structured entities: OEICs, a Unit Trust and certain other pooled funds.

The Company generally provides investment management and administrative functions to these structured entities as a means of generating management fee income. The Company's interest in these funds is conducted through a contractual involvement, although it can hold a direct interest in these funds through its operational holding in the stock of units and shares. The Company routinely recognises trade receivable and/or contract asset balances with these funds, or amounts owed by Group subsidiaries, in respect of fees receivable for the management of these unconsolidated structured entities.

As the risks and rewards of fund performance resides mostly with investees, the Company's direct exposure is limited to the impact of performance on the management fees the Company obtains, thereby aligning the Company's interests to that of its clients.

Funding of unconsolidated structured entities
The structured entities generally raise funds from third-party clients through ongoing distribution activity. The Group promotes the distribution of these funds through marketing activity but does not generally invest into these funds. The structured entities are open-ended funds which are variable in size depending on levels of creations and cancellations. These vehicles are fundamentally financed through the issue of units to investors.

22. DISCLOSURE OF INTERESTS IN OTHER ENTITIES (continued)

Nature of risks associated with unconsolidated structured entities
The Company does not consider itself to be exposed to significant risks from its operation of unconsolidated structured entities, although it does face some risks. The main risk is a loss of management fees, if either clients withdraw their funds from the open-ended structured entities, or fund values are negatively impacted by financial markets, both of which would reduce the net asset value of these funds. Achieving good investment performance and providing excellent client service are major elements in the management of this risk. The majority of management fees are quantified by reference to AUM.

The Company generally has limited direct exposure to the value of the assets it manages within these investment funds. However, the stock of units and shares (known as the 'manager's box') is an exception to this, in that the Company holds units which are generally traded within a short-time frame, with a view to facilitating the liquidity process of the creation or liquidation of units in certain funds. The Company sets financial limits to restrict its maximum financial exposure to its stock of units by capping the aggregate value of the units held to £1m. The Company receives the majority of its management fees directly from the funds it manages and will therefore have direct credit exposure in respect of such fees until the amounts are settled. Such exposure is considered to be low risk.

The Company also has the following risk exposures associated with unconsolidated structured entities:

- The Company offers investment protection guarantees to investors in certain OEIC funds, for which the Company has offset any exposure by means of reinsurance arrangements as outlined in note 23.
- The Company may have its fees restricted by 'Total Expense Ratio' clauses in certain funds, which cap certain costs borne by specific funds.

While not unique to the Company's interest in unconsolidated structured entities, as a fund manager the Company is also exposed to the financial risk of operational errors, which the Company would need to rectify, together with any associated reputational risk. The Group carries professional indemnity insurance thereby seeking to limit the maximum financial exposure arising from any such matters.

Size of unconsolidated structured entities
Certain UK open-ended funds for which the Company is the ACD are managed by other Group entities. Where the Company does not retain any revenues from a particular fund, these assets have been excluded from the AUM disclosures below. The total gross AUM in respect of unconsolidated structured entities from which the Company retains all, or a portion of, revenues at the reporting dates are as follows:

	31 October 2019 £m	31 October 2018 £m
Structured entity type:		
UK open-ended funds	5,577	6,135
Non UK open-ended funds	-	17,390
	5,577	23,525

NOTES TO THE FINANCIAL STATEMENTS (continued)

22. DISCLOSURE OF INTERESTS IN OTHER ENTITIES (continued)

The following tables summarise the carrying values recognised in the Statement of Financial Position of the Company in relation to its interests in unconsolidated structured entities:

As at 31 October 2019

	UK open-ended funds £000	Non UK open-ended funds £000	Total Assets £000	Total Liabilities £000
Contract assets	3,047*	-	3,047	-
Other receivables	8	318	326	-
Stock of units and shares	31	-	31	-
Trade and other payables	(917)	-	-	(917)
	2,169	318	3,404	(917)

* This balance excludes amounts which are receivable on behalf of other Group subsidiaries, who benefit from the associated revenues.

As at 31 October 2018

	UK open-ended funds £000	Non UK open-ended funds £000	Total Assets £000	Total Liabilities £000
Trade and other receivables	3,325*	10,343†	13,668	-
Stock of units and shares	629	-	629	-
Trade and other payables	(238)	-	-	(238)
	3,716	10,343	14,297	(238)

* This balance excludes amounts which are receivable on behalf of other Group subsidiaries, who benefit from the associated revenues.

† £7,502,000 of these trade and other receivables reflect outstanding management fees payable by other Group subsidiaries who are contractually responsible for billing certain unconsolidated structured entities.

In addition to the balances due to/from structured entities, noted above, the Company also has receivables and payable balances connected with the creation or liquidation of units in funds, which are settled within a short time frame as disclosed in notes 14 and 19. These balances can fluctuate significantly with the creation or liquidation of units. The risk is minimal as these are generally settled within a few days.

Maximum exposure to loss

As at the end of each reporting period, the maximum exposure to losses connected with unconsolidated structured entities is considered to be the extent of assets recognised in the Statement of Financial Position, as shown above. However, the maximum exposure to future loss as a result of the Company's direct interests and fee generation from unconsolidated structured entities is not readily quantifiable and is contingent in nature. The Company's most significant potential exposure would be from the reduction in future management fees. The Company could incur losses through the crystallisation of the risks discussed above.

Non-contractual support provided to structured entities

The Company has no commitments or guarantees in respect of these funds, nor does it provide commitments for any fundraising activities in respect of the funds or routinely supply non-contractual financial support to structured entities. The Company, together with the resources of the wider Group, provides certain administrative and operational support to a number of the structured entities it manages. The remuneration for these services is generally part of the management fee it receives.

22. DISCLOSURE OF INTERESTS IN OTHER ENTITIES (continued)

Losses incurred
No material losses have been recognised by the Company in connection with its interest in unconsolidated structured entities in either of the reporting periods. The Company has reimbursed any operational errors arising during the course of the year which are connected with unconsolidated structured entities. These costs are included within operating expenses.

Income from interests in unconsolidated structured entities
Net operating revenue includes £37,264,000 (2018: £56,479,000) of fees received from the Company's interests in unconsolidated structured entities.

23. INVESTMENT PROTECTION GUARANTEE

The investment protection guarantee which was provided by the Company to eligible investors in certain share classes within the Lifestyle and Navigator OEICs, whereby the Company agreed to compensate these investors for any shortfall between the original value of their investments and their market value in the event of death, exposed the Company to insurance risk.

The Company managed and sought to mitigate its risk exposure in relation to the investment guarantee by passing on its insurance risk, in full, through a contract with a third-party reinsurance provider.

The Company further reduced its risk to guarantee payouts by applying a limit on shortfall guarantee claims up to a maximum of £150,000 for each eligible account, in line with the product terms.

The Directors believe the investment guarantee contract related cash flows at 31 October 2019 and 31 October 2018 are sufficient to cover the related expense and investment guarantee insurance obligations.

The Company provided notification to investors within the Lifestyle and Navigator OEICs who have investment protection that the investment protection guarantee will be withdrawn from 31 December 2019. Under the terms of the cover, claims require to be submitted to the Company within three months of the insured's date of death, with the impact being that the final claims incurred position for the product will be fully reported and quantified by 31 March 2020.

24. CONTINGENT LIABILITIES

Ongoing business operations

In the normal course of its business, the Company may be subject to matters of litigation or dispute. While there can be no assurances, at this time the Directors believe, based on the information currently available to them, that it is not probable that the ultimate outcome of any of these matters will have a material adverse effect on the financial condition of the Company.

25. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent company is WAM Holdings Ltd which is registered in England.

The smallest group of which the Company is a member and for which Group Financial Statements are prepared is BMO Asset Management (Holdings) plc. Copies of the BMO Asset Management (Holdings) plc Annual Report and Financial Statements can be obtained from its registered office at 6th Floor, Quartermile 4, 7a Nightingale Way, Edinburgh, EH3 9EG.

The Company's ultimate parent undertaking and controlling party is Bank of Montreal, a company incorporated in Canada. The consolidated financial statements of Bank of Montreal are available from Bank Corporate Communications Department, BMO Financial Group, 28th Floor, 1 First Canadian Place, Toronto, Ontario, M5X 1A1.

26. EVENTS AFTER THE REPORTING PERIOD

The principal risks and uncertainties included in the Strategic Report on pages 5 and 6 highlight the rapid expansion of COVID-19 across the globe. The Directors have assessed that as the impact of COVID-19 has arisen since 31 October 2019, there is no impact on the reported Statement of Financial Position of the Company as at the reporting date. However, it is inevitable that current events will have a direct or indirect impact on the operations, financial position and results of the Company for the year to 31 October 2020 and potentially beyond that date. While the biggest impact is expected to be reduced revenues as a result of the impact of global markets on the value of the assets managed by the Company, it is not possible to estimate the overall future financial impact of COVID-19 on the Company given the unpredictable nature of the outbreak and the inherent uncertainties. This uncertainty is also reflected in the going concern statement on page 17.