

ASX Release

BT Investment Management Limited announces a strong result delivering Cash NPAT of \$88.6 million for the half year ending 31 March 2016

BT Investment Management Limited (BTIM) today announced another strong financial result for the half year, with cash net profit after tax (Cash NPAT) increasing by 33 per cent to \$88.6 million compared to the previous corresponding period (pcp). Statutory NPAT increased by 26 per cent to \$78.3 million. Cash earnings per share (Cash EPS) rose by 32 per cent to 29.1 cents per share and an interim dividend of 18.0 cents per share was declared, representing a six per cent increase compared to pcp.

Key drivers of the result are:

- Higher average funds under management (FUM), up 11 per cent to \$78.8 billion;
- Positive net inflows of \$1.5 billion;
- Expansion of base management fee margins, up 2 basis points;
- Increased performance fees, up 97 per cent to \$74.9 million; and
- Favourable currency movements.

Mr. Emilio Gonzalez, BTIM Group CEO, said, "BTIM's growth story continues on track despite tougher market conditions that saw lower average market levels compared to the same period last year. The strong result reflects our globally diversified business across geographies, channels and products, which have all contributed to top line revenue growth. It is pleasing to deliver our shareholders a 32 per cent increase in Cash EPS to 29.1 cps."

	1H 2015	1H 2016	% change
Half year ended 31 March:			
➤ Cash NPAT ⁱ	\$66.5m	\$88.6m	+33%
➤ Statutory NPAT	\$61.9m	\$78.3m	+26%
➤ Fee Revenue	\$211.8m	\$279.0m	+32%
➤ Base Management Fees	\$170.4m	\$195.7m	+15%
➤ Base Management Fee Margin	48 bps	50 bps	+2 bps
➤ Performance Fees	\$38.0m	\$74.9m	+97%
➤ Operating Expenses	\$131.0m	\$167.6m	+28%
➤ Operating Margin	38%	40%	+5%
➤ Cash EPS	22.1cps	29.1cps	+32%
➤ Dividends ⁱⁱ	17.0cps	18.0cps	+6%
➤ Average FUM	\$71.2b	\$78.8b	+11%
As at 31 March:			
➤ Closing FUM	\$77.1b	\$77.2b	0%

Note: footnotes are detailed on page 4

"Initiatives such as the establishment of an Australian-based Global Equities boutique and the launch of new products, continues our strategy of expanding our investment capabilities in growing asset classes, and positioning for growth in existing markets.

"BTIM has grown significantly since the acquisition of JOHCM in 2011 and is now larger by every measure: FUM, investment offerings, capability and global presence. Our recently announced new Global Executive Committee will add management bandwidth to drive the continued growth of our global business.

Financial Results

Cash NPAT for the half year was \$88.6 million, 33 per cent higher than pcp. The increase was the result of higher performance fees, the expansion of operating and fee margins, higher average FUM and favourable currency movements. Performance fees were \$74.9 million, an increase of 97 per cent compared to pcp.

Base management fees rose 15 per cent to \$195.7 million, driven by higher average FUM levels and an expansion in the base management fee margin to 50 basis points from 48 basis points. Despite lower average market levels, average FUM increased 11 per cent to \$78.8 billion versus pcp. The average level of the S&P/ASX 300 Price Index for the first half was down eight per cent and the average level of the MSCI ACWI (GBP) Index was two per cent lower when compared to pcp.

Total cash operating expenses increased 28 per cent to \$167.6 million, mostly resulting from higher variable employee costs linked to higher fee revenue together with ongoing investment in the operating platform to support recent and future growth of the business.

Foreign exchange movements also contributed to the strong result. The average level of the Australian dollar relative to the British pound over the half year was eight per cent lower compared to pcp.

Funds under management

Due to a stronger Australian dollar, FUM as at 31 March 2016 closed at \$77.2 billion, \$1.2 billion lower than FUM of \$78.4 billion at 30 September 2015. The decrease was driven by unfavourable foreign exchange movements over the six month period totalling \$5.6 billion, mitigated by positive net inflows of \$1.5 billion and \$2.9 billion from market movements and investment outperformance.

Of the \$1.5 billion in net inflows for the half year, \$2.0 billion came from the JOHCM suite of funds, comprising \$1.0 billion via the higher margin US pooled funds and \$1.0 billion via segregated mandates. BTIM (Australia) saw net outflows of \$0.5 billion, predominantly from the low margin legacy book.

Strong demand from investors contributed to net inflows across the equities book with Global/International and Emerging Markets equities receiving the highest net inflows of \$0.7 billion and \$0.5 billion respectively, followed by European (+\$0.4 billion), Australian (+\$0.3 billion), UK (+\$0.3 billion) and Asian (+\$0.2 billion) equities. Fixed Income also saw good demand for core products, although overall experienced net outflows of \$0.7 billion due to a redemption of a low margin cash-like mandate.

Investment performance

Long term fund performance across the group remains strong with 95 per cent of FUM exceeding respective benchmarks over 3 years and 98 per cent over 5 years for the period ending 31 March 2016. Fund performance over the last 6 months was generally softer, however a number of funds outperformed their benchmarks by a considerable margin over the 12 month period to 31 March 2016. This includes the JOHCM Global Opportunities Fund (+16.7 per cent), JOHCM UK Opportunities Fund (+11.6 per cent), JOHCM European Select Values Fund (+10.9 per cent), JOHCM Asia ex Japan Small & Mid Cap Fund (+10.2 per cent) and the BT Wholesale MicroCap Opportunities Fund (+9.7 per cent).

Capital Management

The Board declared an interim dividend of 18.0 cents per share, up six per cent on pcp. The interim dividend will be 40 per cent franked and paid on 1 July 2016 to ordinary shareholders at record date, 27 May 2016.

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.

Progress on Strategy and Outlook

In commenting on BTIM's strategy, Mr Gonzalez said, "This result demonstrates the resilience of our business despite what has been challenging market conditions. We continue to build out our business through ongoing investment in people, systems, and products and aligning our capabilities and resources with our global ambitions. While markets are expected to remain volatile over the next half, and investors are likely to remain cautious, we continue to actively seek-out and attract investment talent, which is core to our business and provides for ongoing growth. Over time this strategy will deliver value to our clients and growing returns for our shareholders."

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Appendix

Reconciliation of Statutory and Cash NPAT

\$ million	1H 2015	1H 2016
Statutory NPAT	61.9	78.3
Add back: amortisation of employee equity grants	18.9	33.1
Add back: amortisation and impairment of intangibles ⁱⁱⁱ	4.0	4.0
Deduct: cash cost of acquiring ongoing employee equity grants payable for the year	(19.8)	(24.3)
Add back (Deduct): tax effect	1.5	(2.5)
Cash NPAT	66.5	88.6

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 1H16 final dividend of 18.0 cps is to be 40% franked and 60% 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.