

ASX Release

BT Investment Management Limited announces strong result delivering Cash NPAT of \$83.1 million for the half year ending 31 March 2014

BT Investment Management Limited (BTIM) today announced a Cash net profit after tax (Cash NPAT) of \$83.1 million for the half year ending 31 March 2014, an increase of 143 per cent on the previous corresponding period (pcp). Statutory NPAT was up 243 per cent to \$78.3 million.

Cash earnings per share (Cash EPS) was 28.0 cents per share, an increase of 137 per cent since 31 March 2013. An interim dividend of 16.0 cents per share was declared, an increase of 100 per cent on pcp.

Mr. Emilio Gonzalez, BTIM's CEO, said, "Our business has been particularly strong due to the continued strength of our offshore business (JOHCM), higher markets, excellent investment performance and the growing success of new investment strategies."

| | 1H 2014 | 1H 2013 | Movement |
|----------------------------------|----------|----------|----------|
| Half year ended 31 March: | | | |
| ➤ Cash NPAT ⁱ | \$83.1m | \$34.2m | ⬆ 143% |
| ➤ Statutory NPAT | \$78.3m | \$22.8m | ⬆ 243% |
| ➤ Fee Revenue | \$255.3m | \$133.8m | ⬆ 91% |
| ➤ Base Management Fees | \$137.8m | \$98.1m | ⬆ 40% |
| ➤ Base Management Fee Margin | 45 bps | 40 bps | ⬆ 12% |
| ➤ Performance Fees | \$114.7m | \$33.5m | ⬆ 243% |
| ➤ Operating Expenses | \$152.6m | \$88.7m | ⬆ 72% |
| ➤ Operating Margin | 40.0% | 34.2% | ⬆ 19% |
| ➤ Cash EPS | 28.0cps | 11.8 cps | ⬆ 137% |
| ➤ Interim Dividend ⁱⁱ | 16.0cps | 8.0 cps | ⬆ 100% |
| ➤ Average FUM | \$61.3bn | \$48.5bn | ⬆ 26% |
| As at 31 March: | | | |
| ➤ Closing FUM | \$62.1bn | \$50.4bn | ⬆ 23% |

Note: footnotes are detailed on page 4

Commenting on the business highlights of the result, Mr Gonzalez said, "It has been very pleasing to see the operating leverage coming through our business. Strong inflows offshore and a better mix of assets, along with higher average FUM and exceptional performance fees, have contributed to overall margin expansion across the business."

Mr Gonzalez added, "We are also encouraged by the demand we are seeing for our new products and strategies both in Australia and offshore. These are providing new sources of growth and opportunities for the business."

Financial Results

Cash NPAT was \$83.1 million, 143 per cent higher than pcp. The strong increase in cash NPAT was due to a significant increase in fee revenue, particularly performance fees, as well as an increase in higher average funds under management (FUM). Overall fee revenue of \$255.3 million was 91 per cent higher than pcp, while average FUM increased 26 per cent on pcp to \$61.3 billion.

Base management fees rose 40 per cent to \$137.8 million driven by higher average FUM, and an increased share of higher margin FUM. In the six months to 31 March 2014, base management fee margins expanded to 45 basis points from 40 basis points in the pcp.

Performance fees totalled \$114.7m for the half, driven by stellar performance from JOHCM which contributed \$113.6 million across 14 different investment strategies.

Total cash operating expenses increased 72 per cent to \$152.6 million, largely as a result of higher variable employee costs linked to increased base management and performance fees. Other operating costs increased as the business built out its US presence, and invested in the ongoing development of new products. Importantly, despite cash operating expenses increasing, operating margins expanded to 40 per cent from 34 per cent in the pcp.

The average AUD/GBP exchange rate in the six months to 31 March 2014 was 15 per cent lower than the corresponding rate for pcp and this benefit flowed into the results for the half.

Funds under management

Average FUM increased 26 per cent on pcp to \$61.3 billion, assisted by positive markets which saw the average level of the S&P/ASX 300 Index increase by 12 per cent and the MSCI ACWI (GBP) rise by 15 per cent when compared to pcp.

In the six months to 31 March 2014, closing FUM was up 6.5 per cent from \$58.3 billion to \$62.1 billion. The increase in FUM can be attributed to a \$2.2 billion increase from the combination of positive market movements and investment outperformance, net inflows of \$0.7 billion, and a positive foreign exchange translation impact of \$0.9 billion.

JOHCM had \$1.5 billion of net inflows during the period, mostly through the higher margin wholesale channel (OEIC's and US mutual funds). BTIM (Australia) experienced net outflows of \$0.8 billion, predominantly in lower margin cash and fixed income products and from the ongoing structural decline in the legacy book.

UK equities experienced strong demand during the period, receiving \$0.6 billion of net inflows while European equities (+\$0.4 billion), Global equities (+\$0.2 billion) and Asian equities (+\$0.2 billion) also experienced strong demand from investors. Cash and Fixed Income saw net outflows, in line with reduced yields in these product areas. Diversified funds had outflows of \$0.4 billion mainly related to monies managed in the legacy book. Pleasingly, the BT Equity Income products, launched in late 2012 and targeted at both the high net worth and retail investor segments, continued to receive strong inflows reaching \$460 million in FUM at 31 March 2014.

Importantly, the business continues to experience growth in its wholesale client base. Wholesale clients contributed \$172 million to total fee revenue during the half year, an increase of 134 per cent on pcp. Wholesale client revenue now represents 68 per cent of total fee revenue, which compares to 56 per cent in the first half of 2013, and 42 per cent in the first half of 2012.

Investment performance

Fund performance across the group remains strong with 58 per cent of core funds in the top two quartiles in the 12 months to 31 March 2014 and 65 per cent in the top two quartiles over the last 5 years. Of particular note, was the exceptional performance from a number of funds that are outperforming their benchmarks by a considerable margin over a one year basis; namely, the BT Wholesale MicroCap Opportunities Fund (+31.66 per cent), the JOHCM UK Growth Fund (+18.21 per cent), the BT Institutional

Small Companies Sector Trust (+13.4 per cent), the JOHCM UK Dynamic Fund (+12.59 per cent) and the JOHCM Global Select Fund (+10.17 per cent).

Capital Management

The Board has declared an interim dividend of 16.0 cents per share, a 100 per cent increase on the interim dividend of 8.0 cents per share declared in the first half of 2013.

The Dividend Reinvestment Plan (DRP) remains active for the interim dividend, at a zero discount to the allocation price, as determined by the DRP rules.

The interim dividend will be 35 per cent franked and paid on Wednesday 2 July 2014 to ordinary shareholders on record at Friday 16 May 2014.

Progress on Strategy

In commenting on BTIM's strategy, Mr Gonzalez said, "Our strategy is on track with our business growing rapidly. The success reflects the building out of our global asset management business, backed by excellent investment performance. We continue to seed and invest in new teams, product development and in building out our distribution capability.

"Diversification across investment styles, markets and channels is an important part of building on the current strength in the business and we see continued growth offshore and a number of new product opportunities that match investor demand.

"We are particularly pleased by the growth momentum building in the US, and the success of new products which are adding to our growth story."

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Appendix

Reconciliation of Statutory and Cash NPAT

| \$ million | 1H 2014 | 1H 2013 |
|--|---------|---------|
| Statutory NPAT | 78.3 | 22.8 |
| Add back: amortisation of employee equity grants | 16.4 | 9.6 |
| Add back: amortisation and impairment of intangibles ⁱⁱⁱ | 4.7 | 4.3 |
| Add back: fair value of liabilities | - | 7.2 |
| Deduct: cost of acquiring ongoing employee equity grants payable for the year | (16.0) | (9.1) |
| Deduct: tax effect | (0.3) | (0.6) |
| Cash NPAT | 83.1 | 34.2 |

Notes:

ⁱ Cash NPAT comprises statutory NPAT adjusted for certain non-cash items. These non-cash items include the amortisation of employee equity grants less the after-tax cash costs of ongoing equity grants made in respect of the current year. Other non-cash items adjusted include the after-tax amortisation and impairment of intangibles, and fair value adjustments on equity settled converting notes issued at the time of the JOHCM acquisition. BTIM believes that these non-cash items do not form part of the underlying earnings of the business and Cash NPAT is a more suitable measure of profitability.

ⁱⁱ The 1H14 interim dividend of 16.0 cps is to be 35% franked and 65% unfranked. The whole of the unfranked amount of the dividend will be Conduit Foreign Income, as defined in the *Income Tax Assessment Act 1997*.

ⁱⁱⁱ Amortisation and impairment of intangibles relates to JOHCM fund and investment management contracts.