BMO Investment Business Limited

(Registered number SC151198)

Annual Report & Financial Statements for the year ended 31 October 2020

Contents

BMO INVESTMENT BUSINESS LIMITED

DIRECTORS AND ADVISERS

REGISTERED NUMBER:	SC151198
DIRECTORS:	R S Fuller D Logan C B Porter R J E Thorpe W M Tonkin R A Watts T Watts
SECRETARY:	W T Clarke
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SOLICITORS:	Norton Rose Fulbright LLP 3 More London Riverside London SE1 2AQ Shepherd and Wedderburn LLP 1 Exchange Crescent Conference Square Edinburgh EH3 8UL
AUDITOR:	KPMG LLP Saltire Court 20 Castle Terrace Edinburgh EH1 2EG

BMO INVESTMENT BUSINESS LIMITED

STRATEGIC REPORT

The Directors present their Strategic Report on BMO Investment Business Limited (the Company) for the year ended 31 October 2020. 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 provides investment management services to a number of Alternative Investment Funds (AIFs) as part of this authorisation, with its key clients being investment trusts and private equity funds.

BUSINESS AND FINANCIAL REVIEW

Results

The Financial Statements show a profit after tax for the 2020 financial year of £2,337,000 (2019: loss of £1,860,000).

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:

	2020	2019
Net operating revenue	£30,141,000	£31,426,000
Operating profit/(loss)	£2,571,000	(£2,271,000)
Assets under management (AUM) (at reporting date)	£7.0bn	£7.0bn*

* AUM at 31 October 2020 excludes AUM for which the Company is an AIFM but where the management of the assets are delegated to another regulated entity in the BMO Asset Management (Holdings) plc Group. The comparative figures at 31 October 2019 have been restated to be presented on the same basis.

Trading performance and development of the business

Assets under management (AUM) of £7.0 billion as at 31 October 2020 are unchanged from 31 October 2019, as modest net outflows during the year do not impact the closing AUM.

The Company's net operating revenue decreased marginally from £31,426,000 in 2019 to £30,141,000 in 2020, primarily reflecting a reduction in fees earned from investment trusts as a result of the impact of the COVID-19 pandemic on equity markets, with AUM dipping to £6.1 billion at 31 March 2020, before recovering over the rest of the financial year.

Operating expenses decreased from £33,697,000 in 2019 to £27,570,000 in 2020. Net operating revenue is the key driver for determining the share of the BMO Asset Management (Holdings) plc Group's (the 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. No such charge in 2020, together with the realisation of some of the resulting savings and a significantly lower Group share-based payment expense, led to a significant reduction in the costs to be borne by the companies in the UK transfer pricing group. Consequently, this resulted in a lower level of costs being borne by the Company in 2020 compared to 2019.

During the year the Company's immediate parent undertaking, BMO Asset Management (Holdings) plc, subscribed for an additional 5 million Ordinary shares of £1 each, in the Company. The £5m consideration was received in cash. This capital injection was initiated to ensure the Company continues to maintain sufficient regulatory capital surplus to cope with the financial consequences under a range of potential risk scenarios, recognising that historical operating losses have reduced the regulatory capital surplus in recent years.

STRATEGIC REPORT (continued)

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.

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 breaches.

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

The quantum of contract assets (being accrued revenue) and trade receivables at the reporting date is shown in note 3(b) to the Financial Statements. 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.

A component of other receivables at the reporting dates relates to inter-company balances with other Group subsidiaries. As the Group's regulatory and working capital requirements are monitored on a group-wide basis, the risk of default is considered minimal.

Credit risk (continued)

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. There is no direct credit risk in relation to client assets as this risk is borne fully by the clients concerned.

As at 31 October 2020, the Company's largest exposure was £10,000,000 in respect of deposits with an 'A+' rated bank (31 October 2019: £5,015,000 deposits with an 'A+' rated bank).

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 prior Board approval required for any exception to this principle.

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.

Concentration risk

During the year ended 31 October 2020, two Investment Trusts accounted for approximately 48% of the Company's revenue (2019: 48%). The loss of either of these clients could result in a significant decrease to future revenues.

Further distribution activity, particularly in respect of private equity funds, will enable the Company to benefit from future growth plans and reduce, to some extent, the concentration risk associated with the Company's existing client base.

Failure to execute strategic 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. A lack of growth in new Consumer and Institutional business could stifle the targeted growth in profitability or even result in losses arising.

The Group has sought to ensure that its product development, distribution and investment processes are aligned, positioning it to leverage our "Top-of-the-Stack" capabilities. These are resilient capabilities where we have distinctive competitive advantages and are well positioned for future growth. Clearly defined distribution targets allow management to monitor progress in AUM and revenue growth. This strategy provides us with an effective way to organise and marshal our resources towards profitable investment capabilities where we have the highest chances of success, given the scope of the services provided and/or well-defined distribution advantages.

COVID-19 pandemic

During 2020 the coronavirus (COVID-19) global pandemic has led to multiple "lock-down" periods across the globe causing the suspension or curtailment of business operations and imposing travel restrictions and quarantine measures. These measures and policies have significantly disrupted the activities of many entities and the wider global economy. As the pandemic continues, it is challenging at this juncture to predict the full extent and duration of its business and economic impact. The increasing roll out of vaccines should lead to a more permanent tapering off in restrictions in the coming year. However, it is possible that they could be resistant to certain variants of the virus delaying this process and generating further adverse economic consequences. Irrespective of when "normality" returns, significant negative economic consequences will continue to occur for some time thereafter.

STRATEGIC REPORT (continued)

This remains a rapidly changing scenario, but the Company, as part of the broader BMO GAM business within the BMO Financial Group, is continuing to take 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 therefore provides a direct link to the BMO GAM business;
- The BMO GAM business have an Emergency Response Team (ERT), comprised of the Heads of key business and support 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 and will continue to do so for as long as is necessary, ensuring that this incorporates appropriate support for staff and focus on their well-being. The Group is also making plans to ensure all office environments meet staff needs when the return to working in the office occurs;
- The Group continues to monitor and engage 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 continue to issue regular communications to staff focused on well-being and providing updates on plans to return to office environments.

Notwithstanding the measures outlined above, it is inevitable that current events will continue to have a direct or indirect impact on the operations, financial position, and results of the Group for the year to 31 October 2021 and potentially beyond that date. While historically the biggest impacts experienced during the pandemic have been reduced revenues as a result of the impact of global markets on the value of the assets managed by the Group and the need to adapt operational processes and the technology infrastructure to support a working from home environment, it is not possible to estimate the overall future operational or financial impact of COVID-19 on the Group or Company given the unpredictable nature of this pandemic and the inherent uncertainties. However, since the low point in March 2020, global equity markets have experienced significant growth, with a beneficial impact on annualised revenues. In addition, given the relatively high percentage of fixed income assets managed by the Group (67% as at 31 October 2020) and the diversity of the Group revenues, the Group, and therefore the Company, are considered to be relatively well positioned.

Uncertain economic outlook

The UK and global macroeconomic outlook remains uncertain. 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 operation of the Trade & Co-operation Agreement ("TCA") concluded between the UK and EU remains subject to significant uncertainties given its governance structure, which includes a review every five years and the ability of the UK and EU to take action against the other for divergence from prescribed standards and structures designed to ensure that a regulatory "level playing field" remains in place between them. Consequently, the evolution of the long-term relationship between the UK and EU could still have a significant impact on underlying economic and market conditions for European asset classes.

The Group offers competitive products across a 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. 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 relationship between the UK and the EU so as to ensure that any adverse impact is appropriately mitigated as far as possible in the management of European asset classes.

STRATEGIC REPORT (continued)

Loss of key employees

BMO Asset Management (Services) Limited, a subsidiary of BMO Asset Management (Holdings) plc, employs all of the Group's UK staff who provide services to the Company. 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 long-term retention of key employees. All employees receive an annual appraisal which reviews their performance, both financial and non-financial, 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, we seek to reduce our 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. Portfolio managers are the Group's first line of defence in ensuring that portfolios are managed in accordance with each mandate. An independent Investment Mandate Compliance Team is responsible for pre-trade and post-trade monitoring of investment rules, and all breaches, whether active or passive, are investigated. The Group's Compliance team will act as a second line of defence in monitoring mandate compliance and will work with its Business Risk and Legal teams to ensure that any breach is properly remediated in a timely manner.

Regulation

The UK, European and global regulatory environments continue to evolve rapidly. The expectations of financial regulators require regulated groups to embed regulatory compliance, and suitable conduct and culture 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 core activities of investment management, client servicing and distribution.

The Group implemented all necessary arrangements to ensure that its asset management operations continued doing business effectively in Europe following the expiry of transition arrangements agreed between the UK and EU on 31 December 2020 and the loss of access to the EU Single Market for its UK regulated entities. This included its Dutch regulated subsidiary enhancing its regulatory authorisation to operate as an Alternative Investment Fund Manager, thereby enabling it to operate as our post-Brexit European hub.

The TCA concluded between the UK and EU only has minimal coverage of financial services. Uncertainties will therefore remain for some time at least around the future of UK financial services and its interaction with EU markets particularly if the UK chooses to diverge significantly in its regulatory approach. The Group relies upon its Dutch subsidiary delegating portfolio management to UK regulated affiliates as allowed currently under applicable EU regulation. There is a risk that EU authorities impose further restrictions on the ability of EU regulated firms to undertake such delegation which would have a material adverse impact on the Group's current operating model.

STRATEGIC REPORT (continued)

The Group Compliance and Legal teams ensure that key regulatory changes are identified at the earliest opportunity including those that may follow because of the UK's departure from the EU. 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 Group has a clearly defined "Purpose" to boldly grow the good in business and life by guiding each employee to "do the right thing". Values and actions of "Being BMO" detail the conduct, and with that the culture, expected of all staff.

Reliance on third parties

In pursuing a strategy with a focus on competitive scale, the use of outsourced service providers benefits the Group and the Company 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 services and administrative services for certain Retail and Investment Trust savings products. This places a great deal of reliance on the operational resilience of the Group's partners and the services and processing they provide.

The Group conducts an extensive selection and due diligence process focused on many aspects of operational resilience prior to selecting outsource providers and entering into the related contractual arrangements that incorporate suitable governance arrangements and detailed service levels. The Group has established oversight teams who monitor such third-party service delivery and ensure there is appropriate oversight and effective resolution of issues. Service levels are regularly monitored as part of the ongoing governance arrangements.

Business continuity and information technology (IT)

The Company's success is dependent on access to the Group's resilient IT infrastructure and appropriate IT systems that are sufficient to support the Group in meeting its strategic objectives. 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-term and medium-term IT plan with clear objectives to meet mandatory change requirements, deliver further integration of systems and enhance the agility, security and resiliency of the Group. The Group maintains and periodically tests its critical technology disaster recovery arrangements. The Group also has detailed business continuity plans in place to enable events to be managed, location specific actions to be taken and key business processes to be maintained in the event of a disaster.

Cyber security

The Group is exposed to a variety of potential cyber risks, and a failure to prevent or defend against such risks 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. These include security, access control and data leakage protection measures. In addition, the Group holds an ISO 27001 security accreditation.

STRATEGIC REPORT (continued)

STATEMENT BY THE DIRECTORS IN PERFORMANCE OF THEIR STATUTORY DUTIES IN ACCORDANCE WITH S172 (1) OF THE COMPANIES ACT 2006

Directors of the Company are required to act in a way that they consider, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole. This requires the Directors to have regard to the:

- likely consequences of any decision in the long term;
- interests of the Company's employees;
- need to foster the Company's business relationships with suppliers, customers, and others;
- impact of the Company's operations on the community and the environment;
- desirability of the Company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the Company.

The Directors also consider the views and interests of a wider set of stakeholders including its shareholder, regulators and counterparties.

When taking key decisions, the Directors receive information from across the Company and BMO. Information is informed by stakeholder engagement at an operational level and helps the Directors gain a better understanding of the impact of their decisions on relevant stakeholder interests.

Our Purpose

"To Boldly Grow the Good in Business and in Life"

BMO exists to drive change for good, both as a trusted adviser to clients and as a leader in our communities. We're not afraid to do the right thing, we challenge convention, and we strive to enable progressive growth for everyone.

The Purpose Statement

"Boldly" is about thinking big and acting confidently in the face of change; having the passion and conviction to move our business, our industry, and society forward; and our collective belief that no problem is too great to solve.

"Grow" shows we have ambition. At the core, we are builders. We aim for progress alongside profit and create value that extends far beyond the bottom line.

"The Good" is both our approach to and the outcome of our work – our ethical practices, our commitment to always do what's right, even when it's not easy, and the resulting returns when success is mutual and inclusive.

"In Business and Life" makes clear the connection to banking and the impact we make together with our employees, communities, and customers.

Directors are also encouraged to consider BMO's Purpose (opposite) when taking key decisions.

This year, to assist the Directors in discharging their s.172 responsibilities, the Subsidiary Governance team refreshed the Board templates, ensuring stakeholder interests were clearly articulated. This was reinforced with additional guidance for presenters and report writers.

Whilst considering a broad range of interests is an important part of their decision making, the Directors acknowledge that decisions may not result in a positive outcome for all stakeholders.

Examples of how stakeholder interests were considered this year and, in the period prior to approval of the Financial Statements, are listed below:

Customers/clients – The Directors receive regular updates from each line of business at part of their Board materials, including investment performance for the AIFs. These updates highlight issues impacting our key clients, the investment trusts and private equity funds, as well as opportunities to enhance client experience.

As a result of the COVID-19 pandemic, the Directors have had close focus on the impact on the key clients. The business also maintained a close focus on investment performance, liquidity risk and key client services.

STRATEGIC REPORT (continued)

Employees – The Company has no employees but, as a member of BMO GAM in EMEA, it is provided resourcing by BMO Asset Management (Services) Limited. The Board is committed to maintaining a strong culture aligned with BMO's values. In addition to employee representation in board meetings, there is also engagement with employees through regular town halls.

This year, amid a global pandemic, the Directors placed increased focus on employee safety, health and wellbeing. This was reflected by a decision to swiftly migrate employees to a work from home environment in advance of government direction to do so. The Directors remain committed to ensuring a high standard of workplace safety whilst prioritising employees' physical and mental health needs. Employees continue to work from home and will continue to do so until the UK government and the business deem it safe to return to the workplace.

The Directors also continue to champion diversity and inclusion initiatives. Following the Black Lives Matter movement, increased focus was given to racial equity initiatives both within the Company and as part of the wider BMO Enterprise. This included strengthening our awareness through employee education as well as initiatives to improve to Black, Asian and minority ethnic representation through a culture of sponsorship and providing equitable opportunities in the talent pipeline.

Suppliers – Throughout the year the Directors receive regular updates on key third party vendors. These updates include reviewing key performance indicators for the material outsourcing arrangements with the Company's key suppliers.

Community and Environment – The Company is part of the broader BMO GAM business in EMEA, which is committed to giving back to the communities in which it operates. Many of the Directors and employees are actively involved in fundraising and volunteering activities. This year the EMEA business helped raise funds for MacMillan Cancer Support, Ronald McDonald House and the St Barts Charity Appeal.

The Company is also committed to improving sustainability in its business operations. The BMO GAM offices at Exchange House and Quartermile 4 maintain an ISO 14001 accreditation that sets out the requirements for an Environmental Management System. This system is used to identify and better manage the buildings' environmental aspects and impacts and helps BMO GAM EMEA to continually improve its environmental performance through a more efficient use of resources and reduction of waste. The electricity used at both offices is derived from 100 per cent. renewable resources.

The business's Cultural Working Group organised a number of events, including employee discussions following the Black Lives Matter movement in 2020 – a key issue impacting community.

Regulators – During the year, the Board received regular updates on areas of regulatory interest. This included training on Culture and Tone from the Top and Operational Resilience. The Board also received updates on regulatory engagement.

BY ORDER OF THE BOARD

R A Watts
Director
24 February 2021

BMO INVESTMENT BUSINESS LIMITED

REPORT OF THE DIRECTORS

The Directors present their Annual Report and audited Financial Statements for the year ended 31 October 2020.

RESULTS AND BUSINESS REVIEW

The Company's results for the year ended 31 October 2020 are shown in the Income Statement on page 15. A Strategic Report for the same period is set out on pages 2 to 9.

The Company recognised a profit of £2,337,000 for the year ended 31 October 2020 (2019: loss of £1,860,000).

DIVIDENDS

The Directors do not recommend the payment of a final dividend (2019: £nil) and no interim dividend was approved or paid during the year ended 31 October 2020 (2019: £nil).

FUTURE DEVELOPMENTS

The Company's prime focus will continue to be the management of assets on behalf of investment trust and private equity clients. The Directors expect that the Company will continue to benefit directly or indirectly from the distribution and product development activities of the broader BMO Global Asset Management business and BMO Financial Group, recognising that revenue is the key driver of the cost sharing arrangements within the UK transfer pricing group.

ENERGY AND CARBON REPORTING

Disclosures required under the Streamlined Energy and Carbon Reporting Requirements are provided on a Group basis in the consolidated Annual Report and Financial Statements of BMO Asset Management (Holdings) plc.

DIRECTORS AND THEIR INTERESTS

The Directors who served during the year were as follows:

R S Fuller (Independent Non-Executive)
D Logan
C B Porter (Independent Non-Executive)
D J Sloper (resigned 16 January 2020)
R J E Thorpe
W M Tonkin
R A Watts
T Watts

There have been no appointments or resignations of Directors since 31 October 2020.

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.

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
24 February 2021

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BMO INVESTMENT BUSINESS LIMITED

Opinion

We have audited the Financial Statements of BMO Investment Business Limited ("the Company") for the year ended 31 October 2020 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 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

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

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

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 INVESTMENT BUSINESS 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 12, 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.

Phil Merchant

Philip Merchant (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court
Edinburgh
24 February 2021

INCOME STATEMENT FOR THE YEAR ENDED 31 OCTOBER 2020

	Notes	2020 £000	2019 £000
Revenue	3(a)	45,337	46,626
Cost of sales	4	(15,196)	(15,200)
Net operating revenue		30,141	31,426
Operating expenses	5	(27,570)	(33,697)
Operating profit/(loss)		2,571	(2,271)
Finance income	7	37	75
Finance costs	8	(1)	(2)
Profit/(loss) before tax		2,607	(2,198)
Tax (expense)/income	9	(270)	338
Profit/(loss) for the financial year		2,337	(1,860)

All amounts relate to continuing operations.

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

The notes on pages 18 to 34 form an integral part of these Financial Statements.

BMO INVESTMENT BUSINESS LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 OCTOBER 2020
(Registered number SC151198)

	Notes	31 October 2020 £000	31 October 2019 £000
ASSETS			
Non-current assets			
Intangible assets	10	476	626
Deferred tax assets	11	2,026	2,108
Loan receivable	12	288	-
Total non-current assets		2,790	2,734
Current assets			
Contract assets	3(b)	9,093	7,116
Trade receivables	3(b)	1,039	1,076
Other receivables	13	1,752	1,891
Cash and cash equivalents	14	17,284	11,573
Total current assets		29,168	21,656
TOTAL ASSETS		31,958	24,390
LIABILITIES			
Current liabilities			
Trade and other payables	15	10,751	10,490
Contract liabilities	3(b)	540	570
TOTAL LIABILITIES		11,291	11,060
EQUITY			
Share capital	16	30,000	25,000
Retained earnings	17	(9,333)	(11,670)
TOTAL EQUITY		20,667	13,330
TOTAL LIABILITIES AND EQUITY		31,958	24,390

The Financial Statements were approved by the Board of Directors and authorised for issue on 24 February 2021. They were signed on its behalf by:

D Logan
Director

The notes on pages 18 to 34 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 OCTOBER 2020

	Share capital £000	Retained earnings £000	Total equity £000
Balance at 31 October 2018	25,000	(9,810)	15,190
Loss for the financial year and total comprehensive expense	-	(1,860)	(1,860)
Balance at 31 October 2019	25,000	(11,670)	13,330
Share capital issued to BMO Asset Management (Holdings) plc (note 16)	5,000	-	5,000
Profit for the financial year and total comprehensive income	-	2,337	2,337
Balance at 31 October 2020	30,000	(9,333)	20,667

The notes on pages 18 to 34 form an integral part of these Financial Statements.

BMO INVESTMENT BUSINESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ENTITY INFORMATION

BMO Investment Business Limited is a private company limited by share capital, incorporated and domiciled in Scotland. The Company's registered office is 6th Floor, Quartermile 4, 7a Nightingale Way, Edinburgh, EH3 9EG and its principal place of business is Exchange House, Primrose Street, London, EC2A 2NY.

The results of BMO Investment Business 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

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 United Kingdom (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;
(e) The effects of new but not yet effective IFRSs;
(f) Disclosures of comparative information for intangible assets;
(g) Disclosures of Key Management Personnel compensation; and
(h) Disclosures in respect of related party transactions with wholly-owned subsidiaries.

Where relevant, equivalent disclosures have been given 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.

Measurement convention

The Financial Statements are prepared under the historical cost convention.

Going concern

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 ongoing 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 continue in business for at least 12 months from the date of approval of the Financial Statements. Furthermore, following the £5m injection of capital in October 2020, the Directors are satisfied that the Company should have sufficient resources to meet both its working capital and regulatory capital requirements for the foreseeable future. Accordingly, the Financial Statements have been prepared on a going concern basis

2. ACCOUNTING POLICIES (continued)

New and amended standards and interpretations

Several new accounting standards, amendments and interpretations apply for the first time in the year ended 31 October 2020, 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.

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.

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 sub-contracts or delegates certain portfolio management services to either third-parties or 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 sub-contracts certain portfolio management services to a third party or another Group entity.

- **Revenue - determining the customer** – The Company has exercised significant judgement in determining who the customer is in contracts. In particular, the Company has considered whether the customer is the fund or the underlying investors in the fund. In the case of Investment Trusts the Trust is considered to be the customer as it has the enforceable rights and obligations over the services provided by the Company. For fees earned for managing private equity Limited Partnerships, the Company has been appointed by various General Partner entities to manage the funds for the Limited Partnership funds, therefore the customer is considered to be the General Partner.

- **Interest in other entities** – The Company has made assessments as to whether it is an agent or principal in relation to certain of 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 related disclosures are provided in note 18.

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

- Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, as disclosed in note 11.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

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.

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.

(b) Revenue

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 or to third-parties.

Revenue is income arising in the course of the Company's investment management activities. The Company considers revenue to be the amount it is entitled to for the exchange of its' investment management services, including revenue earned by services performed by delegated portfolio management, 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 recharges of services to other Group entities. These services include investment management and administrative 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 *Revenue from Contracts with Customers*. 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, for example secretarial services to investment management customers.

Most of the Company's revenues are variable in nature, with investment management fees being based on a percentage of assets under management. Variable consideration is only recognised if it is highly probable that its inclusion will not result in a significant revenue reversal in the future when any uncertainty has been subsequently resolved. Secretarial fees are typically fixed amounts per annum.

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.

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.

Performance fees –
Performance fees are only recognised by the Company at the end of the performance period when there is certainty over the quantum of the fees. The Company is entitled to earn performance fees from certain clients if the actual investment performance of clients' assets exceeds defined benchmarks (or the level exceeds previously achieved performance levels) by an agreed level of outperformance, generally in a set time period.

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 for which the Company has received consideration from the customer. Deferred income is considered to be a contract liability. Contract liabilities are subsequently recognised as revenue when the Company performs its services under the contract.

(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 commissions paid to agents, rebates not payable directly to the customer from whom the revenue was received and the element of revenue paid as delegated portfolio management fees.

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.

(d) Finance income

Finance income comprises interest 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 and interest on a loan from a Group subsidiary. These costs are recognised in the Income Statement on an EIR basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ACCOUNTING POLICIES (continued)

(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.

(g) Intangible assets

i) Investment management contracts

Investment management contracts acquired separately are measured on initial recognition at cost.

Following initial recognition, intangible assets are carried at initial fair value less accumulated amortisation and any accumulated impairment losses.

The useful lives of investment management contracts are finite and such contracts are amortised on a straight-line basis over their estimated useful lives or average contractual term, with amortisation being charged to the Income Statement. Details of the estimated useful lives are shown in note 10.

ii) Software

This comprises internally generated software. Amortisation is charged to the Income Statement in equal annual instalments, based on a 3-year useful economic life.

Subsequent expenditure on capitalised software is expensed as incurred. Software is derecognised upon disposal or when no further future economic benefits are expected from their use.

(h) Impairment of intangible assets

At each reporting date the Company assesses whether there is an indication that an asset may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Any impairment arising is recognised in the Income Statement. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2. ACCOUNTING POLICIES (continued)

(i) 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 debt instruments measured at amortised cost.

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 fair value through profit or loss, 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
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 a Group subsidiary, trade receivables, amounts owed by Group subsidiaries, group relief receivable, other receivables, accrued bank deposit interest and cash and cash equivalents.

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 considers the requirement to recognise an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. 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.

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 measures 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 (owed by a Group company), 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.

2. ACCOUNTING POLICIES (continued)

The Company considers a financial asset to be 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 net of directly attributable transaction costs.

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

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.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits held at call with banks, and other short-term, highly liquid investments in money-market instruments with original maturity dates of three months or less.

(k) Share capital

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

(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.

2. ACCOUNTING POLICIES (continued)

Where the Company holds power and has entitlement to variable returns, it undertakes an assessment of the linkage between power and variable returns to determine whether it is acting as principal or agent to the structured entity. 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. Sponsored entities are unconsolidated structured entities controlled by an independent third party where some, or all, of the following factors are present: the Company has been involved in determining the purpose and design of the entity, it is the majority user of the entity, and/or the Company is involved in the marketing and promotion of the entity.

3. REVENUE

(a) Analysis of revenue

The Company provides investment management services to a number of AIF's with its key clients being investment trusts and private equity funds. Revenue recognised in the Income Statement is analysed as follows:

	2020 £000	2019 £000
Investment management fees*	36,294	38,443
Investment management fees for third-party managed assets	4,355	4,061
Performance fees	2,845	2,350
Secretarial fees	1,843	1,772
Revenue	45,337	46,626

* Investment management fees includes £10,704,000 (2019: £10,940,000) of fees received by the Company as manager, but which are subsequently paid to other Group companies to whom portfolio management has been sub-delegated (as disclosed in note 4).

Investment management services are provided to Investment Trusts and closed-ended Private Equity Limited Partnerships (LPs). The fees earned are generally based on a percentage of the net asset values (NAVs) or the market capitalisation of the trust or fund and will therefore vary over time with changes in asset values. These fees are quantified on either a monthly or quarterly basis. The fees for the management of private equity funds are received from the respective General Partner, fellow Group entities, which are responsible for the operation of the LPs and who are remunerated directly by the LPs.

Performance fees are also variable in nature and crystallise at the point the revenue entitlement becomes unconditional, even though any fee typically relates to a specific performance period.

Secretarial fees relate to both investment trusts and private equity funds. The fees are typically a fixed amount per annum, which is recognised over time, although the revenue is generally invoiced on a quarterly basis.

3. REVENUE (continued)

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

	2020 £000	2019 £000
United Kingdom	35,576	37,445
Guernsey	9,684	7,960
The Netherlands	77	1,221
	45,337	46,626

Revenue is predominantly received in pounds Sterling.

(b) Contract balances

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

	31 October 2020 £000	31 October 2019 £000
Current:		
Trade receivables	1,039	1,076
Contract assets	9,093	7,116
Contract liabilities	540	570

Trade receivables are non-interest bearing and are generally on terms of 10-30 days.

Contract assets relates to accrued income which has been recognised as revenue earned at the reporting date but not yet billed. The amount of revenue recognised in the year ended 31 October 2020 for performance obligations satisfied (or partially satisfied) in previous periods is £67,000. The difference arose due to certain clients which have non-coterminous invoice periods. Invoices raised are dependent upon finalisation of the net asset values of certain funds which can only be determined after the reporting date.

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 relates to investment management fees which have been invoiced quarterly in advance, therefore, it represents the Company's obligation to deliver future asset management services after the reporting date. The amount recognised in revenue during 2020 relating to contract liabilities at the beginning of the year was £570,000.

In addition to the above, amounts owed by Group subsidiaries at 31 October 2020 include £1,104,000 (31 October 2019: £1,167,000) in relation to accrued income for investment management fees and secretarial fees charged to fellow Group subsidiaries.

4. COST OF SALES

	2020 £000	2019 £000
Delegated portfolio management fees – intra-group	10,704	10,940
Delegated portfolio management fees – third-party	4,355	4,061
Fee and commission expenses	137	199
	15,196	15,200

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. OPERATING EXPENSES AND AUDITOR'S REMUNERATION

Operating expenses can be summarised as follows:

	Note	2020 £000	2019 £000
Inter-company recharges		26,810	33,132
Other expenses		564	410
Amortisation of intangible assets	10	160	63
Net foreign exchange loss		36	92
		27,570	33,697

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.

Audit fees attributable to the Company were £19,000 (2019: £14,000). 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 2020 (2019: 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.

6. DIRECTORS' REMUNERATION

Two Directors (2019: two) received emoluments for services to the Company as follows:

	2020 £000	2019 £000
Aggregate emoluments	71	31

All other Directors did not receive any remuneration in respect of their services to the Company during the year ended 31 October 2020 (2019: £nil). Their remuneration is paid by BMO Asset Management (Services) Limited, a fellow Group subsidiary.

7. FINANCE INCOME

	2020 £000	2019 £000
Financial assets measured at amortised cost:		
Bank and short-term deposits interest	37	75

8. FINANCE COSTS

	2020 £000	2019 £000
Financial liabilities recognised at cost using the EIR method:		
Bank interest and charges payables	1	1
Interest on loan from Group subsidiary	-	1
	1	2

9. INCOME TAX

(a) Analysis of tax expense/(income) in the year

The major components of tax expense/(income) recognised in the Income Statement are:

	Note	2020 £000	2019 £000
Current income tax:			
UK Corporation Tax			
Current tax on profit/(loss) for the year		190	(417)
Adjustments in respect of previous periods		(2)	(2)
Total current income tax		188	(419)
Deferred tax:			
Origination and reversal of temporary differences		307	-
Adjustments in respect of Corporation Tax rate change		(225)	81
Total deferred tax	11(b)	82	81
Tax expense/(income) reported in the Income Statement		270	(338)

(b) Reconciliation of total tax expense/(income) for the year

A reconciliation between the actual tax expense/(income) and the accounting profit/(loss) multiplied by the Company's domestic tax rate for the years ended 31 October 2020 and 31 October 2019 is as follows:

	2020 £000	2019 £000
Profit/(loss) before tax	2,607	(2,198)
At the Company's statutory income tax rate of 19.00% (2019: 19.00%)	495	(418)
Corporation Tax rate change	(225)	81
Adjustments in respect of previous periods	(2)	(2)
Disallowed expenses	2	1
Tax expense/(income) reported in the Income Statement	270	(338)

(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 2020 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.

However, the Chancellor of the Exchequer's Budget on 11 March 2020 announced that the UK Corporation Tax rate would 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. The effect of this rate change has been to increase the deferred tax assets of the Company by a £225,000 credit through the Income Statement.

No additional UK Corporation Tax rate changes have been substantively enacted since the reporting date.

10. INTANGIBLE ASSETS

	Investment management contract £000	Software £000	Total £000
Cost:			
At 1 November 2019	1,135	283	1,418
Additions in the year	-	10	10
31 October 2020	1,135	293	1,428
Amortisation and impairment:			
At 1 November 2019	792	-	792
Amortisation expense for the year	62	98	160
At 31 October 2020	854	98	952
Net book values:			
At 31 October 2019	343	283	626
At 31 October 2020	281	195	476

The investment management contract relates to private equity fund of funds arising from a business acquisition.

The investment management contract is amortised on a straight-line basis over its estimated useful life of 20 years. At 31 October 2020 the contract had a remaining useful life of 4.5 years (31 October 2019: 5.5 years). The contract is tested for impairment only when indicators of potential impairment are identified. No such indicators have been identified during the year and therefore no impairment review of the investment management contract has been undertaken this year.

The amortisation expense is included within operating expenses in the Income Statement.

Software comprises internally generated assets.

11. DEFERRED TAX ASSETS

(a) Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	31 October 2020 £000	31 October 2019 £000
Unused tax losses	2,026	2,108

Based on profit forecasts, the Directors believe it is appropriate to recognise a deferred tax asset for losses at the reporting date because it is considered probable that there will be suitable future taxable profits in the Company and the Group in the next five years from which these losses 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. DEFERRED TAX ASSETS (continued)

(b) Movement in temporary differences during the year

	Note	2020 £000	2019 £000
Unused tax losses:			
At 1 November		2,108	2,189
Charged to profit or loss	9(a)	(82)	(81)
At 31 October		2,026	2,108

12. LOAN RECEIVABLE

	31 October 2020 £000	31 October 2019 £000
Non-current:		
Loan owed by Group subsidiary	288	-

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. No impairment has been recognised on the Company's loan receivable as the amount was considered immaterial at the reporting date.

13. OTHER RECEIVABLES

Other receivables are classified as debt instruments at amortised cost.

	31 October 2020 £000	31 October 2019 £000
Current:		
Amounts owed by Group subsidiaries	1,306	1,202
Group relief receivable	229	510
Prepayments	157	148
Other receivables	60	26
Accrued bank deposit interest	-	5
	1,752	1,891

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.

14. CASH AND CASH EQUIVALENTS

	31 October 2020 £000	31 October 2019 £000
Short-term deposits	16,994	11,458
Cash at bank	290	115
	17,284	11,573

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. All short-term deposits are readily convertible to a known amount of cash and are not subject to significant risk of changes in value.

Short-term deposits are generally made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. 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.

15. TRADE AND OTHER PAYABLES

	31 October 2020 £000	31 October 2019 £000
Current:		
Amounts owed to Group subsidiaries	9,061	8,400
Accruals	1,251	1,126
Amounts owed to BMO Group entities	218	259
Other payables	128	316
VAT payable	93	389
	10,751	10,490

In the Directors' 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.

16. SHARE CAPITAL

	31 October 2020 £000	31 October 2019 £000
Issued and fully paid:		
30,000,000 (31 October 2019: 25,000,000) Ordinary shares of £1 each	30,000	25,000

	2020 £000	2019 £000
At 1 November	25,000	25,000
Share capital issued to BMO Asset Management (Holdings) plc	5,000	-
At 31 October	30,000	25,000

On 26 October 2020 the Company's immediate parent undertaking, BMO Asset Management (Holdings) plc, subscribed for an additional 5 million Ordinary shares of £1 each, in the Company. The £5,000,000 consideration was received in cash.

16. SHARE CAPITAL (continued)

The holder of 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.

17. RESERVES

The analysis of movements in reserves is disclosed within the Statement of Changes in Equity on page 17.

Movements in retained earnings comprise net profits and losses recognised through the Income Statement.

18. 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 certain of 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 any 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.

(b) Interests in unconsolidated structured entities

Nature, purpose and activities of structured entities
The Company has facilitated the set-up of certain investment funds which are considered to be structured entities and currently provides investment management and secretarial services to these funds. The structured entities provide a mechanism for clients to invest into various asset management vehicles, primarily investing in private equity assets. The Company and/or the broader Group 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 or performance 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 Limited Partnership funds it manages to be unconsolidated structured entities.

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. The Company will routinely recognise trade receivables and/or contract asset balances with these funds in respect of fees receivable for the management of these funds.

As the risks and rewards of fund performance resides mostly with investees, the Company's direct exposure is limited to the impact of investment 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 one-off or ongoing fundraising. The Group promotes the external fundraising in these funds through marketing activity but does not generally invest into these funds. These structured entities are closed-ended funds which have a finite fundraising period. These vehicles are fundamentally financed through the issue of shares or units to investors, although some funds have the ability to obtain external loan financing, known as gearing. The Company has no direct exposure to such external loan financing.

18. 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 or management of unconsolidated structured entities, although it does face some risks. The main risk is a loss of management fees if the Company ceased to be the appointed Manager of the structured entities. Achieving good investment performance and providing excellent client service are major elements in the management of this risk.

The Company's management fees received for the Limited Partnership funds it manages are received from another Group company (the General Partner to the fund), who has appointed the Company to manage these funds. The Company generally has limited direct exposure to the value of the assets it manages within these investment funds which typically have a finite lifespan. The Company receives its management fees indirectly from the funds it manages and will therefore have indirect credit exposure in respect of such fees until the amounts are settled. Such exposure is considered to be low risk.

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 any 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
The total gross assets under management in respect of unconsolidated structured entities at the reporting dates are as follows:

	31 October 2020 £m	31 October 2019 £m
Structured entity type:		
Limited Partnership funds	617	547

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:

	31 October 2020 £000	31 October 2019 £000
Limited Partnership funds:		
Other receivables*	1,135	1,193

* The Company receives fees for its management of the Limited Partnership funds from other Group subsidiaries, therefore, it does not have balances directly with the Limited Partnership funds. £1,104,000 (31 October 2019: £1,167,000) of these other receivables reflect outstanding investment management and secretarial fees payable by other Group subsidiaries which contractually receive revenue from certain unconsolidated structured entities.

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.

18. DISCLOSURE OF INTERESTS IN OTHER ENTITIES (continued)

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 and secretarial fee it receives.

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.

Income from interests in unconsolidated structured entities
Net operating revenue includes £3,294,000 (2019: £3,378,000) of fees received in respect of the investment management and secretarial fees earned from unconsolidated structured entities.

(c) Interests in sponsored entities

Certain entities are designed so that voting or similar rights are the dominant factor in deciding who controls the entity. A number of such entities also have an independent board of directors.

However, the Company considers itself the sponsor of an entity where it is involved in the design and purpose of the entity, the Company markets products associated with the entity, or the funds use the branding of the Group. The Company is also directly responsible for the investment management, and involved in the operation and administration of the sponsored entity; however, ultimately control of the entity rests with the respective fund Board and its shareholders or investors.

The Company considers certain Investment Trust clients to be sponsored entities. The revenue received, less amounts paid to other parties for delegated portfolio management, includes £26,847,000 (2019: £27,990,000) of fees received from sponsored entities managed by the Company.

19. 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.

20. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent undertaking is BMO Asset Management (Holdings) plc, a company 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 Corporate Communications Department, BMO Financial Group, 28th Floor, 1 First Canadian Place, Toronto, Ontario, M5X 1A1.