

ASX Release

30 April 2012

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BT Investment Management Limited delivers half year Cash NPAT of \$19.7 million, post the acquisition of J O Hambro Capital Management

BT Investment Management Limited (BTIM) today announced a Cash net profit after tax (NPAT) of \$19.7 million for the half year ended 31 March 2012, which includes the first six month contribution from J O Hambro Capital Management (JOHCM).

Statutory NPAT was \$11.2 million. The Statutory NPAT has decreased from the prior corresponding period primarily as a result of non-cash amortisation charges in relation to the JOHCM acquisition. Cash NPAT earnings per share (EPS) for the period was 7.0 cents per share. The EPS decline reflects the lower markets during the second half of last calendar year, driven by concerns over European debt markets. The average of the All Ordinaries Index was down 11 per cent compared to the prior corresponding period.

	BTIM Group 1H 2012	BTIM 1H 2011	Movement
• Half year ended 31 March:			
➤ Cash NPAT ⁱ	\$19.7m	\$15.6m	⬆ 26%
➤ Statutory NPAT	\$11.2m	\$14.7m	⬇ 24%
➤ Revenue ⁱⁱ	\$92.9m	\$61.4m	⬆ 51%
➤ Cash expenses ⁱⁱⁱ	\$65.7m	\$38.9m	⬆ 69%
➤ Base management fee margin	39 bps	34 bps	⬆ 5 bps
➤ Cash earnings per share	7.0 cps	9.8 cps	⬇ 29%
➤ Fully franked dividends	5.5 cps	6.0 cps	⬇ 8%
➤ Average FUM	\$44.0bn	\$35.6bn	⬆ 23%
• As at 31 March:			
➤ Closing FUM	\$45.8bn	\$36.1bn	⬆ 27%

Mr. Emilio Gonzalez, BTIM CEO, said, "Despite improved market conditions in the March quarter investors continue to remain cautious. Our focus has been on executing our strategy of expanding capability through the acquisition of JOHCM, delivering on investment performance, and reviewing our product range to meet client demand."

"The progress made since the JOHCM acquisition has been pleasing with no FUM loss as a result of the transaction, continued positive flows, improved fund ratings and retention of key investment staff. During the first six months since the acquisition, JOHCM FUM has increased by 19 per cent from £6.2 billion to £7.4 billion.

"For most of the 2011 calendar year, uncertainty over the European debt crisis weighed heavily on equity markets. 2012 has seen a market rally on the back of stronger US economic data and improved liquidity across Europe.

"The Board has declared a fully franked interim dividend of 5.5 cents per share representing a payout ratio of 80% of Cash NPAT for the period." Mr. Gonzalez concluded.

Financial results

For the half year ended 31 March 2012, total revenue was \$92.9 million, an increase of 51 per cent on the prior corresponding period and average FUM was \$44 billion, an increase of 23 per cent. The increase in revenue and FUM reflects the step-change growth from the JOHCM acquisition.

Management fee margins increased to 39bps from 34 bps, compared to the same period last year, reflecting the higher margins in the JOHCM business. During the period, an additional \$4.3 million was earned in performance fees, contributing a further 2bps to the overall fee margin.

Higher costs in this half reflect the inclusion of JOHCM operating costs, non-recurring establishment costs and financing costs associated with debt funding for the acquisition. Operating costs within the BTIM Australia business were down 2.1 per cent, compared to the prior corresponding period.

During the period BTIM closed six funds which were deemed to be sub-scale.

Funds under management and investment performance

Closing FUM was up 7.5 per cent to \$45.8 billion at 31 March 2012, compared to combined BTIM and JOHCM FUM of \$42.6 billion at 30 September 2011. Institutional flows across the Group were strong with net inflows of \$0.4 billion, predominantly into cash, emerging markets and global equities capabilities. Wholesale flows were flat as investors took a more cautious approach in light of increased market volatility particularly in the December quarter.

The Group continues to deliver strong investment performance with 75 per cent of the Group's top 20 funds (by revenue) either first or second quartile over the past year.

Capital management

The Board declared a fully franked interim dividend of 5.5 cents per share. The dividend will be paid on 2 July 2012 to ordinary shareholders on record at 18 May 2012.

This approximates a payout ratio of 80 per cent of Cash NPAT for the period and moves towards a more even distribution of payouts between the interim and final dividends. The Board continues to target an annual payout ratio of between 80 and 90 per cent of Cash NPAT.

Progress on Strategy

In commenting on BTIM's strategy, Mr Gonzalez said, "We have progressed our strategy expanding the breadth and scale of our capabilities and offerings to our clients.

"Our cash and fixed income capability is attracting strong support and we have launched new income products in the wholesale market. We see a continuing trend in investors seeking yield and we are developing new product initiatives to address this demand. During the period we have begun marketing JOHCM product offerings in the Australian institutional channel and have plans to launch an emerging markets equity product in the wholesale channel.

"We have positioned the BTIM Group to capture a range of opportunities and now offer our clients high quality broad asset management capabilities across regions. We have expanded our product offerings, particularly where demand is growing such as income, global, emerging markets and Asian equities. We also plan to expand our Singapore office by adding sales capability to capture flow opportunities in the Asian region.

"We are pleased with the progress made with JOHCM and note that there has been no FUM loss as a result of the acquisition, no disruption to its investment teams, ratings and consultant recommendations have improved and JOHCM has continued to attract positive flows."

Outlook

Mr. Gonzalez said, "We are encouraged by the improvement of markets in the March quarter which needs to be sustained for investor confidence to return.

"BTIM is in a strong position to offer multiple solutions to our clients as a result of our broad based capability. We continue to see growth opportunities particularly offshore in global equities and emerging markets and are focused domestically to deliver income solutions.

"BTIM is positively positioned for growth through the diversification of its business across asset classes, products and geographies.

"This diversification offers both resilience in earnings and strong growth opportunities."

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Reconciliation of Statutory and Cash NPAT

\$m	HY 2012	HY 2011
Statutory NPAT	11.2	14.7
Add back: amortisation of employee equity grants	10.8	5.3
Add back: amortisation of intangibles ^{iv}	3.6	-
Deduct: cost of acquiring ongoing employee equity grants payable for the year	(4.4)	(4.9)
Deduct: tax effect	(1.5)	0.5
Cash NPAT	19.7	15.6

ⁱ Cash NPAT comprises statutory NPAT adjusted for non-cash items. These non-cash items include the amortisation of upfront and ongoing equity grants, less the after tax cash costs of ongoing equity grants made in respect of the current year and the amortisation of intangibles. BTIM believes that the amortisation of these does not form part of the underlying profitability and Cash NPAT is a more suitable measure of profitability.

ⁱⁱ Statutory revenue included in the financial report of \$93.8m (\$62.3m – HY11) includes expenses recovered from funds managed by BTIM and fees received for services provided by BTIM to a number of Westpac-related entities. Both of these have been netted off with related expenses in the revenue announced of \$92.9m (\$61.4m – HY11).

ⁱⁱⁱ Statutory expenses included in the financial report of \$76.8m (\$40.3m – HY11) include the amortisation of employee equity grants and the amortisation of intangibles. The pre-tax cash expenses announced of \$65.7m (\$38.9m – HY11) does not include these items, but does include the non-statutory cash cost of ongoing employee equity grants payable in respect of the current year, together with statutory revenue adjustments noted above.

^{iv} Amortisation of intangibles relates to JOHCM fund and investment management contracts.