

ASX Release

BT Investment Management Limited announces record result delivering Cash NPAT of \$127.0 million for the year ending 30 September 2014

BT Investment Management Limited (BTIM) today announced a record result for the year ending 30 September 2014. Cash net profit after tax (Cash NPAT) was \$127.0 million, an increase of 105 per cent on the previous corresponding period (pcp), Statutory NPAT was up 137 per cent to \$121.5 million and Cash earnings per share (Cash EPS) was 42.6 cents per share, an increase of 100 per cent on pcp.

A final dividend of 19.0 cents per share was declared, bringing total dividends for the year to 35.0 cents per share, an increase of 94 per cent on pcp.

Mr. Emilio Gonzalez, BTIM's CEO, said, "This has been a record year for BTIM, underpinned by exceptional fund performance, strong growth in margins and excellent fund flows. While standout performance fees were earned this year, I am particularly pleased with the continued growth in our funds under management and underlying base management fee revenue, which reflects the successful execution of our growth strategy.

	FY 2014	FY 2013	Movement
Year ended 30 September:			
➤ Cash NPAT ⁱ	\$127.0m	\$61.9m	⬆ 105%
➤ Statutory NPAT	\$121.5m	\$51.2m	⬆ 137%
➤ Fee Revenue	\$420.7m	\$260.4m	⬆ 62%
➤ Base Management Fees	\$289.7m	\$212.4m	⬆ 36%
➤ Base Management Fee Margin	46 bps	41 bps	⬆ 11%
➤ Performance Fees	\$121.8m	\$43.5m	⬆ 180%
➤ Operating Expenses	\$258.5m	\$175.2m	⬆ 48%
➤ Operating Profit Margin	39%	33%	⬆ 18%
➤ Cash EPS	42.6cps	21.3 cps	⬆ 100%
➤ Total Dividends ⁱⁱ	35.0cps	18.0 cps	⬆ 94%
➤ Average FUM	\$63.1bn	\$51.5bn	⬆ 23%
As at 30 September:			
➤ Closing FUM	\$66.4bn	\$58.3bn	⬆ 14%

Note: footnotes are detailed on page 4

Commenting on the business highlights of the result, Mr Gonzalez said, "Our business has generated outstanding growth driven by strong flows into our offshore fund strategies. In the US, we have added new investment capabilities, opened a second office and raised \$1.1 billion from our US pooled funds during the year."

Mr Gonzalez added, "Our strategy of targeting the higher margin wholesale channel has delivered very strong results this year with net inflows of \$4.1 billion from this channel globally".

Financial Results

Cash NPAT was \$127.0 million, 105 per cent higher than pcp. The notable increase in Cash NPAT was due to a significant rise in fee revenue, particularly performance fees, as well as higher average funds under management (FUM). Total fee revenue of \$420.7 million was 62 per cent higher than pcp, while average FUM increased 23 per cent on pcp to \$63.1 billion.

Base management fees rose 36 per cent to \$289.7 million, driven by higher average FUM and an increased proportion of higher margin FUM. In the year to 30 September 2014, base management fee margins expanded to 46 basis points from 41 basis points in the pcp.

Performance fees totalled \$121.8m for the year, due to exceptional performance from J O Hambro Capital Management (JOHCM) funds which realised \$113.6 million in performance fees for the 2013 calendar year.

Total cash operating expenses increased 48 per cent to \$258.5 million, largely as a result of higher variable employee costs linked to increased base management and performance fee revenue. Other operating costs increased as the business expanded its US presence and invested in the ongoing development of new investment strategies and products. Importantly, despite cash operating expenses increasing, operating profit margins expanded to 39 per cent from 33 per cent in the pcp.

The average AUD/GBP exchange rate in the year to 30 September 2014 was 14 per cent lower than the corresponding rate for pcp, which also contributed strongly to the results for the year.

Funds under management

Average FUM increased 23 per cent on pcp to \$63.1 billion, assisted by positive markets which saw the average levels of the S&P/ASX 300 Index and the MSCI ACWI (GBP) Index both rise by 11 per cent when compared to pcp.

In the year to 30 September 2014, closing FUM was up 14 per cent from \$58.3 billion to \$66.4 billion. The increase in FUM arose from a \$3.9 billion increase from the combination of positive market movements and investment outperformance, net inflows of \$2.5 billion, and a positive foreign exchange translation impact of \$1.7 billion.

Of the \$2.5 billion in net flows for the year, \$3.5 billion emanated from the JOHCM suite of funds mostly through the higher margin wholesale channel (OEICs and US pooled funds), while outflows of \$1.0 billion were experienced by BTIM (Australia). BTIM (Australia) saw an improvement in the wholesale and institutional channels which saw positive flows for the year while attrition in the legacy book was largely consistent with prior years.

Equity strategies that garnered significant demand through the year included UK equities, which attracted \$1.4 billion of net inflows, Global equities (+\$0.9 billion), Asian equities (+\$0.5 billion) and European equities (+\$0.5 billion). The BT Equity Income products, which won the "Retirement Product Innovation" award from Money Management Magazine and Lonsec in 2014, continued to experience a high level of demand from investors, generating \$0.4 billion of net inflows during the year.

Importantly, the business is benefiting from growth in its wholesale client base with base management and performance fee revenue from this channel contributing \$263.3 million, or 63 per cent of BTIM Group revenue. This compares to 51 per cent in the prior year.

Investment performance

Fund performance across the group was strong with 97% of FUM with a 3 year track record exceeding respective benchmarks and 96% of FUM with a 5 year track record exceeding benchmarks as at 30 September 2014. Of particular note, was the exceptional performance from a number of funds. Funds that outperformed their benchmarks by a considerable margin over the year included the BT Wholesale MicroCap Opportunities Fund (+21.9 per cent), JOHCM Global Select Fund (+11.0 per cent), JOHCM International Select Fund (+10.9 per cent), JOHCM UK Growth Fund (+8.0 per cent), the JOHCM Asia ex

Japan Small & Mid-Cap Fund (+7.7 per cent) and the BT Institutional Smaller Companies Sector Trust (+5.8 per cent).

JOHCM earn performance fees on a calendar year basis. Total performance fees for the 2014 calendar year accrued in funds and client mandates as at 30 September 2014 was \$27.3 million (£14.7 million) which compares to \$113.6m JOHCM earned for this financial year. Approximately one third of the performance fee flows through to Cash NPAT after factoring in associated costs. Performance fees are highly variable and can vary from month to month, and JOHCM's realised performance fees will not be determined until 31 December 2014.

Capital Management

The Board has declared a final dividend of 19.0 cents per share, bringing total dividends to 35.0 cents per share, a 94 per cent increase on the 2013 financial year's dividends. The full year dividend represents a payout ratio of 82 per cent for the year. The final dividend will be 35 per cent franked and paid on 19 December 2014 to ordinary shareholders on record on 5 December 2014.

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

Progress on Strategy

In commenting on BTIM's strategy, Mr Gonzalez said, "Our strategy has delivered outstanding growth by offering diverse investment strategies as part of a growing global asset management offering. We are investing for the future by adding new teams, expanding geographically and developing new products whilst delivering strong investment performance for our clients.

"This year we have benefited from positive tail-winds such as higher markets and a lower domestic currency. Whilst these factors will vary from year to year, our strategy and business model will continue to focus on attracting the best talent to deliver investment performance for our clients, which is central to growing the business. We remain actively engaged in discussions with potential new teams as we build our offerings both domestically and offshore.

"We are particularly pleased by the industry recognition that BTIM has received this year. BTIM won Best Fund Manager for 2014 by Money Magazine and won several awards for product innovation in retirement products. Offshore, JOHCM received the 'Outstanding Investment House' award at the 2014 Morningstar OBSR (UK) Awards. These awards are testament to our focus on product innovation, meeting investor's changing needs and our investment performance."

Outlook

In commenting on the outlook, Mr Gonzalez said, "BTIM has had a standout year; we have delivered record results and achieved strong growth in revenue driven by FUM flow and expanding margins. Whilst remaining confident of our ability to deliver strong returns to investors, performance fees from JOHCM which, by their very nature can be highly variable, are likely to be lower in the year ahead. We do however remain confident of achieving continued growth in our base fee revenues, subject to market movements."

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Appendix

Reconciliation of Statutory and Cash NPAT

\$ million	FY 2014	FY 2013
Statutory NPAT	121.5	51.2
Add back: amortisation of employee equity grants	32.4	19.8
Add back: amortisation and impairment of intangibles ⁱⁱⁱ	9.6	9.8
Add back: fair value of liabilities	-	7.2
Deduct: cash cost of acquiring ongoing employee equity grants payable for the year	(36.4)	(21.2)
Deduct: tax effect	(0.1)	(4.9)
Cash NPAT	127.0	61.9

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 FY 2014 final dividend of 19.0 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.