



BT Investment Management Limited

2016 Annual General Meeting

Friday, 16 December 2016

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

The British statesman Sir Austen Chamberlain in 1936 paraphrased the Chinese saying 'May you live in interesting times' adding, "We move from one crisis to another. We suffer one disturbance and shock after another." That observation is as true now as it was in 1936. Since we met last year, we have seen global events such as instability in Europe, the decision of the UK to exit the EU and most recently a new political dimension in the US with the election of Donald Trump. Australia has had a Federal Election with the government returned with a thin majority.

And notwithstanding these events, our company continues to build wealth for its clients and profitably grow its business in the interests of its shareholders. This is no accident. We at BTIM concentrate on these fundamental issues and take as a fact of life that the markets in which we operate are complex and subject to disruption and fluctuation. We plan accordingly and do not get distracted by events that while significant may be of short duration. In summary, we adapt and look forward, not back.

This year marks five years since our transformative acquisition of J O Hambro Capital Management (JOHCM). As a member of your board for over 6 years, and your Chairman for the last three years, I've witnessed the tremendous growth of the business over this time.

Five years of strong growth

In the last five years, we have increased Cash Net profit after tax five-fold, and more than doubled Cash Earnings per share, dividends per share, and funds under management.

In 2016, we achieved an increase in Cash net profit after tax increasing of 18 percent to \$156 million, and increased cash earnings per share by 15 percent to 50.8 cents. Subsequently we increased total dividends this year by 14 percent to 42 cents per share. This is the 5th consecutive year of increased dividends to our shareholders.

Year in review

This year's dividend represents an 83 percent payout ratio. This is in line with our payout ratio, where 80 to 90 percent of profits are returned to shareholders.

We are in a robust capital position having fully repaid the debt of \$83 million that the business took on in 2011 to part fund the purchase of the JOHCM business. This puts us in a strong position to invest in further growth, such as the initial funding of new products in order to build investment track records and to continue to invest in talent.

Importantly, total return for BTIM shareholders over the last five years, that is - dividends plus share price growth - has increased by 42 percent on average each year over this period. This compares with the average increase of 11 percent each year in returns delivered by the Australian equity market over the same period.

A Global Asset Manager

Five years ago, our strategy was to build a diversified and resilient global asset management business that delivers exceptional investment returns to clients.

We have been consistent in our strategy and its successful execution has delivered on our goal. We are now one of the largest Australian listed asset managers, with \$84 billion in funds under management. Growth has been coupled with diversification, and this has been deliberate to build the resilience we believe is essential to maintain stability and growth.

Geographically, we've expanded our operations beyond the historical geographic boundaries of Australia and the UK, and are now serving clients across major global markets and in multiple currencies.

We have expanded our distribution capacity and broadened the range and type of our investment product offering. We've added new equity, fixed income and diversified strategies and we've developed and tailored products to meet the changing requirements of our clients.

As a global asset manager, external factors affect our result, particularly investment markets and currencies. Sometimes these work in our favour, and sometimes against. Markets and currencies are volatile, and we operate the business expecting volatility and a level of uncertainty. We cannot control or influence these external factors, we can only control what we do within these markets and our exposure to them.

This year has indeed seen a heightened level of uncertainty – you will have observed that the decision of the UK to exit the European Union negatively impacted equity and currency markets and affected investor confidence. However, over the last several months we have seen markets regain lost ground, and in the UK and Europe we are seeing investor confidence return.

In Australia, we saw our local market move sharply in response to the presidential election outcome in the US, and recover just as quickly within days.

During these times, the benefits of building a resilient business are clearly evident in our ability to manage our exposure to market volatility, geo-political and economic events. Our diversification across geographies and markets, clients and products means our revenue comes from varied sources, and so it reduces our reliance on earnings from any one region, client or product.

Therefore, while we continued to grow, we adopted a strategic approach to deliberately prioritise diversification in order to build the resilience we believe is essential to maintain long-term stability and growth.

Investing in talent

Supporting our continued growth and success is our people and their talent. We are a people business, and successful talent management is fundamental to our continued growth.

It is our highly experienced, expert and talented people who generate the company's revenue – they manage client's investments, deliver investment performance, attract new- client money and develop and distribute

new investment products. And we are always looking to attract and retain the best talent in the industry and to continue our strong culture of performance excellence.

Corporate Governance

Our emphasis on talent management and corporate governance, led us in 2016, to establish a Global Executive Committee.

Following the rapid growth of the business over the last five years, the expansion of the senior management team to better manage our much larger business and the global operations, was an important and necessary step.

It is an investment to support future growth, while at the same time managing the key person risk associated with such a 'people' business. And it establishes an appropriate management structure for the effective and sustainable development of our business.

BTIM's strong growth and successful execution of its strategy requires a Board and executive management with the skills and experience matched to the size and objectives of the business.

Last year we sought and received your approval to increase the aggregate remuneration paid to Non-executive Directors each year. This has enabled us to add a new non-executive Director to the board as well as expand our participation as members on the Group's subsidiary Boards.

I am delighted to introduce to you our two new board members – Les Vance and Kathryn Matthews. You'll hear from both of them shortly about their experience and skills when they offer themselves up for election.

Les comes from the Westpac Group, our largest shareholder, and was appointed to the Board in March this year. Les has broad financial industry experience and has already made a significant contribution to our Board and the Remuneration and Nomination Committee.

Les replaced Brad Cooper who retired from the board in March this year. Brad had been a Director since 2010 and served on the Board during the acquisition and integration of JOHCM. I am very grateful to Brad for his outstanding contribution over the past six years and on behalf of the Board, senior management and shareholders, I would like to thank him and wish him every success for the future.

Also Kathryn Matthews joined the board this month as an Independent Non-executive Director. Kathryn has an in depth understanding of the global asset management industry, both as an Executive and a Non-executive Director.

Kathryn brings a new international perspective to the Board, and her global industry expertise and knowledge will add further value to the Board's existing mix of skills and experience. From her London base, Kathryn will also serve as a Director on our JOHCM subsidiary Board, and as a member of the Board's Remuneration & Nominations Committee.

Around 75% of our net profit is generated offshore, so the Board's exposure to and participation in the global growth strategies and future opportunities is essential.

As of 1 November 2016, all BTIM Board members have been appointed to the J O Hambro Capital Management Board, and I have been appointed Chairman. Jamie Hambro remains on the JOHCM Board and is Deputy Chairman and Gavin Rochussen, Group Executive, International and the former CEO of JOHCM Group, also continues to be on the Board.

These appointments ensure directors more directly participate in the broader offshore business but also establish appropriate and effective governance around decision making in relation to global investment decisions and strategy execution.

In the coming year, I will work with my fellow Directors to review and enhance our involvement in BTIM's subsidiary Boards as well as Board Committees including in jurisdictions such as the United States, Asia and Europe. This will complement and synchronize our global activities and ensure our international Boards have access to the best and most appropriate skills and experience.

Outlook

I opened my address reflecting on our five years of growth. Your Board is pleased with what the company has achieved over this period and of the record result delivered in 2016. It is testament to the successful execution of a sound strategy.

This successful track record sets us on the right path for future growth as we continue to build our global business with the objective of generating further value and increasing rewards for all stakeholders.

Today we have the essential factors to continue building on this growth for the years ahead. This includes expanding our distribution reach further into existing and relatively new markets for the business, such as the US and southern Europe, developing new products and opportunities, and investing in talent.

We are mindful of the global uncertainty that continues to affect markets in which we operate, and therefore will look at ways to continue to strengthen the resilience of the business.

Building out our global business, as I have just described, is our priority for the next five years. In doing so our objective is to generate value for all our stakeholders and to continue to increase long-term returns for our shareholders.

On behalf of the board I would like to acknowledge and thank the management team and all our people for their significant individual contributions and the team effort required to deliver another record result for BTIM shareholders. I would also like to thank my Board colleagues for their continued support and for willingly taking on the additional work and time associated with our transformation into a truly leading global asset manager.

ADDRESS BY GROUP CHIEF EXECUTIVE OFFICER, EMILIO GONZALEZ

As the Chairman has outlined, it has now been five years since we acquired the J O Hambro Capital Management business which lead to expanding our business globally, and becoming one of Australia's leading global asset managers. Since then the business has grown year on year, and I am pleased to report another year of double digit growth for BTIM.

2016 represents the fourth consecutive full year record result. One of the pleasing aspects of this year's result is the different range of factors that contributed to that growth compared to previous years. It has been this diversification across regions, investment styles, channels, asset classes and currency that has help build a more resilient portfolio.

2016 Highlights

The business highlights for the year include:

- Growth in Funds Under Management of \$5.6 billion, to \$84.0 billion
- Net inflows totalling \$4.4 billion,
- Higher investment performance fees to \$77.2 million from \$51.9 million the previous year, resulting in
- Cash Net Profit After Tax, up 18 percent to \$156.0 million.
- A 15 percent increase in Cash Earnings Per Share to 50.8 cents, with
- Total dividends to shareholders of 42 cents per share, an increase of 14 percent on the previous year.

By most industry measures 2016 was not an easy year. Markets were characterised by significant volatility - initially around concerns on global growth and then by geo-political factors.

Whilst investment markets closed the year higher, the average level of markets, a key driver of our revenue, was lower. The S&P/ASX 300 on average for the year was lower by 5 percent and the MSCI All Countries Index in local currency terms average for the year was lower by 4 percent. Industry flows globally also had their worst year since 2012 in terms of net flows into investment products. It is against this backdrop that I feel the 2016 outcome represents a quality result where we have been able to continue to grow despite the macro headwinds.

In my address I want to cover the key things that matter most to our business, being Funds Under Management, Investment Performance and Investment Talent, Management and Strategy.

Firstly, Funds Under Management. There are four key drivers to our Funds Under Management being; net flows into our products, market movements, investment performance and foreign exchange rates. Two we have significant influence over - that is, the ability to raise and keep funds and investment performance. The other two being markets and foreign exchange movements, we have no influence. Rarely do all four move in a

positive direction. The two we focus most on are the ones we can influence, that is fund flows and investment performance.

Fund Flows by asset class

As I've already mentioned net fund flows across the Group was positive \$4.4 billion. This is down on the previous year net positive fund flow of \$5.7 billion but in many respects a more credible performance when you consider industry flows globally were significantly lower. Also the nature of our fund flows demonstrated the broad base strength of our business.

The key investment strategies that attracted the most flows included:

- Cash and Fixed Income with net inflows of \$2.4 billion
- International and Global equities with net inflows of \$1.0 billion, and
- Emerging market equities with net inflows of \$500 million

The other feature of our fund flows during the year is the net positive flows across all of our equity strategies - regional and cross-border. Combined our equity strategies had net positive flows of \$2.4 billion. Even our range of UK and European equity strategies had net positive flows for the year despite the impact of the Brexit vote.

Of particular note was the strong year we had in our fixed interest business. This is a business we have been progressively building over the past few years and the past twelve months saw the funding of a number of new mandates and the addition of a number of funds onto platforms, which is translating into regular flows.

Funds Under Management - net inflows

Of note this year is the channel and regions by which the flows have been generated. The wholesale channel, that is, funds sourced from financial planners and private clients mainly through investment platforms, has dominated our net flows in previous years. In contrast, this year our institutional business was a feature accounting for \$3.6 billion of the total. Regionally the nature of the flows was also different with the US pooled funds and the Australian regions combined making up \$2.2 billion in the wholesale channel.

This diversification has helped offset weakness in the OEIC's that is the pooled UCITS vehicles sold in the UK and Europe as well as the retail legacy book which is in structural outflows.

Our FUM level is also impacted by market movements, investment performance and foreign exchange levels.

Funds Under Management - net change

Whilst on average market levels for both domestic and offshore were lower in 2016 when compared with 2015, markets did close the year higher which boosted our year end FUM. The Australian All Ordinaries Index finished the year 9% higher than the level 12 months ago and the global equity markets, weighted based on

JOHCM FUM was up a very strong 24%. These market movements along with the impact of investment performance and distributions had the net effect of increasing end FUM by \$10.8 billion.

The other significant variable is currency movements. Almost half 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. In periods when the offshore currency is weaker relative to the Australian dollar, it translates into lower funds under management in Australian Dollar terms. It is worth pointing out that our FUM sensitivity to currency movements is based on the home currency of where the assets of the funds we manage are invested.

For example, our UK funds are exposed to the Sterling but our Continental European funds are predominantly the euro. Likewise our global equity portfolios would have multiple currency exposure given the assets are invested in multiple countries. Therefore the currency impact on our FUM is sensitive to where the assets are invested, even though our offshore business operations are predominantly in the UK.

Currency exposure across equities

Taking our equity strategies for example, across the Group including Australian equities, our equity strategies total \$55.5 billion. Of that FUM our currency exposure to the Pound, is 24%, the euro 18%, 10% to the US dollar, 5% the Japanese Yen and 25% to the Australian Dollar which represents the Australian equity assets. This is important to understand the translation effect on our FUM which reduced our Australian dollar FUM by \$9.6 billion as a result of a stronger Australian Dollar against the euro, US dollar and significantly so against the Pound.

Total Funds Under Management

When you combine the net flows, market movements, investment performance and currency movements the net result is growth of \$5.6 billion with closing FUM of \$84.0 billion.

Investment Performance

Investment performance is what we sell to our clients. Unless we can deliver on that, we do not have a business and so it is central to what we do and the expertise of the people we have is core to delivering on that value proposition.

We live in somewhat unique times given historic low interest rates, the threat of industry disruption and a shift in political preferences.

On one hand pro-growth fiscal policies has provided optimism for economic improvement but with greater political risk.

2016 was a challenging year for investors characterized by a high degree of macroeconomic and geo-political uncertainty and there is no reason to believe this will decrease.

Despite the political development around Brexit and the US presidential election we have seen a shift in investor sentiment to 'cautious optimism' given the shift to expansionary policies.

The beauty of our business model is that we do not have a single house view but instead we allow our investment managers to exercise investment autonomy in their investment decisions based on agreed parameters. Not surprisingly then we have some funds that have done well and others that have not done as well. Over the long term however we expect to deliver above benchmark performance.

Long term investment performance remains strong notwithstanding softer investment performance over the past 12 months as our more valued driven funds have resisted the temptation to chase the bond proxies.

Strategies that did achieve notable outperformance versus their benchmarks in 2016 were the JOHCM European Select Values Fund, International Select, Emerging Markets, as well as the BT Wholesale Microcap Opportunities Fund and the Wholesale Monthly Income Plus Fund. Longer term performance remains strong. Across the Group for the period end 30 September 2016, 88 percent of Funds Under Management with a sufficient track record outperformed their respective benchmarks over three years and 95 percent outperformed over five years.

Investment Performance Fees

A number of JOHCM and BTIM (Australia) funds earned performance fees for the achievement of above benchmark returns in the 2016 financial year. JOHCM earns performance fees on a calendar year basis and BTIM (Australia) funds on a 30 June year basis. The 2016 Financial Year saw performance fees total \$77.2 million, from 12 JOHCM investment strategies and three from BTIM (Australia) and compares to \$51.9 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 very next year.

Investment capacity and new equity strategies

An important ingredient for sustaining long term investment performance is the courage to limit the capacity of investment strategies as asset growth can reach a point where it becomes an impediment to generating excess returns. This year we soft-closed a further two investment strategies bringing the total number of strategies that are now soft-closed to five as of September 2016. In a world where margins are under pressure and passive strategies a threat, ensuring our assets under management do not grow to a size that limits our ability to continue to deliver investment performance is key to protecting both margins and competing against passive strategies. We also find that allowing our portfolio managers the ability to manage their capacity is a positive when attracting investment talent to the business.

Our capacity to grow however remains well in tact through the ongoing investment in teams and establishment of new strategies from existing teams. Across our offshore and global equity strategies there exist approximately \$88 billion of open investment capacity to sell to clients.

This year we established a new global equities team based in Sydney. This team will broaden our global equities capability with particular focus on the Australian market demand for global equity strategies. The new team is led by Ashley Pittard who joins us with over 19 years experience in global equity markets.

We also recently launched an international opportunities fund specifically for the US market, managed by the Global equities opportunities team based in London.

Over time, as these new strategies and products build a track record, they do so with the knowledge that once investment performance is generated we have a distribution network to further grow our FUM. Our track record in organic growth has been strong with new products launched over the last 6 years raising over \$10 billion in FUM and annual revenue of \$55 million.

Leadership structure

Let me turn my attention to some of the additions we have made to the senior leadership team.

The business over the past five years has experienced substantial growth yet during this period our management structure has remained unchanged despite the increasing demands of a much bigger and broader business. Critical to sustaining that growth is not losing sight of the success that has been achieved whilst continuing to look for future growth opportunities. This requires necessary management time and attention.

For this reason we have expanded the senior management team with two senior appointments and established the Global Executive Committee.

Global Executive Committee

To the team, we welcome Michael Bargholz as CEO for the Australian business and Ken Lambden as CEO of the J O Hambro Capital Management business. We are fortunate to have attracted Michael and Ken to BTIM, having both worked previously in global asset management businesses. Michael and Ken have extensive investment management experience in leading investment teams and know our industry very well.

Gavin Rochussen, who has led the successful growth of the JOHCM Group, takes on a new role as Group Executive, International to focus on BTIM's international growth. Cameron Williamson is the Group Chief Financial Officer and we are in the process of recruiting for a Group Chief Risk Officer.

This structure provides for continued focus on international growth with strong local leadership and greater management bandwidth to execute on the strategy.

I am excited to work with a Group Executive team with such experience and deep knowledge in continuing to build the business.

Strategy

This brings me to the strategy. Our strategy has been simple and consistent, centered on attracting and retaining investment talent and utilizing our distribution channels to market our expertise to clients across different geographies.

We are focused on continuing to build out the business on a global scale and building the structure and leadership to support the continued growth and performance of the business.

Our funds are predominantly invested in equities which accounts for 66% of our funds under management and the remainder in cash, fixed income, listed property and multi-asset portfolios. Geographically Australia now represents 52% of our client base down from 74% four years ago, with the US now representing 15% of our client base, Europe 10% and the UK 22%. We have also seen a material shift in our FUM mix across distribution channels. The wholesale channel represents 41% of our FUM, institutions (predominantly superannuation and pension fund clients) 37% and Westpac 22%. It is a much broader and diversified portfolio and we will continue to seek ways of continuing to grow with an eye on diversification.

We are well positioned globally, distributing in markets that make up 90% of the world's assets under management. Slightly more than half of the world market is the US. The UK and Europe is another 28%. So, roughly around 80% of the globe's assets under management are from these 3 regions. Although we are a small player in those markets, there are many opportunities where we can grow and make a difference in terms of adding value to clients and our shareholders.

Central to this is:

- Identifying new investment capabilities.
- Continuing to build out our business in the US
- Utilising our distribution channels to drive sales; and
- Operationalizing the Group's organizational structure to execute on the strategy

Attracting and retaining investment talent is core to our strategy and we remain committed to identifying new investment strategies and teams that will complement our existing portfolio. In FY 2016 as I've already mentioned we recruited a global equities team based in Sydney and we are regularly in conversations with other potential teams across the globe.

The US remains an important market for us. We've established a good foundation and we have had very good success there, growing FUM year on year and now managing \$12 billion for US clients. It's a credit to our distribution team and the sales strategy that we've adopted there. We now have 8 mutual fund products available for distribution. We continue to focus on areas where we can grow in the US and have added resources to service our growing client base in the US as well as meet our regulatory requirements.

Similarly in the UK and Europe our focus is on expanding our reach in markets where we see further opportunity, such as southern Europe.

The focus of our distribution is naturally on existing relationships but also more specifically on High Net Worth opportunities and on head office relationships where model portfolios are gaining prominence.

As I mentioned earlier, we have put in place a management structure that will drive the Group capital allocation and strategy. We are expanding the BTIM Board to include an offshore based Director and implementing a governance structure that reflects the global nature of the business.

Brexit will no doubt be an area of focus and dominate the news for a period of time. The UK is still yet to start the formal process of leaving the EU which it has two years to agree to arrangements once it formally triggers Article 50. This is after getting clarity as to the where the authority sits for this action to take place.

For JOHCM the primary impact of Brexit is more around investor sentiment towards the future of Europe and confidence to invest in markets which impacts the appetite for our range of UK and European investment strategies. Our European clients are already invested in European domiciled funds and so the direct impact is on the 15% of JOHCM European domiciled UCITS held by UK investors. Here we would expect some form of arrangement that we can adapt to.

The year ahead

Looking at the 2017 financial year, we would expect the Brexit arrangements to become clearer. We have started this financial year well, and have already advised the market of \$2 billion in new mandates that were funded in October/November on top of the opening record FUM.

Equity markets are at higher levels than previous year's average but we know that this can change quickly and is subject to volatility. Current currency levels are a headwind given the higher starting point, which has a negative translation effect on our FUM.

Our business is not without its risks given our reliance on markets, people and investment performance. There is also growing regulatory demands which we must meet on a global scale and over the years have added resources to this part of the business. Headcount in FY 2016 across the Group increased by 34 new Full Time Equivalents across multiple locations and a further 23 are forecast to be added in FY 2017 reflecting the growth of the business and additional requirements.

Whilst we cannot predict markets, our focus remains on delivering superior investment performance for our clients, finding the best investment talent and continue to invest in our distribution to leverage off our investment capabilities.

We do all this from a position of strength. We have a strong balance sheet with no debt and pay out 80-90% of our Cash Earnings to Shareholders. Our primary capital requirements are funded through the annual budget cycle and we deploy excess cash towards seed capital requirements for the establishment of new investment strategies.

It has been another successful year, and I take this opportunity to thank all our people across the Group – including Australia, UK, Europe, Asia and the US – for their dedication and hard work.

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