

# **BT Investment Management Limited**

2015 Annual General Meeting

Tuesday, 8 December 2015

Chairman's address

James Evans

Chief Executive Officer's address

Emilio Gonzalez

The Westin Sydney

1 Martin Place, Sydney

## **ADDRESS BY CHAIRMAN JAMES EVANS**

BTIM is one of the largest listed fund managers in Australia with \$78.4 billion in funds under management and operations across major markets globally. In Australia, we manage around \$40 billion in client funds which are invested in Australian equities, fixed income and diversified strategies. Offshore, through our J O Hambro Capital Management business (JOHCM), we have just over \$38 billion invested in UK, European, Global, Emerging Markets, Asian and US equities.

BTIM has broad ownership across retail and institutional investors, employees, and the Westpac Group, our largest single shareholder.

FY15 was an eventful year in BTIM's evolution as a listed company and in its ownership structure.

In June, the Westpac Group, reduced its shareholding in BTIM from 57 per cent to approximately 30 per cent. The sale of shares was executed through an institutional book build and a retail entitlement offer to both BTIM and Westpac shareholders. Pleasingly, over 15,000 new shareholders have since come onto the register and many existing shareholders have increased their holding. The number of BTIM shareholders now stands at 25,800, and retail and institutional shareholders (excluding Westpac) account for 60 per cent of our register. I believe this outcome is a strong endorsement of our business, our strategy and our future prospects.

At this point I would like to extend a warm welcome to all our new shareholders and I hope that I will have the opportunity to meet with many of you at the conclusion of this meeting.

While the sell-down has allowed our shareholder base to expand, it has also increased the free-float and liquidity of BTIM's shares and resulted in the Company being included in a number of ASX market indices. Being included in these indices raises the interest and attractiveness of our stock to a broader range of shareholders, particularly institutional shareholders.

The 2015 financial year delivered record profits and increased returns to our shareholders.

Our record profits were a result of an increase in our funds under management, strong growth in base management fees and an expansion in the base management fee margin.

Delivering investment outperformance is one of the reasons clients invest with us. I am pleased to report that we have achieved very strong investment performance for our clients with 97 per cent of our funds outperforming their relative benchmark over a 3 year period. This demonstrates the value created through active management using the skill and deep investment experience of our fund managers.

Our investment performance supports our ability to attract new monies into our funds; what we call inflows. In FY15 we attracted record net inflows of \$5.7 billion, with particularly strong interest from US clients.

With strong inflows, investment outperformance, and favourable movements in currency our funds under management increased by 18 per cent to \$78.4 billion. This growth in funds under management saw us report a 28 per cent increase in base management fee revenue and growth in Cash NPAT which Emilio will talk to shortly.

It is timely that I remind shareholders of the external factors that affect our results, particularly investment markets and currencies. These external influences have worked in our favour in recent years although markets were slightly down in FY15. There were however notable movements in currencies. The Australian dollar relative to the pound declined by 14 per cent increasing the value of our FUM by \$5.6 billion and contributing \$6.7 million to cash NPAT.

As you know, markets and currencies are volatile and may not always work in our favour. If the Australian dollar increased against the pound, or markets fell substantially globally, then our earnings would be negatively impacted. This is why an important driver of our investment in recent years has been our strategy for diversification. Our business diversity has allowed us to reduce our reliance on earnings from any one region, market, client or product.

BTIM operates in some of the largest funds management markets in the world, including the United States, United Kingdom, Asia, Europe and Australia.

Our business in Australia has a long history and the BT brand is well recognised as a leader in investment management. With mandated growth in the superannuation system, there will continue to be opportunity for growth for our domestic business as long as we provide products that meet the needs of investors and that provide appropriate investment performance.

Offshore, where we operate through the J O Hambro Capital Management brand, our business has a greater opportunity for growth given its exposure to a wide range of markets. While we have a strong presence in the UK market, and operations in Europe and Asia, one of the Group's strategic goals has been to build a meaningful business in the United States.

In the last three years we have made significant progress in this regard: opening an office in both New York and Boston, hiring two new investment teams, bringing on a dedicated sales team and launching 6 new strategies. In FY15, we achieved promising progress attracting \$3.3 billion in new monies from US clients.

While our main goal offshore has been to build the business in the US market, we have also been busy expanding on our product offering and sales capabilities in the UK and European markets. We have launched two new products in those markets in the last 12 months.

Earnings from our offshore business totalled \$99.4 million in FY15, or three quarters of our total Cash NPAT. This has grown from \$18.8 million three years ago.

With this strong growth comes a need for investment in the business. People are the basis of our business - so investing in the right people from back-office support, sales and marketing, to our investment professionals and senior management for leadership and oversight; is fundamental to both our business and our future potential. Investing in people and the systems to support our future will be a priority in the coming year.

The record result this year, low levels of debt and continued growth momentum places the company in a strong financial position. As at 30 September, BTIM's debt to equity ratio was 2 per cent, a reduction from 6 per cent in FY14.

The Board has declared an increased final dividend of 20 cents per share, bringing total dividends for the year to 37 cents per share. This is a 6 per cent increase on the previous year.

The total dividends equate to a payout ratio of 84 per cent of Cash NPAT which remains within the Boards policy to pay out 80 – 90 per cent of Cash NPAT. Pleasingly we have been able to maintain our dividend policy and grow dividends while at the same time investing in future growth opportunities.

Given the size of our offshore business, dividends remain partly franked. The franked component of the dividend was 40 per cent this year, slightly up from 35 per cent last year. This equates to 14.8cps in FY15, an increase from 12.3cps in FY14.

Our strong results this financial year reflect the effort of the many talented people who work at BTIM. On behalf of the Board, I would like to thank each and every employee for their hard work and commitment to the company's strategic priorities, which have continued the delivery of value to our shareholders.

The Board also commends Emilio and the senior management team for their dedication and efforts this year.

The business has started the FY16 year in a position of strength with low levels of gearing and a diversified portfolio of investments. This does not make us immune from market movements and we note the level of uncertainty in markets around US Federal Reserve rate movements, growth in the Chinese economy and more recently heightened concern of terrorism which will have some impact on confidence. However, we are confident in our strategy and that the scale and diversity of our business will support the ability of the business to continue to grow into the future and deliver strong, long-term shareholder returns.

## **ADDRESS BY CHIEF EXECUTIVE OFFICER, EMILIO GONZALEZ**

I am pleased to report another successful year for the business, continuing on from what has been a number of years of solid growth.

### **Record Result**

We reported a record result with FY15 Cash net profit after tax of \$132.5 million, cash earnings per share of 44 cents and a total dividend of 37 cents per share. The most pleasing aspect of our result was that we achieved continued significant growth in base management fees, representing the fourth year of strong growth in base fee revenue.

### **2015 highlights**

Similar to previous years, there were a number of factors contributing to the growth in the business. This is one of your Company's great strengths in that there is a diversity of factors that can drive our profitability and this makes for a strong and more sustainable business. Whilst our business is heavily reliant on markets and how they move, which also impacts market sentiment and flows into our funds, our diversity across regions, investment styles, channels, asset classes as well as currency, assist to build a more resilient "all weather" portfolio.

The business highlights for the year which helped drive our record financial results were:

- Strong investment performance
- Record net inflows into J O Hambro Capital management funds
- Growth in our US business
- Growth in flows into Australian fixed income funds
- Success of recently launched products

The business has achieved consistent and steady growth in funds under management over the last three years, including growth of 18 per cent in FY15.

The key drivers of the FUM growth this year were:

- Record net inflows
- Investment outperformance, and a
- Lower Australian dollar

Notably, markets did not contribute to overall growth in closing FUM. On a point to point basis markets were down five per cent in Australia and two per cent globally (as measured by the MSCI All Countries World Index

(GBP)). That we have been able to increase FUM in this environment is an example of the success of our global and diverse business.

The JOHCM business in particular had success in attracting net flows into our global and European equity strategies, and in the domestic business, we attracted new monies into fixed income strategies and newer products.

Our overall equity portfolio has grown from \$24.6 billion in 2012 to \$52.8 billion at 30 September this year and is diversified across client segments, geographies and investment strategies. We are invested in Australian equities, Asian, European, UK, Japanese, emerging market and global equities and a US small/mid cap equities strategy.

We also have a growing fixed income book, which has increased in size from \$1.7 billion in 2010 to \$5.5 billion as at 30 September 2015.

Total net flows for the year were \$5.7 billion after taking into account outflows of \$0.8 billion from the legacy products. This strong result reflects our positioning within the market as a high performance investment manager, and our broad product offering which is able to capture areas of demand across markets.

The key investment strategies that attracted the most flows included:

- Global equities with net inflows of \$3.1 billion,
- European equities with net inflows of \$1.5 billion, and
- Fixed Income net inflows of \$800 million.

The highlight for the year was the \$6.2 billion in total net inflows in the JOHCM business. Flows were particularly strong in the higher margin wholesale channel, which comprises financial planners, private clients and platforms. Consistent with last year, we saw strong interest in the US-registered pooled funds totalling \$3.3 billion. This re-affirms the Group's strategy to build distribution capabilities in the US.

Domestically, Australian equity strategies saw an uptick in investor interest, building on the positive flows in FY14, with net inflows of \$0.3 billion excluding legacy flows. We also saw strong interest for our fixed income strategies which have appealed to income-seeking investors. These strategies attracted \$0.8 billion of new monies.

Delivery of investment performance is central to our business and the reason our clients place their money with us.

I am pleased to report that performance across the Group has been very strong, supporting ongoing inflows and new favourable ratings by asset consultants and research houses.

In the three years to 30 September 2015, 97 per cent of the Group's funds with a three year track record delivered returns above their benchmarks, and 99 per cent of Group funds with a five year track record outperformed their benchmarks over five year. This is an outstanding outcome for our clients.

Domestically, our Australian equities funds had a strong year. Highlights were the BT MicroCap Opportunities Fund which outperformed its benchmark over 12 months by an impressive 27.5 per cent; the Wholesale

Smaller Companies Fund outperformed by 13.3 per cent and the BT Focus Australian Share Fund which outperformed by 6.8 per cent.

Our offshore funds, managed by JOHCM, also performed well. Our two European funds significantly outperformed their benchmarks with the Continental European Fund delivering 7.2 per cent outperformance over 1 year, and the European Select Values Fund 6.6 per cent over the same period.

Also of note was the performance of the Asian funds which are seeing a renewed level of interest from investors: the Asia ex Japan Fund outperformed by 10.6 per cent over the year, and the Asia ex Japan Small and Mid-cap fund outperformed by 24.5 per cent.

The success and the performance of our funds has been recognised again this year. BTIM Australia received a number of prestigious awards including: “Best Fund House – Australia” at the Asian Investor Investment Performance Awards 2015, and winner of the “Best Fund Manager 2016” award from Money Magazine, winner of the “Australian Fixed Income Award” from Money Management, winner of the “Best Australian Listed Property Fund” at the AFR Smart Investor Blue Ribbon Awards and also from Money Magazine.

Offshore, for the second consecutive year, JOHCM won the “Outstanding Investment House” award from Morningstar OBSR (UK) for the high level of quality demonstrated across their range of funds and strategies. JOHCM has also recently received the award for “Specialist Group of the Year”, at the Investment Europe Fund Manager of the Year Awards, was a winner of the “Global Equity & Income category” at the Investment Week Fund Manager of the Year Awards 2015 for JOHCM Global Select, and a winner of the “Pan-European Value category” at the Institutional Investor European Awards 2015 for JOHCM European Select Values.

These awards reflect the strong investment performance our investment managers have been able to deliver for our clients.

Growth in FUM, and expanding margins, have seen strong growth in our base management fees, as seen in this chart. The Group has now delivered eight consecutive half on half years of base management fee revenue growth.

Base management fee revenue has grown from \$176 million in 2012 to \$371.1 million in 2015, strong and steady growth representing total growth of 110 per cent over the three year period. In FY15, base management fee revenue grew 28 per cent. This achievement supported an increase in cash net profit after tax, despite a reduction in performance fees from record levels in FY14.

Importantly, growth in our core business has also been supported by our increased ability to earn higher margins in offshore markets. This highlights the importance of our offshore growth strategy. Base management fee revenue margins have expanded from 46bps in FY14 to 49bps in FY15.

Investment performance fees by their very nature are volatile and can vary significantly from year to year. To provide some historical context, investment performance over the last four years has varied from \$12.2 million in FY12 to the \$121.8 million in FY14. In the FY15 performance fees were \$51.9 million, a solid outcome, but a substantially lower amount than the record \$121.8 million reported in FY14.

The number of strategies attracting performance fees has been reasonably steady but increased slightly from 25 in 2012 to 28 in 2015.

Performance fees are earned in both in Australian funds and offshore, but mostly in the UK registered vehicles. Performance fees in Australian funds are reported on a 30 June record date so it is too early to make any meaningful assessment for the current FY16 year. The JOHCM performance fee period however, is accounted for on a calendar year basis. We will advise the market on the outcome of the performance fees generated from the JOHCM business in our January 2016 FUM announcement.

Our strategy is delivering strong growth and record earnings. Each year we lay the foundations for future growth opportunities. Our annual report this year outlines our strategic focus in detail including the progress we made this year against initiatives.

There you will see that we remain committed to:

- growing in new and existing markets,
- increasing our margins,
- build-out further current distribution channels,

And importantly, continue to expand our investment capabilities.

### **Growth in new and existing markets**

A focus of the Group has been expansion in the US market. We have launched new mutual fund offerings which will be supported by our on-the ground sales presence in Boston, New York and Philadelphia.

Pleasingly we have experienced strong net flows from US investors into our US mutual fund range reflecting the increased focus and investment we have made in that region. As of 30 September 2015, funds under management on behalf of US clients totalled \$9.9 billion compared to \$5.9 billion only twelve months ago.

More broadly, the Group's focus on developing new products and strategies globally has seen success. In the last four years we have launched 14 new strategies across the markets we operate in and these have collectively raised \$4.9 billion in funds under management demonstrating not only our investment capability but the ability to leverage our global distribution network.

In 2015 we launched a Global Smaller Companies strategy, a Global Emerging Markets Small Cap strategy, and a European Concentrated Value strategy. Our approach is to create additional capacity either through the launch of new strategies from new but proven investment teams or by launching complementary strategies managed by our existing teams. All of the strategies launched in FY15 were complementary strategies managed by our existing teams; and with the European Concentrated Value strategy, where we brought in an additional investment professional to support that product.

We are also investing in new channels. In Australia we have increased our focus on the private client/high net worth sector targeting self-managed super funds in Australia. This has raised \$100 million in the last 12 months. Also, newly launched products such as complying funds for the Significant Investor Visa market and the institutional overlay strategy have delivered new sources of revenue to the business.

### **Build on current distribution channels**

A key strength of our business is the global distribution capability, where we are able to distribute to investors across Australia, Asia, Europe, UK and the US. We have built strong relationships globally with asset consultants; the institutional channel, and intermediaries such as financial planners, and private client businesses. Part of our strategy is to better leverage this broader distribution network and relationships. In light of this, similar to the previous year we added further sales resources in the US and European markets.

In Australia, our aim is to increase our share of flows from the private client/high net worth channel. We have a strong domestic brand that places us in a competitive position in the wholesale/intermediary market and we continue to work with the Westpac Group to be a supplier of investment solutions for their clients.

In August this year we announced the renewal of the Master Relationship Agreement (MRA) with BT Financial Group (BTFG), which is part of the Westpac Group. BTFG is our largest client and we see the renewal as a continuation in what has been a long and successful history working together.

Under the MRA we manage certain BTFG funds, superannuation funds, pooled superannuation trusts and statutory funds which have a combined value of approximately \$17 billion as at 30 September 2015. The agreement was a cornerstone of the arrangements between BTFG and BTIM when BTIM listed in December 2007 and continues our strong relationship with BTFG.

A key element of the new agreement is that it has been renewed on an ongoing basis. It also sets out other terms such as fee arrangements, termination and withdrawal rights. Under the revised terms the new effective management fee for the FUM is 29 basis points from the previous 32 basis points, translating into a reduced revenue impact of \$5.1 million based on the FUM as at 30 September.

### **Focus on increasing margins**

We continue to focus on the higher revenue margin wholesale channel where we now derive 58 per cent of the Group's base management fee revenue.

We have seen an increase in average base management fee margins as a result of growing the higher margins areas of our business; from being disciplined on price where we have capacity constraints and focusing our product development where demand is driven by value.

Capacity management is a hallmark of our business so that we can deliver on investment outcomes. Therefore getting the right mix of clients and price particularly where there are capacity constraints remains a focus for the Group.

Our product development is focused on targeted, niche products that cannot be easily replicated but are highly valued thereby resulting in higher revenue margins.

### **Expand investment capabilities**

A key focus of our strategy is to ensure that as the business grows and expands across the globe we continue to seek out the best talent.

We have a successful business model predicated on attracting investment professionals into a boutique environment where investment independence is valued and preserved. The ability to build FUM is very much related to identifying suitable individuals or investment teams to add to the Group's global capability platform.

In order to support the launch of the European Concentrated Values strategy, which will be managed by the existing European Select Value team, we have added further investment capabilities to our European investment team. The new European Concentrated Values strategy has added \$3.9 billion in new capacity.

We continue to hold discussions with a range of new teams and opportunities, looking to broaden our investment capabilities. These discussions are ongoing and will keep you informed on any developments.

Our business success to date, our track record in building funds under management, our broad distribution capability, the stability in investment teams and our business model means that we are now an employer of choice for many investment managers. Our criteria remains firm and that is the ability to generate above market investment returns that can lead to growth in FUM and a growing business.

The business is in a strong position to build on our success. Current FUM levels are higher than the average FY15 level and our investment performance is strong. Whilst we cannot predict markets which impact our revenue, our focus remains on delivering superior investment performance for our clients, identifying investment talent to further diversify and provide for future growth, and investing in our global distribution channels to better leverage our investment capabilities.

I would like to take this opportunity to thank our teams across Australia, UK, Europe, Asia and the US for their hard work this year. Our people continue to deliver outstanding results for our clients and shareholders.

I also want to thank you, our shareholders for your ongoing support for the business. I look forward to another successful year.