ASX Release

BT Investment Management Limited announces strong result delivering Cash NPAT of $61.9 million for the year ending 30 September 2013

BT Investment Management Limited (BTIM) today announced a Cash net profit after tax (NPAT) of $61.9 million for the year ending 30 September 2013, an increase of 49 per cent on the previous financial year, reflecting improved market conditions and strong performance from the J O Hambro Capital Management (JOHCM) business. Statutory NPAT was up 139 per cent to $51.2 million.

Cash earnings per share (Cash EPS) was 21.3 cents per share, up 46 per cent on the previous financial year and the highest level since the 2008 financial year.

Mr. Emilio Gonzalez, BTIM CEO, said “This has been another significant year for BTIM and the results highlight the success of our strategy.”

	FY 2013	FY 2012	Movement
• Full year ended 30 September:			
➢ Cash NPAT[i]	$61.9m	$41.5m	↑ 49%
➢ Statutory NPAT	$51.2m	$21.4m	↑ 139%
➢ Fee Revenue[ii]	$260.4m	$192.4m	↑ 35%
➢ Base Management Fees	$212.4m	$176.0m	↑ 21%
➢ Base Management Fee Margin	41 bps	39 bps	↑ 5%
➢ Performance Fees	$43.5m	$12.2m	↑ 255%
➢ Operating Expenses[ii]	$175.2m	$133.1m	↑ 32%
➢ Operating Margin[ii]	33%	30%	↑ 7%
➢ Cash EPS	21.3 cps	14.6 cps	↑ 46%
➢ Final Dividend	10.0 cps	7.0 cps	↑ 43%
➢ Average FUM	$51.5bn	$44.6bn	↑ 15%
• As at 30 September:			
➢ Closing FUM	$58.3bn	$46.6bn	↑ 25%

Note: footnotes are detailed on page 5

In commenting on the 2013 financial year’s result, Mr. Gonzalez, said, “We are very pleased to be able to deliver a strong profit outcome to our shareholders driven by excellent investment performance, improved market conditions, strong inflows into JOHCM and record performance fees.

“JOHCM had an outstanding year. Its funds under management increased by 68 per cent in Australian dollar terms, attributable to strong net inflows, improving markets and favourable currency movements while at the same time delivering record performance fees.

“Domestically, we are also pleased with the success of our new products launched into the Australian market and the strong investment performance of our equity funds.”

The Board has declared a final dividend of 10.0 cents per share, bringing total dividends for the year to 18.0 cents per share, a 44 per cent increase on the previous year. This represents a payout ratio of 85 per cent for the year.

Financial Results

Cash NPAT increased by 49 per cent to $61.9 million for the year, while fee revenue increased 35 per cent to $260.4 million on the back of rising markets, net positive fund flow and record performance fees. The S&P/ASX 300 Index was, on average, 15 per cent higher than the previous year and the MSCI All Countries World Index (ACWI) (GBP) was on average 18 per cent higher. Average funds under management (FUM) in the period increased 15 per cent to $51.5 billion.

Base management fees rose 21 per cent to $212.4 million driven by higher average FUM, while base management fee margins expanded from 39 basis points to 41 basis points over the course of the year due to changes in asset mix. The Group reported record performance fees from both JOHCM and BTIM which totalled $43.5 million for the year.

Total cash operating expenses increased 32 per cent to $175.2 million largely as a result of higher variable employee costs linked to increased base management and performance fees. Other operating costs were marginally higher than the previous year due to investment in new products, off-shore expansion and the establishment of new teams. Importantly, operating margins increased to 33 per cent from 30 per cent in the 2012 financial year.

The average AUD/GBP exchange rate in the 2013 financial year was 2.2 per cent lower than the corresponding rate for the previous year and this benefit flowed into the results for the year.

Funds under management

Closing FUM as at 30 September 2013 was $58.3 billion, a 25 per cent increase on the $46.6 billion reported at 30 September 2012. The increase in FUM for the year can be attributed to an $8.1 billion increase from the combination of positive market movements and investment outperformance, net inflows of $1.5 billion and favourable foreign exchange movements of $2.1 billion on JOHCM FUM. Over the same period, the S&P/ASX 300 Index increased by 18 per cent and the MSCI ACWI (GBP) rose by 17 per cent.

Strong net inflows emanated from JOHCM, where $3 billion was raised predominantly via the higher margin wholesale channel (OEIC's), while BTIM (Australia) experienced net outflows of $1.5 billion, largely due to the structural decline in its legacy book.

Key asset classes that received strong demand through the year were Income and Fixed Interest funds ($1.3 billion), UK equities ($1.1 billion), Global equities ($1.0 billion) and Japanese equities ($0.3 billion). Despite exceptional investment performance for the year, Australian equities remained out of favour with net outflows of $1.3 billion. Pleasingly, the BT Equity Income products, launched in late 2012 and targeted at both the high net worth and retail investor segments, received strong inflows of $230 million through the year.

Investment performance

Fund performance across the group was extremely strong with 71 per cent of core funds in the top two quartiles in the 12 months to 30 September 2013 and 79 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 exceeded their respective performance benchmarks over the course of the last 12 months. In Australia, funds that had notable outperformance against their benchmarks were the BT Wholesale Microcap Opportunities Fund (+36.3 per cent), the BT Institutional Smaller Companies Sector Trust (+23.3 per cent) and the BT Wholesale Focus Australian Share Fund (+6.4 per cent). JOHCM funds that also performed strongly relative to their benchmarks included the JOHCM UK Growth Fund (+21.7 per cent), the JOHCM UK Equity Income Fund (+12.2 per cent) and the JOHCM European Select Values Fund (+11.4 per cent).

While JOHCM earns performance fees on a calendar year basis, the total performance fee accrual in the JOHCM funds as at 30 September 2013 stood at $67.8 million (£39.1 million). This is significantly higher than the $34.5 million (£22.0 million) earned in the 2013 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 2013.

Capital Management

The Board declared a final dividend of 10.0 cents per share, 50 per cent franked, to be paid on 19 December 2013 to ordinary shareholders on record at 6 December 2013. The Dividend Reinvestment Plan (DRP) remains active for this dividend payment at a zero discount to the allocation price, as determined by the DRP rules.

The final dividend brings total dividends for the 2013 financial year to 18.0 cents per share, a 44 per cent increase on dividends for the previous year. The total dividends for the year represent a payout ratio of 85 per cent of Cash NPAT which is within the targeted payout ratio of between 80 and 90 per cent of Cash NPAT.

Whilst franking for the 2013 interim dividend was 100 per cent, this has reduced for the final dividend to 50 per cent as a result of the increased proportion of earnings coming from the UK based JOHCM business. In the year ahead, franking levels will be determined by the relative profits of the BTIM (Australia) and JOHCM businesses however the franking levels are anticipated to be in the range of 40 to 50 per cent.

On 30 September 2013, BTIM refinanced its UK debt facilities to provide added flexibility in managing its ongoing capital management initiatives while taking advantage of low interest rates in the UK. The refinancing involved the repayment of $31 million (£18 million) in outstanding term debt and the take-out of a $43 million (£25 million) revolving loan facility. These were replaced with the establishment of a new three year $78 million (£45 million) revolving loan facility of which $36 million (£21 million) was drawn at 30 September 2013.

Progress on Strategy

In commenting on BTIM's strategy, Mr Gonzalez said, "Our strategy has delivered a platform for growth that has transformed BTIM into a broad-based diversified global asset management business. We continue to have success in building FUM through JOHCM and domestically through new capabilities and product launches.

"During the year we continued to expand our footprint geographically by opening an office in New York, housing our first US based investment team, the international small cap team, as well as built a distribution presence for the US mutual fund market. Sales capability was also added in Asia, building on the existing investment presence we have in that region.

"In Australia, our focus has been to target growth segments, particularly the retirement market, by developing unique solutions to meet investor appetite for regular and stable income. We have made investment in this area by establishing a product solutions group to identify and develop tailored solutions for clients. We are pleased with the early success of the BT Equity Income Series raising in excess of $230 million in FUM since launching in late 2012."

Outlook

In his closing remarks, Mr. Gonzalez said, "We are in a strong position to build on our success this year. Our funds are delivering superior investment performance for our clients at a time when investors are gaining confidence in the market and looking to re-risk their portfolios.

"Our current FUM position is 13 per cent higher than the average levels through the 2013 financial year. We have growth momentum in the JOHCM business and are encouraged by recent positive fund flows into BTIM (Australia) via the wholesale channel.

"In the 2014 financial year, we plan to launch three new funds offshore in addition to offering new investment strategies and solutions to domestic clients. This is part of our strategy of growing revenue in new markets and channels with higher margin products.

Concluding Mr. Gonzalez said, "We remain confident in the year ahead. Subject to no dramatic adverse movements in market levels, we expect to see continued growth in our earnings."

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Appendix

Reconciliation of Statutory and Cash NPAT

$ million	FY 2013	FY 2012
Statutory NPAT	51.2	21.4
Add back: amortisation of employee equity grants	19.8	21.6
Add back: amortisation and impairment of intangibles [iii]	9.8	11.9
Add back: fair value of liabilities	7.2	1.1
Deduct: cost of acquiring ongoing employee equity grants payable for the year	(21.2)	(9.6)
Deduct: tax effect	(4.9)	(4.9)
Cash NPAT	61.9	41.5

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 profitability of the business and Cash NPAT is a more suitable measure of profitability.

[ii] FY12 Fee revenue and FY12 operating expenses have both increased by $2.2m to agree to the statutory revenue and statutory expense classifications in the financial report. This has resulted in a change to the FY12 operating margin from 31% to 30%.

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