

BT Investment Management Limited

2011 Annual General Meeting

Sydney, Australia

6 December 2011

Chief Executive Officer's Address

**Mr Emilio Gonzalez
Chief Executive Officer
BT Investment Management Limited**

I wish to build on some of the themes in Brian's address and in particular set out for you our strategic focus and what steps we have taken to deliver on this.

First, in terms of the financial highlights from the 2011 financial year:

- We produced a Cash NPAT of \$30.5 million (before the one-off expenses associated with the acquisition of J O Hambro), slightly below the previous year's result of \$30.9 million.
- Revenue for the year was down 2.0%. We experienced net outflows of \$1.4 billion mainly in the retail legacy book we manage for Westpac which is in structural outflow. Our performance fee, whilst still an impressive outcome, was \$2million less than the 2010 financial year outcome.
- We have remained vigilant on our costs with total expenses for the year declining by 2.4% despite continued investment in growth initiatives, an outcome that staff has worked hard to achieve.
- We delivered a cost to income ratio of 65% in a year in which revenue has fallen. Indeed BTIM has been able to maintain a broadly steady cost to income ratio over the last four years despite the volatility in the markets.

Turning to investment performance, investment markets have certainly thrown up some interesting challenges for fund managers. The ASX 300 Accumulation Index was down 8.7% for the year, the small caps market down by 12.1%, with global equities also down by 4.5% in Australian dollars.

Most of the declines were driven by poor markets in the second half of the financial year, originally fuelled by concern over US debt but then dominated by speculation over Greece's ability to remain solvent and now Italy's.

These are difficult markets with extreme volatility. Since 2007 we have had 120 days where the local market has moved by 2% or more on a single day. Prior to 2007 you have to go back 23 years to register 120 days of 2% or more movements.

I am pleased to report that our funds have held up well in this environment and we have been able to add value to our client portfolios throughout the period.

Strongly performing funds for the year included the Smaller Companies, Microcap, and Midcap Funds. The BT Wholesale Core Australian Share fund now exceeds benchmark over one, three and five years.

The cash and fixed income products also exceeded their benchmarks over the past year demonstrating some of the improvements we have made in this asset class.

Changes we have made to our diversified funds have also resulted in improved performance with our range of diversified funds now either first or second quartile on the performance tables.

Importantly, ratings for our all flagship funds continue to be strong being either four or five stars from research house S&P.

Our focus remains on the long term generation of wealth for our clients, a perspective that challenges one's resolve given the volatility and short-termism in the marketplace.

As Brian has indicated in his address, the most important highlight this year has been progress on the same clear strategic initiatives I have publicised on many occasions, namely to:

- grow our exposure in the wholesale market,
- maximise our competitive advantage from being part of The Westpac Group, and
- expand our investment capabilities.

All three are important in building and diversifying our revenue through a broader set of investment capabilities and a wider range of distribution channels.

By far the biggest initiative we undertook during the year was the acquisition J O Hambro Capital Management. At the AGM last year I made the comment that in expanding our investment capabilities we would look at both organic and acquisition opportunities but either must meet the requirement of offering growth and diversification to our business.

We decided to pursue the acquisition path as this initiative needed to be meaningful enough to our growth and diversification aspirations.

Our search led us to J O Hambro, a boutique, active equity investment manager based in London with 84 employees. The manager brings with it around \$10 billion in assets under management and a broad set of equity investment strategies across UK, Europe, Global/Far East, Japan, Asia and emerging markets.

The business has been very successful as a result of its ability to attract and retain skilful fund managers with a long-term track record of strong investment performance. Prior to our acquisition announcement in July, Hambro had quadrupled its funds under management in two years.

The client base is spread broadly 50:50 between retail and institutional clients and the majority of clients are in the UK but with an increasing presence in Europe, US and Asia.

Importantly, J O Hambro is aligned to BTIM in terms of investment philosophy and culture. Both houses promote independent investment decision-making and teams are rewarded on the success of their own funds, providing strong alignment.

The acquisition has been very well received by clients and did not trigger any fund redemptions as a result of the acquisition, a traditional risk in investment management M&A deals.

Pleasingly, the strong fund flow into J O Hambro continued over the September quarter with net positive flows of over \$A500 million, despite declining and volatile markets, a change of control during the period and a traditionally quiet 'summer' period in the Northern hemisphere.

I have outlined here the three key benefits the acquisition will bring to us, namely:

- drive growth,
- increase margins, and
- enhance diversification.

The expanded growth opportunities exist through a broader set of products distributed across regions, and the immediate expansion of BTIM's product range and client base.

Further growth can be achieved through the addition of new strategies, either internally generated or through the addition of more teams, as well as entry into new markets and access to new clients.

BTIM margins overall will be higher. Hambro has been able to achieve revenue margins in excess of 60 basis points across its portfolio due to its strong and consistent investment performance and discipline in managing capacity.

BTIM margins have historically been around 34 basis points due to a higher portion of the book in the more stable but also lower margin asset class of cash and fixed interest.

The diversification benefits are several. The combination of BTIM and Hambro creates a more balanced portfolio. As Brian mentioned, with the current level of turmoil in the markets, it is essential to provide a range of investment alternatives to our clients and diversify risk away from any individual fund, manager, or strategy.

The Hambro business will approximate 50% of the combined group earnings on a go-forward basis. This needed to be a meaningful percentage, as the staff at Hambro need to be able to have an impact on the value of the group's equity to ensure proper alignment.

No acquisition of course is complete unless it delivers value to shareholders. Whilst there is strategic value in a more diverse portfolio and lower revenue volatility, our focus is on delivering an outcome that is also EPS accretive, reduces risk, and creates value over the long-term for shareholders.

The J O Hambro acquisition required a significant commitment in resources, but this did not detract from our other strategic priorities around growing our exposure to the wholesale market and maximizing our competitive advantage from being part of The Westpac Group.

The wholesale market, which is what we term financial advisers who provide advice to retail investors and mostly invest through intermediaries through administration platforms, continues to be an important market for our business.

In May of this year we reinstated the BT Investment Management Adviser Roadshow across the major capital cities. It represented an opportunity for advisers to hear directly from our portfolio managers and is an important initiative in building our reputation with them.

We were also successful in getting our products on more approved lists which is a pre-requisite in getting investment flows.

Notwithstanding the progress we have made, we acknowledge the challenge in this market place. Investor appetite for risk assets is low given the ongoing volatile markets and uncertainty over sovereign bonds.

There has been a clear shift in investor appetite with portfolios more income focussed and less growth oriented. This shift has been further aided by the attractive interest environment here in Australia, as local banks have shifted their funding needs from overseas wholesale markets to the domestic retail investor.

To this end, our cash and fixed income Boutique has developed two products specifically in the income space.

The first is a product that competes against other cash products and term deposits for investors who would like to see some capital growth without undue risk.

It is a product that pays a monthly income stream targeting the official cash rate while providing liquidity and some potential capital appreciation to offset against the biggest risk to permanent cash

holdings, that is inflation. We are very pleased that this fund in its first year has already received strong ratings.

Our other product is a more traditional composite fixed income product to compete against other established players.

We are in a fortunate position that, as investor preferences shift, our breadth of capability allows us to respond to those changes, whether they are temporary or structural in nature.

Our largest client is BT Financial Group, a subsidiary wholly owned by Westpac. Our access into BTFG is varied and spans across the planning network, private client business, multi-manager products, the dealer groups, platforms, corporate super and products sold through the Westpac branch network.

This represents a competitive advantage over other independent investment managers.

We have been working co-operatively with BTFG to identify areas of opportunity to expand BTIM's presence within the BTFG distribution network and to maximize these opportunities

Whilst we recognize the relationship as an advantage, we are still required to deliver competitive products and investment performance as well as quality service to compete against other offerings in the marketplace.

As flagged last year, all three of our original Boutiques are now on profit share arrangements ensuring alignment of staff, clients and shareholders.

Our business model is to provide an investment environment for talented investment individuals to make investment decisions supported by a commonly shared institutional grade platform.

I believe our model provides us with a competitive advantage in attracting talent and I regularly receive interest from individuals and teams who see our proposition as a better alternative.

Within the Income Boutique, team changes and the development of a new disciplined investment process have meant that we have improved our ratings over the range of income products we offer, resulting in a number of new investment mandates.

Our Australian Equities Boutique has seen outflows during the course of the year as investors have shied away from equities to more conservative assets. However our investment track record in Australian equities remains strong and is a clear demonstration that, over time, active management net of fees can add value.

We continue to build our track record in Global Macro, a product that is receiving positive flows and we have made changes to our diversified funds whereby our ratings have improved and we were recently awarded an investment mandate to be managed by our diversified team.

We face the coming year with a great deal of uncertainty and investor concern. There are numerous challenges, none bigger than winning back investor confidence and trust.

Nonetheless BTIM stands in a much stronger position today than at this point last year.

We have broadened our revenue base, have greater reach across clients and products, and improved our position and capability in our own market.

Our multi-boutique model continues to demonstrate its strength to be able to attract and retain talent and provide the right alignment between shareholders, clients and staff.

I take the opportunity to thank all the staff who have worked hard during the year and thank all our shareholders for their ongoing support.

I will now hand back to your Chairman, Brian Scullin.