

ASX Release

BT Investment Management Limited announces another record full year result, delivering an 18% increase in Cash NPAT to \$156.0 million

BT Investment Management Limited (BTIM) today announced its fourth consecutive full year record result for the financial year ended 30 September 2016. Statutory net profit after tax increased by 12 percent to \$142.0 million and Cash net profit after tax (Cash NPAT) increased by 18 percent to \$156.0 million. Cash earnings per share (Cash EPS) of 50.8 cents was up 15 percent on the previous corresponding period (pcp). The final dividend of 24.0 cents per share brings total dividends for the year to 42.0 cents, an increase of 14 percent on pcp.

Underpinning the result was continued growth in funds under management (FUM) and fee revenue. Investor demand for fixed income and equity products was strong, with net inflows of \$4.4 billion contributing to the seven percent increase in FUM, which closed the year at \$84.0 billion. FUM growth together with margin expansion contributed to the eight percent increase in base management fees to \$399.8 million. Total fee revenue grew by 13 percent to \$493.9 million, which includes performance fees of \$77.2 million, up 49 percent on pcp.

	FY16	FY15	Movement
Full year ended 30 September:			
➤ Statutory NPAT	\$142.0m	\$126.4m	+12%
➤ Cash NPAT ⁱ	\$156.0m	\$132.5m	+18%
➤ Fee Revenue	\$493.9m	\$436.6m	+13%
➤ Base Management Fees	\$399.8m	\$371.1m	+8%
➤ Base Management Fee Margin	50 bps	49 bps	+1 bps
➤ Performance Fees	\$77.2m	\$51.9m	+49%
➤ Operating Expenses	\$297.0m	\$268.2m	+11%
➤ Operating Margin	40%	39%	+3%
➤ Cash EPS	50.8cps	44.0cps	+15%
➤ Dividends ⁱⁱ	42.0cps	37.0cps	+14%
➤ Average FUM	\$80.2b	\$75.2b	+7%
As at 30 September:			
➤ Closing FUM	\$84.0b	\$78.4b	+7%

Note: footnotes are detailed on page 4

Mr Emilio Gonzalez, BTIM Group CEO, said, “Our growth momentum has continued despite a tough period for markets and ongoing geo-political concerns. In that context, a highlight of the year has been net inflows of \$4.4 billion and a 13 percent increase in fee revenue.

“BTIM’s strong result demonstrates the strength and resilience of the business on the back of our long-term strategy of growth with diversification across regions, asset classes and distribution channels.

“It is pleasing to see different parts of the business contributing to growth. Whilst there was a slowdown in flows into our UK/European fund range around Brexit, this was more than offset by continued positive flows into our US mutual funds, strong growth in our fixed income products with good support from institutional clients.”

Financial results

Cash NPAT for the year increased by 18 percent to \$156.0 million, due to higher average FUM, further expansion of operating and fee margins and higher performance fees.

Total fee revenue increased 13 percent to \$493.9 million, with increases in base management fees, performance fees and transaction fees. Base management fees of \$399.8 million were eight percent higher, driven by the increase in average FUM and expansion in the base management fee margin to 50 basis points, up from 49 basis points last year. Performance fees for the year were \$77.2 million, a 49 percent increase on pcp, driven by the strong performance of a number of J O Hambro Capital Management (JOHCM) investment strategies.

Total cash operating expenses increased 11 percent to \$297.0 million, with higher variable employee costs associated with performance fees and FUM growth the largest contributor. Fixed costs also increased with the addition of investment staff, increased regulatory and compliance costs, and the ongoing investment in group operations to support recent and future growth of the business. Importantly, revenue growth exceeded cost growth, reflected in the operating margin increasing to 40 percent, up from 39 percent last year.

Funds under management

Closing FUM was \$84.0 billion at 30 September 2016, a seven percent increase on \$78.4 billion last year. The increase was driven by net inflows of \$4.4 billion plus a further \$10.8 billion from market movements and investment returns, offset by a negative foreign exchange translation of \$9.6 billion on JOHCM FUM.

BTIM (Australia) attracted net inflows of \$1.6 billion driven by strong institutional (+\$2.3 billion) and wholesale flows (+\$0.5 billion), offset by \$1.2 billion outflow primarily due to the attrition of the low margin legacy book. JOHCM continued to attract flows, with net inflows of \$2.8 billion comprising \$1.7 billion via the higher margin US pooled funds, \$1.3 billion via segregated mandates, offset by \$0.2 billion outflow from the OEICs where investor sentiment was impacted by Brexit.

Equities, fixed income and cash all contributed to the strong net inflows for the year. Equities across all channels received \$2.4 billion in net inflows with Global/International raising \$1.0 billion, Emerging Markets (+\$0.5 billion), UK (+\$0.4 billion), European (+\$0.2 billion) and Asian (+\$0.2 billion) equities. Fixed income maintained its growth momentum attracting net inflows of \$1.3 billion during the year.

Investment performance

The long term fund performance track record across the group remains strong with 88 percent of FUM exceeding respective benchmarks over 3 years and 95 percent over 5 years for the period ending 30 September 2016. Fund performance over 1 year was weaker in a more difficult period for active managers.

However, a number of funds outperformed their benchmarks by a considerable margin over the 12 month period to 30 September 2016. These include the JOHCM European Select Values Fund (+11.6 percent above benchmark), JOHCM International Select Fund (+9.4 percent), BT Wholesale MicroCap Opportunities Fund (+8.7 percent), JOHCM Emerging Markets Fund (+7.0 percent) and JOHCM Global Opportunities Fund (+5.3 percent).

Capital management

The Board declared a final dividend of 24.0 cents per share, bringing total dividends for the year to 42.0 cents per share, up 14 percent on pcp. Total dividends represent a payout ratio of 83 percent of Cash NPAT, in line with the Board's targeted payout ratio of between 80 and 90 percent of Cash NPAT.

The final dividend will be 35 percent franked and paid on 21 December 2016 to ordinary shareholders at record date, 9 December 2016. 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.

During the year, BTIM fully repaid its outstanding debt which was originally taken on to part fund the purchase of the JOHCM business in 2011.

Strategy and outlook

In commenting on BTIM's strategy, Mr Gonzalez said, "This year of record growth has been particularly pleasing given a tougher market environment over the past 12 months. It is a clear demonstration of the success of our long term strategy in building a resilient and diversified global asset management business.

"We have grown significantly over the last five years, more than doubling FUM and increasing Cash NPAT five-fold, and establishing a growing presence in some of the largest global asset management markets. Looking ahead we continue to see more opportunities for growth, and have put in place the people, structure and resources to build on these.

"While tough conditions prevail, the fundamentals of our strategy remain constant. We will continue to focus on generating strong investment performance whilst continuing to invest in talent, expand our investment capabilities and strengthen our distribution for the benefit of our clients and shareholders."

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Appendix

Reconciliation of Statutory and Cash NPAT

\$ million	FY16	FY15
Statutory NPAT	142.0	126.4
Add back: amortisation of employee equity grants	58.1	41.3
Add back: amortisation and impairment of intangibles ⁱⁱⁱ	9.9	8.4
Deduct: cash cost of acquiring ongoing employee equity grants payable for the year	(49.3)	(45.5)
Add back (Deduct): tax effect	(4.7)	1.9
Cash NPAT	156.0	132.5

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 earnings of the business and Cash NPAT is a more suitable measure of profitability.
- ⁱⁱ The FY16 final dividend of 24.0 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.