

Ned Davis Research, Inc.

Balance Sheet

September 30, 2016

Ned Davis Research, Inc.
Balance Sheet
September 30, 2016
Index

| | Page(s) |
|---|----------------|
| Report of Independent Auditors | 1-2 |
| Balance Sheet | 3 |
| Notes to Balance Sheet | 4-8 |



Report of Independent Auditors

To the Directors and Stockholders of
Ned Davis Research, Inc.

We have audited the accompanying balance sheet of Ned Davis Research, Inc. as of September 30, 2016.

Management's Responsibility for the Balance Sheet

Management is responsible for the preparation and fair presentation of the balance sheet in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a balance sheet that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the balance sheet based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the balance sheet. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the balance sheet, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the balance sheet in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the balance sheet. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the accompanying balance sheet presents fairly, in all material respects, the financial position of Ned Davis Research, Inc. as of September 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Boston, Massachusetts
December 22, 2016

Ned Davis Research, Inc.
Balance Sheet
September 30, 2016

| | 2016 |
|---|----------------------|
| Assets | |
| Current assets | |
| Accounts receivable, net (Note 3) | \$ 6,354,039 |
| Prepared expenses | 732,636 |
| Deferred income tax assets (Note 9) | <u>891,521</u> |
| Total current assets | 7,978,196 |
| Property and equipment, net (Note 4) | 1,092,880 |
| Note receivable - Related parties (Note 8) | 36,343,529 |
| Deposits | <u>32,146</u> |
| Total assets | <u>\$ 45,446,751</u> |
| Liabilities | |
| Current liabilities | |
| Bank overdraft | \$ 154,662 |
| Accounts payable | 189,719 |
| Accrued liabilities | 4,335,321 |
| Due to affiliate | 153,549 |
| Deferred revenue | <u>4,919,401</u> |
| Total liabilities | <u>\$ 9,752,652</u> |
| Commitments and contingencies (Note 6) | |
| Stockholders' equity | |
| Capital stock | |
| Common stock, \$1 par value, 200,000 shares authorized; 6,980 shares issued and outstanding | \$ 6,980 |
| Additional paid-In capital | 4,987,570 |
| Retained earnings | <u>30,699,549</u> |
| Total stockholders' equity | <u>\$ 35,694,099</u> |
| Total liabilities and stockholders' equity | <u>\$ 45,446,751</u> |

Approved by the Board of Directors

Director

Director

The accompanying notes are an integral part of this balance sheet.

Ned Davis Research, Inc.

Notes to Balance Sheet

September 30, 2016

1. Organization

Ned Davis Research, Inc. (the "Company") is registered with the United States Securities and Exchange Commission as a registered investment adviser. Its primary activities include producing and distributing investment research, reports, services, and products for use by investment professionals including portfolio managers, pensions, endowments, and advisors in the United States and overseas. In addition, the Company acts as an investment adviser to investment companies.

On July 29, 2011, the Company sold 5,740 shares of its issued and outstanding voting stock to EII Holdings, Inc., a subsidiary of Euromoney Institutional Investor PLC, ("Euromoney") a public company limited by shares under the laws of England and Wales.

As the acquired company, the Company was not required to record acquisition accounting adjustments under accounting principles generally accepted in the United States of America (US GAAP), and no such adjustments were recorded.

2. Summary of Significant Accounting Policies

Cash

The Company maintains cash in various United States financial institutions that at times may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash. As a subsidiary of Euromoney, the Company has a daily sweep agreement whereby the Company's operating funds are swept in or out as needed on a daily basis. As such the Company's operating bank account maintains a zero-dollar daily balance.

Use of Estimates

The preparation of a balance sheet in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet. Actual results could differ from those estimates.

Property and Equipment

Property and equipment are carried at cost. Expenditures for maintenance and repairs are expensed currently, while improvements that enhance the property and equipment are capitalized if they materially extend the life of an asset. The cost of assets sold, retired, or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is recognized.

Property and equipment are depreciated over their estimated useful lives ranging from three to four years, using the straight-line method. Leasehold improvements are depreciated over the lesser of the expected lease term or estimated useful lives using the straight-line method.

Ned Davis Research, Inc.
Notes to Balance Sheet
September 30, 2016

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the long-lived assets may not be recovered. The carrying amount of an asset or asset group is deemed not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group. When the carrying amount is determined to be not recoverable, an impairment charge is recognized in an amount equal to the excess of the carrying amount of the asset or asset group over its fair value. No impairment charge was recognized during the year ended September 30, 2016.

Income Taxes

The Company accounts for income taxes under the liability method, which recognizes deferred tax assets or liabilities for the expected future tax consequences based on the differences between the financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate, in effect when the differences are expected to reverse. Valuation allowances are provided if based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Significant management judgment is required in determining the Company's provision for income taxes, the Company's deferred tax assets and liabilities and any valuation allowance recorded against those net deferred tax assets.

The Company accounts for uncertainty in income taxes following guidance that prescribes a recognition threshold which a tax position is required to meet before being recognized in the financial statements and provides guidance on de-recognition measurement, classification, interest and penalties, disclosure and transition issues. Based on the Company's evaluation it has concluded that as of September 30, 2016, there are no uncertain tax positions that met the threshold for recognition or disclosure in the financial statements.

Revenue and Deferred Revenue Recognition

The Company recognizes revenue as earned. The Company ratably recognizes revenue over the total period that services are to be provided. When the Company collects revenue in advance of being earned, a deferred revenue liability is recorded for the unearned portion.

3. Accounts Receivable

Accounts receivable consist of the following:

| | 2016 |
|---------------------------------------|---------------------|
| Trade accounts receivable | \$ 6,478,873 |
| Other | 166 |
| Less: Allowance for doubtful accounts | (125,000) |
| Net accounts receivable | <u>\$ 6,354,039</u> |

Trade accounts receivable consist of amounts due from customers generally in the financial services industry. The Company performs ongoing evaluations of its customers' financial condition. The Company does not require collateral. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make contractually obligated payments. When evaluating the adequacy of the allowance for doubtful accounts, the Company makes judgments regarding the collectability of accounts receivable by specifically analyzing historical bad debts, customer concentrations, current economic trends, and

Ned Davis Research, Inc.
Notes to Balance Sheet
September 30, 2016

changes in the customer payment terms. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required and if the financial condition of the Company's customers were to improve, the allowances may be reduced accordingly.

4. Property and Equipment

The Components of property and equipment are as follows:

| | 2016 |
|--------------------------------|---------------------|
| Computer equipment | \$ 1,521,607 |
| Computer software | 1,867,911 |
| Furniture and fixtures | 179,304 |
| Leasehold improvements | <u>1,071,270</u> |
| | 4,640,092 |
| Less: Accumulated depreciation | <u>3,547,212</u> |
| Net property and equipment | <u>\$ 1,092,880</u> |

5. Retirement Plan

The Company offers a 401(k) profit-sharing plan to eligible employees. The Company matches 50% of all qualifying employee contributions up to a maximum of 6% of the employee's compensation in accordance with Internal Revenue Service regulations.

6. Commitments and Contingencies

Minimum future lease payments under non-cancelable operating leases with terms in excess of one year are as follows:

| | 2016 |
|------|---------------------|
| 2017 | \$ 572,067 |
| 2018 | 442,108 |
| 2019 | 401,386 |
| 2020 | <u>290,525</u> |
| | <u>\$ 1,706,086</u> |

From time to time, the Company may be subject to legal or regulatory proceedings, arising out of the ordinary course of its business. Management believes that any losses resulting from the resolution of such proceedings would not have a material adverse effect on the Company's balance sheet.

Ned Davis Research, Inc.
Notes to Balance Sheet
September 30, 2016

7. Related Parties

The Company leases office space from a separate entity, Bird Bay Properties, LLC, which is owned by a minority shareholder of the Company. Total rent expense related to the facility for the year ended September 30, 2016 was \$381,670 and \$0 was accrued and included in accrued liabilities at September 30, 2016. At September 30, 2016, minimum rental payments due under this lease were \$387,367 in 2017.

8. Note Receivable – Related Parties

The Company has agreed to loan up to \$50,000,000 to EII Holdings, Inc. and affiliates. As of September 30, 2016 the Company had advanced \$36,343,529. Interest is payable at a fixed annual rate of 2.05633%, and matures on September 28, 2017. The borrower, EII Holdings, Inc. can pay all or any part of the loan at any time before the repayment date with the agreement of the Company. If the borrower repays the entire loan, the amount repayable will be principal plus all interest accrued. Because the intent is to roll the balance forward from year to year, the note receivable is classified as a non-current asset.

9. Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at September 30, 2016 are presented below:

| | 2016 |
|--|-------------------|
| Deferred tax assets | |
| Depreciation | \$ 260,111 |
| Accrued liabilities | 545,683 |
| Other deductible temporary differences | <u>85,727</u> |
| Total deferred tax assets | <u>\$ 891,521</u> |

The Company is no longer subject to income tax examinations for years prior to 2012.

The Company files consolidated income tax returns with Euromoney and records its share of the consolidated provision for income taxes on a separate-return basis.

In the future, should the Company have taxable income and should Euromoney have net operating losses that are used to offset taxable income, the Company would record current income taxes payable to Euromoney.

Ned Davis Research, Inc.
Notes to Balance Sheet
September 30, 2016

10. Stockholders' Equity

Common Stock

The Company is authorized to issue up to 200,000 shares of common stock with a par value \$1 per share.

Euromoney is the primary shareholder, owning 83% of the outstanding common stock of the Company as of September 30, 2016. The remaining 17% minority shareholders of common stock consist of 7 individuals, the largest being Ned Davis, who owns 13% of the outstanding common stock as of September 30, 2016.

11. Subsequent Events

The Company evaluated subsequent events and transactions occurring after September 30, 2016 through December 22, 2016, the date this consolidated balance sheet was available for issuance. The Company is not aware of any additional subsequent events which would require recognition or disclosure in the financial statements.