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BNY Mellon Earnings Climb 50% as Fees Rise With Custody Assets  
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By Charles Stein

(Bloomberg) -- Bank of New York Mellon Corp., under pressure from activist investors to improve results, reported a 50 percent increase in second-quarter profit as the stock market rally lifted assets and fees for overseeing them.

Net income rose to \$830 million, or 73 cents a share, from \$554 million or 48 cents, a year earlier, the New York-based company said in a statement. Earnings a year ago were reduced by 14 cents a share because of costs related to investment funds and severance. Analysts had expected profit of 64 cents a share, the average of seven estimates compiled by Bloomberg.

Led by Chief Executive Officer Gerald Hassell, BNY Mellon has worked to keep its expenses from rising as persistently low interest rates make it difficult to boost revenues. Marcato Capital Management and Trian Fund Management targeted the custody bank after it lagged behind rivals in key measures of profitability.

"With the activists swimming around, they have been forced to stay disciplined on expenses," Marty Mosby, an analyst with Vining Sparks in Memphis, Tennessee, said in a telephone interview before the earnings were released.

The bank in May said it would pay \$180 million to settle a class-action lawsuit related to its foreign-exchange business.

In March, BNY Mellon agreed to pay \$714 million to settle allegations by the U.S. and New York state that it defrauded clients in currency transactions for as long as a decade.

Those costs add to headwinds from low interest rates, which have reduced returns on deposits and forced the bank and many of its rivals to waive fees on money-market funds. Hassell has responded by cutting expenses and selling assets, including the bank's headquarters, an Art Deco skyscraper at 1 Wall Street.

Marcato, Trian

The pace of change hasn't been fast enough to satisfy Marcato, the San Francisco-based firm founded by Mick McGuire.

BNY Mellon could reduce headcount aggressively from its "bloated employee base," Marcato said in a March slide presentation.

Trian, the New York-based activist firm founded in 2005 by Nelson Peltz, Peter May and Ed Garden, has taken a different approach and pledged to work with management.

Billionaire David Einhorn's Greenlight Capital has bought shares in BNY Mellon this year, anticipating the bank will benefit from an increase in interest rates. A combination of rising revenue and expense cuts will help improve results, Einhorn told clients in a letter this month.

BNY Mellon shares have gained 5.9 percent this year through yesterday, compared with a 0.4 percent gain in the Standard & Poor's 19 member index of asset managers and custody banks.

Assets at BNY Mellon got a boost as U.S. stocks returned 7.4 percent, including reinvested dividends, in the 12 months ended June 30.

Custody banks keep records, track performance and lend securities for institutional investors. BNY Mellon, whose competitors State Street Corp. and Northern Trust Corp. report earnings later this week, also manages investments for individuals and institutions.

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