BT Investment Management

ASX/Media Release

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BT Investment Management Limited announces full year Cash NPAT of $30.5 million

BT Investment Management Limited (BTIM) today announced Cash net profit after tax (NPAT) on a normalised basis of $30.5 million for the year ended 30 September 2011, one per cent down on the prior year and in the middle of the forecast range announced to the market in July. Cash NPAT on a normalised basis excludes one-off transaction expenses associated with the acquisition of J O Hambro Capital Management (JOHCM). Statutory NPAT was $16.9 million or 23 per cent lower than 2010 as it includes the acquisition costs.

	30 September 2011	30 September 2010	Movement
• Year ended 30 September:			
➢ Cash NPAT (normalised)[i iv]	$30.5m	$30.9m	⬇ 1%
➢ Statutory NPAT	$16.9m	$21.8m	⬇ 23%
➢ Revenue[ii]	$126.6m	$129.2m	⬇ 2%
➢ Cash expenses[iii]	$82.8m	$84.9m	⬇ 2%
➢ Cash earnings per share	18.7cps	19.3cps	⬇ 3%
➢ Fully franked dividends	16.0cps	15.5cps	⬆ 3%
➢ Average FUM	$35.1bn	$35.3bn	⬇ 1%
• As at 30 September:			
➢ Closing FUM	$32.7bn	$35.4bn	⬇ 8%

Mr. Emilio Gonzalez, BTIM CEO, said, “The result for the year is sound against the backdrop of volatile markets driven by concerns over European sovereign debt and a deteriorating global macroeconomic environment. In a difficult environment BTIM has maintained its underlying profitability with a continued focus on costs whilst continuing to invest for growth.

“Importantly, we made significant progress on a number of our strategic initiatives. In particular we recently completed the acquisition of JOHCM, a boutique investment manager in the UK.

“We are pleased to report that the announcement of the acquisition in mid-July did not result in any mandate losses and no funds have been put on hold. Furthermore, JOHCM recorded net inflows of £319 million ($509 million[v]) for the three months ended 30 September.

“The Board has declared a final fully franked dividend of 10.0 cents per share (cps), taking total dividends for the year to 16.0 cps. This is an increase of three per cent on financial year 2010 interim and final dividends.” Mr. Gonzalez concluded.

Financial results

For the year ended 30 September 2011, BTIM recorded total revenue of $126.6 million, down two per cent on the prior year. Average funds under management (FUM) reduced from $35.3 billion to $35.1 billion while base management fees remained flat. Performance fees, while still strong were $6.2 million, a decrease of $2 million on 2010 fees.

The cash cost to income ratio was 65 per cent compared to 66 per cent in 2010. Cash expenses (excluding transaction costs associated with the acquisition of JOHCM) were $82.8 million for the year ended 30 September 2011, a decrease of two per cent on the prior year. The savings were primarily the result of lower fund related expenses and ongoing cost control. Employee costs were broadly stable.

Funds under management and investment performance

Closing FUM was $32.7 billion at 30 September 2011, compared to $35.4 billion at 30 September 2010. Market performance reduced the FUM balance by $1.3 billion during the year, with the All Ordinaries Price Index closing down 12 per cent largely driven by the turmoil in the global markets over the last quarter of the financial year.

BTIM recorded net outflows of $1.4 billion in the year to 30 September 2011, primarily from the legacy retail book which experienced $1.2 billion in outflows during the year.

Strongly performing funds for the year included the long/short, micro, mid and small cap funds. BTIM's core Australian share fund also performed well during the year and exceeds benchmark over one, three and five years.

JOHCM business update

Positive business momentum has been maintained at JOHCM since the announcement of the acquisition by BTIM in mid-July. There has been no loss of mandates, no funds have been put 'on hold', and there has been no turnover of investment staff.

Fund flow into the JOHCM product range has continued over the September quarter with net positive flows of £319 million ($509 million[v]) despite volatile markets. The flows were split broadly 50:50 between public offer (OEIC) funds and institutional segregated mandates.

JOHCM FUM as at 30 September 2011 was £6.2 billion ($9.9 billion[v]), down from £7.1 billion ($10.7 billion[v]) as at 30 June 2011, due to declines in global equity markets over the same period. Management fee margins (excluding performance fees) have been maintained at 64 basis points.

Performance fees accrued in the funds as at 30 September 2011 were £6.9 million ($11.0 million[v]). The performance fee period ends 31 December 2011 and the recognition of the performance fees will be dependent upon fund performance between 1 October 2011 and 31 December 2011.

Capital management

The Board has declared a final fully franked dividend of 10.0 cps, taking total dividends for the year to 16.0 cps. This represents a three per cent increase on last year's combined interim and final dividends of 15.5 cps. The dividend will be paid on 16 December 2011 to shareholders on record at 2 December 2011.

The final dividend applies to all shares on issue as at 2 December 2011, including those issued as part of the recently completed entitlement offer. The payout ratio for the year is 127 per cent of normalised Cash NPAT. The higher payout ratio reflects the higher number of shares on issue as a result of the entitlement offer related to the JOHCM acquisition. Importantly, the dividend per share payout approximates 85 per cent of earnings per share.

Going forward the Board intends to continue to target an annual payout ratio of between 80 and 90 per cent of Cash NPAT.

Strategic Initiatives

During the year BTIM continued to focus on and deliver on its strategic objectives around growth and diversification. The acquisition of JOHCM was a significant step in building out BTIM's investment capabilities.

JOHCM currently has a broad set of diverse long only equity investment strategies and is well placed in key product areas such as global, Asia and emerging markets.

JOHCM provides key benefits to BTIM, helping to drive growth, increase margins and enhance diversification:

- The acquisition provides new growth opportunities for BTIM through the addition of a high growth business with a track record of strong funds inflow, a broader set of products with significant capacity, and access to a growing client base and new markets.

- JOHCM's high alpha strategies coupled with capacity management and strong investment performance have resulted in revenue margins consistently in excess of 60 basis points across its portfolio.

- The combination of BTIM and JOHCM creates an investment management business with greater diversification across revenue streams, asset classes and geography of client base, reducing reliance on any single fund, strategy or individual and producing a more balanced portfolio.

During the course of the year BTIM has also increased activity in the wholesale market. The wholesale market, albeit subdued at the moment, remains a key sector of the wealth management industry and affords BTIM substantial opportunities for revenue and margin growth with further leverage of its strong brand, ratings and platform representation. A national roadshow for advisers was undertaken supported by a brand marketing campaign. Representation was increased on approved lists, model portfolios and platforms. These initiatives should place BTIM in a stronger position once confidence in equity markets returns.

In terms of building the boutique model, BTIM transitioned both the Income and Macro boutiques onto profit share during the year, aligning them directly to boutique financial performance in the same way as the Australian Equities boutique. BTIM is encouraged by the early success in the Income Boutique having already secured a number of mandates and positive ratings from research houses.

Outlook

Mr. Gonzalez stated, in conclusion "Given the backdrop in markets, our financial result for the year was a sound outcome and we have been able to reward shareholders with a slight increase in dividends.

"Notwithstanding current market volatility, BTIM has made significant progress on a number of initiatives. Our book of business is now more diverse and we continue to focus on our strategic priorities."

For further information on this media release, please contact:

Mr Emilio Gonzalez
CEO
BT Investment Management
Telephone: (02) 92202144

Ms Janet Payne
Investor Relations
Symbol Strategic Communication
Telephone: (02) 80792971

Reconciliation of Statutory and Cash NPAT

$m	FY 2011	FY 2010
Statutory NPAT	16.9	21.8
Add back: amortisation of employee equity grants	10.4	15.4
Deduct: after-tax cost of ongoing employee equity grants payable for the year	(8.6)	(6.3)
Add back: after-tax net transaction expenses associated with acquisition of JOHCM	11.8	-
Normalised Cash NPAT	30.5	30.9

i Cash NPAT comprises statutory NPAT adjusted for the amortisation of employee equity grants required under Australian International Financial Reporting Standards. BTIM believes these non-cash charges do not form part of underlying operations for the year, and instead reduces its Cash NPAT for the after-tax cash costs of equity grants made in respect of the current year.

ii Statutory revenue included in the financial report of $128.6m ($131.5m – FY10) includes expenses recovered from funds managed by BTIM and fees received for services provided by BTIM to a number of Westpac-related entities. These have all been netted off with related expenses in the revenue announced of $126.6m ($129.2m – FY10). Also included in statutory revenue is a realised foreign exchange gain on hedging the purchase price consideration of JOHCM which has been excluded as a net transaction cost in the reported result.

iii Statutory expenses included in the financial report of $98.0m ($95.5m – FY10) includes the amortisation of employee equity grants and the transaction costs in relation to the acquisition of JOHCM. The pre-tax cash expenses announced of $82.8m ($84.9m – FY10) does not include these items, but does include the cash cost of ongoing employee equity grants payable in respect of the current year, together with certain statutory revenue adjustments noted above.

iv Included in net transaction expenses in the financial report is $12.5m in acquisition and financing costs partially offset by $0.2m in realised foreign exchange gains on hedging the transaction and $0.5m in tax expense. Additionally the after-tax cash cost of $1.5m in transaction related equity grants has been excluded from normalised Cash NPAT, however statutory NPAT will be impacted in future years as equity grants amortise over the vesting period.

v Based on an exchange rate of £0.6265/A$1.00, as at 30 September 2011.