

Genuinely  
active investing

Miton

Miton Group plc  
Annual report and accounts 2017



# Genuinely active investing

## Strongly differentiated active funds

We manage a range of equity funds investing in many of the largest markets and multi-asset funds offering differing prospective outcomes for clients. Our funds are unconstrained by benchmarks and our managers are empowered to invest according to their convictions. Our funds share many common characteristics: high active share, long-term orientation, a pragmatic approach and agnosticism to benchmarks, giving real differentiation from many competitors.

## Relevance to a changing market

The direction of the marketplace is positive for Miton. Among specialist asset management businesses, few have real strength in both single and multi-asset strategies. Miton's ability to offer solutions to a broad range of intermediaries and distributors, as individuals take more control of their finances, is a key strength and differentiator. Investors and advisers are looking to maintain and grow capital and deliver income, without taking undue risk. Our active offerings help clients meet their aspirations in challenging times.

## Size and agility

We are building a straightforward business that focuses on investment and distribution in a controlled environment. Compelling investment performance or great client service can make a tangible and discernible difference to our business. This builds a culture of empowerment and accountability. We have the experience and know-how to deal with the challenges of a rapidly changing marketplace. We are not afraid to stand out from the herd.

## Progress and delivery

We have continued to invest in our business and are delivering on our strategy. We have renewed our focus on clients by increasing our resources in distribution and by investing in our online presence. Our business is more balanced than in recent years; we are a more diversified business and have scope to add further strategies in order to expand our distribution channels and to attract talent in all areas of our business.

# 84.7%

average active share for equity-focused funds<sup>^</sup>

# 7

equity-focused funds at the year end

# 4

multi-asset funds at the year end

# 48

full-time staff<sup>^</sup>

# 2

new strategies launched after the year end

<sup>^</sup> At 31 December 2017



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## 2017 Highlights

# Key drivers of shareholder returns

### Product & performance

## 87%

of funds and investment trusts are **first or second** quartile since launch/tenure\*

Positive inflows into the UK Value Opportunities fund in 2017

European Opportunities fund  
**first quartile** track record since launch

US Opportunities fund  
**above £380m** since launch in 2013

### Assets under Management ('AuM')

## £3,823m

**Closing AuM** versus £2,905m for 2016

**Average AuM**  
**+21%** at £3,361m

**Multi-asset range AuM**  
**+29%** to £868m

**£3,963m**  
**Closing AuM** at 28 February 2018

### Results & profitability

**Profit before tax**

## +46%

to £6.2m (as reported)

Earnings per share (basic)

## +53%

to 3.27p

## £19.9m

**of total cash** at 31 December 2017

## 1.4p

**dividend proposed**

\* See footnote ^ on page 2.

# Company Overview

# Product range

as at 31 December 2017

Our goal is to make more money for more investors through genuinely active investing and a relentless pursuit of exceptional standards.

Miton Group plc is the AIM-listed parent company of the fund management group operating through two FCA regulated entities: Miton Asset Management Limited and Miton Trust Managers Limited.

At 31 December 2017, the Group had eight investment teams managing nine open-ended funds, two unit trusts and four investment trusts.

Strategy	AuM 2016 £m	AuM 2017 £m	Fund Manager(s)	Year of launch/ tenure	Quartile performance from launch/ tenure <sup>1</sup>
<b>Equity Funds</b>					
LF Miton UK Multi Cap Income <sup>1</sup>	755	<b>1,013</b>	Gervais Williams/Martin Turner	2011	1
LF Miton UK Smaller Companies <sup>1</sup>	161	<b>184</b>	Gervais Williams/Martin Turner	2012	2
FP Miton Income*	188	<b>182</b>	Eric Moore	2014	1
LF Miton UK Value Opportunities <sup>1</sup>	290	<b>389</b>	Andrew Jackson	2016	1
LF Miton US Opportunities <sup>1</sup>	238	<b>381</b>	Nick Ford/Hugh Grieves	2013	1
LF Miton European Opportunities <sup>1</sup>	82	<b>181</b>	Carlos Moreno/Thomas Brown	2015	1
LF Miton Global Infrastructure Income <sup>1,2</sup>	–	<b>20</b>	Jim Wright	2017	4
	1,714	<b>2,350</b>			
<b>Multi-Asset Funds</b>					
LF Miton Cautious Multi Asset <sup>1</sup>	368	<b>496</b>	David Jane/Anthony Rayner	2014	1
LF Miton Defensive Multi Asset <sup>1</sup>	78	<b>77</b>	David Jane/Anthony Rayner	2014	1
MI Miton Cautious Monthly Income*	210	<b>266</b>	David Jane/Anthony Rayner	2011	1
LF Miton Worldwide Opportunities <sup>1</sup>	16	<b>29</b>	Nick Greenwood	2003	1
	672	<b>868</b>			
<b>Investment Trusts</b>					
The Diverse Income Trust plc	351	<b>398</b>	Gervais Williams/Martin Turner	2011	2
Miton UK MicroCap Trust plc	94	<b>114</b>	Gervais Williams/Martin Turner	2015	3
The Investment Company plc	17	<b>18</b>	Gervais Williams/Martin Turner	2013	2
Miton Global Opportunities plc	57	<b>75</b>	Nick Greenwood	2004	2
	519	<b>605</b>			
	2,905	<b>3,823</b>			

<sup>1</sup> On 6 November 2017 Capita Financial Managers Limited ('Capita') was acquired by Link Group. As a result of the acquisition Capita's name changed to Link Fund Solutions Limited ('Link'). For the above funds where Link is the Authorised Corporate Director, the fund prefix changed from CF to LF on 18 December 2017.

<sup>2</sup> LF Miton Global Infrastructure Income Fund launched on 23 March 2017.

\* Denotes a Unit Trust.

<sup>^</sup> The quartile performance rankings are based on data from FE Analytics as at 31 December 2017, Sterling Class B shares, net income reinvested, mid to mid basis for OEIC funds and bid to bid for the FP Miton Income and MI Miton Cautious Monthly Income Funds. Performance for Investment Trusts is based on Net Asset Value, and is sourced from Morningstar Direct. Miton Global Opportunities plc is based on data since 31 December 2009 which represents the longest period of Morningstar Direct data available.

## AuM by strategy

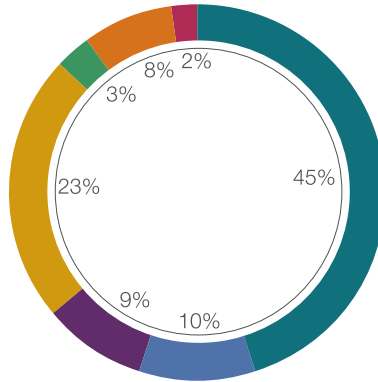
The Group has a combination of single-strategy equity funds, multi-asset funds and a range of investment trusts. This enables us to meet investor demands as market conditions change.

2017 saw the Group again broaden its fund range with the launch of a new strategy investing in listed infrastructure assets.

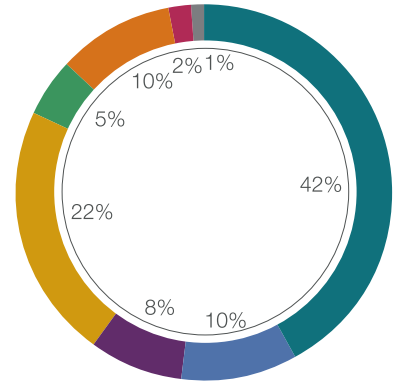
2018 has continued with two further fund launches, the first being a balanced multi-asset fund for investors in the capital accumulation phase of their lives or those with a higher risk threshold. In March, a US smaller companies fund was launched to focus on smaller companies and capture significant growth opportunities in the US.

- UK income
- UK value
- UK smaller/micro companies
- Multi-asset
- European opportunities
- US opportunities
- Worldwide
- Global infrastructure

2016  
£2,905m



2017  
£3,823m



## Differentiators

- Our fund managers have the freedom to follow their convictions.
- Our independent mindset drives us to offer funds and strategies that are different from many of our competitors.



# Strategic report

2017 was a year of significant progress in the delivery of our key strategic objectives. By keeping these at the fore we believe this will deliver both enhanced KPIs and, ultimately, shareholder value.



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# Chairman's Statement

I am delighted to be taking up the role of Chairman at Miton Group plc at such an exciting point in the Group's evolution.



## Investment performance

**87%** of funds first or second quartile\*

2016: 86%

## Proposed dividend

**1.4p per share**

2016: 1.00p per share

As the recently appointed Chairman of the Group, I am pleased to introduce the Annual Report and to present a strong set of full year results.

### Results

The Group has enjoyed a very positive year both in terms of investment performance and organic growth in assets. At the end of 2016 Assets under Management ('AuM') stood at £2.9bn and, pleasingly, this figure rose to £3.8bn at the year end, a 32% increase.

Average AuM over the year was £3,361m, up from £2,783m in 2016, representing an increase of 21% with growth spread across the product range. Assets in the multi-asset range have grown by 29%, UK equities by 27%, US equities by 60% and European equities by 121%.

87% of Miton's funds are first or second quartile since launch or fund manager tenure. This strong performance is coupled with the fact that our equity funds have an average active share of 84% or greater, underlining our commitment to genuinely active investing.

The Group's strategic position is clear: it has a broad and distinctive range of investment strategies, good investment performance, growing distribution capability and a scalable operating platform. In an ever competitive landscape these characteristics are important to achieve growth.

In March the Group continued to diversify its product range with the launch of a global infrastructure income fund. In January 2018 we launched a new multi-asset fund followed by a US smaller companies fund in March.

Our ambition is straightforward: to be recognised as a leading active investment management firm delivering value to our clients through investment outperformance.

By delivering our goal "to make more money for more investors through genuinely active investing and a relentless pursuit of exceptional standards" and continuing to build a culture that puts our customers at the heart of our business model we will be well positioned to meet our ambitions and continue to grow.

### People

I take over the Chairmanship at a time when high aspirations are paired with energy and ambition of the Board, the management team and our employees and I would like to acknowledge their skill and commitment in delivering these results. I would also like to thank Ian Dighé for his stewardship of the Company in his capacity as Chairman over the last seven years.

\*See footnote ^ on page 2.





“The Group has delivered a year of significant organic growth, strong investment performance and excellent progress against our Key Performance Indicators”

Jim Pettigrew | Chairman

### Charitable activity

Upon my appointment I was pleased to see that the Group has historically supported the National Youth Advocacy Service (“NYAS”). NYAS is a rights-based charity operating across England and Wales for children, young people and adults, providing them with advocacy and legal representation when important decisions are being made about them. During the three-year partnership the Group has worked with NYAS and spread the word of the vital role it plays in society. Since 2014 the Group has hosted a series of fundraising events and has donated £78,233 to support the NYAS national helpline.

### Dividend

The Group’s continuing strong cash generation enables the Board to maintain a progressive dividend policy whilst continuing to invest in the business. The Board is proposing an annual dividend of 1.4p (2016: 1.00p), which is an increase of 40%. If approved by the shareholders at the Annual General Meeting on 8 May 2018, the dividend will be paid on 11 May 2018 to shareholders on the register at the close of business on 3 April 2018.

With increasing levels of profit after taxation, the Group can continue to increase the level of distribution made to shareholders while retaining appropriate working capital for further investment and expansion. The Group remains soundly financed with no debt and cash balances as at 31 December 2017 of £19.9m (2016: £21.3m).

### Outlook

We continue to diversify the base of the business where we emphasise the complementary nature of our products to the growing passive investment market. We recognise that we now operate in a more regulated environment and welcome the opportunity to exhibit best in industry practices in adopting new regulation.

The Board and Senior Executive Group are encouraged by the current progress of the Group and are ambitious to capitalise on this to grow the business further.

I look forward to working with my new colleagues, across all areas of the business, to build on the solid achievements made in 2017 and to deliver future value for our shareholders.

**Jim Pettigrew**  
Chairman

# Chief Executive Officer's Report

I am pleased to report on a year of significant progress for Miton in this, my first Annual Report as Chief Executive. Positive net flows of £494m demonstrated the appeal of our genuinely active investment strategies. We have produced good long-term investment performance across a range of funds as well as making our operating platform even more efficient to grow the Assets under Management ('AuM').



## Net inflows for the year

£494m

2016: £1m

## Diluted Adjusted earnings per share

3.38 pence

2016: 2.40 pence

## Our strategy and performance

We see a number of forces shaping the asset management industry and recognise the growing importance of individual investors and their advisers as the source of new flows into our funds. Employer or government-supported pension schemes continue to diminish in importance leading to a greater focus by regulators on creating a regulatory framework where the interests of individual savers are protected, such that investors can have confidence and trust in the savings market. Technology will impact asset management in many areas, not least in enabling the delivery of low-cost passive or quasi-passive strategies on an industrial scale.

Against this backdrop, we believe that an active manager offering access to differentiated, active strategies that are straightforward with the prospect of good long-term returns after taking into account all costs, will prosper. Miton's clients are principally fund of fund managers, advisers and discretionary managers in the UK who have stewardship of the savings on behalf of individuals and pensioners. We offer active equity funds, which can complement more benchmark-aware strategies. Our multi-asset funds offer a range of solutions that meet the needs of advisers who seek transparent long-term investments with differing risk and return characteristics.

We believe this combination of single-strategy equity funds and multi-asset funds is a source of real strength for the Company. The demand for single-strategy funds may rise and fall with

wider market conditions, and whilst we aim to offer strongly performing equity funds that have appeal as long-term investments, the multi-asset range meets differing client expectations and brings diversity to the business.

Miton invests without regard to benchmark weightings, allocating our clients' savings to companies and assets that we believe deliver good returns with proper regard to risk and preservation of capital. The performance record of our funds is outstanding with 13 from 15 funds being in the first or second quartiles since inception or the date the current managers took over.

## Distribution and customer service

The second key element of our strategy comes from understanding what our clients want from an active manager. We have developed a strong and effective distribution force, with gross inflows of £1.1bn in the financial year being testament to our strengths. We are seen by clients as having strong offerings in many of the key asset classes to which they allocate funds. We have added to our distribution capability during the year and relaunched our website which will improve our engagement with clients. We believe our strong distribution capability across the adviser and wealth manager markets is a key part of our success.

We have invested significantly in the infrastructure of the business over the past three years to support the next phase of our growth strategy.



“We focus on continuing to deliver good investment performance, after costs, and transparency in all we do”

David Barron | Chief Executive Officer

### Regulation and the business environment

Our industry is subject to significant external scrutiny. The FCA's Asset Management Market Study put forward a series of measures to improve transparency, particularly around costs and product governance. We welcome these measures and are confident our business model will enable us to embrace any final recommendations from the study with little operating or financial impact.

More widely there is much talk of fee pressure on active managers. The dominant forces shaping the industry will mean that clients continue to look closely at whether the costs, including management fees, are justified by the expected returns. Many of our clients are themselves subject to similar scrutiny on fees and costs and they will in turn look for their suppliers to offer value for money to the end client. Over time, we expect to see much more variability in pricing of fund management services as investors look to pay fees that reflect the value of the investment decisions driving returns. We believe our primary competition to be other active strategies rather than passive products which are less expensive and which offer market returns.

We focus on continuing to deliver good investment performance, after costs, by providing excellence in distribution, transparency in all we do and by engendering trust and confidence in our business and brand.

Preparation for the implementation of MiFID II consumed much energy and time in the sector. One of the most focused on elements of MiFID II was the unbundling of the research and trading elements of brokerage commission. We took the decision to seek to agree a specific charge with our clients to cover external research. External research is an important input to our investment processes and we regard our approach of having a transparent budget agreed with clients as offering the strongest assurance to clients that the integrity of our investment approaches is not compromised by the unforeseen consequences of regulatory change. We recognise that many, often larger firms, have adopted a different approach. In our view, the debate has become over simplified without recognising that different approaches to research will suit different firms and their investment processes. We continue to monitor this area and client responses carefully.

### Gross inflows for the year

£1,132m

2016: £1,164m

## Chief Executive Officer's Report (continued)

### Average Assets under Management

£3,361m

2016: £2,783m

### Business performance

At the end of 2016 AuM stood at £2.9bn so it is gratifying to see this extend beyond £3.8bn at the year end. The momentum behind this 32% increase is high, along with the potential for the business to grow further in 2018 and beyond.

Average AuM over the year was £3,361m, up from £2,783m in 2016, representing an increase of 21%, further exemplifying our trajectory.

The net management fee margin declined slightly from 68.2bps to 64.9bps; however, the Group's operating margin increased from 26.8% to 31.2%, reflecting the benefits of greater scale.

By streamlining the business and focusing on efficiency, we have maintained overheads at a similar level to previous years. Fixed personnel costs have remained broadly static in 2017.

Much of the focus of our distribution efforts has been on the continued diversification of our business to build resilience. The first of our single-strategy funds launched in 2011, LF Miton UK Multi Cap Income Fund, now has over £1bn in client assets which is a testament to its differentiation, performance since launch and our distribution strengths. The net positive flows from funds launched thereafter accounted for some two-thirds of Group net flows as these strategies gained longer performance records. The multi-asset range saw positive net flows in excess of £127m and creations in 49 out of 52 weeks. At the year end we managed over £868m across the multi-asset range.

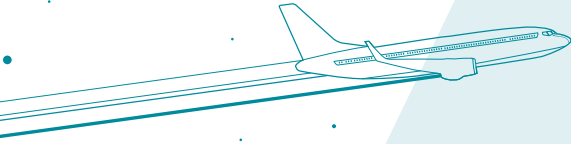
Miton has launched six single-strategy funds since 2011 which had a combined AuM at the year end of £2,168m. All these funds and the FP Miton Income Fund, which we acquired, have clearly defined objectives and are differentiated from the mainstream.

The LF Miton US Opportunities Fund passed £380m in AuM (five years since launch) and the LF Miton European Opportunities Fund reached £181m in AuM in less than two years since launch. It is also encouraging that, on the back of exceptional performance, the LF Miton UK Value Opportunities Fund saw a return to net creations and ended the year with £389m of AuM. These three single-strategy funds have significant capacity and we are optimistic about their prospects and those of our other strategies.

We are confident that our operating platform is scalable and when we see client demand we can deliver additional strategies from our existing capabilities efficiently.

We believe our remuneration and reward structures are competitive and transparent. The final tranche of Growth Shares will be eligible to exchange into plc shares in September 2018, thereafter all fund manager remuneration will be recognised via profit and loss rather than through share dilution.

We have made good quality hires across all areas of our business and enabled our people to expand their roles in the firm. We believe Miton offers an attractive working environment.



“There is significant scope for further growth from our existing strategies. The attraction of Miton, we believe, will be increasingly recognised”

David Barron | Chief Executive Officer

## Outlook

I believe Miton is fundamentally well-placed in a rapidly changing sector. In my first year it has been important to deliver increased profitability, higher operating margin and improved returns to shareholders.

My focus is on ensuring:

- our clients and partners recognise that Miton has strengths in many product areas and that the firm is a stable long-term partner;
- the business is streamlined and efficient, transparently led and can capitalise on our natural advantages of size and nimbleness to make good, timely decisions;
- we continue to diversify the base of the business through selling more funds to a broader customer base;
- investment in our distribution capability (further sales hires and our new website being tangible examples); and
- we embrace technological developments and ensuring the Group can meet changes in regulation and reporting requirements.

This year we have delivered solid organic growth, strong cash generation and the completion of two share buybacks. There is significant scope for further growth from our existing strategies. The attractions of Miton, we believe, will be increasingly recognised.

2018 has commenced strongly. Net flows were £190m in the first two months of the year with closing AuM at 28 February 2018 of £3,963m. We have launched two new funds from existing capabilities demonstrating further scope for organic growth.

Markets remain volatile, and there could be further setbacks, which may impact client confidence. However, by the key measures of the health of an asset management firm, investment performance and whether clients wish to commit more investment to our strategies, Miton is performing well.

As always, our staff are key to Miton's success. We are greater than the sum of our parts and it is a genuine team effort. I would like to thank all staff for their hard work and diligence and I look forward to building on this over the coming years.

### David Barron

Chief Executive Officer

# Our Strategic Objectives

## Strategic priorities

### 1 Investment strategies and performance

## Objective

*Deliver differentiated strategies with clear objectives that meet our clients' needs*

*Grow and diversify the Group's AuM*

## Progress in 2017

- Strong investment performance across the Group's product range
- Successful launch of the Global Infrastructure Income Fund, ending the year with £20m of AuM
- Further diversified our product range
- AuM growth across both multi-asset funds (29%) and single-strategy equity funds (37%)

### 2 Distribution and customer service

*Provide the highest levels of transparent and straightforward customer service*

*Build our brand and market share*

- Strong net inflows across our core open-ended business
- Grew our sales, marketing and client services team headcount to improve client servicing
- 79 new distributor relationships established in the year
- New website launched in December 2017
- Updated the Group's visual identity

### 3 Operations and efficiency

*Operational excellence and best practice execution*

- Liquidated historic corporate entities
- Disciplined cost control
- Adjusted operating margin above 31%
- Created a separately identifiable human resources function

### 4 Shareholder returns

*Increase shareholder value*

- Adjusted Profit before tax for the year increased by 33%
- Adjusted EPS increased by 35%
- Share price increased by 15.5% in the year
- Increased the dividend by 40%
- Limited shareholder dilution via the completion of two share buybacks
- Board structure evolved; Jim Pettigrew appointed as non-executive Chairman

## Future focus

- Continue to diversify the Group and launch differentiated products designed to deliver clear outcomes and meet our clients' changing requirements:
  - *Balanced Multi Asset Fund launched on 29 January 2018*
  - *US Smaller Companies Fund launched on 14 March 2018*
  - *Sub-advised mandate with a UK partner launched on 7 February 2018*
- Continue to develop and grow our early-stage investment products
- Foster an environment and culture where fund managers can flourish to deliver value for our clients through long-term investment performance
- Provide best-in-class risk management and compliance support

- Continue to seek out, cultivate and invest in the best talent across all levels of the business
- Further investment in our distribution capabilities to create new relationships
- Continue to ensure client communications are clear and transparent
- Widen the Group's digital offering and develop our digital assets
- Ensure our products represent value for money and are competitively priced

- Continue to maintain disciplined cost control coupled with selective expenditure on growth opportunities
- Straightforward, accountable decision making
- Undertake a third party internal controls assurance report on our investment management business
- Invest in our operating platform to ensure it keeps pace with regulatory change
- Grow the business and ensure this outpaces the growth in overheads (operational gearing)

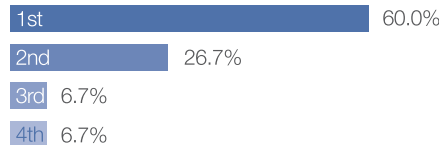
- Create resilience in the Group's revenue generation and broaden the base of the business
- Continue to grow the Group's operating cashflow
- Ensure the Group's KPIs are embedded across our remuneration policies
- Maintain appropriate levels of cash to be able to act upon investment opportunities and support the business in the event of a downturn
- Continue to grow the operating margin and exhibit economies of scale

## KPIs

### Investment performance

# 87%

funds 1st or 2nd quartile at year end



### AuM growth

# +32%



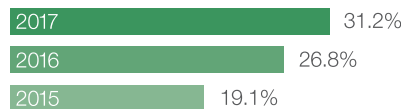
### Net inflows

# +£493m



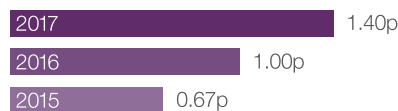
### Adjusted operating margin

# +16%



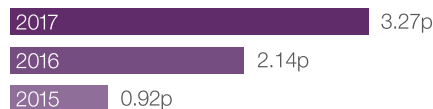
### Dividend per share

# +40%



### Earnings per share (basic)

# +53%



## Risks

### Internal

- Key personnel risk (the loss of, or inability to recruit and retain key personnel)
- Failure to sustain strong investment performance

### External

- Factors impacting performance, such as a market setback or geopolitical turbulence
- Regulatory changes impacting the Group's ability to achieve desired performance levels

### Internal

- Key personnel risk
- Failure to adequately predict or foresee customer requirements/service levels

### External

- A pronounced shift in investor demographics/client demand away from active-based investing or certain asset classes
- Regulatory changes affecting the Group's ability to reach new clients and distribution channels
- Exogenous changes to UK distribution trends via platforms/IFAs

### Internal

- Deficiencies in internal processes and/or systems
- Fraudulent staff behaviour, employee misconduct

### External

- Cost fluctuations from changes in the regulatory environment
- Third party risk/deterioration in service levels
- Security breaches

### Internal

- Large redemptions from key clients at short notice

### External

- Increased costs due to external influences
- Changes in investor demographics/client demand for active investment products
- Turbulence in the marketplace affecting the UK economy and the Group's AuM growth

## People and Culture

Miton seeks to be an employer of choice through the embodiment of a value-driven culture. We recognise that a strong culture is more than just defining a vision. The competencies that stem from our values underpin how we will achieve our strategy and vision. These are woven into policy and practice throughout the employment life cycle, including recruitment, performance management and reward.



### Leadership

Miton's governance model positions the senior team to maximise their talents and deliver straightforward, accountable leadership.

Since his appointment as CEO, David Barron has strengthened structure, process and communication across the business.

Jim Pettigrew's appointment as non-executive Chairman in November demonstrates the positive trajectory of our business and the high standards to which the leadership team operates. He brings extensive experience in the financial services sector.

### Employee benefits and benchmarking

To attract and retain outstanding talent, we seek to maintain a working environment that meets the needs of all colleagues.

In 2017 the Group completed a benchmarking project to ensure reward levels were competitive with market practice.

In response to regular industry benchmarking, the range of both financial and non-financial benefits at Miton is constantly evolving and now includes not only a share incentive scheme but also life cover and income protection to foster long-term financial security.

### Recruitment and induction

As our business grows and we look to build a stable employee base in an ever-competitive environment, we incorporate behaviours and core values as significant criteria in selection decisions. Along with clear technical job descriptions, person specifications allow us to interview against our value-driven competencies and the Group endeavours to make robust and transparent hiring decisions.

We strive to ensure joiners settle in well; our behavioural competencies are assessed throughout probation so that joiners appreciate the standards expected of them – and what to expect from their new colleagues.

### Career development and retention

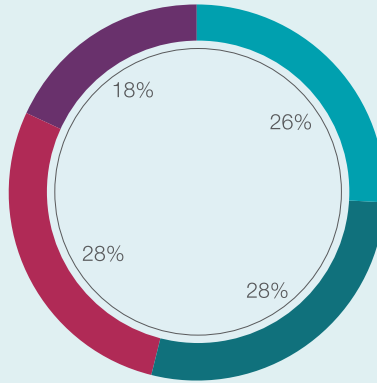
Performance at Miton is reward-linked and assessed against both behavioural and role-related technical competencies, with formal reviews carried out biannually.

Managers set KPIs with their team members at the start of the year and are empowered by the leadership team's pro-training stance to address promptly any development needs and propel skills acquisition to advance their team members' career development.

Strong retention is an ongoing priority; our employee surveys provide critical feedback that has informed retention-related planning for 2018 and beyond.

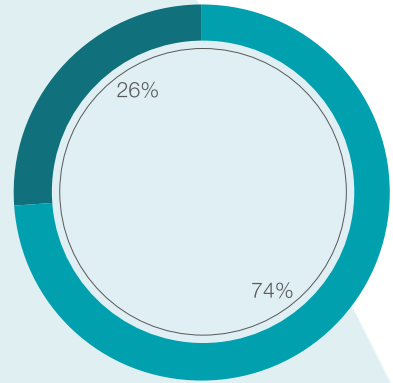


### Age diversity



- 20-30
- 30-40
- 40-50
- 50+

### Gender diversity



- Male
- Female

#### Our culture and values

In 2014 all colleagues were involved in a project to clarify how we see the firm and what we represent to the market, what we like about ourselves and how we believe in doing business.

We defined five core values and articulated our culture, which are now used in our regular staff assessments.

The competencies that stem from our values underpin the means by which we will sustainably achieve our strategy and vision and are woven into policy and practice throughout the employment life cycle, including recruitment, performance management and reward.

We are:

#### Unconstrained

We are genuinely active in mind and deed: we are agile.

#### Assertive

We have the courage of our convictions.

#### Collegiate

Our people recognise that Miton is greater than the sum of its parts.

#### Open

We are personal, accessible, responsive.

#### Responsible

We strive to act in the best interests of our clients.

#### Diversity and inclusion

It is our aim at Miton to build a team that is representative of, and responsive to, a broad range of cultures and age groups, where each individual can bring their whole self to work and where everyone has an equal chance to succeed.

Our focus is not on quotas but instead on maintaining diverse candidate shortlists and seeking a range of aptitudes and backgrounds; drawing on different perspectives builds a thinking, productive and inclusive workplace, and adds value to the way we do business.

## Financial and Operating Review

The Group has been committed to building a scalable operating platform without the need for significant increases in our fixed cost base. 2017 is evidence of the scalability within the business.



### Assets under Management

**£3,823m**

2016: £2,905m

### Adjusted Profit before tax

**£6.8m**

2016: £5.1m

### Closing cash balances

**£19.9m**

2016: £21.3m

### Number of products

**15**

2016: 14

### Assets under Management ('AuM')

AuM ended the year at £3,823m, an increase of £918m (32%) over the comparative period. The increase was driven by positive net flows and strong market/investment performance achieved consistently throughout the year.

Average AuM for 2017 was £3,361m, an increase of £578m (21%) on the previous year.

AuM and flows	2017 £m	2016 £m	% change
Opening AuM	2,905	2,784	
Net flows	494	1	
Market/investment performance	424	120	
Closing AuM	<b>3,823</b>	2,905	+32%
Average AuM	<b>3,361</b>	2,783	+21%

Positive net flows were experienced across all asset classes managed by the Group.

AuM by asset class and fund type	2017 £m	2016 £m	% change
Equity funds	2,350	1,714	+37%
Multi-asset funds	868	672	+29%
Investment trusts	605	519	+17%
Total	<b>3,823</b>	2,905	+32%

### Equity funds

The focus on diversification of the fund range remains a key priority. 2017 saw the launch of a global infrastructure income fund which had attracted £20m in AuM as at 31 December 2017.

The AuM of the US Opportunities Fund increased by 60% to end the year at £381m. Since inception this fund has delivered first quartile performance. On 14 March 2018 the Group expanded its US product range with the launch of a new US Smaller Companies Fund drawing on the team's track record in this area of the market.

Pleasingly, the European Opportunities Fund launched in December 2015 ended the year with £181m of AuM, an increase of 121%.

The UK Multi Cap Income Fund reached the landmark of passing through £1bn in AuM during the year.

### Multi-asset funds

The multi-asset franchise achieved positive net flows of £127m for the year with the total AuM managed by the team increasing by 29% to £868m.

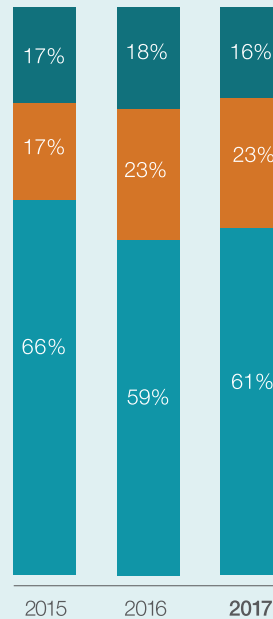
In January 2018, the Group continued to broaden its multi-asset suite of products with the launch of a balanced multi-asset fund in the IA Mixed Investment 40%-85% shares sector.

### Net management fees and margins

Net management fees for 2017 were £21.8m (2016: £19.0m), an increase of 15%.

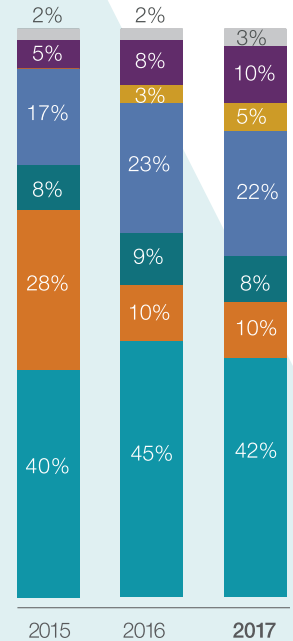
The net management fee margin reduced to 64.9bps (2016: 68.2bps) primarily due to the change in the product mix and early stage products contributing at lower founder investor margins.

### AuM by asset class



- Investment trusts
- Multi-asset
- Equity

### AuM by strategy



- Global infrastructure
- Worldwide
- US opportunities
- European opportunities
- Multi-asset
- UK smaller/micro companies
- UK value
- UK income

Net management fees and margins	2017	2016	% change
Net management fees (£m)	21.8	19.0	+15%
Average AuM (£m)	3,361	2,783	+21%
Net management fee margin (bps)	64.9	68.2	-5%

## Financial and Operating Review (continued)



### Administration expenses

Administration expenses (excluding share-based payments) for the year were £14.4m, an increase of £1.3m (10%). As in previous years staff costs represented the major component, totalling £10.1m (2016: £8.8m).

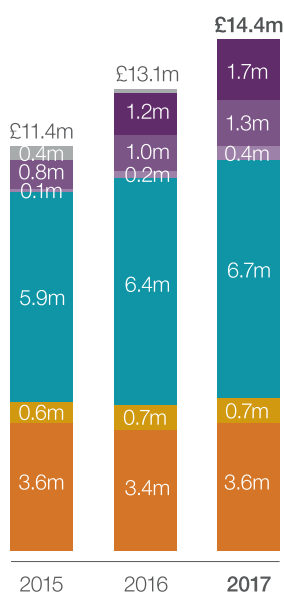
Staff costs consist of two elements, the first being 'fixed' (base salaries, pension, NI, fixed settlement amounts and indirect costs of employment), which rose by 5% to £6.7m. Included within this amount is £0.16m of non-recurring staff costs.

The second 'variable' element includes discretionary bonus arrangements and the fund management remuneration scheme. Variable staff costs increased by £0.8m to £3m reflecting the increased net revenues generated by the Group and the underlying profitability. The related social security costs ('NI') on the variable element have been separately identified in the chart opposite.

Overheads rose by £0.2m mainly due to targeted investment in the Group's digital assets and updated visual identity, including the new website and annual report.

Other costs consist principally of depreciation and irrecoverable VAT.

### Administration expenses (£m)



- Project related
- Bonus, general & sales
- Bonus, fund managers
- NI on bonus amounts
- Fixed personnel costs
- Other
- Overheads

### Adjusted Profit and Profit before Tax

Adjusted profit increased to £6.8m from £5.1m in the comparative year; the increase reflects the higher average AuM for the year.

	2017 £m	2016 £m
Net revenue	21.8	19.0
Administrative expenses	(14.4)	(13.1)
Share-based payments	(0.6)	(0.7)
Adjusted Profit before tax	6.8	5.1
Amortisation	(0.3)	(0.3)
Exceptional costs	(0.4)	(0.6)
Profit before tax	6.2	4.3

### Share-based payments

The share-based payment expense for the year was £0.6m (2016: £0.7m).

### Exceptional costs

Exceptional restructuring costs incurred during the year amounted to £0.4m. These costs predominantly related to the changes in the Board structure (2016: £0.6m relating to the cancellation of the Growth Share Plan ('GSP') and costs associated with the implementation of the new remuneration structure for the fund management team).

“We have invested significantly in the infrastructure of the business over the past three years to support the next phase of our growth strategy”

### Earnings per share

The adjusted earnings per share of 3.60p represents an increase of 35% (2016: 2.67p).

Basic earnings per share was 3.27p (2016: 2.14p).

Diluted adjusted earnings per share of 3.38p (2016: 2.40p) shows a theoretical dilution of 7% (2016: 11%) largely from an estimate of the number of Miton Group plc shares which would have been issued if the 100 outstanding Growth Shares with accrued value at 31 December 2017 (2016: 200 Growth Shares) had been converted at that date.

The theoretical dilution has fallen as a result of an exchange notice being served on 100 Growth Shares during the year and the subsequent issue of Miton Group plc shares.

Dilution also arises from the Management Equity Incentive ('MEI') and the Management Incentive Plan ('MIP') (note 21) where the exercise prices are below the average share price during the year of 38.64p (2016: 27.32p).

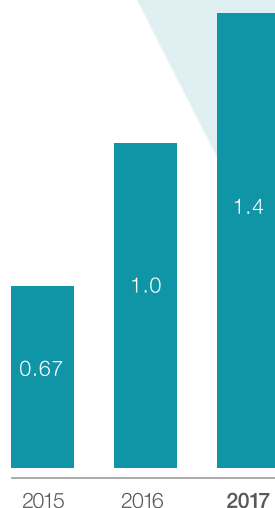
### Dividend

The Board is proposing to increase the annual dividend by 40% to 1.4p per share (2016: 1.0p). The proposed dividend payment totals £2.1m (2016: £1.5m).

The Group's policy is to have a progressive dividend, which reflects an appropriate level of dividend cover, taking into account the Board's overall confidence in the Group's growth prospects, resilience of the balance sheet and the macro environment.

The dividend cover was 2.34 times (profit after taxation divided by proposed dividend amount) (2016: 2.15 times).

### Dividend per share (p)



### Balance sheet and cash management

At 31 December 2017 the Group's cash balances totalled £19.9m (2016: £21.3m).

The Group generated positive operating cash flows after taxation of £6.3m (2016: £8.5m). These have been substantially utilised in the year to facilitate distributions to shareholders in the form of the annual dividend (see left) and two share buyback programmes completed in the year.

The buybacks were undertaken to ameliorate the dilutive impact of shares issued to participants under the GSP.

On 23 February 2017 the Group acquired and cancelled 6,606,900 ordinary 0.1p shares at a cash cost of £2.6m.

On 6 December 2017 the second buyback was completed. 8,546,063 ordinary 0.1p shares were acquired and cancelled at a cash cost of £3.4m.

**Piers Harrison**  
Chief Operating Officer

# Business Overview

Miton Group plc is a UK fund management group that believes in the value of genuinely active investing. The Group offers high conviction, actively managed equity strategies that seek to deliver strong long-term investment performance, as well as multi-asset strategies that pursue an outcome-driven approach.



## Group structure

Miton Group plc and its subsidiaries (the 'Group') operate through two FCA regulated companies as shown below. Miton Asset Management Limited provides investment management services to all schemes managed by the Group with the exception of the FP Miton Income Fund. Miton Trust Managers Limited provides investment management services to the FP Miton Income Fund and in addition acts as the Alternative Investment Fund Manager ('AIFM') to four investment trusts which the Group manages.

During 2017 the Group employed 53 (2016: 51) members of staff based at the head office on 6th Floor, Paternoster House, 65 St Paul's Churchyard, London. In addition to this, the Group maintains a fully operational disaster recovery site in Reading.

## Products

Our products can be classed broadly as equity and multi-asset funds. The Group offers investment strategies that aim to be different from its competitors.

Our fund managers have the scope to perform on an unconstrained basis and invest in assets that in their judgement have the ability to deliver alpha rather than benchmark-like returns in the case of our equity investments, or to deliver good risk-adjusted returns in the case of our outcome-driven multi-asset range.

By launching products that are tailored to both changes in investment markets and the regulatory and demographic environments, the Board believes the business is well placed to grow.

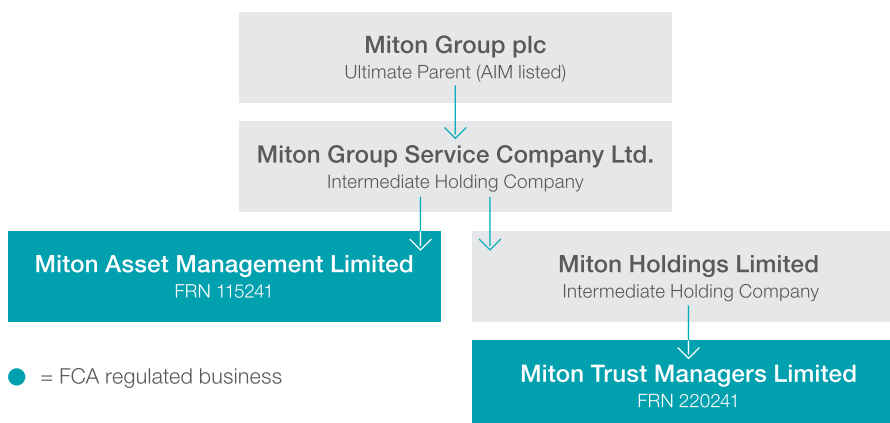
This differentiation, and focus on a wider range of opportunities, provides the flexibility to add more value for investors and to manage risk effectively.

## Our platform

The Group manages a range of Open Ended Investment Companies ('OEICs'), unit trusts and investment trusts through a single, scalable operating platform.

The platform supports the fund management, compliance and operations teams in a single controlled environment. The Group continues to invest in this area and implement technological developments.

## Miton trading entities



## Distribution

The Group distributes its products in the UK by servicing defined geographic regions with appropriately trained and experienced sales staff. A standalone sales region was created in 2017 providing specific focus to our distribution in Scotland, which had previously been covered within a broader remit.

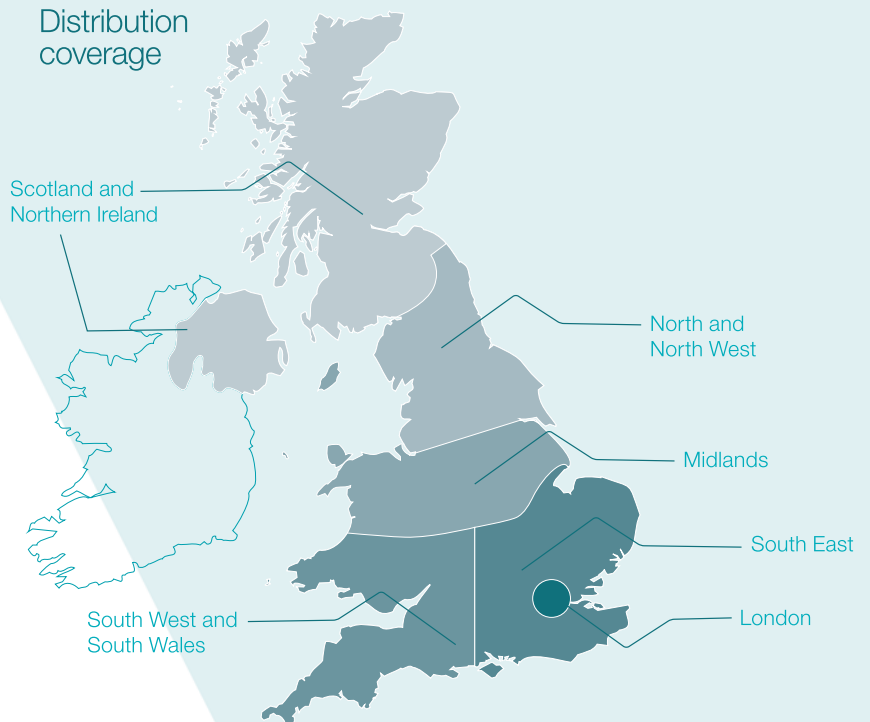
The Group has a broker support team designed to enhance the analysis of sales data and trends, customer service and the provision of our product information.

A new website was launched in 2017 to grow the brand and digital infrastructure. The Group's marketing and sales footprint will be a continuing area of focus in 2018.

Our clients are principally fund of fund managers, advisers and discretionary managers in the UK who have stewardship of the savings on behalf of individuals and pensioners.

Our sales in 2017 were over £1bn in gross terms and approaching £500m in net terms, representing the highest level achieved in the last six years.

## Distribution coverage



## Principal Risks

The Group faces a range of risks originating both externally and from within the fund management business.

The governance framework on pages 29 to 32 details the Group's approach to internal control and risk management, including the Board's responsibilities, attitude to risk, the role of the Audit Committee and the oversight of the operating committees.

Further details are also provided with regard to the relevant procedures adopted within the Group and the processes used by the Board to review and monitor the effectiveness of our internal controls and risk management activities.

A risk register is maintained that captures the core identified risks to the Group's business operations and assesses how these risks are managed and mitigated.

Key risk	Description	How we manage the risk
Reputational risk	Reputation risk can arise from the failure of any key control or from the risks detailed below. The risk is that a failure has a detrimental impact on the Miton brand and underlying confidence of clients, stakeholders or suppliers.	The control environment and risk management practices detailed below help to mitigate the risk of events arising that may have a negative reputational impact. A culture of integrity and core values is embedded in all our business activities. The Group holds regular business updates which are attended by all staff.
Market risk	Market risk arises in relation to the investments held by funds managed by the Group and the revenue generated from the management charge on the value of those assets.	The Group's funds are invested in a wide range of asset classes under different investment mandates including multi-asset, equity and portfolios of collective investment schemes. Market risk is therefore diversified by managing funds investing in a wide range of asset classes. To the extent that asset classes behave differently in times of higher volatility, the Group's AuM and revenues are likely to be less affected than would be the case in a business more focused on a single asset class.
Liquidity risk	Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due or can only do so at a significantly increased cost.	The Group's objective in managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities as they fall due, under both normal and adverse conditions, without incurring unacceptable losses or risking damage to the Group's reputation.  The Group's policy is to maintain unencumbered cash balances in excess of its regulatory capital requirements, which are based on annual expenditure requirements identified through a rigorous forecasting process.
Regulatory risk	The Group operates in a complex and dynamic regulatory environment. Risks arise from legal and regulatory obligations.  The Group may be subject to regulatory sanction or loss of reputation from a failure to comply with regulations.	The management of legal and regulatory risk is the responsibility of the Senior Executive Group, supported by the various operating committees that are in place.  The governance and compliance teams are responsible for tracking legal and regulatory developments to ensure that the Group is well prepared for changes. As well as developing policies, delivering training and performing monitoring checks, they also provide advice to ensure the Group remains compliant with legal and regulatory requirements.




Key risk	Description	How we manage the risk
Credit risk	The Group is subject to credit risk arising as a result of counterparty exposure in the Group's receivables balances from fund management clients and in relation to cash balances placed with banking institutions.	The creditworthiness of all relevant counterparties is monitored closely. A diversification policy is in place in order to allocate significant cash deposits between at least two suitable institutions. The Broker Oversight & Investment Research Committee is responsible for assessing the appropriateness of counterparties transacting on behalf of the funds managed by the Group.
Operational risk	Operational risk is the risk of loss arising from a failure in internal systems, procedures or in outsourced functions. The fundamental elements of the operational structure are people, information technology including cyber risk, and outsourced services.	<p>The Group seeks to attract and retain the best qualified individuals.</p> <p>Key priorities for technology and systems are to maintain operational performance and reliability. Outsourced services are monitored on an ongoing basis and reviewed at regular intervals both internally and through meetings with the relevant organisations. Comprehensive business continuity planning is in place to ensure the ongoing operation of key business functions in the event of normal systems being interrupted. These arrangements are tested at least annually.</p> <p>The Group seeks to mitigate cyber risk through robust processes and controls, penetration testing and staff training. The Group achieved its Cyber Essentials PLUS accreditation on 19 December 2017.</p>
Key employee risk	The Group's products are managed by a number of fund managers within clearly defined teams. The departure of a fund manager, or team, could result in a loss of revenue for the Group and therefore a loss of profitability due to client redemptions or loss of mandates resulting in a fall in AuM.	<p>The Group seeks to diversify its product offering, and therefore revenue stream, in order to address this risk as well as having in place appropriate incentive schemes to retain and reward key employees. Where appropriate, the Group maintains a policy to have two named fund managers on each strategy.</p> <p>The Group has robust remuneration mechanisms in place for all employees (see pages 34 to 38 for further details).</p> <p>The Group actively encourages employee involvement at all levels, both through regular employee briefings and by direct access to managers and the Directors. Equity share incentives are provided to help retain and incentivise senior employees and Directors.</p>
Investment performance risk	<p>The Group acknowledges that there may be periods of weaker investment performance (either in a particular fund or generally) that may result in significant investor redemptions.</p> <p>The Group understands that during such periods of under-performance it is more difficult to attract new clients to these strategies and to retain existing AuM.</p>	In such a scenario this would impact the ability of the Group to grow its AuM, revenue and profitability. The Board and SEG review investment performance on a regular basis, along with input from the Fund Risk & Investment Performance Committee and the Product Review Committee to assess the Group's mix of products. Regular interaction is also maintained with supporting stakeholders such that they understand the performance of the fund(s) in which they are invested.
Investor concentration risk	A redemption or a series of redemptions by key clients could pose a risk to net revenue and profit. The resultant loss of AuM caused by a departure of a significant investor may increase the volatility of earnings for the Group.	The Group endeavours to diversify its product range and client base in order to lessen the risk of such a scenario.

# Governance report

The Board, together with senior management, are committed to delivering the highest standards of corporate governance.

More information on the Company's governance structure and core principles can be found in this section.



## In this section

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- 29 Governance Framework
- 33 Directors' Report
- 34 Remuneration Report
- 39 Statement of Directors' Responsibilities
- 40 Independent Auditors' Report

# Board of Directors

## Executive Directors



**David Barron**

**Gervais Williams**

**Piers Harrison**

### Current role

Chief Executive Officer

Senior Executive Director

Chief Operating Officer

### Past roles

David joined Miton in 2013 as Director of Investment Trusts and Product Strategy and was appointed Chief Executive Officer in March 2017. He has over 30 years of experience in the City, of which 20 have been focused on asset management. David was previously at JP Morgan Asset Management where he became Managing Director and Head of the Investment Trust business, the largest in the UK, and a member of the senior management team of the UK business. Before joining Fleming Investment Management in 1995, David worked in corporate finance at Hambros Bank and Merrill Lynch & Co.

Gervais has been an equity portfolio manager since 1985. He spent five years with Throgmorton Investment Management (later part of the Framlington Group), three years with Thornton Investment Management (part of Dresdner Bank) and 17 years with Gartmore Group Ltd, where he was Head of UK Small Companies. He was a member of the EU Taskforce whose review, published in 2015, considered the decline in the number of smaller company IPOs.

Prior to joining Miton in 2013, Piers was the Deputy Finance Director and Head of Operational Risk with Neptune Investment Management Ltd. Before that, Piers specialised in the financial services sector and in 2008 became a partner in Matterley, a fund management business whose interests were acquired by Charles Stanley Group Plc in September 2009. He is a Fellow of the Institute of Chartered Accountants in England & Wales having trained and qualified with Saffery Champness in 2001.

### Brings to the Board

David has led a market-leading asset management business through periods of significant change and has wide experience of developing and executing strategy in the asset management sector. He has experience as a director on the boards of a number of public companies. He is a member of the Institute of Chartered Accountants of Scotland and has an MBA from INSEAD.

Extensive investment experience, particularly in UK smaller companies. Well versed in AIM-listed companies, he understands the forces shaping changes to the investment industry. He won Investor of the Year as awarded by Grant Thornton at their Quoted Company Awards in both 2009 and 2010. Gervais has published three books: 'Slow Finance', 'The Future is Small' and 'The Retreat of Globalisation' setting out his investment philosophy. He was awarded Fund Manager of the Year 2014 by What Investment.

Extensive operational and practical experience of the fund management industry and a rigorous approach to operational risk management.

### Other key commitments

Member of the Council of Lancaster University and Chairman of Dunedin Income Growth Trust plc.

Director of the Investment Association and Chairman of the Quoted Companies Alliance and a Member of the AIM Advisory Group. During 2017 he was also a member of the panel working with the Chancellor on the Patient Capital Review.

None.

## Non-Executive Directors



**Jim Pettigrew**

Chairman  
Non-Executive Director

A Chartered Accountant and former President of the Institute of Chartered Accountants of Scotland. Jim qualified with Ernst & Young before undertaking a number of senior roles including Group Finance Director of ICAP plc, Chief Operating Officer at Ashmore Group plc and Chief Executive Officer of CMC Markets PLC. Jim has also held non-executive directorships with Aberdeen Asset Management plc, AON UK Ltd, Hermes Fund Managers Ltd, Crest Nicholson Holdings plc and The Edinburgh Investment Trust PLC.

Jim has the drive and vision required to build on the Group's business model and deliver the best outcomes for our clients and stakeholders. He has over 30 years' experience in business and finance gained from executive and non-executive roles, principally within financial services. With his financial, investment and strategic expertise, Jim provides perspective and guidance in his role as Chairman.

Chairman of CYBG PLC, Chairman of RBC Europe Limited, Chairman of Scottish Financial Enterprise and Co-Chair of the Financial Services Advisory Board and Senior Independent Non-Executive Director of Rathbone Brothers Plc.



**Jim Davies**  
OBE DL FRSA

Non-Executive Director  
Senior Independent Director

Jim was Managing Partner of law firm DWF LLP which he co-founded in 1977. DWF LLP has subsequently grown to be an international legal business with 26 offices worldwide employing over 2,700 people. He was awarded an honorary fellowship of Liverpool John Moores University in 2003. In 2010 he was appointed a Deputy Lieutenant of Merseyside. He was awarded an OBE in the 2015 New Years' Honours List for services to Charity and the Community in Merseyside. He was appointed High Sheriff of Merseyside for the year 2016-2017.

Outstanding business development and management skills.

Director of a number of private companies.



**Katrina Hart**

Non-Executive Director  
Chairman Remuneration Committee

Following six years working in corporate finance with ING Barings and Hawkpoint Partners, Katrina moved into equity research with HSBC, covering the general financials sector. Latterly, she headed up the team at Bridgewell Group plc and Canaccord Genuity, consistently achieving a top three ranking in the annual Thomson Extel and FT Starmine independent surveys.

Katrina spent 14 years in the City advising, analysing and commenting on a broad range of businesses operating in the wealth and asset management sectors. She accumulated an in-depth understanding of the dynamics and operational drivers of the fund management industry. Katrina's additional non-executive roles enrich her knowledge of the investment company sector.

Non-Executive Director of Polar Capital Global Financials Trust plc, AEW UK REIT plc, and Keystone Investment Trust Plc.



**Alan Walton**

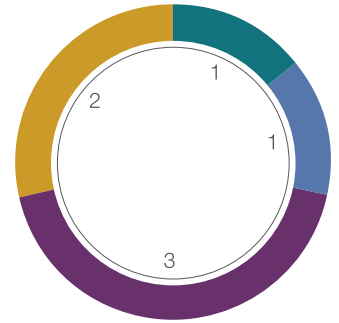
Non-Executive Director  
Deputy Chairman  
Chairman Audit Committee  
Chairman Nomination Committee

Broad experience from a career in professional services at Deloitte, primarily working in the financial sector, as well as management experience as a partner at Deloitte.

Alan has over 30 years of experience advising and working with companies of all sizes. This provides an understanding of the key issues to be addressed by the Board, including strategy and financial reporting. Alan is a Fellow of the Institute of Chartered Accountants in England and Wales.

None.

## Tenure



- Less than 1 year
- 1-3 years
- 3-5 years
- Over 5 years

### Appointment date

David Barron	03/09/2013
Jim Davies	24/01/2014
Piers Harrison	11/09/2015
Katrina Hart	23/02/2011
Jim Pettigrew	30/11/2017
Alan Walton	14/05/2014
Gervais Williams	01/03/2011

## Corporate Governance

# Chairman's Introduction

With robust infrastructure and governance structures in place, the Group has the ability to capitalise on opportunities that arise and demonstrate growth in the future.



### The Board

The Board is responsible for Miton's strategic direction and long-term prosperity. It is accountable to shareholders for ensuring that the Group is appropriately managed and governed. I am pleased that the skill set of our Executive and Non-Executive Directors is complementary and their capabilities are appropriate for the size and nature of the business in order to deliver our strategy effectively.

### Risk management

The Board recognises the requirement to present a fair, balanced and understandable assessment of the Group's position and outlook and to uphold a robust and transparent governance structure. The Board regularly reviews its governance structure along with the effectiveness of internal controls, including financial, operational and compliance systems and risk management. The internal control framework is important to support a growing business.

Miton strives to ensure best practice in relation to the effectiveness of its Board, accountability and governance. Board meetings are designed to be efficient and productive, coupled with a strong focus on the Group's KPIs and strategy. Our principal risks are outlined on pages 22 to 23.

### Culture

The Board seeks to ensure its leadership is accountable and that members demonstrate integrity and transparency in their leadership. The Group is, by its nature, entrepreneurial and unconstrained in its thinking – traits that have delivered success thus far and provide a base for future achievements. The Group's culture and values are described in more detail on pages 14 and 15.

The Group aims to be supportive for staff and compliant with applicable regulations. This year the Group undertook two comprehensive staff surveys, in each half of the year. Results were assessed against benchmark data and shared with the Group in our regular business update meetings. Whilst we were pleased with the majority of results, there are always improvements that can be made. We look forward to continuing these surveys in 2018 with the aspiration of achieving even better results and enhancing elements of our working environment.

**Jim Pettigrew**  
Chairman

# Governance Framework

## Compliance with the UK Corporate Governance Code

Being AIM listed, the Group is exempt from the provisions of the UK Corporate Governance Code (the 'Code') and has chosen to operate in accordance with the Quoted Companies Alliance Governance Code for small and mid-sized companies as issued in 2013.

## Board composition

As at the end of the year and up to 16 March 2018 the Board comprised a Non-Executive Chairman, three Executive Directors and three Non-Executive Directors as set out on pages 26 and 27. From 1 January to 16 March 2017 the Board consisted of an Executive Chairman (Ian Dighé), three Executive Directors and three Non-Executive Directors.

On 16 March 2017, Ian Dighé became Non-Executive Chairman. On 30 November 2017, Ian Dighé stepped down from the Board, with the Non-Executive Chairman position taken up by Jim Pettigrew, who was independent on appointment.

Jim Davies fulfils the role of Senior Independent Director ('SID') and provides shareholders with an alternate contact for matters unable to be addressed via normal methods. The SID serves as an important sounding board for the Chairman and maintains Board stability.

The Directors are required to stand for re-election every three years.

## Board responsibilities and operation

The Board holds at least six scheduled meetings a year, as well as ad hoc meetings to deal with administrative matters. A statement of matters reserved for the approval of the Board has been agreed and was last reviewed

in January 2018. The Board has overall responsibility for the Company's activities and oversees its affairs.

The agenda and papers for Board meetings are prepared and circulated to the Directors at least five business days before each Board meeting. The business of the Board during the year is summarised in the table at the bottom of this page.

Operational decisions are delegated to the Executive Directors and the senior management team meeting as the Senior Executive Group ('SEG') for implementation; see page 31 for further details on the members of the SEG.

## Board evaluation and development

The Board completed an appraisal of the performance of Executive Directors during the year. The output from the review process has been considered by the Remuneration Committee. Actions have been taken to develop the Board's effectiveness and to ensure that the Board has the correct balance of skills and experience.

New Directors are provided with all relevant information regarding the Group's operations, given the opportunity to meet with key executives prior to appointment and offered formal training if required. Directors are generally provided with training on specific technical issues as appropriate.

## Risk governance

Executive decisions for the Group are discussed and approved by the Board. In addition, the Board has responsibility for oversight of all aspects of risk and retains ultimate responsibility for implementing the control environment for the Group.

Meeting	Key business	Routine business at all meetings
January 2017	<ul style="list-style-type: none"> <li>2017 Budget</li> </ul>	<ul style="list-style-type: none"> <li>Approval of previous minutes</li> <li>CEO report</li> <li>Group financial report</li> <li>Business reports</li> <li>Operational reports:               <ul style="list-style-type: none"> <li>SEG minutes</li> <li>Operations Committee report</li> <li>HR update</li> </ul> </li> <li>Compliance and Governance report</li> <li>Investor relations report</li> <li>Company secretarial report</li> </ul>
March 2017	<ul style="list-style-type: none"> <li>Update on Board recruitment</li> <li>Audit Committee report</li> <li>Going concern review</li> <li>Approval of 2016 Annual Report</li> </ul>	
April 2017	<ul style="list-style-type: none"> <li>AGM (no Board meeting)</li> </ul>	
May 2017	<ul style="list-style-type: none"> <li>Remuneration Committee report</li> <li>Update on Board recruitment</li> </ul>	
July 2017	<ul style="list-style-type: none"> <li>Cyber crime report</li> <li>Company secretarial and governance change</li> </ul>	
September 2017	<ul style="list-style-type: none"> <li>Appointment of new Chairman</li> <li>Audit Committee report</li> <li>Approval of 2017 Interim Report</li> </ul>	
November 2017	<ul style="list-style-type: none"> <li>Audit Committee report</li> <li>Impairment review</li> </ul>	

## Governance Framework (continued)

Committee	Terms of reference – summary	Convenes	Reports to
Senior Executive Group ('SEG')	<ul style="list-style-type: none"> <li>Responsible for managing the business operations and risk profile of the Group</li> <li>Oversees projects and other change initiatives within the Group to ensure effective execution of the Group's strategy</li> <li>Considers the overall risk to the business of the Group's activities</li> <li>Responsible for ensuring the Group's product offering remains competitive and keeps pace with customer demands and requirements</li> <li>Members are set out on page 31</li> </ul>	Monthly	Board
Fund Risk & Investment Performance Committee ('FRIP')	<ul style="list-style-type: none"> <li>Monitors the risks associated with the Group's funds</li> <li>Advises, reports and escalates to the SEG and to the Board, if required, that risks are being effectively managed and the business is compliant with relevant regulations</li> <li>Considers the performance objectives of each fund and evaluates the performance achieved in the context of the market conditions</li> <li>Considers volatility of the funds against target expectations</li> <li>Regularly assesses the investment strategies and assumptions used to measure risk and limit exposures as part of the Group's approach to Treating Customers Fairly ('TCF')</li> <li>Carries out a rolling review of all strategies managed by the Group. In deliberating on the performance of the funds the Committee takes into account feedback from the sales and marketing teams</li> </ul>	Monthly	SEG
Fair Value Pricing Committee ('FVP')	<ul style="list-style-type: none"> <li>Responsible for ensuring that the assets and liabilities within the strategies managed by the Group are being valued fairly and accurately on a consistent basis</li> </ul>	Ad hoc	FRIP
Product Review Committee	<ul style="list-style-type: none"> <li>Ensures the existing product range is reviewed on a regular basis to assess whether the products remain consistent with the needs, characteristics and objectives of the identified target market and whether the intended distribution strategy remains appropriate</li> <li>Manages and oversees proposed product launches, product positioning, capacity management and closures to ensure effective execution and management of any associated business risks</li> <li>Ensures the Group continues to meet its TCF obligations with respect to each product</li> <li>Ensures that the Group continues to receive appropriate information from product distributors to assist it with the monitoring of sales patterns</li> <li>Identifies any conflicts of interest with respect to the ongoing management of each product and where appropriate escalates these to the SEG for consideration</li> </ul>	Monthly	SEG
Trading & Research Oversight Committee	<ul style="list-style-type: none"> <li>Responsible for the oversight of all third party brokers transacting on behalf of funds managed by the Group</li> <li>Responsible for the oversight of the Group's use of research payment accounts</li> </ul>	Monthly	SEG
Operations Committee	<ul style="list-style-type: none"> <li>Oversees and resolves issues relating to all aspects of the Group's operations by providing a forum for monthly communication between senior managers</li> <li>Approves and monitors small-scale projects of an operational nature</li> <li>Manages operational risk associated with the Group's business activities</li> <li>Ensures that all business areas consider and, where appropriate, act upon changes in regulation</li> <li>Ensures organisation-wide co-ordination, prioritisation and dissemination of risk management to obtain maximum risk mitigation from available resources</li> </ul>	Monthly	SEG

Other governance functions with risk management responsibilities

Each Non-Executive Director attends a meeting of the main committees at least once a year in an observational capacity



## Senior Executive Group



**David Barron**  
Chief Executive Officer



**Bart Edgar**  
Director of Finance



**Piers Harrison**  
Chief Operating Officer



**Philip Ost**  
Head of Compliance



**Gervais Williams**  
Senior Executive Director



### Committee memberships

- Fund Risk & Investment Performance Committee
- Fair Value Pricing Committee
- Trading & Research Oversight Committee
- Operations Committee
- Product Review Committee

## Board committees

The Board is assisted by three standing committees which report to it on a regular basis. A summary of the Directors' attendance at meetings to which they are eligible is set out below. Eligibility is shown in brackets.

Director	Scheduled Board	Audit Committee	Remuneration Committee	Nomination Committee
David Barron	6 (6)	–	–	1 (1)
Jim Davies	5 (6)	3 (3)	2 (2)	2 (2)
Ian Dighé	6 (6)	2 (2)	1 (2)	1 (1)
Piers Harrison	6 (6)	–	–	–
Katrina Hart	6 (6)	3 (3)	2 (2)	2 (2)
Jim Pettigrew	–	–	–	–
Alan Walton	6 (6)	3 (3)	2 (2)	2 (2)
Gervais Williams	5 (6)	–	–	–

## Audit Committee

The Audit Committee has been chaired throughout the year by Alan Walton and its membership comprises three Non-Executive Directors. The Committee has adopted formal terms of reference which are published on the Group's website and meets not less than three times a year. During the year, it undertook the following key activities:

- a review of the scope, planning and findings of the external auditors' work;
- reviews of, and recommendations to the Board to approve, the Annual Report for 2016 and the Half Year Report for 2017 prior to their publication;
- consideration of the going concern basis of preparation of the Group's financial statements and that it remains appropriate; and
- review, confirmation and application of the Group's accounting policies and any changes to financial reporting requirements.

The Audit Committee also plays an important part in regularly considering the Group's risk profile and any significant matters arising from the SEG. It reviews the Group's systems of internal control and is responsible for ensuring that the financial statements presented by the Group to its shareholders conform with all legal requirements.

The Audit Committee is also responsible for recommending the appointment, reappointment or removal of the external auditors. The Committee also considers annually whether it is appropriate to engage an internal audit function and recommends its findings to the Board. Based on its review in 2017, the Directors continue to believe that there is currently no benefit in creating an internal audit function, although this position will continue to be reviewed at least annually.

The Group's auditors are permitted to provide non-audit services, primarily in the area of taxation. Each assignment is reviewed and costed in isolation and the Directors believe the auditors' independence has been maintained throughout the year. Details of the remuneration of the auditors for audit and non-audit services provided during the year is disclosed at note 3(b) to the consolidated financial statements.

## Governance Framework (continued)

### Remuneration Committee

The Remuneration Committee is chaired by Katrina Hart and comprises four Non-Executive Directors. The terms of reference of the Remuneration Committee are published on the Group's website. The Committee is responsible for ensuring the Directors' remuneration policies achieve their stated aim of providing a competitive package of incentives and rewards for the Executive Directors in order to align personal reward with enhanced shareholder value over both the short and long term.

The Executive Directors make recommendations to the Remuneration Committee on the Company's framework of executive and senior management remuneration and associated costs. The Board itself determines the remuneration of the Non-Executive Directors. Further details of the Company's policies on remuneration and service contracts are given in the Remuneration Report on pages 34 to 38.

### Nomination Committee

For Director appointments, a Nomination Committee, chaired by Alan Walton and comprising the four Non-Executive Directors and the Chief Executive Officer, is formed to make recommendations to the Board. Once a shortlist has been established by the Committee, the Board meets candidates to assess their suitability and, where appropriate, makes appointments.

During 2017 the Nomination Committee recommended to the Board the following appointments which were approved: the appointment of David Barron as Chief Executive Officer and Jim Pettigrew as Non-Executive Director and Chairman. An external agency was employed to assist the Board with the search for the appointment of the Chairman.

### Dialogue with shareholders

The Directors are available to meet with shareholders to gain an understanding of their views. Meetings are held with major shareholders after the announcement of both the full year and half year results and at other appropriate times during the year. The Non-Executive Directors are informed of any significant issues raised. Shareholders have the opportunity to attend and vote at the Annual General Meeting, during which the Board is available to discuss issues affecting the Group.

By order of the Board

**Jim Pettigrew**  
Chairman  
16 March 2018

# Directors' Report

The Directors present their Annual Report and the audited consolidated financial statements for Miton Group plc (Registered Number 05160210) for the year ended 31 December 2017. Comparative information has been presented for the year ended 31 December 2016.

## Introduction

The Directors' Report includes the Director biographies (pages 26 and 27), the Chairman's Introduction and Governance Framework (pages 28 to 32) and the Remuneration Report (pages 34 to 38). A review of the Group's business, including the Chairman's Statement, is contained within the Strategic Report (pages 4 to 23) and should be read in conjunction with the Directors' Report. The financial risk management objectives and policies are disclosed in note 18 to the consolidated financial statements.

## Principal activities and review of business

The Group provides fund management services and is listed on the London Stock Exchange's AIM market.

## Results and dividends

The profit for the year after taxation was £5,005,000 (2016: £3,248,000) as set out in the Consolidated Statement of Comprehensive Income on page 46. The Directors recommend the payment of a final dividend of 1.4p (2016: 1.00p) per share payable on 11 May 2018 to shareholders on the share register as at 3 April 2018.

## Directors' interests

The complete list of Directors during the year can be found on pages 26 and 27. The Directors' beneficial interests in the Company's ordinary share capital are as follows:

	31 December 2017	31 December 2016
David Barron	556,824	280,000
Jim Davies	214,827	214,827
Ian Dighé (resigned 30 November 2017)	n/a	1,015,513
Piers Harrison	97,598	87,541
Katrina Hart	80,416	80,416
Jim Pettigrew (appointed 30 November 2017)	–	n/a
Alan Walton	–	–
Gervais Williams	13,972,932	11,757,680

## Substantial interests

As at 28 February 2018, the Company had received notification of the following substantial interests in the Company's ordinary share capital:

Shareholder	Ordinary 0.1p shares	%
MAM Funds plc Employee Benefit Trust*	19,998,064	11.6
Ruffer LLP	14,115,255	8.2
AXA Investment Managers	13,992,413	8.1
Gervais Williams (Director)	13,974,398	8.1
Martin Turner (employee)	8,346,117	4.8
Affiliated Managers Group	7,000,000	4.1
BlackRock Investment Management	6,599,986	3.8

\* MAM Funds plc Employee Benefit Trust is the Miton Group plc Employee Benefit Trust.

## Qualifying third party indemnity provisions

There are no qualifying third party indemnity provisions which would require disclosure under Section 236 of the Companies Act 2006.

## Auditors

A resolution will be proposed at the Annual General Meeting for shareholders to reappoint Ernst & Young LLP as auditors of the Company.

## Disclosure of information to Group's auditors

So far as each person who was a Director at the date of approving the Directors' Report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware. Having made enquiries of fellow Directors and the Group's auditors each Director has taken all the steps that they are obliged to take as a Director in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information. This confirmation is given and should be interpreted, in accordance with the provisions of Section 418 of the Companies Act 2006.

## Financial instruments risks

These are discussed in note 18 to the consolidated financial statements.

## Going concern statement

The Directors have carried out an assessment of the key risks facing the Group, its financial adequacy and business model, and have a reasonable expectation that the Group has sufficient resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

## Events after the balance sheet date

There were no material events after the balance sheet date.

## Future events

The Group will continue to pursue its objectives of increasing profitability and market share during the next financial year as detailed on page 13.

## Charitable donations

During the year the Group made charitable donations of £35,000 (2016: £nil).

## Annual General Meeting

The Annual General Meeting of the Company is to be held at the offices of Stephenson Harwood LLP, 1 Finsbury Circus, London EC2M 7SH at 10.30am on 8 May 2018.

By order of the Board

**Catriona Fletcher**  
Company Secretary  
16 March 2018

# Remuneration Report

The Remuneration Committee works to ensure the Group adopts appropriate levels of remuneration and a structure that incentivises the Directors and management.

**Katrina Hart**  
Chairman of the Remuneration Committee



The members of the Remuneration Committee at 31 December 2017 were Katrina Hart (Chairman), Jim Davies, Jim Pettigrew and Alan Walton.

Each member of the Committee is a Non-Executive Director who exercises independent judgement with no conflict of interest. The attendance record of members of the Committee during the year is shown on page 31.

The Remuneration Committee reviews matters of remuneration policy for Executive Directors of the Company and senior managers as well as approving the overall principles across the wider Group. The Committee endeavours to choose remuneration structures most appropriate for the Company's strategy and business needs. No Director participated in discussions over their own remuneration levels.

## Remuneration policy

The Group seeks to recruit, motivate and retain suitable Directors, senior management, fund managers and core staff. To achieve this, the Remuneration Committee aims to provide a competitive package of incentives and rewards. The objective is to align personal reward with enhanced shareholder value over both the short and long term.

Remuneration includes four main elements:

- i) base salary;
- ii) discretionary and performance related;
- iii) participation in equity incentive plans; and
- iv) pension and other benefits.

Element	Activities undertaken
(i) Base salary	<p>Base salaries are reviewed annually taking into account the performance of the Company, the individual's contribution and any changes in responsibilities.</p> <p>During the year the Company undertook a benchmarking review, with the assistance of external independent remuneration consultants, of the remuneration packages across all roles within the Group.</p> <p>The Remuneration Committee reviewed the remuneration packages for the senior management and was satisfied that these were in keeping with industry best practice and provided suitable incentivisation.</p>
(ii) Discretionary and performance related	<p>The Remuneration Committee reviewed the bonus structures operating throughout the Group for 2017 and was satisfied the prevailing arrangements delivered sufficient incentive to senior managers, whilst balancing the requirements of shareholders and other stakeholders.</p> <p>The Committee considered the following key principles to ensure that as far as possible remuneration and incentive arrangements:</p> <ul style="list-style-type: none"> <li>• are in keeping with industry best practice;</li> <li>• are transparent;</li> <li>• are meaningfully linked to the key drivers of value in the business;</li> <li>• help to limit the Group's fixed cost base, thereby de-risking earnings;</li> <li>• do not encourage excessive risk taking;</li> <li>• focus on longer-term, consistent performance;</li> <li>• reflect the macroeconomic environment and the Group's performance in relation to that of its peers; and</li> <li>• incentivise and retain staff.</li> </ul> <p><b>Variable remuneration – general</b></p> <p>All staff are appraised against pre-agreed performance criteria relevant to their role. The outcome of the appraisal process is a key criteria used to determine an employee's annual discretionary bonus award.</p> <p>The general bonus pool is calculated as 15% of Adjusted Profit before tax and the general bonus pool. The pool is used to reward staff, excluding fund managers and the sales team. Variable compensation awards to an employee over a de minimis level are subject to deferral restrictions as approved by the Remuneration Committee.</p> <p><b>Variable remuneration – sales team</b></p> <p>Sales staff are rewarded based on a qualitative behavioural scorecard and the achievement of quantitative growth targets of the Group, set on an annual basis by the Board. Variable compensation awards to an employee over a de minimis level are subject to deferral restrictions as approved by the Remuneration Committee.</p> <p><b>Variable remuneration – fund managers</b></p> <p>From 1 July 2016 the Group introduced a new remuneration scheme for fund managers whereby they are rewarded according to a percentage share of the net revenues generated by the funds they manage. Base salary and direct employee costs are deducted from the overall share. The scheme has been intentionally designed to incorporate the investment performance and the level of risk achieved by each strategy. There is a three-year deferral period over a minimum threshold level with any deferred amounts subject to standard industry forfeiture conditions. Participants are required to invest a portion of their deferred element into funds managed by the Group.</p> <p>The Group believes that its fund managers must actively manage both risk and reward to reflect the needs of underlying customers. The scheme clearly links asset growth, revenue generation and the risk-adjusted investment performance of the Group's products.</p>
(iii) Equity incentive plans	<p>The Group adopts a policy of granting share scheme awards to Directors and senior managers to encourage equity participation, staff retention and ultimately align interests with those of shareholders.</p> <p>Awards are granted on a discretionary basis. Proposed awards are reviewed and approved by the Remuneration Committee.</p> <p>Further information on the equity incentive schemes in operation during the year are detailed on pages 36 to 37.</p>
(iv) Pension and other benefits	<p>For all staff, including Executive Directors, the Group makes defined pension contributions or cash in lieu of contributions equal to 10% of base salary.</p> <p>Other benefits offered to Executive Directors and all staff include the provision of life insurance, income protection and healthcare benefits.</p>

# Remuneration Report (continued)

## Equity incentive plans

### 1) Management Equity Incentive ('MEI')

The MEI was established on 14 April 2011 and is designed to incentivise Executive Directors and senior managers of the business. Under the scheme, the awardees have the right to purchase Company shares at a pre-agreed subscription price. The minimum term before an award can be exercised is normally three years. The Trustees of the Group's Employee Benefit Trust ('EBT') have absolute discretion on the awards and delivery of shares to awardees.

No awards were made to an Executive Director in the year (2016: Nil); see note 21(a) to the consolidated financial statements for further details.

Ian Dighé stepped down as Executive Chairman on 16 March 2017. The Trustees of the EBT acquired Mr Dighé's interests in awards over the following ordinary 0.1p shares on 19 May 2017 for a cash consideration of £220,000:

- Award over 2,186,262 shares at a subscription price of 33p per share which could be exercised up until 40 days after the date on which the Company publishes its preliminary results for the year ending 31 December 2018; and
- Award over 2,186,262 shares at a subscription price of 50p per share which could be exercised up until 40 days after the date on which the Company publishes its preliminary results for the year ending 31 December 2018.

MEI awards for Executive Directors as at 31 December were as follows:	Status	Exercise price	2017 Awards over 0.1p ordinary shares	2016 Awards over 0.1p ordinary shares
Ian Dighé (resigned 16 March 2017)	Cancelled	33p	–	2,186,262
	Cancelled	50p	–	2,186,262
Gervais Williams	Vested	33p	<b>2,186,262</b>	2,186,262
	Vested	50p	<b>2,186,262</b>	2,186,262
David Barron	Vested	50.325p	<b>750,000</b>	750,000
	Unvested	57.1875p	<b>1,250,000</b>	1,250,000
Piers Harrison	Vested	48.25p	<b>750,000</b>	750,000
	Unvested	33p	<b>1,250,000</b>	1,250,000
			<b>8,372,524</b>	12,745,048

### 2) Management Incentive Plan ('MIP')

The MIP is a legacy scheme that was created in 2011 alongside the bank debt renegotiation. To prevent undue dilution, the aggregate of all MIP awards in issue could not exceed options over 10.2 million 0.1p ordinary shares.

This scheme is now fully issued and is therefore closed to new entrants. At 31 December 2017 there are four remaining participants in the scheme with an aggregate of 730,000 options (2016: 860,000 options).

An award provided the awardee with the option to subscribe for new shares in the Company at a pre-agreed subscription price. The minimum term before an award could be exercised was normally three years.

No options under the MIP were held by or granted to Executive Directors in the year (2016: Nil); see note 21(b) to the consolidated financial statements for further details.

### 3) Growth Share Plan ('GSP')

The GSP was discontinued in 2016 as the principal reward and retention mechanism for new fund managers and for those where no value had been accrued to 30 June 2016. One team had accrued value and retained their Growth Shares, being able to exchange them in accordance with the rules of the scheme after the vesting periods, see note 21(c) to the consolidated financial statements for further details.

The GSP allows participants to share in the growth of the relevant profit and Assets under Management ('AuM') for which they are responsible. The mechanism by which this is achieved is through the issue of Growth Shares in Miton Group Service Company Limited, a wholly owned subsidiary of the Company. Participants may realise a proportion of the value of the Growth Shares after a minimum vesting period of three years by transferring them to the Company in exchange for ordinary shares in the Company. The value of a Growth Share is calculated according to a specific formula based on the growth in the profit and AuM of the relevant Fund Management Unit ('FMU') from the date of issue until the date of conversion.

On 18 October 2017, Gervais Williams, a Director of the Company, elected to exercise his right to exchange 40 FMU B Growth Shares in Miton Group Service Company Limited for ordinary 0.1p shares in the Company. As a result of the exchange the Company allotted 4,104,080 shares at a price of 40.5p per share with a market value of £1.662m.

### 3) Growth Share Plan ('GSP') continued

On 2 December 2016, Gervais Williams elected to exercise his right to exchange 40 FMU B Growth Shares. As a result of the exchange the Company allotted 2,642,760 ordinary 0.1p shares at a price of 28.75p per share with a market value of £0.76m.

Under the terms of the scheme the issued shares are to be held by the individual for a period of 12 months from the date of the issue, although this period may be reduced at the discretion of the Board.

As at 31 December 2017 the estimated accrued value of the remaining 100 Growth Shares in issue calculated according to the Plan rules was £3.4m. Of this estimated value, Gervais Williams had an interest of £1.4m.

At vesting or on a later date of conversion of Growth Shares into ordinary shares, the valuation of the Growth Shares will depend on a number of parameters including:

- the level of Assets under Management in the specific FMU;
- the level of profitability of the specific FMU;
- the share price of Miton Group plc ordinary shares; and
- the valuation multiples of Miton Group plc as defined in the Rules.

Therefore from year to year there could be significant variability in the accrued valuation of the Growth Shares. The final tranche of 100 Growth Shares vests in September 2018.

### 4) Share Incentive Plan ('SIP')

All staff, including Executive Directors, are entitled to participate in the SIP, an HMRC-approved scheme which was established in 2014. Under the scheme, participants' contributions by salary sacrifice are matched by the Company up to a maximum contribution of £1,800 per year. These contributions are used to acquire ordinary 0.1p shares.

There is a minimum holding period of three years in accordance with the provisions for such employee share plans set out in Schedule 2 to ITEPA 2003.

During the year four Directors (2016: four) participated in the SIP scheme.

#### Directors' interests in options

No Executive Director has options to subscribe for ordinary shares other than under the MEI awards as detailed above.

#### External directorships

Executive Directors may not accept external directorships without the prior approval of the Board. Group policy specifies that additional remuneration which arises as part of an executive's duties within the Group, for example from an in-house or client fund, would be repayable to the Company. Remuneration accruing to an approved non-executive directorship which arises from outside the Group is for the executive's account.

#### Non-Executive Directors

The fees of the Chairman and Non-Executive Directors are set by the Board. When setting these fees, due account is taken of fees paid to Non-Executive Directors of similar companies, the time commitment of each Director and any additional responsibilities undertaken.

Non-Executive Directors do not receive performance-related compensation and are not provided with pension-related benefits.

# Remuneration Report (continued)

## Audited emoluments by individual Director

The total remuneration of the Directors during the year was as follows:

	Fee and salary £000	Bonus £000	Deferred Bonus £000	Pension and benefits £000	SIP matching shares £000	Compensation for loss of office £000	Cash settlement of MEI awards £000	Shares issued on GSP exchange £000	2017 Total £000	2016 Total £000
<b>Executive Directors</b>										
Ian Dighé (resigned 16/03/2017)	49	–	–	5	–	227	220	–	501	295
David Barron	218	150	75	24	1	–	–	–	468	270
Piers Harrison	190	150	36	20	2	–	–	–	398	288
Gervais Williams	215	–	–	24	2	–	–	1,662	1,903	997
Ian Chimes (resigned 03/11/2016)	–	–	–	–	–	–	–	–	–	161
<b>Non-Executive Directors</b>										
Ian Dighé (appointed 16/03/2017 resigned 30/11/2017)	33	–	–	1	1	13	–	–	48	–
Jim Pettigrew (appointed 30/11/2017)	8	–	–	–	–	–	–	–	8	–
Jim Davies	46	–	–	–	–	–	–	–	46	44
Katrina Hart	46	–	–	–	–	–	–	–	46	44
Alan Walton	46	–	–	–	–	–	–	–	46	44
Lord Wade (resigned 11/01/2016)	–	–	–	–	–	–	–	–	–	9
<b>Total</b>	<b>851</b>	<b>300</b>	<b>111</b>	<b>74</b>	<b>6</b>	<b>240</b>	<b>220</b>	<b>1,662</b>	<b>3,464</b>	2,152

## Service contracts

The service contracts and letters of appointment of the Directors as at 31 December 2017 include the following terms:

	Date of current contract	Notice period (months)
<b>Executive Directors</b>		
David Barron	3 September 2013	12
Piers Harrison	11 September 2015	12
Gervais Williams	1 March 2011	12
<b>Non-Executive Directors</b>		
Jim Davies	24 January 2014	3
Katrina Hart	23 February 2011	3
Jim Pettigrew	30 November 2017	3
Alan Walton	14 May 2014	3

### Katrina Hart

Chairman, Remuneration Committee  
16 March 2018



# Statement of Directors' Responsibilities in relation to the Group Financial Statements

The Directors are responsible for preparing the Annual Report and the consolidated 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 the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. 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 Group and of the profit or loss of the Group for that period.

In preparing the consolidated financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions of the Group's financial position and financial performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Annual Report and Accounts comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps to ensure the prevention and detection of fraud and other irregularities.

# Independent Auditors' Report to the members of Miton Group plc

## Opinion

In our opinion:

- Miton Group plc's Group financial statements and Parent Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Miton Group plc for the year ended 31 December 2017 which comprise:

Group	Parent Company
• Consolidated statement of comprehensive income	• Company statement of changes in equity
• Consolidated statement of changes in equity	• Company statement of financial position as at 31 December 2017
• Consolidated statement of financial position as at 31 December 2017	• Related notes 1 to 14 to the financial statements including a summary of significant accounting policies
• Consolidated statement of cash flows	
• Related notes 1 to 22 to the financial statements including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> <li>• Misstatement of revenue from management fees due to the application of incorrect fee rates and legacy rebates calculated by management.</li> <li>• Inaccurate measurement of goodwill.</li> </ul>
Audit scope	<ul style="list-style-type: none"> <li>• We performed an audit of the complete financial information of all components.</li> <li>• The components where we performed full audit procedures accounted for 100% of Profit before tax, Revenue and Total assets.</li> </ul>
Materiality	<ul style="list-style-type: none"> <li>• Overall Group materiality of £309k which represents 5% of Profit before tax.</li> </ul>

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Misstatement of revenue from management fees due to the application of incorrect fee rates and legacy commissions calculated by management (2017: £27.8m, 2016: £24.1m).</b></p> <p><i>Refer to the Accounting policies (page 50); and the Consolidated Statement of Comprehensive Income (page 46).</i></p> <p>Revenue recognition continues to be a focus for the regulators and is one of the key drivers of performance for Miton Group plc.</p> <p>The Group recognises revenue based on the contractual terms of each fund and investment mandate. The detailed fee information, including the Assets under Management (AuM), is supplied by the respective Authorised Corporate Director ('ACD') of the regulated funds and administrators of the investments trusts and this forms the basis of the journals prepared by the finance team.</p> <p>We have therefore identified the main risks to be in relation to:</p> <ul style="list-style-type: none"> <li>• incorrect fee rates used for the calculation for investment trusts;</li> <li>• incorrect calculation and settlement of commissions paid to legacy agents; and</li> <li>• incorrect journal entries recorded within the Group's books.</li> </ul>	<p>Our approach consisted of the following procedures:</p> <ul style="list-style-type: none"> <li>• Obtained an understanding of the systems and controls with respect of revenue recognition by performing walkthroughs and test of controls.</li> <li>• Obtained and reviewed the terms and conditions of each fund and investment mandate agreement.</li> <li>• We selected a sample of managed funds and investment mandates and verified that the revenue calculation is: <ul style="list-style-type: none"> <li>– Consistent with the terms and conditions of the respective agreement;</li> <li>– Based on the net asset value reported by the ACD or administrator; and</li> <li>– Consistent with the net revenue (fee net of related commissions and fees) invoiced and traced to bank statements.</li> </ul> </li> <li>• We reviewed consistency of the fees recorded with the audited information of the underlying funds.</li> <li>• Reviewed journal entries in the ledger and obtained support for material items.</li> <li>• For commissions paid to legacy agents, we selected key items and performed the following procedures: <ul style="list-style-type: none"> <li>– Observed commission rates are consistent with historic rates;</li> <li>– Compared the net asset value used to the information received from the respective administrators;</li> <li>– Obtained communications with the agents confirming the amounts to be paid; and</li> <li>– Agreed payments to bank statements.</li> </ul> </li> </ul>	<p>The results of our procedures identified no issues with the recognition of management fees and related legacy commissions calculated by management.</p> <p>Based on the work performed, we have no matters to report.</p>

# Independent Auditors' Report to the members of Miton Group plc (continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Inaccurate measurement of goodwill (2017: £41.1m, 2016: £41.1m).</b></p> <p><i>Refer to Accounting policies (pages 50 and 51); and Note 8 of the Consolidated Financial Statements (page 58).</i></p> <p>The Group assesses goodwill for impairment annually by calculating the Value In Use ('VIU') for the Group using a Discounted Cash Flow ('DCF') methodology. Where the calculated VIU is lower than the goodwill balance, an impairment charge is recognised in the Consolidated Statement of Comprehensive Income.</p> <p>We have identified the risk to be in relation to the VIU not being calculated correctly or the methodology not being in line with market practice.</p>	<p>Our approach encompassed the following procedures:</p> <ul style="list-style-type: none"> <li>• Obtained and reviewed the impairment assessment of the business to ensure that it was consistent to the performance of the business and the requirements of IAS 36.</li> <li>• We engaged our valuation specialists to perform the following: <ul style="list-style-type: none"> <li>– Considered the appropriateness of the methodology used in determining the VIU;</li> <li>– Determined whether the key assumptions applied were within the acceptable range; and</li> <li>– Discussed any changes in assumptions with management understanding their rationale and assessed the reasonableness of such assumptions.</li> </ul> </li> </ul>	<p>The results of our procedures identified no issues with the measurement of goodwill.</p> <p>Based on the work performed, we have no matters to report.</p>

## An overview of the scope of our audit

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each entity. We performed an audit of the complete financial information of all components. All audit work was performed directly by the audit engagement team.

### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Group to be £309k (2016: £213k), which is 5% (2016: 5%) of profit before tax. We believe that profit before tax as it represents the main IFRS performance measure on which investors focus.

We determined materiality for the Parent Company to be £221k (2016: £291k), which is 1% (2016: 1%) of equity. We believe that equity is an adequate basis for materiality since the Parent Company is a holding company with limited operations.

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2016: 75%) of our planning materiality, namely £232k (2016: £160k). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £15k (2016: £11k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

## Other information

The other information comprises the information included in the annual report set out on pages 1 to 39, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company 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.

## Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 39, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and Parent 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 the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Matthew Price

(Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor – London

16 March 2018

## Notes:

1. The maintenance and integrity of the Miton Group plc website ([www.mitongroup.com](http://www.mitongroup.com)) is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



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# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	Notes	2017 £000	2016 £000
<b>Revenue</b>		<b>27,789</b>	24,067
Fees and commission expenses		(5,983)	(5,079)
<b>Net revenue</b>		<b>21,806</b>	18,988
Administration expenses		(14,440)	(13,122)
Share-based payment expense	21	(548)	(739)
Amortisation of intangible assets	8	(280)	(290)
Exceptional operating expenses	3(c)	(352)	(598)
<b>Operating profit</b>	3(a)	<b>6,186</b>	4,239
Finance revenue		3	11
<b>Profit for the year before taxation</b>		<b>6,189</b>	4,250
Taxation	6	(1,184)	(1,002)
<b>Profit for the year after taxation attributable to equity holders of the parent</b>		<b>5,005</b>	3,248
		pence	pence
<b>Basic earnings per share</b>	7(a)	<b>3.27</b>	2.14
<b>Diluted earnings per share</b>	7(a)	<b>3.06</b>	1.92

No other comprehensive income was recognised during 2017 or 2016. Therefore, the profit for the year is also the total comprehensive income.

The notes on pages 50 to 67 form part of these financial statements.



# Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	Notes	Share capital £000	Share premium £000	Employee Benefit Trust £000	Treasury shares £000	Capital redemption reserve £000	Retained earnings £000	Total £000
At 1 January 2016		171	2,661	(6,520)	(26)	–	61,931	58,217
Profit for the year		–	–	–	–	–	3,248	3,248
Release of Treasury shares	19	–	–	–	15	–	–	15
Purchase of Employee Benefit Trust shares	19	–	–	(10)	–	–	–	(10)
Share-based payment	21	–	–	–	–	–	1,215	1,215
Settlement of options	21	–	–	–	–	–	(159)	(159)
Share issues on exchange of Growth Shares	19	7	–	–	–	–	(7)	–
Dividends paid	20	–	–	–	–	–	(1,012)	(1,012)
<b>At 1 January 2017</b>		<b>178</b>	<b>2,661</b>	<b>(6,530)</b>	<b>(11)</b>	<b>–</b>	<b>65,216</b>	<b>61,514</b>
Profit for the year		–	–	–	–	–	5,005	5,005
Release of Treasury shares	19	–	–	–	7	–	–	7
Settlement of options	21	–	–	–	–	–	(220)	(220)
Share-based payment	21	–	–	–	–	–	548	548
Share issues on exchange of Growth Shares	19	10	–	–	–	–	(10)	–
Cancellation of ordinary shares	19	(15)	–	–	–	15	(5,965)	(5,965)
Dividends paid	20	–	–	–	–	–	(1,509)	(1,509)
<b>At 31 December 2017</b>		<b>173</b>	<b>2,661</b>	<b>(6,530)</b>	<b>(4)</b>	<b>15</b>	<b>63,065</b>	<b>59,380</b>

The notes on pages 50 to 67 form part of these financial statements.

# Consolidated Statement of Financial Position

as at 31 December 2017

	Notes	2017 £000	2016 £000
<b>Non-current assets</b>			
Goodwill	8, 9	41,070	41,070
Intangible assets	8, 9	537	817
Other investments	11	100	100
Property and equipment	10	52	86
Deferred tax asset	6(d)	55	44
Trade and other receivables		20	–
		<b>41,834</b>	<b>42,117</b>
<b>Current assets</b>			
Trade and other receivables	13	3,016	2,415
Cash and cash equivalents	14	19,902	21,288
		<b>22,918</b>	<b>23,703</b>
<b>Total assets</b>		<b>64,752</b>	<b>65,820</b>
<b>Current liabilities</b>			
Trade and other payables	16	(5,072)	(3,953)
Provisions	17	(285)	–
		<b>(5,357)</b>	<b>(3,953)</b>
<b>Non-current liabilities</b>			
Provisions	17	(15)	(187)
Deferred tax liability	6(d)	–	(166)
		<b>(15)</b>	<b>(353)</b>
<b>Total liabilities</b>		<b>(5,372)</b>	<b>(4,306)</b>
<b>Net assets</b>		<b>59,380</b>	<b>61,514</b>
<b>Equity</b>			
Share capital	19	173	178
Share premium		2,661	2,661
Employee Benefit Trust	19(a)	(6,530)	(6,530)
Treasury shares	19(b)	(4)	(11)
Capital redemption reserve	7	15	–
Retained earnings		63,065	65,216
<b>Total equity shareholders' funds</b>		<b>59,380</b>	<b>61,514</b>

**David Barron**  
Chief Executive Officer  
16 March 2018

The notes on pages 50 to 67 form part of these financial statements.

# Consolidated Statement of Cash Flows

for the year ended 31 December 2017

	Notes	2017 £000	2016 £000
<b>Cash flows from operating activities</b>			
Profit for the year after taxation		5,005	3,248
Adjustments to reconcile profit to net cash flow from operating activities:			
Tax on continuing operations	6(a)	1,184	1,002
Finance revenue		(3)	(11)
Depreciation	10	66	86
Loss on disposal of fixed assets		2	1
Increase in employee benefit liability	15	83	–
Purchase of plan assets (held for employee benefit liability)	15	(83)	–
Amortisation of intangible assets	8	280	290
Share-based payment expense	21	548	1,215
(Increase)/decrease in trade and other receivables		(622)	1,661
Increase in trade and other payables		770	934
Increase in provisions	17	113	98
Cash generated from operations		7,343	8,524
Income tax paid		(1,011)	(42)
<b>Net cash flow from operating activities</b>		<b>6,332</b>	<b>8,482</b>
<b>Cash flows from investing activities:</b>			
Interest received		3	11
Purchase of property and equipment	10	(34)	(12)
Purchase of other investments	11	–	(100)
<b>Net cash flow from investing activities</b>		<b>(31)</b>	<b>(101)</b>
<b>Cash flows from financing activities:</b>			
Release of Treasury shares	19(b)	7	15
Purchase of Employee Benefit Trust shares		–	(10)
Settlement of options	21(a)	(220)	(159)
Acquisition and cancellation of ordinary shares	7	(5,965)	–
Dividend paid	20	(1,509)	(1,012)
<b>Net cash flow from financing activities</b>		<b>(7,687)</b>	<b>(1,166)</b>
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(1,386)</b>	<b>7,215</b>
Cash and cash equivalents at the beginning of the year		21,288	14,073
<b>Cash and cash equivalents at the end of the year</b>	14	<b>19,902</b>	<b>21,288</b>

The notes on pages 50 to 67 form part of these financial statements.

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2017

## 1. Authorisation of financial statements and statement of compliance with IFRS

The financial statements of Miton Group plc and its subsidiaries (the 'Group') for the year ended 31 December 2017 were authorised for issue by the Board of Directors on 16 March 2018 and the Consolidated Statement of Financial Position was signed on the Board's behalf by the Chief Executive, David Barron. Miton Group plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on AIM.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2017.

## 2. Accounting policies

### Basis of preparation

The Group has considerable financial resources and ongoing investment management contracts. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value. The consolidated financial statements are presented in Sterling and all values rounded to the nearest thousand pounds (£000).

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2017, and are consistent with those of the previous financial year.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of Miton Group plc and its subsidiaries as at 31 December 2017.

Subsidiaries are consolidated from the date of acquisition when the Group obtains control and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group has control.

The Group controls an investee if, and only if, the Group has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect returns.

### Functional currency

The functional and presentation currency of Miton Group plc is Sterling (£). The Group has no foreign operations.

### Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, is stated net of value added tax and is earned within the United Kingdom. Fund management revenue represents management and advisory fees for the provision of fund management and investment management services.

Management fees receivable are recognised in the Consolidated Statement of Comprehensive Income when the services are performed. Investment management fees are recognised in line with applicable service contracts evenly over the period in which the service is provided. The Group manages no funds which earn performance fees.

### Segmental reporting

The Group has only one operating segment, fund management, which is derived from clients in the United Kingdom. Therefore, no segmental reporting is presented. The Group has one cash-generating unit ('CGU').

### Finance income

The Group's finance income comprises of interest income which represents bank interest receivable on the Group's cash balances and is recognised on an effective interest rate basis.

### Goodwill

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Where the recoverable amount is less than its carrying amount, an impairment loss is recognised in the Consolidated Statement of Comprehensive Income. The carrying amount of goodwill is taken into account when determining the gain or loss on disposal of the related CGU.

## 2. Accounting policies continued

### Intangible assets

Intangible assets acquired separately are recorded at cost and those identified in a business acquisition are capitalised at the fair value as at the date of acquisition. Following initial recognition, the carrying amount of an intangible asset is equal to its cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with a finite life have no residual value and are amortised on a straight-line basis over their expected useful lives as follows:

- Intangible assets arising on acquisition — 5 to 8 years

Intangible assets are tested for impairment where events or changes in circumstances indicate the carrying value may not be recoverable, and at least annually.

### Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended. Any gain or loss on the disposal of an item of property and equipment is recognised in the Consolidated Statement of Comprehensive Income. Depreciation is calculated to write off the cost of the asset over its estimated useful life to its residual value on a straight-line basis as follows:

- Leasehold improvements — lower of life of lease or 4 years
- Furniture and equipment — 3 to 5 years

### Impairment of non-financial assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Value in use 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. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

### Financial assets

The Group classifies its financial assets at initial recognition as loans and receivables.

The Group's receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

#### (a) Trade and other receivables

Trade and other receivables are recognised and carried at the lower of their transaction price and present value of estimated cash flows. Provision is made when there is objective evidence that the Group will not be able to recover balances in full.

#### (b) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Provisions for restructuring costs are recognised when the Group has a detailed formal plan which has been notified to affected parties.

### Pension schemes

The Group maintains a number of contracted-out money purchase schemes and contributions are charged to the Consolidated Statement of Comprehensive Income in the year in which they are due.

### Income taxes

Tax on profit for the year comprises current and deferred tax. Tax is recognised in the Consolidated Statement of Comprehensive Income except where it relates to an item recognised directly in equity, in which case the related tax is recognised in the Consolidated Statement of Changes in Equity.

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

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

## 2. Accounting policies continued

Deferred tax is provided using the balance sheet liability method. It is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes with the following exceptions:

- where the deferred tax liability arises from the initial recognition of goodwill;
- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses, can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### Leases

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases. Rentals payable by the lessee are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

### Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency exchange rate ruling at the balance sheet date and differences are recognised in profit and loss.

The Group historically had one foreign operation, being a marketing company domiciled in Hong Kong, which was formally dissolved on 31 January 2018 (see note 12). The assets and liabilities of any foreign operations are translated into Sterling at the exchange rate ruling at the balance sheet date. Income and expenses are translated at average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income ('OCI').

### Exceptional items

The Group presents as exceptional items on the face of the Consolidated Statement of Comprehensive Income those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year so as to facilitate comparison with prior years and to assess better trends in financial performance.

### Share-based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has elapsed and the Directors' best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, that will be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the Consolidated Statement of Comprehensive Income, with a corresponding entry in equity.

Where the terms of equity-settled awards are modified, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both measured on the date of modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation and any cost not yet recognised in the Consolidated Statement of Comprehensive Income for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the Consolidated Statement of Comprehensive Income.

### Financial liabilities

#### Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at amortised cost or fair value through profit or loss. The Group determines the classification of its financial liabilities at initial recognition. The Group's financial liabilities can include trade and other payables, bank overdrafts, loans and borrowings, contingent consideration and derivative financial instruments.

## 2. Accounting policies continued

### Subsequent measurement

For subsequent reporting years, all financial liabilities are measured at amortised cost, except for deferred contingent consideration and derivative financial instruments, which are measured at fair value through profit or loss.

### Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Consolidated Statement of Comprehensive Income. Any costs or fees incurred are recognised as part of the gain or loss in the extinguishment of the original liability.

### Standards issued but not yet effective

The International Accounting Standards Board ('IASB') and IFRS Interpretations Committee ('IFRIC') have issued the following standards and interpretations with an effective date after the date of these financial statements:

		Effective date
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 2	Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

The Directors do not expect these standards to have any material effect on the Group when they are adopted, except for IFRS 16.

IFRS 16 'Leases' was issued on 13 January 2016 and replaces IAS 17 'Leases'. IFRS 16 requires that all operating leases in excess of one year, where the Group is the lessee, are included on the Group's statement of financial position. The Group will be required to recognise a right-of-use ('ROU') asset and a lease liability (representing the obligation to make lease payments). The ROU asset will be amortised on a straight-line basis with the lease liability being carried at amortised cost using the effective interest method. IFRS 16 contains optional exemptions for both short-term leases (leases of less than 12 months) and for small-value leases. The Standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to EU endorsement and the entity adopting IFRS 15 at the same time.

The Directors have completed an initial assessment of the potential impact on its consolidated financial statements. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's discount rate, composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

The Directors plan to apply retrospectively IFRS 16 initially on 1 January 2019, with the cumulative effect of initially applying the Standard recognised at the date of initial application. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

### Judgements and key sources of estimation and uncertainty

The preparation of financial statements requires the Directors to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

In the process of applying the Group's accounting policies, the Directors have made the following judgements and estimations, which have the most significant effect on the amounts recognised in the financial statements:

#### (a) Impairment of non-financial assets

Goodwill is tested for impairment at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. The Group assesses whether there are any indicators of impairment for goodwill and non-financial assets at each reporting date.

The Group's impairment test for goodwill and, where applicable, intangible assets with indefinite useful lives is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the projections for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the cash-generating unit, including a sensitivity analysis, are further explained in note 9.

#### (b) Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. Judgement is required in determining the most appropriate valuation model for a grant of equity instruments, depending on the terms and conditions of the grant. The Directors are also required to use judgement in determining the most appropriate inputs to the valuation model, including expected life of the option, volatility and dividend yield. The assumptions and models used are disclosed in note 21.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

## 3. Group operating profit

### (a) Operating profit is stated after charging:

	Notes	2017 £000	2016 £000
Auditors' remuneration	3(b)	149	170
Staff costs	5	10,610	9,486
Operating lease rentals – land and buildings	22	485	487
Depreciation	10	66	86
Loss on disposal of fixed assets	10	2	1
Amortisation of intangible assets	8	280	290
Exceptional operating expenses	3(c)	352	598

The operating lease rentals charged to the Consolidated Statement of Comprehensive Income include the service charges associated with each lease.

### (b) Auditors' remuneration

The remuneration of the auditors is analysed as follows:

	2017 £000	2016 £000
Audit of the consolidated financial statements	40	40
Audit of the Company's subsidiaries	67	77
	107	117
Other fees to auditors – tax compliance services	25	38
– tax advisory services	8	7
– other assurance services	9	8
	149	170

### (c) Exceptional operating expenses

	2017 £000	2016 £000
Internal reorganisation/redundancy	352	–
Fund manager remuneration plan – implementation costs	–	123
– acceleration of share-based payment (non-cash)	–	475
	352	598

Restructuring costs in 2017 totalling £352,000 represented £315,000 of redundancy costs and £37,000 of associated legal costs. These costs predominantly related to the changes in the Board structure completed in the year.

Exceptional costs of £598,000 in 2016 arose from the cancellation of the GSP for those participants who had no accrued value in the scheme as at 30 June 2016 along with costs associated with the implementation of the new remuneration structure for the fund management team.

## 4. Directors' emoluments

	2017 £000	2016 £000
Aggregate emoluments	1,802	1,392

Directors' emoluments above represent the proportion of total emoluments paid or payable in respect of qualifying services and does not include the value of equity issued upon exchange of Growth Shares.

The total remuneration paid to the Directors who served during the year including the value of any equity issued upon exchange of Growth Shares is disclosed in the Remuneration Report on page 38.



## 5. Staff numbers and costs

The average number of employees in the Group during the year, including Executive and Non-Executive Directors, was as follows:

	2017 No.	2016 No.
Fund management	13	13
Core staff	40	38
	53	51

The aggregate payroll costs were as follows:

	2017 £000	2016 £000
Basic salaries – fund management	2,229	2,060
Basic salaries – core staff	3,253	3,102
Other costs – core staff	162	–
Performance-related cash payments – fund management	1,285	1,212
Performance-related cash payments – core staff	1,712	1,047
Share-based payment expense	548	739
	9,189	8,160
Social security	1,129	1,000
Pensions	292	326
	10,610	9,486

## 6. Taxation

### (a) Tax recognised in the Consolidated Statement of Comprehensive Income

	2017 £000	2016 £000
<b>Current income tax</b>		
UK corporation tax	1,342	1,091
Tax under/(over) provided in previous years	19	(40)
<b>Total current income tax charge</b>	<b>1,361</b>	<b>1,051</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences (note 6(d))	(177)	(49)
<b>Total deferred tax credit</b>	<b>(177)</b>	<b>(49)</b>
<b>Income tax charge reported in the Consolidated Statement of Comprehensive Income</b>	<b>1,184</b>	<b>1,002</b>

### (b) Reconciliation of the total income tax charge

The income tax charge in the Consolidated Statement of Comprehensive Income for the year is higher than the weighted average standard rate of corporation tax in the UK. The difference is reconciled below:

	2017 £000	2016 £000
Profit before taxation	6,189	4,250
Profit multiplied by the weighted average standard rate of corporation tax in the UK of 19.26% (2016: 20%)	1,192	850
Expenses not deductible for tax purposes	41	117
Tax under/(over) provided in prior years	19	(40)
Other temporary differences	(68)	75
<b>Total tax charge (note 6(a))</b>	<b>1,184</b>	<b>1,002</b>
<b>Income tax charge reported in the Consolidated Statement of Comprehensive Income</b>	<b>1,184</b>	<b>1,002</b>

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

## 6. Taxation continued

### (c) Temporary differences

The Group has issued a number of share options to employees which had not been exercised at the balance sheet date, as disclosed in note 21. If these options were to be exercised in the future, the difference between the market value and the option price would represent a statutory corporation tax deduction in the tax computation of the Group in the year of exercise.

### (d) Deferred tax

The deferred tax asset included in the Consolidated Statement of Financial Position is as follows:

	2017 £000	2016 £000
<b>Deferred tax asset</b>		
Share-based payments	53	44
Accelerated capital allowances	2	–
	<b>55</b>	<b>44</b>

The deferred tax liability included in the Consolidated Statement of Financial Position is as follows:

	2017 £000	2016 £000
<b>Deferred tax liability</b>		
Fair value of intangible assets on acquisition	–	164
Accelerated capital allowances	–	2
	<b>–</b>	<b>166</b>

The deferred tax movement included in the Consolidated Statement of Comprehensive Income is as follows:

	2017 £000	2016 £000
Amortisation and impairment of acquired intangible assets	–	–
Accelerated capital allowances	(4)	(12)
Utilisation of brought forward losses	–	34
Movement in intangible assets	(164)	(54)
Share-based payments	(9)	(17)
	<b>(177)</b>	<b>(49)</b>

## 7. Earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity shareholders of the parent company by the weighted average number of ordinary shares outstanding during the year.

The weighted average of issued ordinary share capital of the Company is reduced by the weighted average number of shares held by the Group's Employee Benefit Trust. These shares have waived their dividend rights. See note 19(a) for further detail.

In calculating diluted earnings per share, IAS 33 Earnings Per Share requires that the profit is divided by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares during the year.

The Group undertook two share buybacks during the year. The first was completed on 23 February 2017; the Group acquired a total of 6,606,900 ordinary 0.1p shares. The second was completed on 6 December 2017; the Group acquired a total of 8,546,063 ordinary 0.1p shares. The ordinary shares totalling 15,152,963 acquired by the above processes were cancelled during the year. The cash cost of the share buybacks completed in the year was £5.965m.

### (a) Reported earnings per share

Reported basic earnings per share has been calculated as follows:

	2017			2016		
	Profit £000	Shares No.	Basic earnings per share pence	Profit £000	Shares No.	Basic earnings per share pence
Profit attributable to ordinary equity shareholders of the parent company for basic earnings	5,005			3,248		
Basic earnings per share	<b>5,005</b>	<b>153,198,768</b>	<b>3.27</b>	3,248	152,037,715	2.14

## 7. Earnings per share continued

Diluted earnings per share has been calculated as follows:

	2017			2016		
	Profit £000	Diluted shares No.	Diluted earnings per share pence	Profit £000	Diluted shares No.	Diluted earnings per share pence
Profit attributable to ordinary equity shareholders of the parent company for diluted earnings	5,005			3,248		
Diluted earnings per share	5,005	163,362,452	3.06	3,248	169,165,834	1.92

Reconciliation of weighted average number of ordinary shares:

	2017 shares no.	2016 shares no.
Weighted average number of ordinary shares for basic EPS*	153,198,768	152,037,715
Effects of dilution from share options	10,163,684	17,128,119
Weighted average number of ordinary shares adjusted for the effect of dilution*	163,362,452	169,165,834

\* The weighted average number of shares takes into account the weighted average effect of changes in treasury share transactions during the year.

### (b) Adjusted earnings per share

Adjusted earnings per share is based on Adjusted Profit after tax, where Adjusted Profit is stated after charging interest and share-based payments but before amortisation, and exceptional items.

Adjusted Profit for calculating adjusted earnings per share:

	2017 £000	2016 £000
Profit before taxation for the year	6,189	4,250
Add back:		
Exceptional operating expenses	352	598
Amortisation	280	290
Adjusted Profit before tax	6,821	5,138
Taxation:		
Tax charge in the Consolidated Statement of Comprehensive Income	(1,184)	(1,002)
Tax effect of adjustments	(122)	(81)
Adjusted Profit after tax for the calculation of Adjusted earnings per share	5,515	4,055

Adjusted earnings per share was as follows using the number of shares calculated at note 7(a):

	2017 pence	2016 pence
Adjusted earnings per share	3.60	2.67

Diluted Adjusted earnings per share was as follows:

	2017 pence	2016 pence
Diluted Adjusted earnings per share	3.38	2.40

The dilution arises largely as a result of the Miton Group plc shares which would be issued if all Growth Shares with an accrued value at 31 December 2017, which will not fully vest until September 2018, had vested and had been exchanged into Miton Group plc ordinary shares at 31 December 2017. Please also see note 21 on page 64.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

## 8. Intangible assets

	Intangible assets arising on acquisition £000	Acquired software £000	Subtotal £000	Goodwill £000	Total £000
<b>Cost</b>					
At 1 January 2016	6,861	151	7,012	100,988	108,000
Additions	–	–	–	–	–
At 31 December 2016	6,861	151	7,012	100,988	108,000
Additions	–	–	–	–	–
<b>At 31 December 2017</b>	<b>6,861</b>	<b>151</b>	<b>7,012</b>	<b>100,988</b>	<b>108,000</b>
<b>Amortisation and impairment</b>					
At 1 January 2016	5,764	141	5,905	59,918	65,823
Amortisation during the year	280	10	290	–	290
At 31 December 2016	6,044	151	6,195	59,918	66,113
Amortisation during the year	280	–	280	–	280
<b>At 31 December 2017</b>	<b>6,324</b>	<b>151</b>	<b>6,475</b>	<b>59,918</b>	<b>66,393</b>
<b>Net book value:</b>					
<b>At 31 December 2017</b>	<b>537</b>	<b>–</b>	<b>537</b>	<b>41,070</b>	<b>41,607</b>
At 31 December 2016	817	–	817	41,070	41,887

## 9. Impairment of goodwill and intangible assets

The Group has determined that as at 31 December 2017 it had one (2016: one) operating segment or cash-generating unit ('CGU'), fund management, for the purpose of assessing the carrying value of goodwill and intangible assets.

In line with IAS 36, Impairment of Assets, a full impairment review was undertaken as at 31 December 2017. The recoverable amount within the fund management CGU was determined by assessing the value in use using long-term cash flow projections for the CGU.

Data for the explicit forecast period of 2018-2022 is based on the 2018 budget and forecasts for 2019–2022. Increases in operating costs have been taken into account and include assumed new business volumes. Cash flows beyond the explicit forecast period are extrapolated using a long-term terminal growth rate of 3% (2016: 3%). To arrive at the net present value, cash flows have been discounted using a discount rate of 13% (2016: 13%). The overall value in use was greater than the carrying value and hence no impairment charge has been recognised. The key assumptions used in determining this amount were expected aggregated fund flows and the discount rate. In the (sole) fund management CGU, sensitivity analysis has established that an increase in the discount rate to 22% would be required before an impairment of goodwill and other intangibles would be considered necessary. The compound annual growth rate for expected fund flows over the forecast period is 8.7% and would need to reduce to 1.9% per annum for the estimated recoverable amount to equal the carrying value.

## 10. Property and equipment

	Leasehold improvements £000	Furniture and equipment £000	Total £000
<b>Cost</b>			
At 1 January 2016	44	354	398
Additions	–	12	12
Disposals	–	(36)	(36)
At 31 December 2016	44	330	374
Additions	–	34	34
Disposals	(19)	(24)	(43)
<b>At 31 December 2017</b>	<b>25</b>	<b>340</b>	<b>365</b>
<b>Depreciation</b>			
At 1 January 2016	19	218	237
Provided during the year	11	75	86
Disposals	–	(35)	(35)
At 31 December 2016	30	258	288
Provided during the year	7	59	66
Disposals	(19)	(22)	(41)
<b>At 31 December 2017</b>	<b>18</b>	<b>295</b>	<b>313</b>
<b>Net book value:</b>			
<b>At 31 December 2017</b>	<b>7</b>	<b>45</b>	<b>52</b>
At 31 December 2016	14	72	86

## 11. Other investments

Cost and net book value	Other investments £000
At 1 January 2017	100
Additions during the year	–
<b>At 31 December 2017</b>	<b>100</b>

Other investments consist of management shares in two investment trusts managed by the Group. The shares are non-voting and non-redeemable, upon a winding-up or on a return of capital of the underlying Trust the Group shall only receive the fixed amount of capital paid upon such shares. No right to any surplus capital or assets belonging to the Trust will be conferred.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

## 12. Investments in Group companies

Details of unlisted investments at 31 December 2017 in which the Group holds 20% or more of the nominal value of any class of share capital are as follows:

Principal activities	Subsidiary	Country of incorporation and registered office
FCA regulated investment companies	Miton Asset Management Limited Miton Trust Managers Limited	Paternoster House, London, EC4M 8AB, England Paternoster House, London, EC4M 8AB, England
Holding company and central services provider	Miton Group Service Company Limited*	Paternoster House, London, EC4M 8AB, England
Intermediate holding company	Miton Holdings Limited^	Paternoster House, London, EC4M 8AB, England
Trustee companies	Miton ESOP Trustee Limited* Miton Group Service Company Limited Employee Benefit Trust	Paternoster House, London, EC4M 8AB, England VG Corporate Trustee Limited, 5th Floor, 37 Esplanade, St Helier, JE1 2TR, Jersey
Non-trading companies	Miton Investment Company Limited (dormant)* Miton Capital Limited (dormant)* MAM Funds Limited (dormant)* Darwin Investment Managers Limited (dissolved) Miton (Hong Kong) Limited (dissolved)	Paternoster House, London, EC4M 8AB, England Paternoster House, London, EC4M 8AB, England Paternoster House, London, EC4M 8AB, England 40 Bank Street, London, E14 5NR, England 18 Westlands Road, Hong Kong

All entities are 100% owned and registered in England and Wales except for Miton (Hong Kong) Limited, which was registered in Hong Kong.

On 7 April 2017 PSigma Asset Management Limited was formally dissolved through solvent members' voluntary liquidation.

After the year end the following unlisted investments were formally dissolved through solvent members' voluntary liquidations:

- Miton (Hong Kong) Limited dissolved on 31 January 2018; and
- Darwin Investment Managers Limited dissolved on 20 February 2018.

\* Directly held subsidiaries of Miton Group plc.

^ Formerly PSigma Asset Management Holdings Limited.

## 13. Trade and other receivables

	2017 £000	2016 £000
Trade receivables	2,091	1,683
Prepayments	621	445
Other receivables	304	287
	<b>3,016</b>	<b>2,415</b>

## 14. Cash and cash equivalents

	2017 £000	2016 £000
Cash at bank and in hand	<b>19,902</b>	21,288

## 15. Short and long term employee benefits

Plan assets	2017 £000	2016 £000
At cost, for deferred remuneration	83	–
Revaluation of plan assets	2	–
	<b>85</b>	–
Employee benefits liability		
Current	(80)	–
Non-current	(5)	–
	<b>(85)</b>	–
Net balance	–	–

Plan assets represent deferred remuneration entitlements for certain employees which are invested in funds managed by the Group. The investments are held in nominee on behalf of the Participant by the Miton Group Service Company Limited Employee Benefit Trust, which is consolidated on a Group basis. The net amount of the employee benefits liability and related plan assets are presented in the consolidated statement of financial position.

## 16. Trade and other payables

	2017 £000	2016 £000
Trade payables	158	496
Other taxation and social security	307	276
Accruals	3,744	2,634
Other payables	49	82
Income tax payable	814	465
	<b>5,072</b>	<b>3,953</b>

## 17. Provisions

	Total £000
At 1 January 2016	89
Provided	98
<b>At 31 December 2016</b>	<b>187</b>
<b>Current</b>	<b>–</b>
<b>Non-current</b>	<b>187</b>
	<b>187</b>
At 1 January 2017	187
Provided	113
<b>At 31 December 2017</b>	<b>300</b>
<b>Current</b>	<b>285</b>
<b>Non-current</b>	<b>15</b>
	<b>300</b>

Provisions relate to dilapidations for the offices at 6th Floor, Paternoster House, London and the Group's disaster recovery office in Reading. The lease on Paternoster House expires on 28 November 2018; the provision for dilapidations on this office has been disclosed as current.

## 18. Financial risk management objectives and policies

The Group is exposed to the following financial risks as a result of its use of financial instruments:

- credit risk;
- liquidity risk;
- market price risk;
- foreign exchange risk; and
- interest rate risk.

Information about the Group's exposure to each of the above risks is provided in this note which describes the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Group's financial instruments may comprise cash, trade receivables and payables and investments that arise from trading operations. A prudent hedging policy may be undertaken as and when the potential risks within trading operations dictate the need to mitigate risk. No hedging instruments were outstanding at the current or previous year end.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

## 18. Financial risk management objectives and policies continued

### (a) Credit risk

The risk of financial loss to the Group if a counterparty to a financial instrument is unable to pay, in full, amounts when due, arises principally from the Group's receivables from fund management clients. The Group trades with formally constituted funds with sufficient liquid assets and financial intermediaries. Trade receivables are non-interest bearing and are generally within a 30-day term. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is low. No trade receivables were past the due date or impaired at the year end.

The Group's exposure to credit risk relating to cash and cash equivalents and trade and other receivables arises from default by the counterparty, with a maximum exposure equal to the carrying amount of these instruments. In view of the economic conditions, the Group continues to monitor closely the creditworthiness of its counterparties. The Group maintains its cash balances with international banks that are regulated in their own right and has a policy of allocating cash deposits between two or more suitable institutions.

### Maximum exposure to credit risk

The maximum exposure of each class of financial asset is the carrying value of those assets as shown below.

Financial assets	Notes	2017 £000	2016 £000
Trade receivables	13	2,091	1,683
Other receivables	13	304	287
Cash and cash equivalents	14	19,902	21,288
Plan assets (held for deferred remuneration)	15	85	–
		<b>22,382</b>	<b>23,258</b>

### Fair value measurement

The fair value of financial assets and financial liabilities approximates their carrying value at the current and previous year end.

### Working capital

The Group monitors the level of its working capital on an ongoing basis. The Group uses detailed financial information provided by its forecasting model and by regular review of its consolidated management information. The regulated companies use a 'cash buffer plus margin' approach when determining the maintenance of cash and capital within the businesses. More details are provided in the Strategic Report on pages 4 to 23.

### (b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due or can only do so at a significantly increased cost. The Group's objective in managing liquidity has been to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities as they fall due, under both normal and adverse conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

	<6 months £000	6–12 months £000	12–18 months £000	>18 months £000
<b>As at 31 December 2017</b>				
Trade and other payables	5,072	–	–	–
<b>As at 31 December 2016</b>				
Trade and other payables	3,953	–	–	–

### (c) Market price risk

Market price risk is the risk that changes in market prices will adversely affect the Group's income due to a decline in the underlying value of Assets under Management, resulting in lower fees. The objective of market price risk management is to manage and control market price exposure, while optimising the return on risk. Group funds include single-strategy and multi-asset equity portfolios. At 31 December 2017 UK and global equities represented 79% (2016: 78%) of the Group's aggregated Assets under Management. Approximately 4% (2016: 5%) related to cash and currencies and 11% (2016: 10%) to bonds. The remainder was invested in property, alternative investments and resources. If the value of the equity component of aggregated holdings was to reduce by 10% (2016: 10%) in value, the impact on net revenue over 12 months would be a reduction of £1.96m (2016: £1.5m).



## 18. Financial risk management objectives and policies continued

### (d) Foreign exchange risk

At 31 December 2017 the Group held the equivalent of £Nil of cash denominated in foreign currency (2016: £15,000) and as such is not exposed to foreign exchange risk.

### (e) Interest rate risk

The Group has no borrowings and cash balances are held on deposit; therefore, the Group is not subject to significant interest rate risk.

### Regulatory capital requirements

In accordance with the Capital Requirements Directive ('CRD'), the Group is required to maintain a minimum level of capital as prescribed in the UK by the Financial Conduct Authority ('FCA').

The Group is required to conduct an Internal Capital Adequacy Assessment Process ('ICAAP'), referred to as Pillar 2 capital requirements. The objective of this process is to ensure that firms have adequate capital to enable them to manage risks not deemed to be adequately covered under Pillar 1 minimum requirements. This is a forward-looking exercise which includes stress testing on major risks, considering how the firm would cope with a significant market downturn, for example, and an assessment of the Group's ability to mitigate the risks. The summary results of the ICAAP are reported on our website in accordance with the requirements for Pillar 3 reporting. Each of the regulated companies in the Group maintained surpluses of regulatory capital throughout the year.

The primary objective of the Group's capital management is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to provide a suitable base to sustain the future development of the business, while ensuring compliance with regulatory capital requirements. The Group's capital consists of share capital and reserves of £59,380,000 (2016: £61,514,000).

## 19. Share capital

Authorised:	2017 £000	2016 £000
250,000,000 ordinary shares of 0.1 pence each	250	250
	2017 ordinary shares 0.1 pence each No. 000	2016 ordinary shares 0.1 pence each No. 000
<b>Allotted, called up and fully paid:</b>		
<b>No. of shares</b>		
At 1 January	177,528	170,921
Cancelled	(15,153)	–
Issued on exchange of Growth Shares	10,260	6,607
<b>At 31 December</b>	<b>172,635</b>	<b>177,528</b>
	2017 ordinary shares 0.1 pence each £000	2016 ordinary shares 0.1 pence each £000
<b>Allotted, called up and fully paid:</b>		
<b>Value of shares</b>		
At 1 January	178	171
Cancelled	(15)	–
Issued on exchange of Growth Shares	10	7
<b>At 31 December</b>	<b>173</b>	<b>178</b>

On 18 October 2017 an employee elected to exercise his right to exchange 60 FMU B Growth Shares in Miton Group Service Company Limited for ordinary 0.1p shares in the Company. As a result of the exchange the Company allotted 6,156,120 shares at a price of 40.5p per share.

On 18 October 2017 Gervais Williams, a Director of the Company, elected to exercise his right to exchange 40 FMU B Growth Shares in Miton Group Service Company Limited for ordinary 0.1p shares in the Company. As a result of the exchange the Company allotted 4,104,080 shares at a price of 40.5p per share.

During the year the Group completed two share buyback programmes (2016: Nil). See note 7 for further detail.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

## 19. Share capital continued

### (a) Employee Benefit Trust ('EBT')

19,998,064 (2016: 19,998,064) shares are held by the Group's EBT, of which 9,697,524 (2016: 13,845,048) shares relate to MEI awards and 10,300,540 (2016: 6,153,016) shares relate to MEI awards which have lapsed, been cancelled or forfeited. The EBT has not been consolidated in the Group's financial statements. The cost of the shares held of £6.53m (2016: £6.53m) (equating to an average of 32.65p per share) (2016: 32.65p) has been disclosed as Employee Benefit Trust in the Consolidated Statement of Changes in Equity and the Consolidated Statement of Financial Position.

### (b) Treasury shares

16,726 (2016: 40,969) shares are held in Treasury in respect of deferred bonus awards and are disclosed as Treasury shares in the Consolidated Statement of Changes in Equity and the Consolidated Statement of Financial Position. The fair value of the Treasury shares held was £0.004m (2016: £0.011m).

## 20. Dividends paid and proposed

	2017 £000	2016 £000
Dividend paid in 2017 — 1.00p per share (2016: 0.67p)	1,509	1,012

Dividend on ordinary shares proposed for approval by shareholders (not recognised as a liability at the Consolidated Statement of Financial Position date) based on eligible holders at 3 April 2018:

	2017 £000	2016 £000
Proposed dividend for 2017 — 1.4p per share (2017: 1.00p)	2,137	1,509

## 21. Share-based payment

### Current schemes

The Group has share-based payment transactions in respect of services receivable from certain employees by granting the right to options over shares, subject to certain vesting conditions and exercise prices. The Group accounts for these schemes as equity-settled share-based payments and these are summarised below and in the Remuneration Report on page 36.

The fair value of the awards granted is recognised as an expense over the appropriate performance and vesting period. The corresponding credit is recognised in retained earnings within total equity.

	Management Equity Incentive (‘MEI’)	Management Incentive Plan (‘MIP’)	Total number of equity incentives	Weighted average exercise price (p)
<b>2017</b>				
Reference	(a)	(b)		
Outstanding at 1 January	13,845,048	860,000	14,705,048	41.08
Granted during the year	250,000	—	250,000	35.20
Settled during the year	(4,372,524)	—	(4,372,524)	41.50
Forfeited during the year	(25,000)	(130,000)	(155,000)	34.68
<b>Outstanding at 31 December</b>	<b>9,697,524</b>	<b>730,000</b>	<b>10,427,524</b>	<b>40.85</b>
<b>Exercisable at 31 December</b>	<b>5,872,524</b>	<b>730,000</b>	<b>6,602,524</b>	<b>40.74</b>

	MEI	MIP	Total number of equity incentives	Weighted average exercise price (p)
<b>2016</b>				
Reference	(a)	(b)		
Outstanding at 1 January	19,898,064	1,785,000	21,683,064	38.93
Granted during the year	100,000	—	100,000	33.00
Cancelled during the year	—	(450,000)	(450,000)	10.00
Settled during the year	(2,915,016)	(400,000)	(3,315,016)	33.96
Forfeited during the year	(3,238,000)	(75,000)	(3,313,000)	38.10
<b>Outstanding at 31 December</b>	<b>13,845,048</b>	<b>860,000</b>	<b>14,705,048</b>	<b>41.08</b>
<b>Exercisable at 31 December</b>	<b>8,745,048</b>	<b>530,000</b>	<b>9,275,048</b>	<b>39.84</b>

## 21. Share-based payment continued

The status of the Growth Share Plan ('GSP' or the 'Plan') at 31 December 2017 and changes during 2017 are shown below:

	2017	2016
Reference	(c)	(c)
Outstanding at 1 January	200	975
Granted during the year	–	100
Forfeited during the year due to cessation of employment*	–	(300)
Discontinued during the year, ownership transferred*	–	(470)
Discontinued during the year, ownership transferred after the year end	–	(5)
Exchanged during the year, post vesting on 22 September 2016*	–	(100)
Exchanged during the year, post vesting on 21 September 2017*	(100)	–
<b>Outstanding at 31 December</b>	<b>100</b>	<b>200</b>
<b>Vested at 31 December</b>	<b>–</b>	<b>–</b>

\* Held by Miton Group plc at 31 December 2017.

The above table refers to the movement in the Growth Shares during the year, which according to the rules of the Plan may accrue value and qualify to be convertible into Miton Group plc ordinary 0.1p shares once vesting occurs. For further information, please refer to the Remuneration Report on page 36. The total expense recognised for share-based payments in respect of employee services received during the year to 31 December 2017 was £547,936 (2016: £739,483), of which £443,208 related to the GSP (2016: £635,169). This expense was in respect of equity-settled share awards only, as the Company has no cash-settled share options. An exceptional non-cash cost of £475,258 was recognised in 2016 as a result of discontinuing the GSP.

### (a) Management Equity Incentive ('MEI')

The MEI is designed to incentivise Executive Directors and managers of the business. During 2017 the Group granted three awards over 250,000 ordinary 0.1p shares (2016: one award over 100,000 ordinary 0.1p shares) which will vest subject to market and non-market conditions.

The fair value of awards granted under the MEI is estimated as at the date of grant using the Black-Scholes model with assumptions for dividend yields, share price and composite volatility, as set out below. The fair value of options granted in the year was £14,973 (2016: £6,488), of which £4,515 was charged to the Consolidated Statement of Comprehensive Income in the year (2016: £1,427).

Awards over 25,000 ordinary 0.1p shares were forfeited during the year (2016: 3,238,000) by employees leaving the Group. As a result of the forfeiture of the awards the cumulative expense recognised for prior periods was reduced by £457 (2016: £204,132) in accordance with accounting standards.

Ian Dighé stepped down as Executive Chairman on 16 March 2017. The Trustees of the EBT acquired Mr Dighé's interests in awards over the following ordinary 0.1p shares on 19 May 2017 for a cash consideration of £220,000:

- Award over 2,186,262 shares at a subscription price of 33p per share which could be exercised up until 40 days after the date on which the Company publishes its preliminary results for the year ending 31 December 2018; and
- Award over 2,186,262 shares at a subscription price of 50p per share which could be exercised up until 40 days after the date on which the Company publishes its preliminary results for the year ending 31 December 2018.

(2016: one former Director relinquished MEI awards over 2,915,016 ordinary 0.1p shares for a cash settlement of £100,000).

After the year end, on 16 February 2018 the Group granted MEI awards over 1,100,000 ordinary 0.1p shares in the Company to seven employees. The awards have an exercise price of 49.2p and vest subject to continued employment on the date at which the Company publishes its results for the year ending 31 December 2020.

### (b) Management Incentive Plan ('MIP')

The MIP is designed to incentivise Executive Directors and managers of the business. The aggregate of all MIP awards cannot exceed options over 10.2 million 0.1p ordinary shares. During 2017 the Group granted no awards (2016: Nil). No MIP awards were exercised in 2017 (2016: Nil).

No awards over ordinary 0.1p shares were cancelled during the year as a result of employees leaving the Group after the awards had vested (2016: 450,000 cancelled).

Awards over 130,000 ordinary 0.1p shares (2016: 75,000) were forfeited during the year by employees leaving the Group. As a result of the forfeiture of the awards the cumulative expense recognised for prior periods was reduced by £29,092 (2016: £8,666) in accordance with accounting standards.

During the year no employees relinquished their rights to awards which had vested over ordinary 0.1p shares (2016: one employee relinquished awards over 400,000 ordinary 0.1p shares for a cash settlement of £58,616).

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2017

## 21. Share-based payment continued

### (c) Growth Share Plan ('GSP')

From 1 July 2016 the GSP was discontinued for new fund managers and for those where no value had been accrued. No awards were therefore made over Growth Shares in the year (2016: 100).

The fair value of the remaining Growth Shares has been estimated as at the date of grant in accordance with IFRS 2. The key inputs that determine the future value of the Growth Shares have been simulated using Monte Carlo analysis and the likely returns to the Growth Shares have been embedded in a discounted cash flow model to determine fair value. The potential returns of the Growth Shares have been simulated based on the observed volatility and standard deviation of key metrics and with assumptions for employee exit, forfeiture rates, annualised volatility and discount rates as set out below.

Vesting will occur in accordance with the table on page 64 assuming profitability has been achieved and AuM has increased in the relevant Fund Management Unit ('FMU'). At or following vesting, the holder may convert the Growth Shares into Miton Group plc ordinary 0.1p shares according to a specified valuation formula and the Miton Group plc share price at the time of conversion. The resulting Miton Group plc shares must be held for at least a further 12 months from the date of conversion, subject to Board discretion.

The Growth Shares only participate in the growth of the AuM and the profit of a particular FMU and therefore have greater inherent risk than Miton Group plc shares.

The fair value of the Growth Shares granted in the year was £Nil (2016: £93,000), of which £Nil (2016: £93,000) was charged to the Consolidated Statement of Comprehensive Income in the year.

### Exercise dates of outstanding equity incentives

Exercise dates	MIP	MEI	Total
Exercisable up to 18/05/2021 @ 10p per share	100,000	–	100,000
Exercisable up to 09/05/2019 @ 33p per share	–	2,186,262	2,186,262
Exercisable up to 07/07/2023 @ 10p per share	300,000	–	300,000
Exercisable up to 10/05/2019 @ 50p per share	–	2,186,262	2,186,262
Exercisable up to 07/12/2023 @ 20p per share	130,000	–	130,000
Exercisable up to 10/05/2021 @ 48.25p per share	–	750,000	750,000
Exercisable up to 10/05/2021 @ 50.325p per share	–	750,000	750,000
Exercisable up to 06/04/2017 and 06/04/2024 @ 35p per share	200,000	–	200,000
Exercisable between 31/03/2018 and 10/05/2021 @ 57.1875p per share	–	1,250,000	1,250,000
Exercisable between 31/03/2019 and 10/05/2024 @ 33p per share	–	2,225,000	2,225,000
Exercisable between 31/03/2019 and 10/05/2025 @ 33p per share	–	100,000	100,000
Exercisable between 31/03/2020 and 10/05/2026 @ 35.2p per share	–	250,000	250,000
	<b>730,000</b>	<b>9,697,524</b>	<b>10,427,524</b>

### Conversion dates for outstanding Growth Shares

The following conversion dates assume that the required relevant performance conditions will have already been met.

Conversion dates	Growth Shares
Convertible between September 2018 and October 2030	100

At 31 December 2017 all options that were outstanding can be summarised within a range of exercise prices as follows:

Range of exercise price	2017			2016		
	Outstanding options No.	Weighted average remaining contractual life (years)	Weighted average exercise price	Outstanding options No.	Weighted average remaining contractual life (years)	Weighted average exercise price
1p to 50p	8,427,524	3.23	37.59p	12,705,048	3.34	38.95p
50.01p to 100p	2,000,000	3.36	54.61p	2,000,000	4.35	54.61p
Weighted average	10,427,524	3.26	40.85p	14,705,048	3.48	41.08p

## 21. Share-based payment continued

### Management Equity Plan ('MEI')

The fair value of the awards granted in 2017 was based on the following assumptions:

	Award
Grant date	12 January 2017
Number of options granted	250,000
Share price at grant date	33.5p
Annualised volatility	34%
Risk-free interest rate at award date	0.88%
Expected dividend yield	3%
Term to vesting from grant date	36 months
Exercise price	35.2p
Expected life of option from grant date	3 years

The expected life of the equity incentives is based on historical data and is not necessarily indicative of exercise patterns that may occur. The annualised volatility is calculated using daily returns over a one-year period. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the outcome. A Black-Scholes valuation model has been used to estimate the fair value of these equity incentives. The risk-free interest rate is based on the 30-year UK Government bond rate.

## 22. Obligations under non-cancellable operating leases

At 31 December 2017 the Group had future commitments under non-cancellable operating leases for land and buildings and office equipment as set out in the periods below:

	2017 £000	2016 £000
Not more than one year	365	391
After one year but not more than five years	24	360
	<b>389</b>	751

# Company Financial Statements

## 31 December 2017



# Statement of Directors' Responsibilities in relation to the Parent Company Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping 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 also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Company Statement of Changes in Equity

for the year ended 31 December 2017

	Share capital £000	Share premium £000	Employee Benefit Trust £000	Treasury shares £000	Merger reserve £000	Capital redemption reserve £000	Retained earnings £000	Total £000
As at 1 January 2016	171	2,661	(6,520)	(26)	5,658	–	26,299	28,243
Profit for the year	–	–	–	–	–	–	817	817
Dividends paid	–	–	–	–	–	–	(1,012)	(1,012)
Release of Treasury shares	–	–	–	15	–	–	–	15
Purchase of Employee Benefit Trust shares	–	–	(10)	–	–	–	–	(10)
Share-based payment	–	–	–	–	–	–	1,214	1,214
Share issues on exchange of Growth Shares	7	–	–	–	–	–	(7)	–
Settlement of options	–	–	–	–	–	–	(159)	(159)
<b>At 1 January 2017</b>	<b>178</b>	<b>2,661</b>	<b>(6,530)</b>	<b>(11)</b>	<b>5,658</b>	<b>–</b>	<b>27,152</b>	<b>29,108</b>
Profit for the year	–	–	–	–	–	–	237	237
Dividends paid	–	–	–	–	–	–	(1,509)	(1,509)
Release of Treasury shares	–	–	–	7	–	–	–	7
Share-based payment	–	–	–	–	–	–	548	548
Share issues on exchange of Growth Shares	10	–	–	–	–	–	(10)	–
Cancellation of ordinary shares	(15)	–	–	–	–	15	(5,965)	(5,965)
Settlement of options	–	–	–	–	–	–	(220)	(220)
<b>At 31 December 2017</b>	<b>173</b>	<b>2,661</b>	<b>(6,530)</b>	<b>(4)</b>	<b>5,658</b>	<b>15</b>	<b>20,233</b>	<b>22,206</b>

The notes on pages 72 to 75 form part of these financial statements.



# Company Statement of Financial Position

as at 31 December 2017

	Notes	2017 £000	2016 £000
<b>Non-current assets</b>			
Intangible assets	2	537	817
Investments in subsidiaries	3	31,410	30,966
Other investments	4	50	50
		<b>31,997</b>	<b>31,833</b>
<b>Current assets</b>			
Trade and other receivables	6	345	418
Cash and cash equivalents	7	2,175	3,413
		<b>2,520</b>	<b>3,831</b>
<b>Creditors: amounts falling due within one year</b>			
Creditors	8	12,011	6,205
Provisions	9	285	–
		<b>12,296</b>	<b>6,205</b>
<b>Net current liabilities</b>			
		<b>(9,776)</b>	<b>(2,374)</b>
<b>Total assets less current liabilities</b>			
		<b>22,221</b>	<b>29,459</b>
<b>Creditors: amounts falling due greater than one year</b>			
Provisions	9	(15)	(187)
Deferred tax liability	5	–	(164)
<b>Non-current liabilities</b>			
		<b>(15)</b>	<b>(351)</b>
<b>Net assets</b>			
		<b>22,206</b>	<b>29,108</b>
<b>Capital and reserves</b>			
Share capital	10	173	178
Share premium		2,661	2,661
Employee Benefit Trust		(6,530)	(6,530)
Treasury shares		(4)	(11)
Merger reserve		5,658	5,658
Capital redemption reserve		15	–
Retained earnings		20,233	27,152
<b>Total equity shareholders' funds</b>			
		<b>22,206</b>	<b>29,108</b>

The Company's profit after taxation for the year ended 31 December 2017 was £237,000 (2016: £817,000).

These accounts were approved and authorised for issue by the Board on 16 March 2018 and signed on its behalf by:

**David Barron**  
Chief Executive Officer  
16 March 2018

The notes on pages 72 to 75 form part of these financial statements.

# Notes to the Company Financial Statements

for the year ended 31 December 2017

## 1. Accounting policies

### Basis of preparation and change in accounting policy

The Parent Company financial statements of Miton Group plc (the 'Company') are presented as required by the Companies Act 2006 and were approved for issue on 16 March 2018.

### Framework under UK GAAP

The Company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the Company for the year ended 31 December 2017.

No Company Statement of Comprehensive Income account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

The Company accounting policies are as per the Group policies stated on pages 50 to 53 except for basis of consolidation, goodwill and deferred tax. In addition to these are the following policies applicable to the Company financial statements:

### Going concern

The Directors have prepared the Company financial statements on a going concern basis despite the net current liabilities position at 31 December 2017 as the Company has adequate cash reserves and distributable reserves in its subsidiaries.

### Investments in subsidiaries and other investments

Investments in subsidiaries and other investments are carried in the Company's Statement of Financial Position at the lower of cost and recoverable amount. The carrying value is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

### Deferred taxation

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements except that:

- provision is made for the deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable;
- where there are differences between amounts that can be deducted for tax for assets (other than goodwill) and liabilities compared with the amounts that are recognised for those assets and liabilities in a business combination a deferred tax liability/(asset) shall be recognised. The amount attributed to goodwill is adjusted by the amount of the deferred tax recognised; and
- unrelieved tax losses and other deferred tax assets are recognised only to the extent that the Directors consider that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### Related party transactions

The Parent Company wholly owns the subsidiaries and is part of a UK group which prepares publicly available consolidated financial statements in which the results of the Company are included, and it is therefore exempt from the requirements to disclose related party transactions.

### Cash flow statement

The Parent Company wholly owns the subsidiaries and is part of a UK group which prepares publicly available consolidated financial statements in which the results of the Company are included, and it is therefore exempt from the requirement to prepare a cash flow statement under FRS 102 Section 1.12 (b).

## 2. Intangible assets

Intangible  
assets arising  
on acquisition  
£000

<b>Cost</b>	
At 1 January 2017 and 31 December 2017	<b>1,400</b>
<b>Amortisation during the year</b>	
At 1 January 2017	583
Amortisation during the year	280
<b>At 31 December 2017</b>	<b>863</b>
<b>Net book value:</b>	
At 31 December 2017	<b>537</b>
At 31 December 2016	817

## 3. Investments in subsidiaries

Other  
investments  
£000

<b>Cost and net book value:</b>	
At 31 December 2017	<b>31,410</b>
At 31 December 2016	30,966

## 4. Other investments

Other  
investments  
£000

<b>Cost and net book value:</b>	
At 31 December 2017	<b>50</b>
At 31 December 2016	50

Other investments consist of management shares in one investment trust managed by the Group. The shares are non-voting and non-redeemable, upon a winding-up or on a return of capital of the underlying Trust the Group shall only receive the fixed amount of capital paid upon such shares and no right to any surplus capital or assets belonging to the Trust shall confer.

## 5. Deferred tax

	2017 £000	2016 £000
Deferred tax liability at the beginning of the year	164	218
The movement in the provision is as follows:		
Deferred tax movements credited to the Statement of Comprehensive Income	(164)	(54)
<b>Deferred tax liability at the year end</b>	<b>–</b>	<b>164</b>

## 6. Trade and other receivables

	2017 £000	2016 £000
Other debtors	210	211
Prepayments	125	129
Amounts due from Group companies	–	50
Corporation tax	10	28
	<b>345</b>	<b>418</b>

# Notes to the Company Financial Statements (continued)

for the year ended 31 December 2017

## 7. Cash and cash equivalents

	2017 £000	2016 £000
Cash at bank and in hand	2,175	3,413

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

	2017 £000	2016 £000
Other creditors	54	74
Accruals	50	106
Amounts due to Group companies	11,907	6,025
	12,011	6,205

## 9. Provisions

	Total £000
At 1 January 2016	89
Provided	98
At 31 December 2016	187
Current	–
Non-current	187
	187
At 1 January 2017	187
Provided	113
At 31 December 2017	300
Current	285
Non-current	15
	300

Provisions relate to dilapidations for the offices at 6th Floor, Paternoster House, London, and the Group's disaster recovery office in Reading. The lease on Paternoster House expires on 28 November 2018. The provision for dilapidations on this office has been disclosed as current.

## 10. Share capital

	2017 Ordinary shares 0.1 pence each No. 000	2016 Ordinary shares 0.1 pence each No. 000
Allotted, called up and fully paid: No. of shares		
At 1 January	177,528	170,921
Cancelled	(15,153)	–
Issued on exchange of Growth Shares	10,260	6,607
At 31 December	172,635	177,528

	2017 Ordinary shares 0.1 pence each £000	2016 Ordinary shares 0.1 pence each £000
Allotted, called up and fully paid: Value of shares		
At 1 January	178	171
Cancelled	(15)	–
Issued on exchange of Growth Shares	10	7
At 31 December	173	178

## 10. Share capital continued

On 18 October 2017 an employee elected to exercise his right to exchange 60 FMU B Growth Shares in Miton Group Service Company Limited for ordinary 0.1p shares in the Company. As a result of the exchange the Company allotted 6,156,120 shares at a price of 40.5p per share.

On 18 October 2017 Gervais Williams, a Director of the Company, elected to exercise his right to exchange 40 FMU B Growth Shares in Miton Group Service Company Limited for ordinary 0.1p shares in the Company. As a result of the exchange the Company allotted 4,104,080 shares at a price of 40.5p per share.

During the year the Group completed two share buyback programmes. See note 7 to the Consolidated Financial Statements for further detail.

## 11. Share-based payment

The share-based payments as at 31 December 2017 and 31 December 2016 are as detailed in note 21 to the Consolidated Financial Statements.

## 12. Management Equity Incentive ('MEI')

During 2017 the Group granted three awards over 250,000 ordinary 0.1p shares (2016: one award over 100,000 ordinary 0.1p shares) which will vest subject to market and non-market conditions.

Awards over 25,000 ordinary 0.1p shares were forfeited during the year (2016: 3,238,000) by employees leaving the Group. As a result of the forfeiture of the awards the cumulative expense recognised for prior periods was reduced by £457 (2016: £204,132) in accordance with accounting standards.

Ian Dighé stepped down as Executive Chairman on 16 March 2017. The Trustees of the EBT acquired Mr Dighé's interests in awards over the following ordinary 0.1p shares on 19 May 2017 for a cash consideration of £220,000:

- Award over 2,186,262 shares at a subscription price of 33p per share which could be exercised up until 40 days after the date on which the Company publishes its preliminary results for the year ending 31 December 2018; and
- Award over 2,186,262 shares at a subscription price of 50p per share which could be exercised up until 40 days after the date on which the Company publishes its preliminary results for the year ending 31 December 2018.

After the year end, on 16 February 2018 the Group granted MEI awards over 1,100,000 ordinary 0.1p shares in the Company to seven employees. The awards have an exercise price of 49.2p and vest subject to continued employment on the date at which the Company publishes its results for the year ending 31 December 2020.

## 13. Management Incentive Plan ('MIP')

During 2017 the Group granted no awards (2016: Nil).

No awards over ordinary 0.1p shares were cancelled during the year (2016: 450,000) as a result of employees leaving the Group after the awards had vested.

Awards over 130,000 ordinary 0.1p shares (2016: 75,000) were forfeited during the year by employees leaving the Group. As a result of the forfeiture of the awards the cumulative expense recognised for prior periods was reduced by £29,092 (2016: £8,666) in accordance with accounting standards.

During the year no employees relinquished their rights to awards which had vested over ordinary 0.1p shares (2016: 1 employee relinquished awards over 400,000 ordinary 0.1p shares for a cash settlement of £58,616).

## 14. Commitments under operating leases

At 31 December 2017 the Company had future commitments under non-cancellable operating leases for land and buildings as set out in the periods below.

	2017 £000	2016 £000
Not later than one year	354	384
Later than one year and not later than five years	6	360
	<b>360</b>	<b>744</b>

## Shareholder Information and Financial Calendar

Annual General Meeting	8 May 2018
2018 half year results announced	September 2018
2018 full year results announced	March 2019
Closing mid-market share price on 31 December 2017	37.25p
Stock Code	MGR
Listing details	The Company's ordinary shares are AIM quoted. The price of the ordinary shares appears within the AIM section of the Financial Times.

## Secretary and Advisers

### Company Secretary and Registered Office

Catriona Fletcher  
Miton Group plc  
6th Floor, Paternoster House  
65 St Paul's Churchyard  
London  
EC4M 8AB  
Tel: 020 3714 1500

### Registrars

Link Market Services Limited  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU  
Tel: 0871 664 0300

### Auditors

Ernst & Young LLP  
25 Churchill Place  
Canary Wharf  
London  
E14 5EY

### Bankers

Bank of Scotland plc  
33 Old Broad Street  
London  
EC2N 1HW

Barclays Bank plc  
1 Churchill Place  
London  
E14 5HP

HSBC  
165 Fleet Street  
London  
EC4A 2DY

### Nominated Adviser and Broker

Peel Hunt LLP  
Moor House  
120 London Wall  
London  
EC2Y 5ET

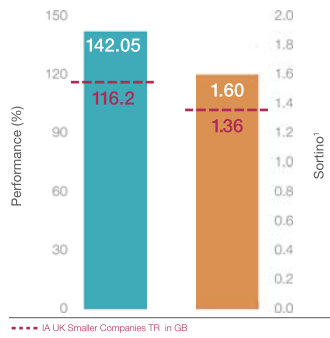
Company registration number 5160210

# Investment Performance and Sortino Ratios

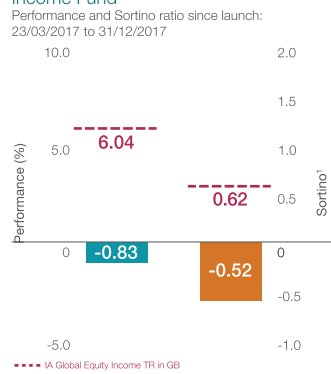
The Sortino ratio is similar to the Sharpe ratio, using the downside risk rather than standard deviation as the denominator. The Sortino ratio is calculated by subtracting the risk-free rate from the return of the portfolio and then dividing by the downside deviation. Thus, a large Sortino ratio indicates a lower risk. The Sortino ratio measures the return to 'bad' volatility, thereby giving investors a measure to assess risk in a better manner than simply looking at excess return relative to total volatility.

## Equity

**LF Miton UK Smaller Companies Fund**  
Performance and Sortino ratio since inception:  
14/12/2012 to 31/12/2017

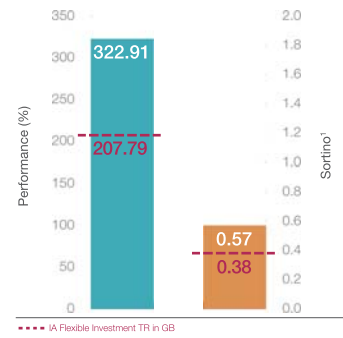


**LF Miton Global Infrastructure Income Fund<sup>3</sup>**  
Performance and Sortino ratio since launch:  
23/03/2017 to 31/12/2017

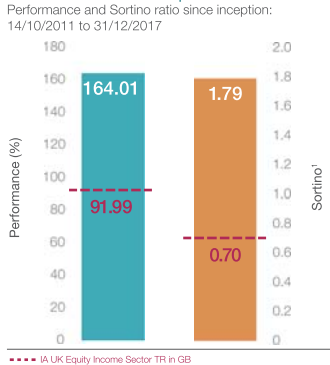


## Fund of Investment Trusts

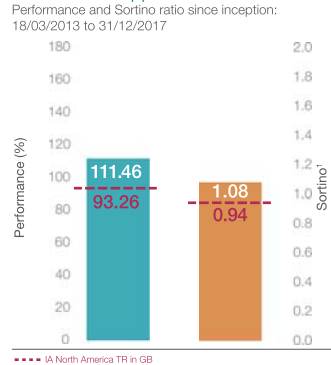
**LF Miton Worldwide Opportunities Fund**  
Performance and Sortino ratio since inception:  
30/04/2003 to 31/12/2017



**LF Miton UK Multi Cap Income Fund**  
Performance and Sortino ratio since inception:  
14/10/2011 to 31/12/2017

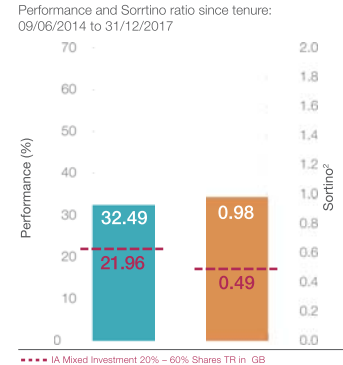


**LF Miton US Opportunities Fund**  
Performance and Sortino ratio since inception:  
18/03/2013 to 31/12/2017

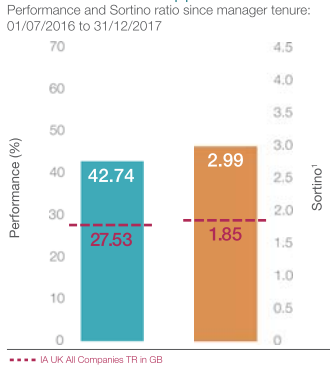


## Multi-asset

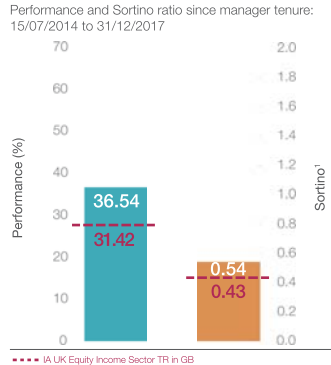
**LF Miton Cautious Multi Asset Fund**  
Performance and Sortino ratio since tenure:  
09/06/2014 to 31/12/2017



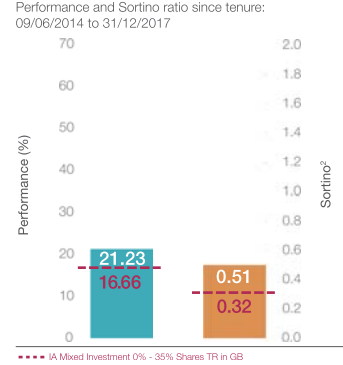
**LF Miton UK Value Opportunities Fund**  
Performance and Sortino ratio since manager tenure:  
01/07/2016 to 31/12/2017



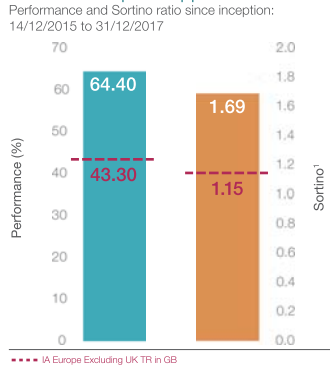
**FP Miton Income Fund**  
Performance and Sortino ratio since manager tenure:  
15/07/2014 to 31/12/2017



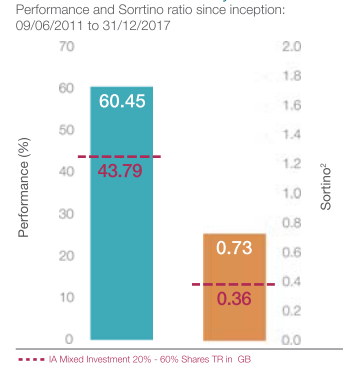
**LF Miton Defensive Multi Asset**  
Performance and Sortino ratio since tenure:  
09/06/2014 to 31/12/2017



**LF Miton European Opportunities Fund**  
Performance and Sortino ratio since inception:  
14/12/2015 to 31/12/2017



**MI Miton Cautious Monthly Income Fund**  
Performance and Sortino ratio since inception:  
09/06/2011 to 31/12/2017



### Notes

- Sortino calculation is compared to the sector and is based upon the B accumulation share class/units, net income reinvested, and calculated using weekly data points. The final figure note above is annualised.
- Sortino calculation is compared to the sector and is based upon the B accumulation share class/units, net income reinvested, and calculated using monthly data points. The final figure note above is annualised.
- Fund launched on 23 March 2017.

## Product Range

as at 16 March 2018

### Equity

#### LF Miton UK Multi Cap Income Fund

The LF Miton UK Multi Cap Income Fund aims to provide an attractive level of dividends coupled with some capital growth over the long term. The fund invests primarily in UK quoted companies, with a long-term bias to smaller and medium sized companies.

#### LF Miton UK Smaller Companies Fund

The LF Miton UK Smaller Companies Fund aims to achieve long-term total returns by investing primarily in UK smaller quoted companies. The fund focuses on genuine smaller companies investing primarily in AIM, small cap and fledgling businesses.

#### LF Miton UK Value Opportunities Fund

The LF Miton UK Value Opportunities Fund aims to achieve long-term capital growth by investing in companies whose embedded value is yet to be reflected in their market value.

#### LF Miton European Opportunities Fund

The LF Miton European Opportunities Fund seeks to achieve a combination of income and growth by investing predominantly in the shares of European companies with a bias towards medium sized businesses.

#### LF Miton US Opportunities Fund

The LF Miton US Opportunities Fund aims to achieve long-term total returns by investing primarily in a portfolio of North American equities across the market cap spectrum.

#### LF Miton US Smaller Companies Fund

The LF Miton US Smaller Companies Fund aims to achieve capital growth by investing principally in the shares of smaller companies listed, quoted or traded in the United States of America and in companies which have a significant part of their activities in the United States of America, typically with market values of US\$ 100 million to US\$ 6 billion at the time of purchase.

#### LF Miton Global Infrastructure Income Fund

The LF Miton Global Infrastructure Income Fund aims to achieve long-term total returns by investing predominantly in global company shares issued by infrastructure companies operating in the infrastructure sector.

#### FP Miton Income Fund

The FP Miton Income Fund aims to achieve a reasonable and rising income together with long-term capital growth by investing primarily in UK quoted companies but may invest internationally.

### Fund of investment trusts

#### LF Miton Worldwide Opportunities Fund

The LF Miton Worldwide Opportunities Fund aims to provide capital growth by investing primarily in a range of both open ended and closed ended funds.

### Multi-asset

#### LF Miton Cautious Multi Asset Fund

The LF Miton Cautious Multi Asset Fund is a global fund investing across the major asset classes such as equities, fixed income, property and commodities. It aims to provide long-term capital growth.

#### LF Miton Defensive Multi Asset Fund

The LF Miton Defensive Multi Asset Fund aims to achieve modestly above inflation returns with lower volatility than equity markets over a five year period from an actively managed portfolio of UK and international assets including equities, bonds and indirectly in both property and commodities.

#### LF Miton Balanced Multi Asset Fund

The LF Miton Balanced Multi Asset Fund aims to achieve long-term (greater than 5 years) capital growth by investing in a portfolio of global mixed assets comprising of equities, fixed income securities, property and commodities.

#### MI Miton Cautious Monthly Income Fund

The MI Miton Cautious Monthly Income Fund aims to provide an increasing level of income over a three to five year rolling period, with the potential for capital growth by investing in a diversified mix of assets from around the world, including shares and bonds.

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### Closed ended funds

#### The Diverse Income Trust plc

The Company's investment objective is to provide shareholders with an attractive and growing level of dividends coupled with capital growth over the long term. The Company invests in quoted or traded UK companies with a wide range of market capitalisations and long-term bias toward small cap and mid cap equities.

#### The Investment Company plc

The Company's investment objective is to provide shareholders with an attractive level of dividends coupled with capital growth over the long term through investment in a portfolio of equities, preference shares, loan stocks, debentures and convertibles.

#### Miton Global Opportunities plc

The Company's investment objective is to outperform three month LIBOR +2% over the longer term, principally through exploiting inefficiencies in the pricing of closed ended funds.

#### Miton UK MicroCap Trust plc

The Company's investment objective is to provide shareholders with capital growth over the long term. The Company invests in the smallest companies measured by their market capitalisation, quoted or traded on an exchange in the United Kingdom.

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[www.mitongroup.com](http://www.mitongroup.com)

Miton Group plc  
6th Floor, Paternoster House  
65 St Paul's Churchyard  
London EC4M 8AB