BT Investment Management Limited

2017 Annual General Meeting

Friday, 15 December 2017

Chairman’s address

James Evans

Group Chief Executive Officer’s address

Emilio Gonzalez

The Westin Sydney

1 Martin Place, Sydney

ADDRESS BY CHAIRMAN, JAMES EVANS

BTIM's growth story

Ten years ago, we were a domestic company. The year was 2007; the country was suffering through a severe drought; and s 44 was a relatively obscure section of this Nation's constitution. Our company had 137 employees and FUM of $41.9 billion. At that time, the All Ordinaries was at 6,686 points. It was the eve of The Global Financial Crisis that would see hundreds of billions of dollars wiped from the Australian share market. When BTIM floated on December 10th that year, it opened with a share price of $4.60. Within twelve months BTIM's stock was below $2 per share, and in 2008, FUM declined 16 percent.

Since then, there has been no shortage of turmoil and uncertainty. We've seen tsunamis, earthquakes and terror attacks. Political upheavals, legal reforms and market corrections. Most recently, we've seen global political tensions rise – with the emergence of a nuclear-armed North Korea, the UK's decision to exit the EU, Catalonia's struggle for independence and the unpredictability of the administration in the United States.

If there's one lesson to take from the past ten years; it's that the only thing that is certain is uncertainty. And markets, generally speaking, don't like uncertainty.

The impact of the GFC

Yet, in these ten tumultuous years, your Company has demonstrated agility and resilience to prosper through difficult conditions and emerge as a leading global asset manager.

We are in a business in which the market directly affects our profitability. So there was no avoiding the impact of the Global Financial Crisis. Between 2008 and 2011; Cash NPAT decreased by 24 percent; Cash EPS by 25 percent; and FUM by 22 percent.

Yet, despite challenging conditions, this Company had the vision and the discipline to execute a strategy for diversification and global expansion, which was realised in the acquisition of J O Hambro in 2011. This acquisition was key for our global ambitions to diversify from being a pure domestic player.

JOHCM – A transformational acquisition

In the six years since; your company has grown by every measure. Cash NPAT has increased by 468 percent, Cash EPS by 195 percent and FUM has grown from $32.7 billion in 2011 to a record of $95.8 billion. We now have 309 employees in five countries and serve clients across major global markets and multiple currencies. Those shareholders who have been with us since listing have enjoyed a total shareholder return of 264 percent.

By pursuing our strategy of diversification across geographies, clients and products, and investing for long term growth, BTIM has built wealth for its clients and delivered value for its shareholders.

FY17 year in review

In the 2017 financial year, BTIM again delivered a record result against a backdrop of global and domestic political uncertainty.

Our record profits were the result of strong inflows, increased funds under management and robust growth in our core income of base management fees. We attracted net inflows of $4.7 billion, taking FUM to a record level of $95.8 billion.

We are in a strong capital position with no debt, which positions us well to weather uncertainty and to take advantage of opportunities when they arise.

This year's dividend of 45 cents per share represents an 81 percent payout ratio. This is in line with our dividend policy, where 80 to 90 percent of profits are returned to you, our shareholders.

Expanded shareholder base

In May this year, our largest shareholder, the Westpac Group, reduced its shareholding in BTIM from 29 percent to around 10 percent, with an intention to sell its remaining stake in the future. This increased the free float and liquidity of BTIM's shares and led to its inclusion in the S&P/ASX 100 Accumulation Index.
Of the available share-parcel, 50 percent was taken up by existing institutional investors and 50 percent by new institutional investors. We welcome our new shareholders to the register.

In June this year Westpac Group's nominee to the BTIM Board, Les Vance, offered his resignation following the Westpac sell-down. I would like to take this opportunity, on behalf of the Board, to thank Les for his valuable contribution during his time as a director.

Investing in people

Our most important investment as a company is the investment we make in our people. Attracting and retaining the best people in the industry and maintaining an outperformance culture is integral to our continued success. It is our dedicated and talented people who research, collaborate, debate and make decisions that shape the future of your company.

In the 2017 financial year, we continued to invest in superior investment talent, welcoming Michael Blayney and Giorgio Caputo to steward our multi-asset capabilities both here and in the US, respectively. Emilio will cover this in more detail shortly.

Corporate Governance

At last year's Annual General Meeting, I explained some changes to the governance structure of the Company.

Ten years ago, our funds under management were $41.9 billion and we had only Australian clients. Now, our funds under management are $95.8 billion and three quarters of profits are generated outside of Australia. To reflect the increasingly international nature of the business, BTIM established a Global Executive Committee and appointed BTIM directors to the J O Hambro Capital Management Holdings Board. The Board and committee meetings of both parts of the business are now conducted in an omnibus arrangement, ensuring one global governing body provides oversight and governance of the Company. Given the geopolitical environment in which we find ourselves, this enhanced governance structure will allow the Board to more effectively manage the risks of being a truly global asset management business.

Closing Remarks and Outlook

These record results are the product of remarkable human endeavor. On behalf of the Board; I would like to thank every employee for their dedication and commitment.

The Board also commends Emilio and the senior management team for their impressive leadership. I would like to extend my personal thanks to Emilio and the management team, and finally, to my Board colleagues for their support and guidance.

In closing, your Company has a remarkable ten-year track record. It demonstrates a decade-long commitment to our strategy of investing in talented people, expanding our investment capabilities and pursuing growth through diversification. It has set us on the right path for our future. With that said, we operate in markets we cannot control.

A level of volatility and uncertainty is expected. We are not immune from market movements, and global events will have an impact on confidence. Which is why we are always looking to strengthen the resilience of the business and improve our capabilities to ensure we continue to deliver value for our shareholders for decades more to come.

ADDRESS BY GROUP CHIEF EXECUTIVE OFFICER, EMILIO GONZALEZ

As the Chairman has noted, 2017 marks our ten-year anniversary since listing on the ASX in December 2007.

During that time, there has been no shortage of challenges – yet the business has transformed from a domestically focused asset manager, to one that is globally diversified.

2017 also saw the Company report our fifth consecutive year of earnings per share growth.

2017 Summary

This year the business posted:

- an 11 percent increase in Cash Net Profit After Tax to $173.1 million
- a 9 percent increase in Cash Earnings Per Share to 55.3 cents
- growth in Funds Under Management of 14 percent, to a record $95.8 billion
- investment performance fees lower by 51 percent to $37.9m
- continued growth in base management fee revenue, which was up by 12 percent, and
- total full year dividends of 45 cents per share was paid and represented a 7 percent increase on the previous year.

The strength of these results is particularly pleasing in the context of a stronger Australian Dollar and the lower investment performance fees.

Macroeconomic drivers

Investment market levels are an important driver of revenue and in 2017 they were higher. Global market levels on average during the course of the year in local currency terms were up 13 percent, led by the US and UK markets which were on average up 14 percent and 15 percent respectively whilst the Australian ASX300 index was up 9 percent.

Offsetting some of the offshore market gains in local currency terms was a substantially weaker Pound, which on average during the course of the year was 15 percent weaker against the Australian Dollar. The US Dollar, Euro and Japanese Yen were also weaker against the Australian Dollar of 3-4 percent. Around 60 percent of our funds under management are denominated in foreign currencies and hence our funds under management will change depending on the movements of those currencies. It is worth pointing out that our FUM sensitivity to currency movements is based on the home currency where the assets of the funds we manage are invested.

The other key driver of our revenue is net flows into the range of investment strategies we offer our clients.

Flows

Net inflows for 2017 were a strong $4.7 billion. This was up from the previous year of $4.4 billion.

The key investment strategies that attracted the most flows were:

- International and Global equities with net inflows of $4.2 billion
- European equity strategies with net inflows of $1.4 billion, and
- Cash and Fixed Income of $900 million.

We did have net outflows in Australian equities of $900 million partly related to the re-structuring of the MySuper changes at Westpac as well as outflows from the retail legacy book and $400 million net outflows in UK equities primarily related to the retirement of a fund manager in the UK Opportunities Fund.

When looking across our distribution channels which reflect the type of clients we service we had good support from our institutional clients which are predominantly superannuation and pension funds. During the course of 2017 net inflows from this client base totalled $2.2 billion and our wholesale channel, which reflects flows coming through financial advisers as well as High Net Worth and private clients were $3.4 billion of which $2.6 billion was invested in the range of pooled funds we offer in the US.

Of note, was the recovery in net flows from the UCITS funds we offer in the UK and Europe, particularly given that the previous year we had the negative impact on flows post the Brexit vote that saw our UCITS range of funds generate negative outflows of $200 million in 2016 but have since recovered with net positive flows of $700 million in 2017.

You will also note that despite some strategies coming in and out of favour and the flow mix across channels varying, our overall base management fee revenue has continued to grow in a steady fashion. It is the diversification of our business which is our strength and helps smooth out our revenue growth over time.

For 2017 when you combine the net flows, market movements, investment performance and currency movements, growth in funds under management was $11.8 billion to close at $95.8 billion. Importantly 40 percent of the growth in FUM was due to net flows, with the balance being made of market movements, investment performance and the currency translation effect. Whilst the overall size of our FUM is significant with market movements impacting short term changes in FUM more than our flows, it is the ongoing net flows which drive the long term annuity income stream for the business. This year's net flows of $4.7 billion represents additional annualized fee income of $31 million and combined with the previous year's net flows, represents additional annualized fee income of $54 million.

This contributes to the ongoing steady growth in our base management fee revenue.

Investment performance

Supporting the net inflow numbers has been our strong and consistent long-term investment outperformance.

As at the end of FY2017, 82 percent of funds under management with a three year track record have outperformed their respective benchmarks, and 95 percent of funds with a five year track record outperformed.

Specific to the 2017 year, notable performers exceeding market benchmarks were the JOHCM UK Dynamic Fund with excess returns of 9.7 percent, JOHCM UK Equity Income Fund +9.5 percent, the BT Wholesale Focus Australian Share Fund +8.1 percent the BT Microcap Opportunities Fund +7.2 percent as well as the BT Ethical and Long/Short Fund +5.6 percent and +5.2 percent respectively.

In contrast some of the more defensive investment strategies have struggled in a risk on environment. Predominantly, the UK Opportunities Fund, the Global Opportunities Fund and some of the fixed income strategies. These strategies are behind benchmark returns over one year but would expect to improve if market conditions change.

A feature of our business model is that we do not have a single house view but instead allow our investment managers to exercise investment autonomy in their investment decisions based on agreed parameters. It diversifies our investment strategy risk and so we expect that at any point in time some funds to be performing well and others to lag but over the long term expect to deliver excess performance.

Investment Performance Fees

A number of JOHCM and BTIM Australian funds earn performance fees for the achievement of above benchmark returns. JOHCM earns performance fees on a calendar year basis and the BTIM Australian funds on a 30 June year basis. The 2017 Financial Year saw performance fees deliver an outcome of $37.9 million from 7 JOHCM investment strategies and 4 BTIM Australia investment strategies and compares to $77.2 million the previous year. Performance fees align client outcomes with reward but can vary from year to year. They can range from 0 in one year to significantly higher the next year. We will update the market of the performance fee outcome for the JOHCM strategies for this calendar year, which will be recorded for the FY18 year, in mid-January in our December quarterly FUM update.

The other component that affects our overall fee is the margins we earn on our products. In a world where fee margins are under pressure, our own overall revenue margins for the Group have been steadily increasing, from 39 basis points in FY12 to 50 basis points in FY17. This margin expansion has helped grow our base management fee revenue but has come mainly as a result of changes in the asset mix and channel mix. Our equity portfolios, which have a higher margin than other investments such as cash and fixed interest, now represent 72 percent of the total book, a 19 percentage point increase from five years ago. Furthermore, within the equity portfolio, the strong growth in the US has also helped increase base margins due to the higher revenue margins we earn there (albeit without performance fees). The channel mix has also help grow our margin where growth from our wholesale channel has outpaced that of the lower margin institutional book.

Like most of our competitors we see ongoing pressure on revenue margins as clients become more price conscious particularly given the growth in passive investment strategies. Our response has been resolute to date in terms of pricing our services based on value and not cost. I anticipate ongoing fee discussion to remain a constant of the industry, and expect our revenue margin will be more influenced by our asset mix and the source of those assets across channel and region.

Capacity

One of the factors that has allowed us to push back on margin pressure is our philosophy of managing capacity. We continue to have a disciplined approach to capacity management aimed at ensuring our funds do not grow to a point where our ability to deliver outperformance is compromised.

Whilst we have been very successful in growing our FUM over the years and we have progressively soft-closed funds along the way, the growth in our investment capacity has kept pace.

We currently have total investment capacity of around £55 billion pounds, of which £34 billion is in funds with a track record of 3 years or more and £21 billion in more recently established funds. Given our business model, it is important that we maintain a program of continuing to expand our investment capacity either through development of internal talent and extension strategies off existing investment teams or attracting new talent to the business.

As we expand our investment capabilities, supporting that growth is a strong balance sheet that is able to provide seed capital for new investments. Our balance sheet is strong with no debt and we have little need for capital outside investments in new strategies or strategies we need to increase in FUM to provide scale so that they are more marketable.

Over the years our seed capital has increased and in the last year alone has gone from $83 million to $129 million. As we continue to invest in the future and a number of our investment strategies seeded in the past few years approach marketable track records then the demand for seed capital will also increase and we would expect to increase the size of our seed portfolio to support that growth.

The ability to utilize our balance sheet and support our growth through seed investment gives confidence to clients willing to co-invest in the funds as well as attracting new talent.

Talent

Only through a business model that attracts and retains top investment talent can we continue to grow and deliver superior returns for our clients.

To this end, last year we added multi-asset capabilities in both the US through the appointment of a senior portfolio manager in New York to establish and run a multi-asset global income portfolio. This will meet demand from investors who are seeking a combination of regular income and capital stability. This fund was launched in the US only last month with plans to launch the same strategy for European investors in 2018.

In Australia, we appointed a new Head of Multi-Asset to work on expanding our existing range of fund offerings to clients. We expect to also be launching new CPI-Plus investment strategies in 2018 as well.

Regulation

The regulatory burden on the industry continues to increase. Heading the regulatory changes currently facing our business are the reforms to the EU's Market in Financial Instruments Directive (known as MiFID II), which comes into effect on 3 January 2018. Among the many far-reaching operational aspects of the new MiFID II regulation is increased transparency around the cost of external research, which has historically been bundled with execution costs and in August of this year we announced that the JOHCM will absorb the costs of external research once MiFID II takes effect. The funding of JOHCM's external research is expected to be approximately £5 million (or $8.5 million Australian Dollars) per annum. The 2018 financial year will reflect nine months cost under the new regime.

Beyond MiFID II, which also incorporates other areas such as dealing commissions, client reporting, human resources and product governance, the complexities around Brexit and its product distribution and staffing implications will also require close attention. On Brexit there is still much uncertainty as to the future state of arrangements how the financial services will operate between the EU and the UK with little guidance at this point in time. Nonetheless, from the existing vantage point JOHCM is well positioned to respond to any changes that may be required to continue to service our UK and European clients and will work through this process as more details are released.

In our annual report, we mentioned that following a sector-wide review conducted by the UK regulator, JOHCM had become the subject of an investigation that relates to the eligibility of certain services approximating £5 million paid for out of dealing commissions between 2006 and 2016.

To date no determination has been made that rule breaches and/or other contraventions have occurred and the likely outcome or consequence of this matter is unable to be reliably estimated.
Naturally, we are fully co-operating with the regulator on this matter.

In Australia the regulatory burden is also on the increase. Adding to the overall costs of regulation is the introduction of the ASIC Industry Funding Model. Under the new arrangements, regulated entities such as BTIM will contribute to funding the costs of ASIC's regulatory services.

As a global business we need to meet and embrace the higher regulatory standards that the regulators set for us, which in turn supports the confidence and trust of our clients. It also provides opportunities as higher costs associated with increasing regulatory obligations makes it more difficult for teams to go out on their own which in turn makes our own business proposition of strength and support more attractive.

Strategy

This brings me to the strategy and the strategy remains simple and consistent.

Our focus is on building out our global asset management business by attracting and retaining superior investment talent and pursuing growth through diversification across investment strategies, channels and geographies.

The Group has experienced significant growth in funds under management, investment offerings, capability and global presence. Our growth agenda remains unchanged, however, it is becoming increasingly important to ensure we retain existing FUM and provide quality service to our clients through building strong relationships and delivering ongoing investment out-performance.

Since listing Total Shareholder Returns has been 264 percent compared to a market Total Market Return of 33 percent for the ASX 200 Accumulation index which is testament to our focus and execution of our strategy.

In FY18, we will continue to execute this strategy by:

- continuing to identify new investment capabilities that can bring complementary investment strategies to our existing offering

- the development and launch of new investment strategies

- remain disciplined in our capacity management
- continue to build out our US business by broadening our product offering and investment capabilities
- develop and enhance our distribution channels to drive sales, and
- manage our key strategic and client relationships to retain FUM and foster growth.

Our business is not without its risks given our reliance on markets, people and investment performance. Our diverse offering and our strong balance sheet however means we are in a strong position to be able to weather a downturn in markets as strong if not stronger than what we have been able to do since our IPO.

The business as a listed entity is 10 years young and we very much look forward to the next ten years.
2017 has been another successful year, and I would like to thank all our people across the Group - in Australia, UK, Europe, Asia and the US – for their dedication and a thank you to you, our shareholders, for your continued ongoing support.