

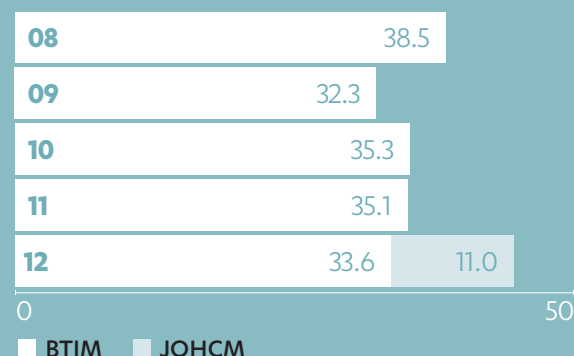


Globally diverse Financially strong

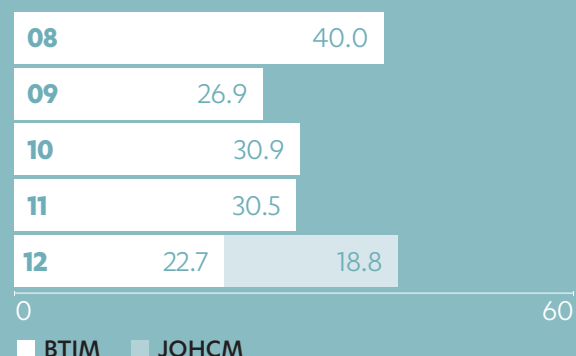
Annual Report 2012

HIGHLIGHTS

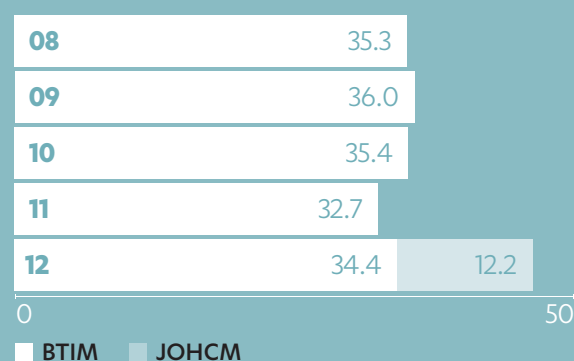
Average funds under management \$b



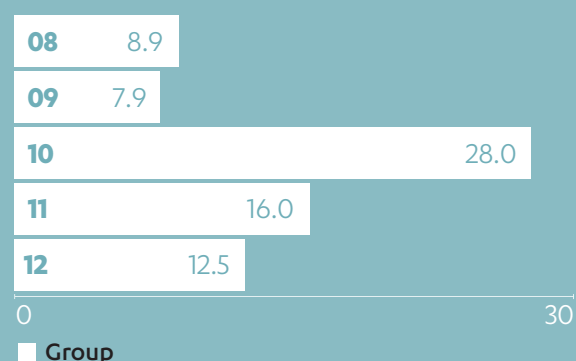
Cash NPAT \$m



Closing funds under management \$b



Dividends cps



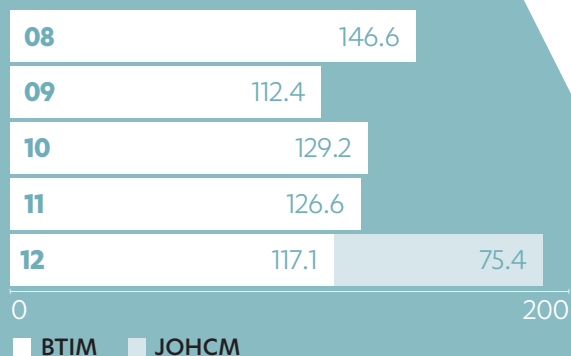
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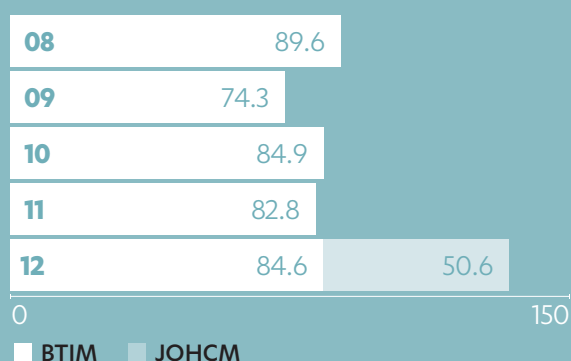
Total Revenue in 2012

\$192.5_m

Revenue \$m



Cash Expenses \$m



Total Closing FUM in 2012

\$46.6_b

CHAIRMAN'S LETTER

Our revenues are now more diverse, we are growing in new areas such as fixed interest and we have launched new products to cater to growth segments.

Brian Scullin, Chairman

The year in review

On behalf of the Board, I am pleased to present BTIM's fifth annual report, which covers a year of significant transformational change through an acquisition in an environment of continued global economic uncertainty.

The 2012 financial year began in the midst of the sovereign debt crisis in the Eurozone causing investor confidence globally to be negatively impacted. Throughout the year, there were periods where markets responded positively to globally co-ordinated action by major central banks, but the spectre of the Eurozone debt problems kept investors at bay. Of particular concern was the prospect of Greece leaving the single currency and a slowdown of growth prospects in China and the US. Encouragingly, the year closed in a much more positive mood as European concerns dissipated, at least in the short term.

This ongoing volatility and uncertainty make for a challenging environment for a business like ours where revenues are closely linked to changes in equity markets and investor appetite for risk. Despite these volatile markets we have made excellent progress in diversifying our revenues and positioning the Group in areas where we see growth opportunities.

Our financial year 2012 results reflect a number of moving parts and include a full 12 months contribution from J O Hambro Capital Management Limited (JOHCM).

Reflective of the larger business, the number of shares on issue increased from 160,000,000 to 267,906,977. Total revenues for the Group were up 52% to \$192.5m with funds under management (FUM) as at 30 September 2012 of \$46.6b up from \$32.7b the previous year.

Cash NPAT, which is the basis on which the Board measures the profitability of the Group, was up 36% to \$41.5m.

Cash earnings per share were down 22%, primarily as a result of lower equity market levels on average compared to the previous year and a difficult trading environment in Australia.

Business expansion

Our year started off with the acquisition of JOHCM – a landmark transaction built on strong strategic rationale. As a result of the acquisition, we have a broader and stronger business and the change in ownership has gone extremely well. Net flows from the JOHCM business this year totalled \$1.1b and FUM since acquisition is up by 23% reflecting clients' continued confidence and strong investment performance.

This is a tremendous achievement and testament to the quality of the combined management teams who have overseen the process with a great deal of skill and sensitivity.

We have a robust governance structure in place with BTIM Group CEO Emilio Gonzalez and CFO Cameron Williamson represented on the JOHCM Holdings Board in the UK, along with James Evans, a BTIM non-executive director, Gavin Rochussen, CEO JOHCM, and Christopher Bannister, GM – Europe & Americas of Westpac Banking Corporation in London. I am also delighted that James Hambro has agreed to stay on as Chairman of JOHCM. You can read more about JOHCM in the report from its CEO, Gavin Rochussen, which accompanies the Boutique Reports.

In Australia, markets were heavily influenced by overseas factors and a resources sector concerned about the impact of a slowing Chinese economy. This has led to a substantial flow of funds away from equities into other asset classes as investors have become increasingly risk averse. Along with a shift in investor preferences we have made significant progress with our cash and fixed interest products and launched an equity income series of products targeted at investors seeking stable income without taking on undue risk. We believe that these funds will be very attractive to retirees and their financial advisers, and will help grow our share of this important and growing market segment.



Capital management

Taking into account the decline in cash earnings per share, the Board has declared a final dividend of 7.0cps. Combined with the interim dividend of 5.5cps, this produces a total payout of 12.5cps for the year, which approximates a payout ratio of 86% of our cash earnings. The Board intends to continue to target an annual payout ratio of 80-90% of Cash NPAT. Franking levels have been maintained this year but are expected to decline in the future given the proportion of the Group's earnings which will be generated offshore.

The Board has also announced the activation of a Dividend Reinvestment Plan (DRP) for the 2012 financial year final dividend payable in December. The DRP will allow eligible shareholders to have all or a part of their dividends automatically reinvested in additional BTIM shares, and no commissions or brokerage fees will be payable by shareholders in connection with additional shares acquired. Shares issued under the DRP will be at a zero discount to the allocation price as determined by the DRP rules. Importantly, our major shareholder Westpac Banking Corporation has indicated its intention to fully participate in the DRP. We will use funds raised through the DRP to retire debt and to manage ongoing operations.

Conclusion

In summary, the business is well positioned to take advantage of growth opportunities both domestically and offshore. Whilst investors are still cautious and concerns over the Eurozone will continue to overshadow markets, we start the new financial year with some positive signs in markets and a declining interest rate environment that bodes well for improved investor sentiment. The Australian funds management industry continues to grow largely as a result of the compulsory superannuation regime and the BTIM business has expanded its capabilities and product lines to capture flows both domestically and offshore. Our revenues are now more diverse, we are growing in new areas such as fixed interest and we have launched new products to cater to growth segments. This sets a strong foundation for future growth and increasing rewards for our shareholders.

Brian Scullin
Chairman

**Total revenues for the
Group were up 52% to**

\$192.5m

CHIEF EXECUTIVE OFFICER'S REPORT

This has been a transformational year for BTIM with a number of key initiatives shaping the Group into a larger diversified business with expanded growth opportunities.

Emilio Gonzalez, Chief Executive Officer

This year's results reflect a full 12 months' contribution from the acquisition of J O Hambro Capital Management Limited (JOHCM). Cash NPAT was \$41.5m, up 36% from \$30.5m the previous year, reflecting the 12 month consolidated result of JOHCM and BTIM Australia. Revenues for the group totalled \$192.5m, up 52% from the previous year of \$126.6m.

A more comparable measure is earnings per share, which represents the claim on earnings by shareholders of the Company. Cash earnings per share for the year was lower by 22%, which largely reflects the lower market levels compared to the previous year for the BTIM Australia business. A significant driver of our underlying profitability is the level of the equity markets, as we derive much of our revenues from funds under management which is, in turn, directly linked to market outcomes. For the 12 month period ending 30 September 2012, the average level of the S&P/ASX 200 was 8.3% lower than the previous year's average. We were able to offset some of the reduced revenue in the Australian business through lower personnel costs as bonuses were reduced. Importantly, we have continued to invest in growth initiatives, particularly on product development, and remain vigilant on costs.

A key focus for the year was ensuring a smooth transition of the JOHCM business into the BTIM Group. With the purchase of any funds management organisation, it is critical that investment processes, business momentum, and investment ratings are maintained, particularly during the initial period, so that client confidence in the way their funds are being managed continues uninterrupted.

One year on, I am pleased to report that the acquisition has gone very smoothly despite tough market conditions. JOHCM has been able to continue to deliver positive net fund flows for the year totalling \$1.1b. It has been able to retain all of its fund ratings, no client has withdrawn funds as a result of the new ownership structure, and all investment and management personnel continue in the business. These are all significant achievements.

In this Annual Report, Gavin Rochussen, CEO of JOHCM, expands further on the business and how it has performed during the year. The heads for BTIM's Equity Strategies, Macro Strategies and Income & Fixed Interest boutiques also discuss their businesses and the management of client funds. Combined, these businesses manage over \$46b of FUM for the BTIM Group.

Some of the key highlights of the year include:

- smooth transition of JOHCM ownership with no disruption to business
- launch of an emerging markets fund managed by JOHCM into the Australian market
- continued growth in our Income & Fixed Interest business
- development of BT Equity Income Series targeted at the retiree market
- positive fund flows across the Group in the institutional and wholesale channels
- positive fund flows via BTFG channels, and
- significant mandate win for our Diversified team

Our business model is based around an investment-led culture, supporting our boutique portfolio managers by providing infrastructure and marketing resources, sales, risk & compliance and a common technology platform. We focus on delivering value to clients and are rewarded according to our success in attracting, managing and retaining funds.

The BTIM Group now runs multiple strategies managed across 16 teams. We have a broad product offering across asset classes and styles for our clients to choose from which also means a well diversified revenue base. As a result of focusing on our strategy and the initiatives taken, we are beginning to see growth in new areas of focus for the business such as offshore and defensive asset classes.

Investment markets

Despite a rise in equity markets over the course of the year, as mentioned, on average the Australian market measured by the S&P/ASX 200 was lower by 8.3% compared to the previous financial year. Concerns over slowing growth in China, uncertainties about the direction of the US economy and the European debt crisis all weighed heavily on the market. Understandably, investors remained risk averse and retreated. The investment mantra became one of preservation of capital, not return on capital. Compared to other developed economies, Australia's interest rates have stayed at relatively high levels, making term deposits an attractive safe haven for retail investors. However, as term rates start to decline, we expect investors to move up the risk curve.



In the UK, concerns about the Eurozone and the possibility of defaults dominated headlines. However, with the official interest rates pared back to 0.5%, deposits have little attraction and so local investors have been more willing to consider equities in search of yield. This led to JOHCM experiencing strong net flows in the UK Equity Income Fund, which provides superior income with the prospect of capital growth.

With many developed economies facing significant challenges, the spotlight has turned to emerging markets, such as Brazil, Russia, India and China (BRIC) and Asia generally. During the year, JOHCM attracted strong flows into its Global Select and Emerging Markets funds. JOHCM also launched an Asia (ex-Japan) Allcap fund, as well as an Asia (ex-Japan) small/mid cap fund, managed from the Singapore office.

Strategic initiatives

Our strategic initiatives have been based around three key priorities:

1. Expanding our investment capabilities for growth and diversification
2. Growing our exposure in the wholesale market¹
3. Maximising our competitive advantage from being part of the Westpac Group

Expanding our investment capabilities for growth and diversification

The acquisition of JOHCM has transformed BTIM from a domestically-focused fund manager to a global asset management business. In doing so we have diversified our revenue base and added new growth engines for the future.

Our revenues are now much more diverse with 32% linked to Australian equities, 7% income and fixed interest, 11% in European equities, 14% in UK equities and 21% in global and emerging markets².

From a channel perspective, we have a good spread of clients – 23% in wholesale channels, 40% in institutional and 37% representing the Westpac Group. The legacy book, which is in run-off mode, now accounts for only 20% of FUM (compared to 29% last year).

Last year I wrote about the strong progress we made in growing our fixed interest capabilities in Australia through improved ratings and the development of new products. During the past 12 months, we have built on that initial success. We have obtained a number of 'buy' ratings from asset consultants (including two from global consultants), we have been added to more approved product lists and model portfolios, and have been awarded several new mandates. Our success in this area comes at an opportune time as clients continue to look for more income-type products.

At JOHCM, we have launched the JOHCM Global Opportunities Fund, an extension of the very successful UK Opportunities Fund which has been in the top 10% of its peer group since its launch in 2005. The JOHCM Global Opportunities Fund employs the same investment philosophy and process and is managed by the same team and has had a solid start to building its track record.

Growing our exposure in the wholesale market

Conditions in the wholesale market in Australia remain tough with retail investors continuing to prefer stable and income generating products over traditional equity based funds. As a result, flows in this segment have been at historically low levels. The latest data for the 12 month period ending June 2012 shows that the Australian funds management industry experienced net-outflows of \$20.4b. Notably, growth products accounted for the bulk of the outflows with Australian equities alone experiencing net outflows of \$17.9b³.

This represents a real challenge for investment management businesses that have traditionally relied on this segment of the market for revenue growth. In the past, success would have been based on a broad range of growth products reflecting the market dynamics pre-GFC and the focus on investors in the accumulation phase.

1 The wholesale market which BTIM is targeting covers financial advisers who provide advice to retail investors (generally, individuals and small businesses). This market is heavily dependent on key intermediaries including independent research houses, wrap platforms and dealer groups who facilitate fund manager access into the retail investment market.
2 Global and emerging includes global, EAFE, Japan, Asia and emerging market categories.
3 Source: Rainmaker June 2012 "Rainmaker Roundup" report.

This has led us to assess our product range and respond to the changing needs of our clients. The biggest concern among a growing portion of investors, particularly retirees and those approaching retirement, is capital preservation and deriving an ongoing income sufficient to maintain their standard of living.

Transition to retirement will be one of the fastest growing segments of the market with flows from accumulation to retirement forecast to exceed \$1 trillion over the next 10 years¹.

Product development over the past 12 months has been focused on addressing this market. The result has been the development and launch of the BT Equity Income Series. This comprises two funds focused on generating income with different risk profiles to cater for investor life-stage and preferences. Additional funds are expected to be added to the series over the next 12 months. These funds are "outcome based" in that they are designed to deliver to specific client needs, rather than to provide market-dependent portfolios that can result in unpredictable outcomes. The products draw on our capabilities in Australian equities and specialist market risk management skills.

The BT Equity Income Series aims to provide investors with a level of income that is significantly higher than term deposit rates, with lower risk levels relative to the broader Australian sharemarket. The funds are designed to deliver tax-efficient, stable and known monthly income combined with low capital volatility. Importantly, investors will know what income they will receive up to six months in advance and, with daily liquidity, have easy access to their funds. Designed as a complete solution, we believe the funds will prove to be very attractive to financial planners who are looking for innovative products to provide solutions for their clients.

As an investment management business, we need to be flexible enough to adapt to changes in the market. This requires innovative thinking to create products that meet the changing needs and demands of our clients and an investment management culture that is prepared to consider new ideas. Our team has been able to adapt and think more broadly to meet these challenges.

The launch of the BT Equity Income Series expands our product range to capture a broad set of market conditions and takes into consideration client appetite for risk whether it be growth, income or capital stability.

Maximising our competitive advantage from being part of the Westpac Group

BTIM manages \$23.4b on behalf of clients of the broader Westpac Group via our largest client BT Financial Group (BTFG). Our relationship is much deeper than just a pure asset management contract. We work closely together on multiple aspects of the business including marketing, advice, private wealth, and the investment platform team to offer products that meet the needs and expectations of their clients. This relationship provides us with an important competitive advantage over other independent investment managers when it comes to distribution, subject of course to investment performance. During the year we have been able to improve our product representation across the Westpac Group, particularly in the cash and fixed interest asset classes. Having worked closely together on the launch of our Equity Income Series we have seen early support for these funds through this channel.

Pleasingly, through our strong working relationship with BTFG we were awarded a \$5.5b Strategic Asset Allocation mandate for the range of Westpac Diversified funds. BTIM already manages the underlying asset classes and so there is no change in FUM but as we now also provide a Strategic and Tactical Asset Allocation overlay, we earn an additional fee. This is a further reflection of the focus we have placed on our diversified funds over the past two years. With diversified FUM now totalling \$10.5b, we are now one of the largest single managers of diversified funds in Australia.

Conclusion

It has been a challenging time for investment managers but we have been proactive in responding to changing client needs and pursuing growth opportunities. We have been able to place our business in a strong position. We are now a much larger business with diversity of revenue and clients across the globe. We continue to expand our reach with 27 of our products added to approved product lists and 13 of our products added to platforms providing easier access to financial planners. We have expanded our investment capabilities so that we are not overly reliant on any one asset class or product, and we have invested in developing innovative new product targeted at the growing income segment. As markets and clients have evolved in the wake of the GFC, so too our business has shifted to reflect the new reality. I am confident that we are very well positioned to meet the demands of the market, to continue to add value to our clients' portfolios and to grow our business for the benefit of our shareholders. I would like to thank our team across the Group for their hard work during the year, and our clients who continue to place their faith in us to manage their portfolios.



Emilio Gonzalez, CFA
Chief Executive Officer

1 Source: Rice Warner, Super Flows.

Our business model is based around an investment-led culture, supporting our boutique portfolio managers by providing infrastructure and marketing resources, sales, risk & compliance and a common technology platform. We focus on delivering value to clients and are rewarded according to our success in attracting, managing and retaining funds.

BUSINESS UPDATE

Closing FUM as at 30 September 2012 was \$46.6b, a 42% increase on the FUM at 30 September 2011.

	FY12	FY11
Cash NPAT	\$41.5m	\$30.5m ¹
Revenue	\$192.5m	\$126.6m
Cash Expenses	\$135.2m	\$82.8m
Average FUM	\$44.6b	\$35.1b
Closing FUM	\$46.6b	\$32.7b
Management fee margins	39bps	34bps
Cash earnings per share	14.6 cents	18.7 cents
Fully franked dividends per share	12.5 cents	16.0 cents

¹ For the year ended 30 September 2011, BTIM's Cash NPAT has been normalised to exclude the one-off transaction expenses associated with the acquisition of JOHCM.

Profitability

Cash NPAT for the financial year ended 30 September 2012 was \$41.5m, up 36% on the previous year, reflecting the full year contribution from the acquisition of JOHCM and a step change in the business' FUM, revenue and expenses. Statutory NPAT for the year was \$21.4m representing a 27% increase on the 2011 financial year. Cash EPS declined to 14.6cps reflecting lower equity market levels on average compared to the previous year and a difficult trading environment in Australia.

Revenue

Despite the average level of the equity markets in Australia being 8.3% lower than the previous financial year, total revenue for the period was \$192.5m, up 52% driven largely by the acquisition of JOHCM. Average FUM increased 27% to \$44.6b and average management fee margins were 39bps versus 34bps for BTIM Australia last year.

Base management fees were up 49% as a result of the higher average FUM levels while performance fees doubled to \$12.2m from the 2011 financial year. Other income was \$5.1m (FY11: \$2.6m).

Total fee revenue of the Group is now spread more broadly with \$57.7m or 31% coming through the institutional channel and \$80.8m or 43% coming through the wholesale channel. The fee revenue received from the legacy book is now 15% of the total fee revenue in the Group.

Funds under management

Closing FUM as at 30 September 2012 was \$46.6b, a 42% increase on the FUM at 30 September 2011 driven by the acquisition of JOHCM. Over the course of the financial year, BTIM Australia's FUM grew \$1.7b or 5% from 30 September 2011 while JOHCM's FUM grew \$2.3b or 23% over the same period. The increases can largely be attributable to stronger markets with the All Ordinaries Price Index increasing 8% and the MSCI World Index (GBP) up 17% over this time.

Overall, the Group experienced net outflows for the year of \$0.6b which was primarily driven by \$1.2b in outflows from the legacy book which is in structural decline. Pleasingly, despite the volatile market environment, positive inflows were taken through the institutional channel +\$0.2b, the wholesale channel +\$0.2b and the non-legacy related channels within the Westpac Group +\$0.2b.

Asset classes that garnered notable inflows throughout the year were global equities (+\$0.5b), emerging markets equities (+\$0.3b) and UK equities (+\$0.2b), while Australian equities suffered net redemptions over the year of \$1.3b.

Investment performance

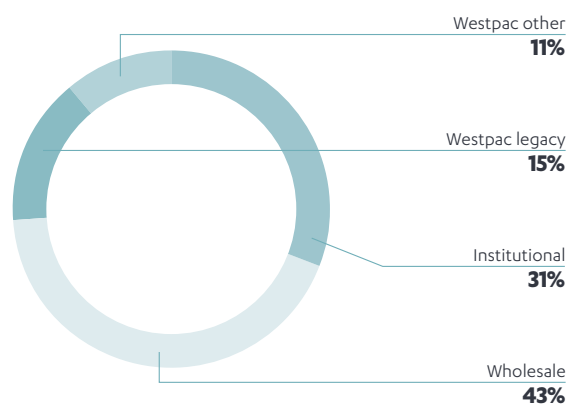
In Australia, BTIM produced above average investment performance across the bulk of its portfolios, with 61% of pooled funds outperforming their benchmarks over the past 12 months. Meanwhile, JOHCM also produced superior returns with 67% of funds in the top two quartiles over the last 12 months and 93% of funds in the top two quartiles since inception. During the year, a number of funds earned performance fees with the BT Wholesale MicroCap Opportunities Fund, BT Wholesale Australian Long Short Fund, JOHCM European Select Values Fund and JOHCM Continental European Fund the key contributors.

This sustained investment performance reflects the success of the business model, the quality of investment processes and the calibre of the investment management teams. A more detailed breakdown is set out in the Boutique Reports.

Expenses

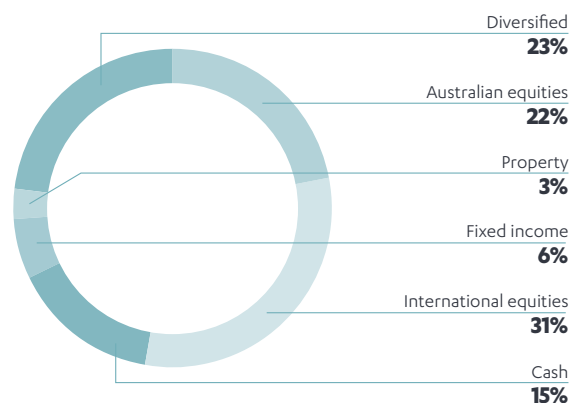
Total pre-tax cash expenses were \$135.2m (FY11: \$82.8m), an increase of 63% on the previous year reflecting the enlarged Group. Employee costs were \$89.1m (FY11: \$52.0m), up 71% on the 2011 financial year, reflecting the increased number of employees post the acquisition of JOHCM. Other operating costs were \$42.6m (FY11: \$30.8m), an increase of 38% on last year. Financing costs associated with the acquisition of JOHCM comprised \$3.5m for the year. The operating cash cost to income ratio for the year was 69%, a slight increase on 67% last year.

Fee revenue by channel

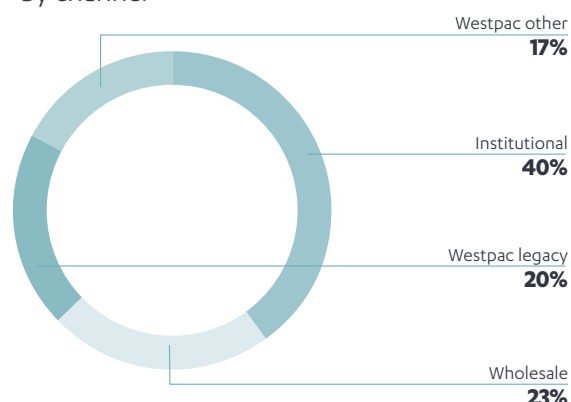


Combined Group FUM as at 30 September 2012 \$46.6b

By asset class



By channel



BUSINESS UPDATE CONTINUED

Earnings per share

Cash earnings per share (EPS) were 14.6 cents per share, down 22% on the previous year. This reflects the lower average market levels compared to the previous year and a difficult trading environment in the Australian market. In the absence of the JOHCM acquisition, BTIM's cash EPS on a standalone basis would have been 14.8 cents per share.

Dividends

The Directors have declared a final fully franked dividend of 7.0 cents per share, taking total dividends for the year to 12.5 cents per share. Taking into account the decline in EPS, the dividends per share approximates 86% of EPS and is at the upper end of the targeted annual payout ratio of 80-90% of cash NPAT.

100% franking levels have been maintained for this year but are expected to decline in future years as a significant proportion of the Group's earnings will be generated offshore from the JOHCM business.

The Board has also announced the activation of a Dividend Reinvestment Plan (DRP) for the final 2012 dividend payable in December. The DRP allows shareholders to reinvest in additional BTIM shares with no commission or brokerage costs. The DRP is being used to raise funds to assist in paying down external borrowings and for ongoing operations of the Group.

Balance sheet

As part of the funding for the JOHCM acquisition, BTIM took debt on its balance sheet for the first time. BTIM has \$81m in debt facilities with HSBC in the UK, comprising a \$42m three year term debt facility and a \$39m two year revolving loan facility. As at 30 September 2012, \$51m of

the combined debt remains outstanding and a further \$16m of the revolving loan facility remains undrawn. During the year, \$14m of the term debt facility was repaid. BTIM's current debt to equity ratio is 14% and financial covenants associated with the HSBC facilities are all comfortably met.

At 30 September 2012, shares on issue amounted to 267,906,977.

Reconciliation of Cash and statutory NPAT

BTIM continues to use Cash NPAT as its headline result in this Annual Report and other ASX releases consistent with reporting its results in previous years.

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

Further, Cash NPAT adjusts for the amortisation of intangible assets and fair value adjustments for equity settled converting notes issued as part of the JOHCM acquisition.

Exchange rates

JOHCM's operating results are denominated in British pounds. For BTIM Group consolidation purposes, these results are converted to Australian dollars at the exchange rate prevailing each month. BTIM does not enter into any arrangements to hedge the currency. Over the course of the year the AUD/GBP exchange rate fluctuated between 0.6265 and 0.6789.

A reconciliation of statutory NPAT to Cash NPAT is set out below:

	FY12 \$m	FY11 \$m
Statutory NPAT	21.4	16.9
Add back: amortisation of employee equity grants	21.6	10.4
Add back: amortisation and impairment of intangibles	11.9	–
Add back: FV adjustment of financial liability (converting notes)	1.1	–
Add back: expenses associated with the acquisition of JOHCM	–	12.3
Deduct: cash costs of employee equity grants payable during the year	(9.6)	(9.6)
Add/(deduct): tax effect	(4.9)	0.5
Cash NPAT	41.5	30.5¹

1 For the year ended 30 September 2011, BTIM's Cash NPAT has been normalised to exclude the one-off transaction expenses associated with the acquisition of JOHCM.

S&P/ASX 200 Price Index**S&P/ASX 200 Price Index****1 Oct 2011 – 31 Dec 2011**

Following six consecutive months of negative returns in the second half of the last financial year, the new financial year started strongly, with the market recovering by 7.2% in October. However, November and December were both negative months as European debt concerns continued to grip fragile market sentiment. Both Italian and Spanish bond yields rose above 6.5%, which prompted agreement to augment fiscal consolidation for member states via further government borrowing controls and capital support via the IMF. The RBA started its easing cycle cutting rates by 50bps to 4.25%.

1 Jan 2012 – 31 Mar 2012

In the first calendar quarter of 2012, markets breathed a sigh of relief with the initiation of the ECB's Long Term Refinancing Operation, providing banks with much needed access to capital. The half year reporting season saw earnings expectations for the full year tempered while mining service companies were the standout sector. By the end of the quarter, the focus shifted to China with mounting concerns around growth.

1 Apr 2012 – 30 Jun 2012

Tensions mounted again in Q3, particularly during May, as concerns around global growth escalated and the world's focus shifted to the Greek elections and the ongoing viability of the euro. Riskier parts of the market and in particular resources were weak, while defensive and high yielding stocks performed very strongly, marking extreme dispersion in sector returns. The RBA cut rates by 50bps in May and then by 25bps in June, reflecting the renewed urgency brought about by global macro concerns.

1 Jul 2012 – 30 Sep 2012

The final quarter saw markets recover, again due to affirmative policy from the United States and Europe, with both the Federal Reserve and the ECB announcing packages that were welcomed by the market. While the mining services sector reversed some of its gains towards the end of the quarter, falls in commodity prices and particularly iron ore put pressure on the sector, with resource companies significantly winding back capex projections. Performance from defensive and high-yielding stocks remained strong as investors' demand for income persisted. CEO outlook comments in the August reporting season were predictably cautious and the RBA's explicit acknowledgement of an impending peak in mining investment implied further rate cuts.



Crispin Murray, Head of Equity Strategies

Our team remains one of the largest and most stable in the market enabling us to dig deeper and undertake the level of research required. As a research driven investor, the identification of the key areas to focus on is critical to finding opportunities.

Boutique focus

On the face of it an annual return of 14.5%, which is what the S&P/ASX 300 Accumulation Index delivered to the end of September 2012, is an attractive return. In fact, this is the highest September annual return seen since the heady days of 2006–2007. However, it does belie the fact that during the course of the year the market moved from the bottom of its trading range (with September 2011 being one of the most tense months in the European debt saga) to somewhere near the top, with a fair amount of volatility along the way. So despite a good headline number, the S&P/ASX 200 has traded in a range, well supported above an index level of 4000 but was unable to reach the 4500 mark. This was a level which it spent most of the previous financial year sitting comfortably above.

Looking at how our own funds have done, it has been a tough environment for active managers in the large cap Australian equity space. The key drivers of returns in the last year have been macro factors, which have been reflected in very large dispersions in returns between the more cyclical sectors and defensive and yield sectors. The paradox is that global markets have seen riskier assets re-rate in the last few months of the year on the back of global policy response, but in the Australian equity market the premium for defensive assets has remained at near record levels. Nonetheless, while the performance of our broad cap strategies has been mixed, our Small, Mid and Micro cap funds continued their very strong active returns. Pleasingly, of our nine core products six outperformed their benchmark with the Micro cap, Small cap and Mid cap products having particularly strong years and Jim Taylor's long-short strategy also delivering a very solid outcome. Our longer term numbers remain robust and even in years where our ideas are not rewarded by the market, the rigour of our investment process and strong focus on risk means that underperformance is limited in its scale. This means that the turnaround in performance can be quite quick when more of our ideas pay off. We remain as focused as ever on ensuring the good ideas rise to the surface and so maintain our position in the higher echelon of Australian equity managers.

From a boutique perspective, we continue to have a very stable team with no departures or changes to the structure during the year. The portfolio manager changes that we implemented at the end of 2010, with Jim Taylor and Andrew Waddington taking on the management of the BT Wholesale Imputation Fund, continue to work well. We also made a few changes to stock research to broaden the team's knowledge on particular stocks and sectors and to help reinforce the peer review process.

As a research driven investor, identifying key areas to focus on is critical to finding opportunities. One area we have scrutinised is deciphering whether in a number of industries the current operating environment is being affected merely by cyclical headwinds (or tailwinds), or whether the impacts are more structural and therefore more permanent. We initiated a number of 'structural reviews,' where pairs of analysts undertook specific research in particular areas of the market, such as the "Future of retail and the shopping centre", "The balance of demand in the gas market", "The resource capex cycle" and "The future of the iron ore market". These reviews drew on our extensive contacts with companies and industry experts, covering operational management, suppliers, competitors and other stakeholders to build an overall picture of industry fundamentals and from that draw conclusions on the stocks exposed to these factors. The conclusions have led both to the reinforcing of existing views, for example on the gas sector and to a shifting of positions, for example the selling down of mining service companies earlier in the year.

Our team remains one of the largest and most stable in the market, this enables us to dig deeper and undertake the level of research described above.

During the year, we have also added two new members to the team, Jason Petras, who has joined us from Joe Bracken's Macro Strategies boutique, and Darron Mitchell, who joins us after a long career in managing derivative strategies for both hedge funds and proprietary trading desks. Jason and Darron are co-portfolio managers for our new Equity Income products – the BT Equity Income Series – which were recently launched.

These products, each of which target different levels of income and equity market exposure to suit different client requirements, utilise options strategies to enhance and stabilise income and also to provide varying levels of downside protection. Jason and Darron come into our team with extensive experience managing volatility and options strategies and offer a good blend of quantitative expertise with hands-on money management experience, which I believe will add a lot of value, not only for these specific strategies but also more broadly across the team.

We now have a product suite that consists of traditional broad cap active strategies, which will remain as a key offering for retail and institutional clients, a concentrated

broad cap strategy, a long-short strategy, ethical and sustainable strategies, an AREIT strategy as well as our Mid, Small and Micro cap products. Adding our Equity Income Funds provides a solution for those clients who want some participation in equity markets but with some downside protection, and a higher level of income compared to long-only equity funds. Importantly, it also provides a good diversifier for our boutique in that flows into the funds will be less driven by sentiment around equity markets, particularly in the retail segment. I look forward to updating you on our progress with this initiative in next year's report.

While a key aim for the next financial year is to achieve good ratings for these new products, our existing products remain well rated by asset consultants and research houses and we have strong representation in model portfolios and on platforms. It is a sign of the depth of portfolio management resources that we have within the team that different products run by Jim Taylor, Andrew Waddington, Paul Hannan and Noel Webster, Peter Davidson in LPTs and myself all have distinct advocacy from the institutional and retail research communities. This not only demonstrates strong support for our people, our approach to investing and our research platform but also shows that our business, which has been built upon a strong alignment with our clients' interests, is built on solid foundations.

Conditions remain challenging in the advised market in particular, which has continued to mean that this strong representation is not being translated into strong flows. In last year's report, we said that attractive term deposit rates, a difficult macro environment and lacklustre equity market returns meant that there was little incentive for advisers to direct new money into Australian equities. Of those three factors, the first one is shifting measurably; as interest rates continue to fall, equities will offer an increasingly attractive source of income relative to other asset classes. However, the issue of investor confidence and tolerance for volatility remains. While there has been some movement out of term deposits into other income generating assets, term deposit flows remain resilient and equity fund flows remain benign. Arguably, the second two factors have also lessened in recent months. The market is up by nearly 15% over the year and while we still face a slow growth environment, we may have passed the peak of uncertainty about the future of the European single currency.

Cyclicals versus defensives – the last 12 months to 30 September 2012 saw some of the most extreme outperformance of defensive over cyclical stocks in recent years



Source: IRESS

The chart shows the ratio between a cyclical index (comprising sectors such as Consumer Discretionary, Energy, Materials, Industrials, and Information Technology) and a defensive index (comprising sectors such as Consumer Staples, Healthcare, Financials, Telecommunications, Listed Property, and Utilities) going back to March 2001.

Outlook

There were two themes dominating the Australian market during this financial year. The first was fear – fear of a macro event launching the economy into another downward spiral. There were plenty of candidates: a break-up of the euro, the impending fiscal cliff in the US, the puncturing of the Chinese growth story and the growing evidence of ‘Dutch disease’ infecting Australia. The proximity of the Global Financial Crisis has understandably weakened investor resilience to uncertainty and created a high degree of caution.

Simultaneously, we witnessed a second key theme, the chase for yield. This was born of two sources. Firstly, the zero rate policy prevailing in most of the developed world. Global investors have seen Australia as a high quality, high yield market, one of the few combining AAA status with attractive asset yields. This has driven substantial capital flow, underpinning the Australian dollar, driving bond yields down and re-rating higher yielding equities. The second source was the impact of falling rates and bond yields on domestic investors again leading to a re-rate of higher yielding equities.

In combination, these two themes have resulted in investors being prepared to pay large premiums for near-term certainty and avoid stocks with any cyclical or longer dated earnings pay-off. Interestingly, the re-rate of defensives has been in lock step with the fall in bond yields, highlighting how macro driven the equity market has been. As the chart on page 13 shows, we have recently experienced the largest dispersion between cyclical and defensive returns over the last 12 years.

When we reflect on the year, we acknowledge that we underestimated the force of the chase for yield, with zero interest rates prevailing for some years worldwide and rates likely to fall in Australia the structural appeal of yield will remain. However, we would note two key points. Firstly, the large break lower in Australian bond yields has played out, so we are unlikely to see a further re-rate of yield stocks against the rest of the market. Secondly, however enticing the yield on a stock may look, paying an inflated price for an investment will lead to a capital hit, which will more than offset any income. We have adjusted our portfolios to capture more yield, but have done so in a way which is consistent with the investment and valuation principles that we have applied over the long term.

With respect to the macro fears, we believe the domestic market has exaggerated the risks, creating some significant mispricing. The global fall in volatility, the decline in ‘Club Med’ sovereign CDS spreads and the rally in European financials all demonstrate that risk premiums have fallen in the September quarter. The driver of this was twofold; continued aggressive policy response in both Europe and the US and clear evidence of a housing recovery in the US, the original source of the GFC. Our assessment is that while the long-term de-leveraging cycle will continue to play out for many years, it is more likely to be in an environment of moderate growth underpinned by very loose monetary policy and strong liquidity; this is an environment conducive to reasonable equity returns. The key risks relate to policy failure, whether it is a populist backlash to reform in Europe, fiscal policy deadlock in the US, or a disruptive transition

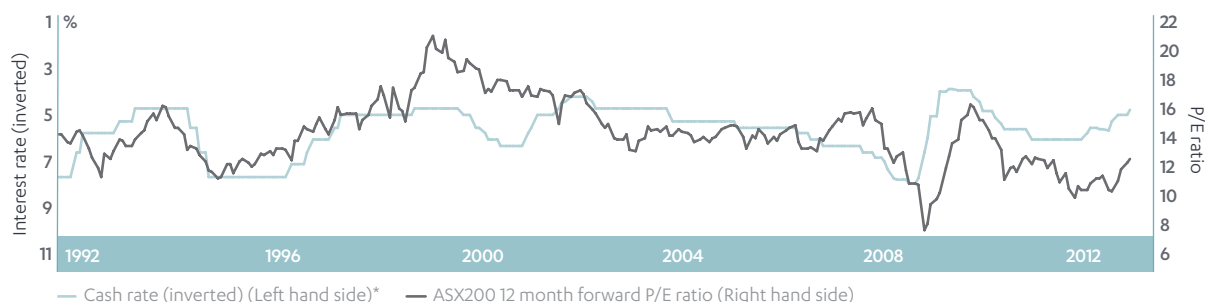
of power in China. With regard to China we see the shift to lower growth as a longer term positive. It is recognition that the old statist model was not sustainable, with too much investment directed into poor return projects. The team has visited the country a number of times this year and our conclusion is that Chinese policy-makers have taken advantage of an opportunity to wean themselves off the excessive credit, over-investment and speculative property development model, before it becomes too big a problem. This is having short-term negative implications for Australia with declining terms of trade as commodity prices fall and a flow on effect into scaled back resource investment plans. We suspect, however this is a blessing in disguise – better to have a lower growing more sustainable China than one which is set to bust at some point. Further, some of the resource projects planned would have proven uneconomic and baked in excess supply for many years, entrenching lower commodity prices. We believe we are at the apex of the resource investment cycle; from here on, growth decelerates quickly and absolute spend will roll over in the second half of 2013. This will free up the RBA to cut rates further and help ease the pressure on the domestic economy.

Turning to Australia and the market outlook, two perspectives to consider are earnings and the market rating. On earnings, the last few years have been dire, with the combined effect of a strong Australian dollar, a vigilant RBA and structural headwinds in media and retail leading to persistent downgrades. While the economy remains soft, the cumulative impact of falling rates historically leads to a stabilisation of earnings. We are encouraged that earnings expectations this year are far more realistic and the most recent reporting season proved less disappointing than previous ones. The rating of the market has begun to improve, this is consistent with what we have seen in previous rate cutting cycles. It still remains below longer term averages, so has some scope for further improvement if rates drop as we expect. In this environment we can see the market move into a higher band than the one it has traded in for the last 12 months; ultimately, for this to be sustained we need to see the earnings follow through. We see this as more likely in 2013 than it was in 2010 as we are unlikely to face the same headwinds of a strong Australian dollar and rising interest rates that were present at that time.

Overall, while we have endured a challenging year in the markets once again, it is at least pleasing to report strong double digit returns for investors and there is still good reason to be optimistic about the next financial year. Clearly, retail investors will require a sustained period of further solid returns and fewer unsettling headlines in order to embrace equities as an asset class again, but we do sense that we have perhaps passed the peak of investor pessimism. With accommodating valuations, high and robust dividend yields and the prospect of further rate cuts, there is reason to hope for further growth in the 2013/14 financial year. Ultimately though, we will need to see earnings come through to drive markets higher. A re-rating based on reduced pessimism will only get us so far.

Key fund performance (before fees)	1 year %	3 years % pa	5 years % pa
BT Institutional Core Australian Share Sector Trust	13.0	1.5	-2.1
BT Wholesale Focus Australian Share Fund	11.9	1.1	-3.1
BT Institutional Imputation Sector Trust	15.2	1.6	-2.7
BT Institutional Ethical Sector Trust	12.5	0.6	-3.7
BT Wholesale Australian Long Short Fund	17.7	2.9	NA
BT Wholesale Mid Cap Fund	15.5	5.4	NA
BT Institutional Smaller Companies Sector Trust	16.9	10.0	1.1
BT Wholesale MicroCap Opportunities Fund	29.4	23.7	12.7
BT Institutional Property Sector Trust	30.2	5.9	-8.6
S&P/ASX300 Accumulation Index	14.5	1.7	-3.6
S&P/ASX Small Ordinaries Accumulation Index	3.8	-0.9	-7.5
S&P/ASX300 Property Accumulation Index	28.9	4.9	-12.4

Interest rates and P/E ratio



*Adds in out-of-cycle mortgage rate changes since Jan 2008 to the level of the cash rate
Source: IBES, RBA, Citi Research



Joe Bracken, Head of Macro Strategies

This year we have focused on refining existing strategies to deal more effectively with surging volatility and on developing new strategies to smooth investor returns during difficult periods.

Boutique focus

The Global Macro Boutique is focused on building and delivering absolute return products to investors. We do this by using market neutral and top-down strategies in each major asset class including global equities, global bonds and global currency. Importantly, the investment positions we put in place are widely spread, providing for diversification, and are held in highly liquid and deep markets.

This year we have focused on refining existing strategies to deal more effectively with surging volatility and on developing new strategies to smooth investor returns during difficult periods. Our investment process is a mix of quantitative work which allows for a more focused and effective use of resources but with qualitative input.

The existing Global Macro Fund underwent some changes this year to better capture short-term opportunities in the very volatile international equity markets. This year in particular has been tough given political events have featured in dictating market direction with a large number of high risk events.

For the Global Macro Fund, we retained our recommended ratings with some research houses and received new ratings from others. Pleasingly despite tough markets, the Fund was added onto new approved product lists for advisers to use, and included into model portfolios as part of the alternatives allocation for key clients. Our Currency strategy is also starting to get reviewed by both institutional consultants and wholesale researchers.

The Global Macro team has also developed a new strategy, the BT Dynamic Global Equity Fund, in response to demand from financial planners who are seeking an investment manager prepared to actively allocate between international equities and cash. This new fund aims to give investors exposure to rising equity markets while actively switching to cash during market downturns.

Portfolio positioning

The sovereign debt crisis in Europe dominated headlines for much of 2012 with two elections in Greece and changes of government in Italy and Spain occurring against a backdrop of high unemployment and social unrest. This led to high correlations across markets where bonds and equities moved in line with news out of Europe. Such an environment proved challenging for the Global Macro Fund which takes both long and short positions in different markets in order to capture relative return differences, rather than the overall direction of markets.

Over the past year, the currency and bond models managed to generate positive returns while the equity model struggled in the headline-driven equity environment. As the debt crisis rumbled on, investors sought safety at any cost and bond yields fell to multi-year lows across the board. The global bond strategy generated modest but positive returns for the year as debt market yields fell to unprecedented levels by July 2012, only to sharply reverse as markets began to factor in a more constructive growth outlook. Australian bonds turned out to be one of the best performing bond markets over the year and this worked against our position of being short Australian bonds relative to German and US bonds.

Similarly, the Currency Fund generated positive returns by successfully backing the Australian dollar as it surged through parity with the US dollar. The strategy also made money on the dramatic decline in the euro in the latter half of 2012. The global equity strategy was less successful, finding it difficult to cope with equity markets that focused on the latest utterances from European politicians rather than on valuations.

Overall, the Global Macro Fund returned just under 1% for the year – a positive return in a very difficult environment but below benchmark and therefore disappointing nonetheless.

Outlook

We continue to see volatility in markets persisting, with low expectations for equity markets to significantly rally from here. This can be positive for our strategies as markets increasingly seem to be trading towards economic fundamentals rather than political statements out of Europe. As we noted before, our global macro strategies struggle in an environment of high correlations, one where markets move together and there is limited differentiation within equity, bond and currency markets. We have started to see divergence across countries over the last few months as investors are again starting to focus on the varying economic fundamentals of each country.

Overall, world economies are still struggling with high debt levels, stubborn unemployment rates and sluggish consumer demand. While the picture is a little brighter than it was in the dark days of the GFC the prevailing investment environment will continue to be a challenging one.

Diversified Funds

Team focus

The process of building a solid foundation for future diversified fund performance continued apace this year with a number of key initiatives implemented. Our investment philosophy combines rigour, conviction and a disciplined process to achieve investment objectives with maximum certainty.

Pleasingly, the initiatives we have implemented met with external endorsement via upgrades from key retail research houses and a multi-sector finalist nomination in the Money Management Fund Manager of the Year Awards.

Our activities for the year targeted opportunities to increase returns per unit of risk via diversification of investment risk across and within asset classes. A number of key initiatives were introduced over the last 12 months including a significant change to the breadth of strategies and geographical allocations within our global equities sleeve. This was achieved via the introduction of the J O Hambro Global Emerging Markets Opportunities Fund and the BT Dynamic Global Equities Fund. In July 2012 we implemented the first stage of the project to enhance the alternatives sleeve of our diversified funds with an investment into a bespoke mandate with AQR Capital Management.

Pleasingly, the initiatives we have implemented met with external endorsement via upgrades from key retail research houses, a multi-sector finalist nomination in the Money Management Fund Manager of the Year Awards, and a new institutional mandate win early in 2012. Furthermore, in July 2012 we were appointed to manage the strategic asset allocation of a \$5.5b portfolio of diversified funds operated by BT Financial Group. BTIM was already the investment manager of the underlying assets. This is a significant achievement for our Diversified team, taking assets under management to approximately \$10.5b. The process of reviewing the strategic asset allocation of these funds has been completed and changes will be implemented over the balance of 2012.

Portfolio positioning

Our BT Wholesale Balanced Returns Fund delivered solid absolute performance over the year ending 30 September 2012, generating 11.5% (before fees), although it trailed the benchmark by -0.5%. It proved to be a challenging environment for active management as markets took their lead from newspaper headlines rather than economic fundamentals. This was against a background of sovereign debt concerns in Europe, lacklustre global economic growth and debt ceiling problems in the US. Pleasingly, our returns were generated with low volatility, thus providing a more stable return outcome for our clients – our primary focus.

The key drivers of returns for our diversified funds are a combination of strategic asset allocation, active returns from our underlying portfolio managers, and our tactical asset allocation positioning. Over the past 12 months, defensive asset classes such as Australian and global fixed interest, and Australian listed property produced strong single digit returns (double digit returns for property). Global equities also did well buoyed by strong US equity markets. From an active management perspective, our fixed interest, international equities and Australian property managers added value above their benchmarks. Australian shares and alternatives detracted from returns. Our tactical asset allocation was flat, however it did actually fulfil its purpose of lowering the risk of the portfolio during market drawdowns, especially in the last three months of 2011 and the 2012 June quarter.

Outlook

As mentioned above, the key focus for our diversified funds is to deliver the lowest risk for the targeted return, thereby providing investors with greater certainty and a more stable investment experience. To this end, we continue to diversify our active management returns and the next 12 months will see us further develop the alternatives strategies. Our most recent inclusion is an allocation to our defensive equity income strategy, which aims to provide low equity market exposure combined with high, stable, consistent income. We are also assessing both absolute return fixed income and risk-parity style strategies. These, combined with our existing multi-strategy alternatives exposure, should provide us with an overall alternatives sleeve that delivers cash plus 4-5% returns with a low correlation to equity markets.

Overall, we are pleased with where the portfolios are now positioned. We continue to adjust our tactical asset allocation and to look for strategies that have low correlations to each other and therefore lower risk for our investors. We are also working on strategies to help our corporate super investors and to deal with the opportunities and challenges that new legislation brings in 2013.

Key fund performance (before fees)	1 year %	3 years % pa	5 years % pa
BT Global Macro Fund	0.9	2.6	NA
BT Wholesale Balanced Returns Fund	11.5	5.0	0.4
BT Wholesale Conservative Outlook Fund	9.7	6.7	3.8
UBS Bank Bill Index	4.4	4.6	5.1



Vimal Gor, Head of Income & Fixed Interest

Whilst market conditions have certainly been a demanding setting in which to manage, it is clear that the need for active management has never been greater. The volatility and uncertainty we are seeing look set to continue, and therefore it is important for investors to maintain exposure to fixed income to diversify their portfolios.

Boutique focus

The last year has seen us focused on building on the momentum we have garnered since the Income & Fixed Interest Boutique was restructured in March 2010. Our key goal, as always, is to generate strong outperformance across our fund range and we were able to achieve that, ending the 2011 calendar year as the best performing manager in Australia in the Mercer peer group survey, in what proved to be a very volatile market.

Over the last 12 months, we have received strong ratings from both wholesale and institutional researchers and consultant, with 'buy' or 'recommended' ratings. This was particularly pleasing given that many of these were first ratings. Many researchers commented on the robustness and repeatability of our investment process coupled with our strong focus on risk management, which is a good articulation of what we aim to deliver for our investors.

On the back of these new research ratings and our strong performance numbers we have had a very successful year in terms of model inclusions and platform additions. We have seen inclusions into several client model portfolios which is very encouraging and a good reward for the hard work we have done over the last two years in ensuring our processes and systems are best of breed. On the platform front we have also seen inclusion into BT Wrap and Asgard for our BT Wholesale Monthly Income Plus Fund which is gaining traction as term deposit rates fall. Our BT Wholesale Fixed Interest Fund has also recently been approved to be added to Colonial First State's FirstWrap, and is now available across most of the major platforms in the market.

Whilst it was a tough environment for flows for fund managers in general, we competed well and secured a number of significant institutional mandates, winning business across all our core capabilities. In the wholesale space, the model inclusions across key dealer groups has seen flows steadily increase and we are excited to be entering 2013 with strong momentum.

Portfolio positioning

Over the last 12 months, the market delivered what many thought could never happen. We have seen all-time historic lows in bond yields in the developed world and negative yields for select countries due to the clamour for safe haven assets. In addition to this, an incredible amount of monetary stimulus has been injected and more has been promised to give support to financial markets. As a result risk assets, while volatile, have managed to have a positive year, but it is clear that the fundamental picture is little changed and this is what has driven bonds. Economic growth has remained low and is now slowing further, while little progress has been made on solving the European sovereign debt crisis.

Domestically, we saw the RBA reverse the recent interest rate hiking cycle and move back into easing mode in late 2011. The RBA is aiming to soften the blow of the contagion effects of the European sovereign crisis on Australia, the effect of a slowing US economy, and more recently a sharp slowdown of activity in China which has had a marked impact on commodity prices. This new rate easing cycle was quick to emerge and surprised markets, resulting in a significant bond market rally taking yields to all-time lows. Whilst many saw no value in investing in bonds which were yielding lower than cash, we focus on the bias to yield levels in addition to outright valuations. It was this focus which led to us running a long duration position for most of the period which subsequently accounted for a significant proportion of our outperformance.

As the world struggles through its fifth year of recovery from the great recession, volatility has been a persistent theme and the last year has been exceptional in this regard. While the outlook is poor and the world remains overburdened with debt, the unique nature of the European debt crisis has introduced a form of uncertainty that is the most difficult to deal with – political uncertainty.

We talk about capital preservation being one of the main tenets of our investment process and the level of market volatility, especially in the last year, has made this aspect paramount. Although the environment has made trading and preserving capital very difficult, our active thematic approach to investing combined with disciplined risk management have enabled us to nimbly navigate these markets and to deliver outperformance for our clients. More importantly, it has also allowed us to provide that return at a time when equity markets have been under stress.

On a peer relative basis we have seen the majority of our funds appear in the 1st or 2nd quartile across 1 and 2 year timeframes.

Whilst market conditions have certainly been a demanding setting in which to manage, it is clear that the need for active management has never been greater. The volatility and uncertainty we are seeing looks set to continue, and therefore it is important for investors to maintain exposure to fixed income to diversify their portfolios. Just as importantly, we believe that exposure should be with an active manager to ensure that this vital diversifying allocation acts as it should in this environment.

Outlook

A number of important issues still plague the global economy into 2013. The outlook for growth remains weak with both the developed and developing world slowing.

Europe will continue to try to muddle through the issues with its peripheral nations, while political uncertainty and event risk remaining high. Although policymakers appear to have received the market's signal that a coordinated, longer-term solution is needed, the enormous levels of debt of the region's major countries leave open the possibility that we have yet to see the worst of the crisis.

The US has other issues including a looming fiscal cliff which could lead to a further hurdle for an economy that is already struggling with low growth and high unemployment.

For Australia, the recent slowdown in China and its impact on commodity prices and hence commodity investment in Australia are a real cause for concern. As we head towards 2013, Australian bonds remain our favoured asset as we see the RBA cutting rates further, driving our bond yields to levels similar to those overseas. We will look to position our portfolios to take advantage of this, however as always we will continue to monitor market movements and adjust positioning accordingly.

Key fund performance (before fees)	1 year %	3 years % pa	5 years % pa
BT Wholesale Fixed Interest Fund	9.9	9.3	8.6
BT Government Bond Fund	9.9	9.1	8.5
BT Wholesale Enhanced Credit Fund	10.0	9.5	8.0
BT Wholesale Enhanced Cash Fund	6.0	6.5	5.8
BT Wholesale Managed Cash Fund	4.5	4.7	5.3
UBS Composite Bond Index	9.6	8.6	8.3
UBS Bank Bill Index	4.4	4.6	5.1



Gavin Rochussen, Chief Executive Officer, JOHCM

We consider the shareholder transition to BTIM to have been highly successful, with no disruption to our clients and our people. We ascribe this to continued exceptional long-term fund performance and an effective sales and distribution team supported by robust client servicing and operations.

Boutique focus

The financial year to September 2012 marks the first full financial year of J O Hambro Capital Management Limited (JOHCM) since BTIM's acquisition in October 2011. As Emilio Gonzalez mentions in his CEO report, despite the announcement and completion of the transaction taking place during uncertain and volatile market conditions, no consultant 'buy' ratings were altered and we experienced positive net fund flows throughout the period. There were also no losses of investment staff or senior management.

We consider the shareholder transition to BTIM to have been highly successful, with no disruption to our clients and our people. We ascribe this to continued exceptional long-term fund performance, an effective sales and distribution team supported by robust client servicing and operations and, importantly, the correct choice of a like-minded, culturally compatible shareholder in BTIM.

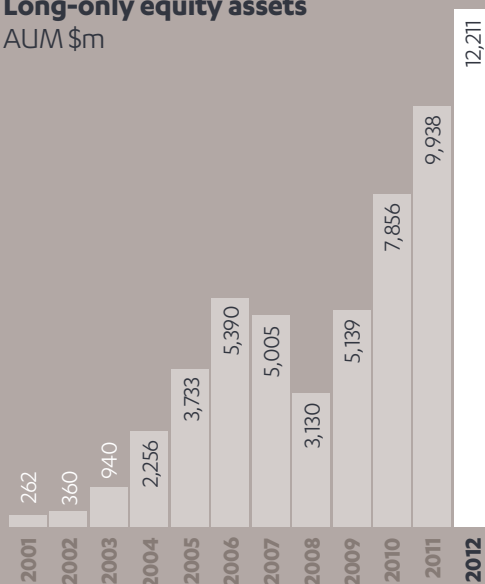
Increased assets under management

In the year under review, JOHCM's equity assets under management (AUM) increased by \$2.3b from \$9.9b to \$12.2b, a 23% increase. Net inflows amounted to \$1.1b, with market uplift and foreign exchange movements accounting for an additional \$1.2b in increased assets under management.

By region, the strategies that materially benefited from net inflows were global/international, emerging markets and UK equities. The travails of the Eurozone were reflected in negative outflows for our European strategies as investors largely shunned the region amid pronounced economic uncertainty.

Long-only equity assets

AUM \$m



Source: JOHCM AUM are as at 30 September for 2011 and 2012, and are as at 31 December for 2001 to 2010.

Equity assets based on: OEIC funds (onshore and offshore), segregated institutional mandates and US-only commingled and mutual funds. Excludes property assets under management.

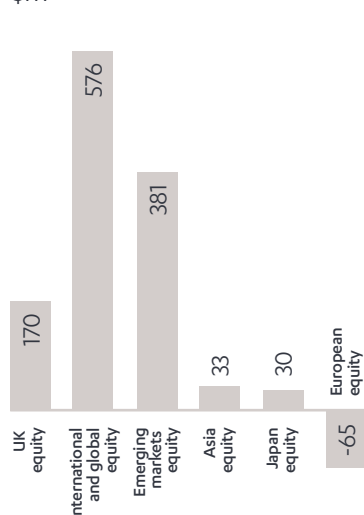
Fund performance

It was a year of encouraging performance across much of the JOHCM fund range, showcasing the ability of our fund managers to make progress in volatile sharemarket conditions. Funds that particularly flourished over the 12 months included our flagship UK Equity Income and UK Opportunities Funds, as well as our younger UK Dynamic Fund, where the fund manager has generated a top-decile track record since launch and where there are signs that the Fund is beginning to gain traction with investors. Our UK Growth Fund also generated above-benchmark returns despite conditions that were far from ideal for pure stock-pickers.

Outside of our UK franchise, our Asia ex Japan Fund enjoyed a strong showing in its inaugural year, as did our Asian Small Cap Fund, while our All Europe Dynamic Growth Fund also recorded solid outperformance, with the fund managers overcoming the challenge of investing in turbulent European markets. Our Japanese team extended the excellent long-term track record of our Japan Fund, as their ability to find opportunities in under-researched small and mid cap companies again added value. It was a tougher year, however, for our two global emerging markets strategies, both of which trailed their benchmark by a considerable margin over the 12 months, but we are confident that the respective fund manager teams will soon revert to their long-term pattern of outperformance. Our mid cap, growth-biased Global Select strategy also lagged the benchmark slightly in conditions that favoured larger, more defensive stocks.

Fund performance should be viewed in the context of years not months, and we are proud of the long-term performance records established by our fund managers: 80% of our funds with track records of greater than three years are currently ranked within the top quartile of their respective industry peer groups¹. Market-leading fund performance is the primary driver of this business and must always be our number one priority.

Net fund inflows of \$1.1b for the 12 months to 30 September 2012



Source: JOHCM as at 30 September 2012. Assets are shown for our long-only equity strategies.

New funds

An important part of our business strategy is diversity in investment capabilities and investment styles. The growth of our fund range since September 2011 reflects this approach, with the launch of two Asia Pacific equities funds and a global equities fund.

In September 2011, we launched two Asia Pacific funds: the all-cap JOHCM Asia ex Japan Fund and the JOHCM Asia ex Japan Small and Mid Cap Fund. Both of these funds are managed from our Singapore office and are well positioned to garner further assets as allocations to Asian equities rise with the region's growing economic power.

The launch of the JOHCM Global Opportunities Fund in late June 2012 follows the success of the JOHCM UK Opportunities Fund and applies the same investment philosophy and process that have established the UK Opportunities Fund as a top-decile performer since its launch in November 2005. The managers will seek to generate high risk-adjusted, long-term returns by continuing to focus on high quality, cash flow generative companies with strong balance sheets that are capable of producing compounding growth over time.

Regulation and risk

Within the seemingly ever changing regulatory environment, the most immediate and significant development for the UK investment industry and consumers alike is the Financial Service Authority's Retail Distribution Review (RDR), which comes into full effect at the beginning of 2013. At its heart, RDR is intended to remove commission bias from the retail investment market, forcing financial advisers to move to an upfront fee-based advice approach. While we will be making some minor changes to the detailed terms of some of our funds as a consequence of these changes, we have essentially had RDR-ready products ever since our OEIC (Open-Ended Investment Company) fund range was launched in 2001. Indeed, we believe that our range of straightforward equity funds, which continue to demonstrate superior investment returns and transparent charging structures, is well placed to provide consumers and their advisers with highly suitable products for the post-RDR world. But for the industry as a whole and the adviser community in particular, the challenge of explaining the imminent RDR changes to the UK consumer will be considerable.

¹ Source: Lipper Hindsight

The nature of our business, our global client base and our office locations have always meant that regulations outside the UK also have a major impact on us. Much of UK regulation now has its roots, and frequently its full structure, in EU-wide legislation that is often aimed primarily at the banking sector and minimally adapted to recognise the different risks of the investment management industry. From the US, we have been following and will be compelled to find ways of adapting our procedures to comply with a number of aspects of the Dodd-Frank legislation, including the so-called 'Volcker Rule'. We welcomed the inter-government initiatives, which hopefully mean a reduction in some of the excessive impacts of the Foreign Account Tax Compliance Act requirements that are to be implemented in the future.

We believe that fair and effective regulatory systems are good for investment management businesses and the wider financial community. We hope that these many changes result in an appropriate regulatory framework.

Strategy and outlook

As a focused active equities funds management boutique, we continue to witness structural changes within our industry. We face ongoing headwinds in the form of the relentless rise of passive managers and exchange-traded funds (ETFs) and the preference of risk-averse investors for fixed income instruments, both corporate and government bonds, and cash. In our traditional markets of the UK and Continental Europe, we are not immune to trends that are altering investment appetite and reducing the bias towards domestic equities.

Whilst these headwinds may dissuade some investment managers, we have re-set our sails and aim to turn the headwind into a steady following wind. Demand for equity funds will recover. We believe that asset allocators will have to turn to equities as meaningful bond yields prove to be elusive. Meanwhile, from a geographical perspective, our Singapore office provides exposure to increasingly important Asian markets, and we are well positioned to capture some of the fund flows in emerging markets, where favourable demographics underpin increasing structural demand for investment funds.

Approximately 60% of our institutional net inflows in the past two years have emanated from the US. Our boutique nature, active investment culture and strong-performing strategies are appealing to investors, both institutional and wholesale, in the largest investment market in the world. We see opportunity in the US and will be seeking ways to leverage our already successful record of managing funds for US-based institutions and individuals.

With our 16 complementary equity strategies and compelling track records in products that remain open with capacity, we are confident that we will continue to attract investors and achieve market-leading returns for clients, an enjoyable and rewarding environment for our people and excellent and growing returns for our shareholders.

Key fund performance (before fees, £)	1 year %	3 years % pa	5 years % pa
UK			
JOHCM UK Growth Fund	21.42	4.12	4.77
JOHCM UK Equity Income Fund	27.67	11.77	7.65
JOHCM UK Opportunities Fund	20.09	12.90	7.10
JOHCM UK Dynamic Fund	27.49	10.77	N/A
FTSE All Share Index	18.05	7.99	1.87
EUROPE			
JOHCM All Europe Dynamic Growth	20.57	N/A	N/A
JOHCM Continental European Fund	14.81	3.69	2.54
JOHCM European Fund	11.40	0.21	-0.56
JOHCM European Select Values Fund	15.01	11.62	6.08
MSCI Europe Net Return Index	14.19	N/A	N/A
FTSE Eurofirst 300 ex UK Total Return Index	13.74	-0.04	-1.34
FTSE Eurofirst 300 Total Return Index	14.85	2.22	-0.34
ASIA			
JOHCM Asia ex Japan Fund	24.69	N/A	N/A
JOHCM Asia ex Japan Small & Mid Cap Fund	21.52	N/A	N/A
JOHCM Japan Fund	0.60	2.80	4.28
MSCI All Country Asia ex Japan Index	15.25	N/A	N/A
MSCI All Country Asia ex Japan Small Cap Index	11.20	N/A	N/A
Topix Total Return Index	-5.38	-0.22	-1.15
GLOBAL			
JOHCM Emerging Markets Fund	8.81	N/A	N/A
JOHCM Global Emerging Market Opportunities Fund	9.12	N/A	N/A
JOHCM Global Select Fund	16.21	10.21	N/A
JOHCM International Select Fund (\$US)	16.28	7.27	N/A
MSCI Emerging Markets Net Return Index	12.77	N/A	N/A
MSCI All Country World Net Return Index	15.77	7.02	N/A
MSCI EAFE Net Return Index (\$US)	13.75	2.12	N/A

CORPORATE SUSTAINABILITY AND RESPONSIBILITY

At BTIM, demonstrating a commitment to long-term sustainability is vital to maintain the trust and goodwill of our clients, our people and our shareholders.

To do this, we need to understand the impacts of our core operations on financial markets and the wider economy, and play our role in encouraging and driving sustainability and good governance throughout corporate Australia.

Responsible investment

As an investment manager, one of BTIM’s most influential sustainability activities is our focus on responsible investment.

BTIM’s sustainable and ethical funds

BTIM offers a diverse range of products with an explicit tilt towards environmental, social and corporate governance (ESG) best practice. Options offered to clients include both best of sector and ethical screening. BTIM’s product suite with an ESG tilt includes:

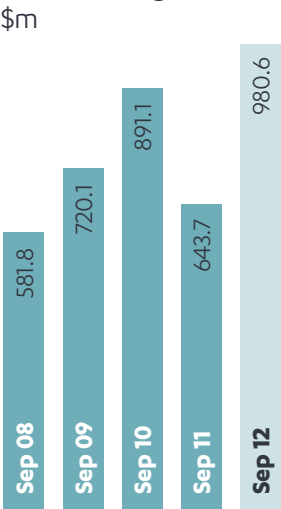
- BT Wholesale Australian Sustainable Share Fund
- BT Enhanced Sustainability Australian Share Fund
- BT Institutional International Sustainability Share Fund
- BT Sustainable Conservative Fund
- BT Sustainable Balanced Fund, and
- BT Wholesale Ethical Share Fund.

BTIM’s range of sustainable products continues to attract investor interest. As at 30 September 2012, we managed \$981m on behalf of investors in these products, an increase of 69% over the last four years.

United Nations Principles for Responsible Investment

BTIM’s affiliate, BT Financial Group, has been a signatory to the UN Principles for Responsible Investment (PRI) since 2007. Through this initiative, signatories commit to incorporating ESG principles into investment analysis and decision making processes across the entire range of investments, as well as taking an active approach to their investments and working with other investors to improve ESG performance and practices. BTIM recognises that good governance and corporate responsibility will drive better shareholder returns in the long term. Importantly, as ESG issues are being incorporated into BTIM’s mainstream investment processes, the Company is reporting on progress via the PRI Reporting and Assessment Survey. This allows us to benchmark ourselves against our peers and identify strengths and weaknesses.

BTIM sustainable and ethical funds under management



Source: BTIM

Regnan

BTIM is a client and active shareholder of Regnan Governance Research and Engagement Pty Limited (Regnan). Regnan represents institutional investors with the objective of driving and facilitating ESG practices in the companies in which they invest. Regnan undertakes research in ESG matters and engages companies on ESG issues.

In 2012 Regnan almost doubled the number of companies engaged the previous year, working with 64 (up from 35 in 2011) of the top 200 ASX listed companies on a range of issues across the ESG spectrum, including governance, remuneration and board composition. Many of these companies were engaged several times in the sustained pursuit of change.

The full range of topics engaged on is illustrated below.

Regnan believes an active approach to engagement is an important factor in achieving its objectives, and of 105 interactions with companies in 2012, 70% of engagements were face-to-face and 45% involved board members. Additionally, in 2012 an expanded Regnan team made up of company, sector and issue specialists helped enhance the quality of company interactions.

Regnan enables BTIM to work with other institutional investors to ensure a coordinated approach to important matters of market integrity. Regnan also provides specialist ESG data, analysis and research which are used in BTIM's ESG product range as well as our mainstream funds. BTIM considers this initiative of paramount importance in our leadership of ESG principles in funds management and maintains board representation in Regnan.

Industry initiatives

BTIM has further strengthened our leadership in responsible investment by our involvement in:

→ **the Carbon Disclosure Project**

This project seeks information on the business risks and opportunities presented by climate change and greenhouse gas emissions data from the world's largest companies.

→ **the Investor Group on Climate Change (founding member)**

This group represents investors with stakes in businesses right across the economy and aims to encourage policies and investment practices that address the risks and opportunities of climate change in an economically efficient manner.

Proxy voting

BTIM regards corporate governance and the exercise of voting power as an important aspect of investment decision-making. BTIM does not involve itself in the day-to-day management of the companies in which it invests but recognises it can influence company policy on matters of corporate governance by virtue of shareholdings under management. In accordance with industry practice, and the Financial Services Council guidelines in particular, BTIM uses that influence for the benefit of clients.

BTIM places great emphasis on exercising clients' ownership rights and responsibilities to ensure companies are run in the best interests of their long-term investors. Accordingly, BTIM votes on resolutions put to shareholders and discloses its voting record on the BTIM website.

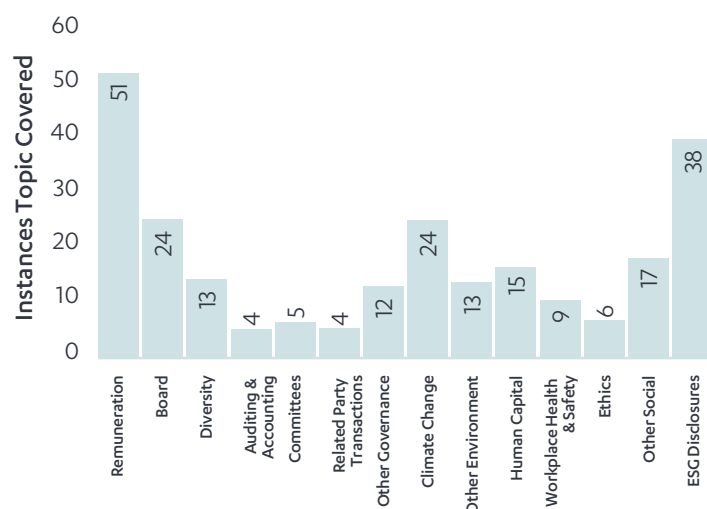
Risk management and governance

BTIM's corporate governance practices and policies as they relate to the ASX Recommendations are detailed fully in our Corporate Governance Statement. BTIM also has a number of other governance or compliance policies in place beyond those referred to in the ASX Recommendations. These include:

- Conflicts of Interest Policy
- Chinese Walls Policy
- Gifts and Hospitality Policy
- Complaints Resolution Policy
- Incident Management Policy
- Outsourcing Policy, and
- Whistleblower Protection Policy.

In accordance with BTIM's Annual Training Plan, employees received training during the year on the Conflicts of Interest Policy and other related policies. Directors also attended a training session relating to conflicts of interest. Many other employees also completed role specific training, such as those required under ASIC's Regulatory Guide 146, relating to their interactions with retail clients.

Regnan ESG engagement Oct 2011 – Sept 2012



Source: Regnan

Workplace

BTIM is a people driven business. So we can attract, develop and retain the highest calibre people, the key objective of our people strategy is to provide a work environment which will enable our employees to maximise their contribution to the achievement of BTIM's strategic goals.

We offer a range of programs and policies to support the attraction and retention of high calibre people, and to recognise their achievements, including:

- paid parental leave (over and above legislative entitlements)
- superannuation on unpaid parental leave
- flexible work arrangements
- employee excellence awards
- leadership forums and programs
- onsite training programs and an in-house learning and development portal, and
- study assistance.

In the 2012 financial year we have continued to improve the benefits and policies offered to BTIM employees, including the introduction of a Health & Wellbeing week.

Contributing to Our Community

Contributing to Our Community is an initiative that was introduced in late 2011 through which BTIM aims to make a meaningful contribution to the social wellbeing of communities in Australia.

This program enables our people to enhance their understanding of, and gain compassion and tolerance towards, those who are disadvantaged in the community and to experience a sense of achievement and responsibility by making a positive difference to the lives of others.

The Community Committee, consisting of employees from various divisions across the Company, helps coordinate and champion community involvement and fundraising initiatives.

The Community Committee elected to focus their efforts on two main charities this year – The Wayside Chapel and Melanoma Institute Australia.

Since the introduction of the program the following initiatives were undertaken:

- Wayside Corporate Days where groups of BTIM employees provided supplies and cooked lunch for local community members
- sponsoring of, and corporate participation in, the first Melanoma March
- fundraising through participation in the Blackmores Sydney Running Festival
- christmas gift collection from employees in support of the Wayside Chapel Christmas Day
- a clothes drive for Clothesline – a charity that supplies clothes to the homeless and needy
- provision of office facilities for The Wayside Chapel to hold meetings
- raising awareness through corporate functions featuring our boutique heads, and
- participation of a combined JOHCM and BTIM team in the London marathon to raise funds for Whizz-Kidz, a UK-based charity that provides disabled children with the equipment, support and life skills to help them live a normal life.

BTIM Diversity Strategy

A key objective of BTIM's People Strategy is to attract, develop and retain a diverse workforce of the highest quality. To ensure broad employee diversity, BTIM's three strategic levers are to:

1. encourage the development of women in senior leadership positions
2. support cultural diversity, and
3. provide flexibility to employees.

Lever 1 – Gender diversity

In the BTIM 2011 Annual Report, the Board and management demonstrated its commitment to gender diversity by setting public targets for female representation at Board and executive level.

The targets to be achieved by 2015 are:

- 20% female representation on the BTIM Board, and
- 30% female representation at CEO-1 level.

Progress toward these gender targets as at 30 September 2012 shows 20% female representation of Non-executive Directors and 20% at CEO-1 level. The proportion of women employed at various levels across BTIM is 38%.

Lever 2 – BTIM Diversity Program of Work

In pursuit of the 2015 gender targets, and to encourage broad diversity, including cultural diversity, across all levels of the organisation, BTIM introduced the 2012 Diversity Program of Work. Central to the Program was the foundation of a Diversity@BTIM Group comprised of senior male and female BTIM employees which offered participants learning, networking and knowledge sharing opportunities and events.

Lever 3 – Flexibility as a key enabler to workforce diversity

BTIM continues to offer a broad range of policies to encourage and support flexible work arrangements. These policies are designed to ensure employees across all levels of the organisation achieve work-life balance.

In the 2012 financial year, BTIM reviewed all policies and benefits with a specific focus on supporting workforce diversity. Policies which support this aim include:

- Working from home
- Purchased leave of up to four weeks per year
- 13 weeks' paid parental leave for primary carers taken all at once or in blocks
- Employer superannuation contributions on up to 39 weeks' unpaid parental leave
- Career break, and
- Job sharing.

Environment

While recognising BTIM has a relatively small carbon footprint based on the nature of operations and employee numbers, it is important to minimise the direct impact of our operations on the environment through a range of initiatives, including:

- recycling all waste paper
- reducing landfill by segregation of waste at source
- recycling surplus office furniture, equipment and technology
- use of smart lighting
- monitoring of electricity usage through National Greenhouse and Energy Reporting (NGERS), and
- participation in Earth Hour.

BTIM shareholders are also encouraged to receive investor communications electronically and to receive dividends by direct credit.

BTIM sustainability and ethical funds— Closing FUM

Fund name	Total FUM				
	Sep 08	Sep 09	Sep 10	Sep 11	Sep 12
BT Wholesale Australian Sustainable Share Fund	102.6	115.6	147.9	15.6	28.8
BT Institutional International Sustainability Share Fund	10.4	22.6	44.6	68.3	123.3
BT Sustainable Balanced Fund	21.5	49.1	96.9	113.3	223.8
BT Enhanced Sustainability Australian Share Fund	8.4	29.4	70.2	110.4	199.9
BT Sustainable Conservative Fund	33.0	55.0	83.3	98.5	155.5
BT Wholesale Ethical Share Fund	185.1	210.6	220.6	139.0	144.0
BT Institutional Ethical Sector Trust	12.5	13.2	12.2	11.0	10.4
Institutional mandates	208.4	224.6	215.4	87.6	94.8
TOTAL	581.8	720.1	891.1	643.7	980.6
Growth year-on-year		24%	24%	-28%	52%

CORPORATE GOVERNANCE STATEMENT

Introduction

This Corporate Governance Statement sets out the corporate governance practices of BT Investment Management Limited (**the Company** or **BTIM**) and the wider BTIM Group and the extent to which those practices follow the Corporate Governance Principles and Recommendations published by the ASX Corporate Governance Council (**ASX Recommendations**).

Unless otherwise indicated, this statement reflects the BTIM Group's corporate governance framework, policies and procedures in place on 1 November 2012.

The acquisition of J O Hambro Capital Management Limited (**JOHCM**) in October 2011, brought about some changes to the corporate governance framework of the BTIM Group and these are detailed later in this statement.

1. Board of Directors

1.1 Role and responsibilities of the Board

The Board is responsible for the governance of the BTIM Group. The Board's Charter sets out the responsibilities and functions of the Board, which include, to:

- review and approve the BTIM Group's strategic plan
- review and approve the BTIM Group's annual budget and review the BTIM Group's performance against the budget
- approve significant financial transactions and borrowings
- approve significant Company policies
- appoint the CEO
- approve the half year and year end financial reports
- approve all dividends
- review the independence and performance of the external auditor
- monitor the effectiveness of the BTIM Group's risk management policies and procedures and the adequacy of its internal control mechanisms, and
- approve any changes to the share structure of the BTIM Group.

1.2 Delegations to management

The Board has formally delegated responsibility for the day-to-day operation of the BTIM Group to the CEO and other senior management. The Board monitors the exercise of delegated authority by senior management.

1.3 Board composition

During the 2012 Financial Year, the Board was comprised of six Directors – Brian Scullin (Chairman), Emilio Gonzalez (CEO), Brad Cooper, James Evans, Andrew Fay and Carolyn Hewson. Details of the qualifications and experience of each Director is set out on pages 34 to 36 in the Directors' Report.

1.4 Director independence

During the 2012 Financial Year, three Directors of the BTIM Group – Brian Scullin, James Evans and Andrew Fay – were considered to be Independent Directors. The Board did not consider Brad Cooper to be an independent director given that he is an executive and an officer of Westpac. Carolyn Hewson was not considered to be an independent director as she was a director of Westpac for part of the 2012 Financial Year.¹

The appointment of Andrew Fay as a Director on 1 October 2011 increased the number of Independent Directors on the Board from two to three. Although BTIM did not have a majority of Independent Directors on its Board during the Reporting Period as suggested by ASX Recommendation 2.1, the Board believes that the current composition is appropriate given the collective skills and experience of the Directors

and the BTIM Group's current circumstances, including the size and nature of BTIM's business and its relationship with Westpac.

1.5 Access to independent professional advice

Directors may obtain independent professional advice at BTIM's expense. The approval of the Chairman of the Board (which must not be unreasonably withheld) must be obtained before independent advice is sought. Any advice obtained must be made available to all Directors.

1.6 Chairman of the Board

Brian Scullin is the Independent Non-executive Chairman of the Board. The Chairman is elected by the Board.

The role of the Chairman is to:

- chair meetings of the Board and general meetings
- provide leadership to the Board
- oversee the operation and function of the Board
- facilitate the effective contribution of all Directors to Board discussions
- oversee the process of evaluating the Board and individual Directors
- maintain an ongoing dialogue with the CEO and provide appropriate guidance and mentoring
- act as a public spokesman for the Board, and
- promote good relations between the Board and management.

1.7 Board meetings

The Board met on 12 occasions during the 2012 Financial Year. A summary of the attendance of Directors at those meetings is set out in the Directors' Report (see page 39).

Each Board meeting is attended by relevant senior management and the Company Secretary. The Directors regularly meet in the absence of senior management and in the absence of the CEO.

1.8 Conflicts of interest

BTIM is very conscious of potential conflicts of interest and has processes in place to manage any conflicts of interests that may arise.

Directors are required to make a general disclosure of their interests and the interests of related parties. These interests are recorded in a Register which is circulated with the papers for each Board and Board Committee meeting.

The disclosure of conflicts of interest is a standing item on the agenda of each Board and Board Committee meeting. If an actual or potential conflict of interest arises, it may be managed by the relevant Director:

- absenting themselves from the meeting during the Board's discussion of the issue
- refraining from participating in the Board's consideration of the issue, and
- abstaining from voting on the issue.

In appropriate circumstances, Directors may not be sent board papers on a particular issue in which they have a conflict of interest.

1.9 Performance evaluation

In accordance with its Charter, the Remuneration & Nominations Committee conducted a peer review of the performance of Directors Brad Cooper and James Evans who are standing for re-election at the Company's annual general meeting on 7 December 2012 (AGM). Following the Committee's review, the Board has recommended to shareholders that they vote in favour of the re-election of Brad Cooper and James Evans. The Board's recommendation is set out in the AGM notice of meeting.

¹ Carolyn Hewson retired from the board of Westpac with effect from 30 June 2012.

1.10 Company Secretary

The Board is responsible for the appointment of the Company Secretary. The Company Secretary, Chris Millard, attends all Board and Board Committee meetings and is responsible for the Company's secretariat function and in conjunction with management, for giving practical effect to the Board's decisions.

2. Board Committees

2.1 Board Committee Charters

The Board has two Committees: the Audit & Risk Management Committee and the Remuneration & Nominations Committee.

Each Committee has a formal Charter, which details its composition, role and responsibilities.

The Charters provide that all Directors may attend meetings of each Board Committee, even though they are not a member of the Committee. All Directors receive notice of all the Committee meetings and are provided with a copy of the papers for each Committee meeting.

Details of the number of Committee meetings held and the attendance of Directors at those meetings are set out in the Directors' Report (see page 39).

2.2 Audit & Risk Management Committee

2.2.1 Structure the Audit & Risk Management Committee

The members of the Audit & Risk Management Committee for the whole of the 2012 Financial Year were: James Evans (Chairman), Carolyn Hewson and Brian Scullin. The structure of the Committee meets that suggested in ASX Recommendation 4.2, as it:

- has three members
- comprises only Non-executive Directors
- has a majority of Independent Directors, and
- is chaired by an Independent Director, who is not the Chairman of the Board.

2.2.2 Role and responsibilities of the Committee

The role and responsibilities of the Audit & Risk Management Committee include:

- reviewing the integrity of the BTIM Group's financial reporting
- satisfying itself that the BTIM Group has a sound system of risk management and financial controls
- approving the BTIM Group's risk framework and risk management policies and processes and reviewing compliance with those policies and processes, and
- overseeing the Company's risk profile within the risk management and governance framework.

Further details on the Committee's responsibilities as they relate to the external auditors are set out on page 32.

2.2.3 Financial knowledge of Committee members

The qualifications of the members of the Audit & Risk Management Committee are set out in the Directors' Report, with each member having appropriate financial and risk management experience and an understanding of the investment management industry.

2.3 Remuneration & Nominations Committee

2.3.1 Structure of the Remuneration & Nominations Committee

The Remuneration & Nominations Committee has four members – Brian Scullin (Chairman), Brad Cooper, James Evans and Andrew Fay. The structure of the Committee meets that suggested in ASX Recommendation 8.2, as it:

- has four members
- has a majority of Independent Directors, and
- is chaired by an Independent Director

2.3.2 Role and responsibilities of the Remuneration & Nominations Committee

The role and responsibilities of the Remuneration & Nominations Committee include to:

- review and approve executive remuneration policies
- make recommendations to the Board in relation to the recruitment, retention and termination policies and procedures for the CEO and Senior Management Team
- review and approve performance hurdles and awards under each equity plan
- make recommendations to the Board for the appointment of new Directors, having regard to the existing mix of skills and experience on the Board
- review and make recommendations to the Board on remuneration policies for Non-executive Directors
- develop and implement a process for the performance evaluation of the Board, Board Committees and individual Directors
- make recommendations to the Board in relation to the re-election of Directors, and
- develop a Board succession plan.

2.4 Evaluation of Senior Executive performance

The Remuneration & Nominations Committee approves the annual performance objectives and measures of the CEO.

As part of BTIM's performance management cycle, the performance of the CEO and the Senior Management Team is reviewed and evaluated at the end of each financial half year and full year.

Further information concerning the process for reviewing Senior Executives' performance is set out on page 47 of the Remuneration Report.

2.5 Induction of Senior Executives

BTIM has an induction process in place for all new employees, including the Senior Management Team. The induction process includes providing briefings on BTIM's business, code of conduct, policies and procedures. Briefings focus on operational, regulatory, risk and compliance issues that are of significance to the BTIM Group.

3. Promoting ethical and responsible decision-making

3.1 Code of Conduct

BTIM has a Code of Conduct which applies to Directors, the Senior Management Team and all other employees. The Code of Conduct is based on six key principles:

- act with honesty and integrity
- respect the law and act accordingly
- respect confidentiality and do not misuse information
- value and maintain professionalism
- avoid conflicts of interest, and
- strive to be a good corporate citizen and achieve community respect.

All new employees receive induction training in relation to the Code of Conduct.

3.2 Diversity at BTIM

In support of diversity, the Board has adopted a Diversity Policy, which outlines what diversity means for BTIM and the values that diversity brings to the business. Details of the gender diversity targets set by the Board and the progress towards those targets are set out in the report on Corporate Sustainability and Responsibility on page 26 of this Annual Report.

3.3 Share trading policies

Under the Company’s Insider Trading Policy and Personal Account Trading Policy, any Director or any employee in possession of undisclosed materially price sensitive information is prohibited from dealing in BTIM securities or other securities about which the individual has material non-public information.

Directors and employees are also precluded from trading in BTIM’s securities during ‘blackout periods’, which occur prior to the announcement of BTIM’s half year and full year results and quarterly funds under management announcements.

Directors and employees may trade in BTIM securities outside a blackout period, but only after obtaining pre-clearance from the Risk and Compliance Team, or in the case of Directors, from the Company Secretary.

The Policies also provide that Directors and employees may in exceptional circumstances obtain approval to trade in the Company’s securities during a blackout period. Exceptions to the Policies would normally only be granted where:

- failure to do so would cause financial hardship
- the person is not in possession of undisclosed materially price sensitive information
- the trade will not affect the interests of the Company’s shareholders or clients
- no other conflicts of interest exist.

4. Shareholders

4.1 Market communications

BTIM is committed to promoting investor confidence and the rights of all shareholders by complying with the disclosure obligations contained in the Corporations Act and the ASX Listing Rules.

BTIM seeks to ensure that all market announcements are presented in a factual, clear and balanced way.

BTIM has a Market Disclosure Policy, which sets out how BTIM communicates with its shareholders and the market. The policy establishes a Disclosure Committee. The members of the Disclosure Committee are the CEO, the Chief Financial Officer, the Chief Operating Officer, the General Counsel and the Company Secretary.

The Disclosure Committee is responsible for managing compliance with BTIM’s disclosure obligations. The Disclosure Committee determines what information should be disclosed to the market and the form of that information. The Disclosure Committee is also responsible for assisting BTIM employees to understand BTIM’s disclosure obligations.

The Board retains responsibility for approving announcements of key significance such as:

- half year and year end financial results
- earnings updates
- mergers and acquisition related announcements
- changes to corporate structures
- changes to Senior Executives or KMPs, and
- matters involving significant reputational risk e.g. regulatory issues.

4.2 Shareholder communications

BTIM is committed to ensuring that all shareholders have equal and timely access to material information concerning the BTIM Group.

BTIM communicates to its shareholders directly and by the publication of all relevant company information in the Shareholder Centre of BTIM’s website. Shareholders have the option to receive information from BTIM either electronically or in hard copy.

4.3 Shareholder meetings

The participation of shareholders at the AGM is encouraged. The form and content of the AGM notice of meeting has been drafted to ensure maximum participation by all shareholders.

All shareholders have the opportunity to attend the AGM and ask any questions of the Board and management. Shareholders may also ask questions of BTIM’s auditors in relation to the conduct of the audit, the audit report, the accounting policies adopted in preparing the financial statements and the independence of the auditors.

BTIM provides all shareholders with an opportunity to submit written questions prior to the AGM and seeks to respond to those questions during the course of the AGM.

5. JOHCM governance framework

5.1 Company structure

Following the acquisition of JOHCM, the corporate structure shown below was put in place:



5.2 Role and responsibilities of the JOHCM Holdings Board

The board of J O Hambro Capital Management Holdings Limited (JOHCM Holdings) is responsible for providing oversight of the operations of JOHCM and reporting to the BTIM Board on matters relating to the operation of the JOHCM business.

The Board of JOHCM Holdings has a Charter which sets out its responsibilities and functions, which include, to:

- approve JOHCM's long term objectives and strategies
- approve operating and capital expenditure budgets
- approve the annual financial accounts, and
- ensure that a sound system of internal controls and risk management is in place.

5.3 Board composition

The JOHCM Holdings Board is comprised of the following directors: James Hambro (Chairman), Christopher Bannister, James Evans, Emilio Gonzalez and Cameron Williamson.

5.4 Board Committees

The JOHCM Holdings Board has two Committees: the Audit & Risk Committee and the Remuneration Committee. Each Committee has a formal Charter, which details its composition, role and responsibilities.

6. Risk management and internal controls

6.1 Risk management principles

The BTIM Group is committed to ensuring that it maintains a sound system of risk oversight, management, and ongoing internal control assurance and an appropriate risk management culture within the business.

The BTIM Group has identified the following categories of risk as having the potential to impact its business:

- **strategic risk** – the risk of an event occurring that will adversely affect the achievement of one of BTIM Group's strategic objectives
- **regulatory and compliance risk** – the risk of not complying with laws, regulations, contracts, industry codes, internal standards and policies applicable to BTIM Group's operations
- **financial and market risk** – the risk of financial loss arising from BTIM Group's activities in the financial and investment markets and
- **operational risk** – the risk arising from inadequate or failed internal processes, people or systems or from external events.

6.2 Roles and responsibilities

The Board is also responsible for approving the BTIM Group's significant risk management policies. The Audit & Risk Management Committee assists the Board in its oversight of risk management, financial and assurance matters. The Board delegates responsibility for the implementation of risk management to the CEO and the Senior Management Team.

6.3 Risk Management Framework

To ensure its risk management principles are met, BTIM has established a Risk Management Framework (**Framework**). The Framework sets out the overarching philosophy, principles, requirements and responsibilities for a sound approach of risk oversight, management and ongoing internal control assurance within the BTIM Group. The Framework formalises and communicates the Group's approach to risk management.

The success of BTIM's business is based on taking risks that are known, understood, assessed and managed within the limits of its risk appetite. Management of compliance risk is a key element of risk management. For most risks, the Company adopts a threshold level of materiality which will influence the level of risk mitigation applied. By contrast, all statutory compliance obligations must be managed strictly in accordance with the relevant statutory or regulatory obligation.

6.4 Risk Management Principles

- The BTIM Board is responsible for the establishment and oversight of an effective system of risk management. The Board delegates authority to the CEO and senior management to conduct business activity within the approved business plans, policies and codes.
- A Risk & Compliance Team, suitably skilled and resourced, assists the business and supports business units to manage their business risks and provide reporting to the Board and management.
- The CEO and senior management are accountable for managing business risks and maintaining an appropriate control framework and promoting a positive risk culture. In such a culture, good corporate governance is demonstrated and effective management of risks is encouraged and rewarded and becomes a core element of all BTIM's business activity.

6.5 Internal audit

Deloitte Touche Tohmatsu has been appointed to provide internal audit services to BTIM and:

- has all necessary access to Company information to effectively conduct their audit
- works with senior management and the Chief Risk Officer to develop an internal audit plan that complements other assurance work conducted across the Group
- independently reviews the effectiveness of the Company's risk management processes and internal controls, and
- reports audit results to Company management and depending upon the nature of the issue being reported and the responsibility for that issue, to either the Audit & Risk Management Committee or to the Board of BT Investment Management (RE) Limited.

6.6 Risk management at JOHCM

The Audit & Risk Committee of the JOHCM Holdings board is responsible for reviewing JOHCM's overall risk assessment processes, providing advice to the board on JOHCM's risk appetite, current risk exposures and strategies to manage risk. The Audit & Risk Committee is comprised of James Evans (Chairman), James Hambro and Cameron Williamson.

JOHCM has identified the following categories of risk as having the potential to impact its business: operational risk; concentration risk; investment risk; credit and counterparty risk.

The Audit & Risk Committee receives regular reports on risk issues, including a risk and controls matrix which identifies the key risks faced by the business; the controls established to mitigate those risks; results from the regular assessment of those controls; and any actions proposed to manage residual risk.

Where necessary, significant risk issues are elevated to the BTIM Risk & Compliance team and the BTIM Audit & Risk Management Committee.

6.7 Chief Executive Officer and Chief Financial Officer assurance

The Chief Executive Officer and the Chief Financial Officer provide a formal statement to the Board that:

- the financial statements and notes of the Company represent a true and fair view of its financial position and performance and comply with the requirements of the Accounting Standards, Corporations Act and Corporations Regulations, and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively managing the Company's material business risks.

6.8 Responsible entity governance

BTIM RE is the responsible entity of each of the BTIM Funds and has a fiduciary obligation to act in the best interests of investors in the funds. These fiduciary obligations may, from time to time, conflict with the interests of the Company. When this occurs, the Board is required by the Corporations Act to give priority to the interests of investors. The directors of BTIM RE are conscious of their fiduciary obligations to investors and continually assess their decisions in light of these obligations.

The BTIM RE Board is comprised of the following executive directors: Emilio Gonzalez (CEO), Alan Artyun (Head of Investment Operations), Phil Stockwell (COO), Cameron Williamson (CFO). Mr Gonzalez is the Chairman of the BTIM RE Board.

The BTIM RE Board has responsibility for the management of risks that arise from its duties as the responsible entity and trustee of the BTIM Funds and the provision of financial services under its AFSL.

The Board of BTIM RE has delegated a number of its responsibilities to the CEO.

6.9 MICC

As the BTIM RE Board is not comprised of a majority of external directors within the meaning of section 601JA of the Corporations Act, the Board has appointed a Managed Investments Compliance Committee (MICC).

The MICC is comprised of two external members and one internal member. The MICC has the functions and responsibilities of a compliance committee as set out in sections 601JC and 601JD of the Corporations Act.

7. Statutory auditors

7.1 Appointment of statutory auditor

The Company's statutory (or external) auditor is PricewaterhouseCoopers (PwC). PwC provides an independent opinion that the Company's financial statements represent a true and fair view of the Company's financial position and performance and comply with relevant regulations.

PwC receives copies of the agenda and papers for each meeting of the Audit & Risk Management Committee. The statutory auditors attend the Committee's meetings when the half year and full year financial statements are being considered. The statutory auditors also attend other meetings when relevant items are on the Committee's agenda.

Members of the Audit & Risk Management Committee are able to contact the auditors directly at any time. Similarly, the statutory auditors are able to contact the Chairman of the Committee directly at any time.

The Audit & Risk Management Committee has the following responsibilities in relation to audit matters:

- evaluate the independence of the statutory auditor at least annually, including making an assessment whether the statutory auditor is independent of the Company and there are no conflicts of interest that could compromise the independence of the statutory auditor
- ensure that the statutory auditor meets the audit independence tests set out in relevant standards
- review statutory audit plans and audit opinions
- discuss any issues relating to the conduct of the audit with the statutory auditor
- review the findings of statutory audits to ensure that issues are being appropriately managed and rectified, and
- periodically consult the statutory auditor in the absence of management in relation to the internal controls in place over financial information, reporting and disclosure and the fullness and accuracy of the Company's financial statements.

The PwC audit partner is rotated every five years and the role cannot be resumed by the same person for a minimum of five years. Our current audit partner was appointed in 2007. Upon completion of the audit and reporting obligations for the 2012 Financial Year, a new audit partner will assume responsibility for the BTIM's audit.

7.2 Non-audit services

Any non-audit services provided by PwC to the Company are approved by the Chairman of the Audit & Risk Management Committee.

7.3 Attendance at the Annual General Meeting

The Company's statutory auditors attend the Company's annual general meeting and are available to answer questions from shareholders in relation to the conduct of the audit, the audit report, the accounting policies adopted by the Company in preparing the financial statements and the independence of the auditors.

Shareholders are able to submit written questions to the statutory auditor prior to the annual general meeting.

8. Documents

Copies of the following documents referred to in this Statement are available on the Company's website at www.btim.com.au/corporategovernance:

- BTIM Board Charter
- Charter for the Audit & Risk Management Committee
- Charter of the Remuneration & Nominations Committee
- BTIM Board Statement on Director Selection and Appointments
- Code of Conduct
- Insider Trading Policy
- Personal Account Trading Policy, and
- Market Disclosure Policy.

2012 FINANCIAL REPORT

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This financial report covers BT Investment Management Limited and its controlled entities (BTIM Group).

BT Investment Management Limited (BTIM or the Company) is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is Level 14, The Chifley Tower, 2 Chifley Square, Sydney NSW 2000.

A description of the nature of the BTIM Group's operations and its principal activities is included in the review of operations and activities in the Directors' Report.

The financial report was authorised for issue by the Company's Directors on 1 November 2012 who have the power to amend and reissue the financial report.

DIRECTORS' REPORT

The Directors present their report and the annual financial report for the BTIM Group for the 2012 Financial Year.

Directors

The following persons were Directors during the 2012 Financial Year and up to the date of this report:

Directors	Appointment date	Period
Brian Scullin	25 September 2007	Full year
Emilio Gonzalez	22 January 2010	Full year
Brad Cooper	29 April 2010	Full year
James Evans	2 June 2010	Full year
Andrew Fay	1 October 2011	Full year
Carolyn Hewson	25 September 2007	Full year

Details of the qualifications, experience and responsibilities of the current Directors are set out on the following pages.

Company Secretary

Chris Millard

(LLM, DipLaw (SAB), GradDipAppCorpGov, FCIS, FCSA)

Chris Millard is the Company Secretary. Chris was appointed the Company Secretary in January 2008, having previously held the role of Head of Secretariat with BTFG. Chris is a qualified lawyer, having been admitted to practise in 1994. Prior to joining BTFG, he worked as a lawyer in private practice or in senior in-house counsel and company secretary roles.



Brian Scullin

BEC

Term: Appointed Non-executive Chairman in September 2007

Independent: Yes

Board Committees: Chairman, Remuneration & Nominations Committee; Member, Audit & Risk Management Committee

Brian Scullin is the Chairman of the Board. Brian has 25 years' experience in the funds management industry in both Australia and Asia. Following a career in the Federal Government and politics, Brian was appointed the Executive Director of the Association of Superannuation Funds of Australia (ASFA) in 1987.

In 1993, Brian joined Bankers Trust, holding a number of senior positions, including President of Japan Bankers Trust. He was appointed Chief Executive Officer – Asia / Pacific for Deutsche Asset Management in 1999. He retired from that full time position in 2002, although he remained a non-executive director of Deutsche Asset Management until June 2007.

Brian has held many industry positions including Vice Chairman of the Financial Services Council (previously known as IFSA), a part time member of the Federal Government's Financial Reporting Council and a panel member for the Financial Industry Complaints Service. He has also served as a non-executive director of State Super Financial Services and Dexu Property Group.

Brian is currently the Chairman of Spark Infrastructure RE Limited.

Directorships of other listed entities over the past three years:

Dexu Property Group



Emilio Gonzalez
BCom (Ec), CFA

Term: Appointed Chief Executive Officer in January 2010

Independent: No

Board Committees: Nil

Emilio Gonzalez is the Company's Chief Executive Officer. Prior to his appointment as Chief Executive Officer in January 2010, Emilio was Group Executive, Global Equities at Perpetual Limited. Prior to this role, he was the Chief Investment Officer for seven years. During his early tenure at Perpetual, Emilio was responsible for establishing and running a currency program, tactical asset allocation strategies, Perpetual's diversified and balanced funds, as well as being Head of Research.

Prior to joining Perpetual, Emilio worked as the Chief Dealer at Nikko Securities (Australia) Limited and as a retail client adviser at Norths Stockbroking Limited.

Emilio is a director and Chairman of BTIM RE and BTIM UK Limited and a director of J O Hambro Capital Management Holdings Limited.

Directorships of other listed entities over past three years:

Nil



Brad Cooper
DipBM, MBA

Term: Appointed a Non-executive Director in April 2010

Independent: No

Board Committees: Member, Remuneration & Nominations Committee

Brad Cooper is the Chief Executive Officer of BT Financial Group, having been appointed to that role on 1 February 2010. Brad joined The Westpac Group in April 2007 as Chief Executive for Westpac New Zealand. He then moved to the role of Group Chief Transformation Officer, leading the implementation of the Westpac-St George merger before taking up his current role.

Prior to joining The Westpac Group, Brad was Chairman of GE Capital Bank and Chief Executive Officer of GE Consumer Finance UK & Ireland.

Brad is a director of the Financial Services Council. Brad is an executive director of Westpac Financial Services Group Limited and an alternate director of a number of other companies within The Westpac Group, including: BT Life Limited, Westpac Life Insurance Services Limited, St George Life Limited, Westpac General Insurance Limited, Westpac Lenders Mortgage Insurance Limited and St George Insurance Australia Pty Limited.

Directorships of other listed entities over past three years:

Nil



James Evans
BEc, CPA, F Fin, FAICD

Term: Appointed a Non-executive Director in June 2010

Independent: Yes

Board Committees: Chairman, Audit & Risk Management Committee; Member, Remuneration & Nominations Committee

James Evans has 40 years of corporate experience. His most recent executive role, which he held from 2003 to 2008, was as the Chief Risk Officer, Wealth Management with Commonwealth Bank of Australia. As part of this role, James held directorships in Commonwealth Bank's funds management, general insurance, life insurance and lease financing businesses.

James also held a number of other senior executive roles with Commonwealth Bank in the areas of finance, accounting, business development and strategy.

Before joining Commonwealth Bank in 1996, James was a senior executive with Lend Lease in the Property Investment Services Group, holding directorships of property investment and joint venture companies. Prior to that, James held senior executive positions at GEC Australia and Grace Bros.

James is a non-executive director of J O Hambro Capital Management Holdings Limited and the Chairman of the Audit & Risk Committee of JOHCM Holdings.

James is also a non-executive director of Australian Infrastructure Fund Limited, the Equigroup companies, Hastings Funds Management Limited, Investa Wholesale Funds Management Limited, Macquarie Generation and Suncorp Portfolio Services Limited.

Directorships of other listed entities over past three years:

Nil



Andrew Fay
BAgEc (Hons), A Fin

Term: Appointed a Non-executive Director from 1 October 2011

Independent: Yes

Board Committees: Member, Remuneration & Nominations Committee

Andrew Fay has approximately 25 years in the financial services sector and was Chief Executive Officer at Deutsche Asset Management (Australia) Limited from 2005 to 2008 and Chief Investment Officer from 2000 to 2008. Prior to that, he held a number of other senior investment roles at Deutsche Asset Management and previously at AMP Capital. From 1998 to 2006, he was a member of the Investment Board Committee of the Financial Services Council.

Andrew was until September 2011 the Chairman and a non-executive director of Deutsche Asset Management (Australia) Limited, having been appointed to this role in 2008. He is a non-executive director of Deutsche Managed Investments Limited.

Andrew is also a non-executive director of Spark Infrastructure RE Limited, ETSA Utilities and Cheda Holdings Pty Limited.

Directorships of other listed entities over past three years:

Nil



Carolyn Hewson
AO, BEc (Hons), MA (Econ)

Term: Appointed a Non-executive Director in September 2007

Independent: No

Board Committees: Member, Audit & Risk Management Committee

Carolyn Hewson has over 30 years' experience in the finance sector, having joined Schroders Australia investment bank in 1981, serving as an executive director of Schroders between 1989 and 1995.

Carolyn is currently a non-executive director of BHP Billiton Limited and Stockland Corporation Limited and Chair of the Westpac Foundation.

Carolyn has previously served as a non-executive director of Westpac (2003-June 2012), CSR Limited (1995-2005), AMP Limited (1996-2001), The Australian Gas Light Company (1996-2006) and AGL Energy Limited (2006-2009). Carolyn has also served on the boards of SA Water and the Economic Development Board of South Australia. Carolyn currently has board and advisory roles with Nanosonics Limited, the Australian Charities Fund and the Neurosurgical Research Foundation.

Directorships of other listed entities over past three years:

Westpac Banking Corporation
(2003 – June 2012)

Senior Management Team

During the 2012 Financial Year, the following persons were members of the Senior Management Team:

Name	Position	Joined BTIM	Appointed to current position
Emilio Gonzalez	Chief Executive Officer	2010	2010
Geraldine Bouquet	Head of Human Resources	2008	2008
Martin Franc	Head of Sales & Marketing	2007	2007
Phil Stockwell	Chief Operating Officer	2007	2007
Cameron Williamson	Chief Financial Officer	2008	2010
Brian Wright	Head of Corporate Development	2009	2009
Gavin Rochussen ¹	CEO JOHCM	–	–



Emilio Gonzalez
BCom (Ec), CFA

Chief Executive Officer

Refer to Directors' biographies.



Geraldine Bouquet
BCom (HRM & IR), CAHRI

Head of Human Resources

Geraldine Bouquet was appointed BTIM's Head of Human Resources in May 2008.

Geraldine is responsible for leading BTIM's human resources function as well as developing and delivering the Company's People Strategy. She is also a management representative of BTIM's Superannuation Policy Committee.

Geraldine has had a broad career spanning 15 years in human resources within a number of industry sectors, mainly within financial services in Australia and London. She joined BTIM from Westpac Institutional Bank where she held a number of senior human resources roles supporting businesses across debt markets, corporate & institutional banking and risk management.



Martin Franc
BA (Politics), GradDip, AppFin, F Fin

Head of Sales & Marketing

Martin Franc joined the funds management business of BTFG (now BTIM) in 2006.

Martin's primary responsibility is the management of the Marketing, Institutional and Wholesale Sales teams within BTIM.

Prior to joining BTIM, Martin was responsible for the sales and marketing activities for Putnam Investments in Australia and New Zealand. Martin began his professional career in the funds management industry with Bankers Trust in 1994.



Phil Stockwell
MBA, BCom, BEc, FCA

Chief Operating Officer

Phil Stockwell has been Chief Operating Officer of BTIM since 2007. He has been with The Westpac Group since 2003.

As Chief Operating Officer, Phil is responsible for product development and management, trading, investment operations, client services, technology, risk and compliance, and legal and company secretariat.

Phil is a director of BTIM RE and a member of the Investment Board Committee of the Financial Services Council.

Prior to joining BTIM, Phil was with McKinsey & Company in Sydney and New York, and KPMG in Brisbane.

¹ Gavin Rochussen is CEO of JOHCM and joined JOHCM in November 2008.



Cameron Williamson
BA (Accounting), CA

Chief Financial Officer

Cameron Williamson is BTIM's Chief Financial Officer. Cameron joined BTIM in January 2008 as the Company's Financial Controller. Cameron was appointed Chief Financial Officer in February 2010 having acted in that role since May 2009.

As Chief Financial Officer, Cameron is responsible for BTIM's overall financial operations and reporting, business planning and investor relations. Cameron is also a director of BTIM RE and J O Hambro Capital Management Holdings Limited.

Prior to joining BTIM, Cameron held Chief Financial Officer and Company Secretary responsibilities at Clairvest Group, a mid-market private equity group in Toronto. His previous positions also included senior finance roles with Franklin Templeton and CIBC World Markets in Toronto, UBS in the UK and KPMG in Australia.

Cameron holds a BA in Accounting and is a Chartered Accountant.



Brian Wright
BCom, CA

Head of Corporate Development

Brian Wright joined BTIM in January 2009. Brian was formerly responsible for M & A and strategy. In March 2010, Brian was also appointed Acting Head of Alternative Assets.

Prior to joining BTIM, Brian was the Chief Financial Officer and Company Secretary of MMC Contrarian Limited between August 2007 and 2008. He also held the positions of Chief Financial Officer and Chief Operating Officer for the hedge fund, Red Centre Capital, from 2004 to 2007.

Brian was at Bankers Trust from 1990 to 2003. He held the position of Operations Manager for Equity and Currency Derivatives in the Investment Bank. In 1995, he moved to funds management where he was the Business Manager for Currency & International Bonds. In 1997, he became the Business Manager for the Australian and International Equity business.



Gavin Rochussen
BCom, BAcc, Chartered Accountant

Chief Executive Officer, J O Hambro Capital Management

Gavin Rochussen joined J O Hambro Capital Management (JOHCM) in November 2008 as Group Chief Executive Officer.

Gavin's primary responsibility is to lead the JOHCM business, which was acquired by BTIM in October 2011.

Gavin is a director of J O Hambro Capital Management Limited and J O Hambro Capital Management Holdings Limited.

Prior to joining JOHCM, Gavin was the Finance Director (2002) and later Chief Executive (from 2003) of Fleming Family & Partners, a private asset management firm based in the United Kingdom.

Gavin has 27 years' experience in the financial industry, including the establishment and operation of a consulting practice in South Africa.

Directors' meetings

The number of meetings of the Board and of each Board Committee held during the 2012 Financial Year and the number of meetings attended by each Director during that year are set out in the following table:

DIRECTORS	BOARD		AUDIT & RISK MANAGEMENT COMMITTEE			REMUNERATION & NOMINATIONS COMMITTEE		
	A	B	A	B	C	A	B	C
Brian Scullin	12	12	4	4	–	7	7	–
Emilio Gonzalez	12	12	–	–	4	–	–	4
Brad Cooper	12	11	–	–	4	7	7	–
James Evans	12	12	4	4	–	7	7	–
Andrew Fay	12	12	–	–	4	7	7	–
Carolyn Hewson	12	12	4	4	–	–	–	6

A – Meetings eligible to attend as a member of the Board or Committee.

B – Meetings attended as a member of the Board or Committee.

C – Committee meetings attended by the Director although the Director is not a member of the relevant Committee.

Principal activities

The principal activity of the BTIM Group during the 2012 Financial Year was the provision of investment management services. During the financial year the BTIM Group completed its acquisition of J O Hambro Capital Management (JOHCM).

Review of operations

The statutory net profit after tax (NPAT)¹ of the BTIM Group for the 2012 Financial Year was \$21,397,632 (2011: \$16,896,892). The BTIM Group's cash net profit after tax (Cash NPAT)¹ for the 2012 Financial Year was \$41,503,952 (2011: \$30,476,537). The results for JOHCM have been included as part of the BTIM Group from the acquisition date (effective 1 October 2011, refer Note 29) to the end of the reporting period.

Reconciliation of statutory NPAT to Cash NPAT

	2012 \$'000	2011 \$'000
Statutory NPAT	21,398	16,897
Add back: amortisation of employee equity grants	21,584	10,385
Deduct: cash cost of ongoing equity grants	(9,588)	(9,598)
Add back: amortisation and impairment of intangibles ²	11,924	–
Add back: loss on financial liabilities at fair value through the profit and loss ³	1,090	–
Add back: net acquisition transaction costs ⁴	–	12,348
Deduct: tax effect	(4,904)	445
Cash NPAT	41,504	30,477

1 NPAT includes accounting adjustments required under International Financial Reporting Standards for amortisation of employee equity grants, amortisation and impairment of intangible assets, and the fair value adjustments on equity-settled converting notes. These non-cash charges are not considered part of the underlying earnings for the year and therefore Cash NPAT is a more suitable measure of profitability. Cash NPAT comprises NPAT before amortisation of employee equity grants less the after-tax cash costs of grants made in respect of the current period, together with the after-tax amortisation and impairment of intangible assets and fair value adjustment on equity-settled converting notes recognised as a result of the JOHCM acquisition. NPAT has also been adjusted for acquisition transaction costs associated with the purchase of JOHCM to produce a normalised FY11 Cash NPAT. Cash NPAT has not been audited in accordance with Australian Auditing Standards.

2 Amortisation of intangibles relates to fund and investment management contracts.

3 Loss on financial liabilities at fair value through the profit and loss relates to the fair value adjustment on the converting notes issued as purchase considerations in relation to the JOHCM acquisition.

4 Included in net acquisition transaction costs for the 2011 Financial Year are \$12,543,163 in acquisition related costs shown in the Statement of Comprehensive Income, partially offset by \$194,683 in realised foreign exchange gains on currency contracts.

FUM as at 30 September 2012 was \$46.6 billion, an increase of 42% from the FUM of \$32.7 billion at 30 September 2011. The acquisition of JOHCM contributed \$9.9 billion in FUM as at 1 October 2011, accounting for 30% of the increase. The subsequent movement of FUM for the 2012 Financial Year has been driven by a positive market performance of \$4.8 billion offset by net outflows of \$0.6 billion combined with a strengthening Australian dollar relative to the British pound which contributed to a negative foreign exchange movement of \$0.2 billion.

Dividends

The Directors have resolved to pay a fully franked final dividend and dividend-linked coupon of 7.0 cents (2011: 10.0 cents per share) on ordinary shares and converting notes. The amount of dividend and dividend-linked coupon which has not been recognised as a liability at 30 September 2012 is \$20.0 million (2011: \$28.6 million). The Company paid an interim dividend and dividend-linked coupon of 5.5 cents per share (\$15.7 million) on 2 July 2012.

Equity dividends on ordinary shares

	2012 \$'000	2011 \$'000
(a) Dividends declared and paid during the 2012 Financial Year		
Final fully franked dividend for the 2011 Financial Year: 10.0 cents per share (2010 Financial Year: 10.0 cents per share)	26,696	15,944
Interim fully franked dividend paid for the 2012 Financial Year: 5.5 cents per share (2011 Financial Year: 6.0 cents per share)	14,536	9,569
	41,232	25,513
(b) Dividends proposed to be paid subsequent to the end of the 2012 Financial Year and not recognised as a liability		
Final fully franked dividend for the 2012 Financial Year: 7.0 cents per share (2011 Financial Year: 10.0 cents per share)	18,753	26,791

Dividend-linked coupons on converting notes

	2012 \$'000	2011 \$'000
(a) Coupons paid during the 2012 Financial Year		
Final fully franked coupon for the 2011 Financial Year: 10.0 cents per share (2010 Financial Year: 0.0 cents per share)	1,805	–
Interim fully franked coupon paid for the 2012 Financial Year: 5.5 cents per share (2011 Financial Year: 0.0 cents per share)	992	–
	2,797	–
(b) Coupons proposed to be paid subsequent to the end of the 2012 Financial Year and not recognised as a liability		
Final fully franked coupon for the 2012 Financial Year: 7.0 cents per share (2011 Financial Year: 10.0 cents per share)	1,260	1,805

Significant changes in the state of affairs

In October 2011 BTIM acquired 100% of the issued share capital of JOHCM, a London-based boutique equity investment manager.

Matters subsequent to the end of the financial year

A final fully franked dividend of 7.0 cents per share on ordinary shares and a final fully franked dividend-linked coupon of 7.0 cents per share on converting notes is to be paid on all ordinary shares and converting notes outstanding at the record date.

Except for the dividend declaration no other matters or circumstances have arisen since 30 September 2012 that have significantly affected, or may significantly affect:

- the BTIM Group's operations in future financial years, or
- the results of those operations in future financial years, or
- the BTIM Group's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the BTIM Group and the expected results of operations have not been included in this financial report because the Directors believe it would be likely to result in unreasonable prejudice to the BTIM Group.

Environmental regulations

The operations of the BTIM Group are not subject to any particular or significant environmental regulation under any law of the Commonwealth of Australia or of any state or territory thereof.

The BTIM Group has not incurred any liability (including rectification costs) under any environmental legislation.

Indemnities and insurance

In accordance with the provisions of the Corporations Act, the BTIM Group has insurance policies covering directors' and officers' liabilities for the BTIM Group. Under the terms of the policies, disclosure of the amount of cover and premiums paid is prohibited.

Introduction to the 2012 Remuneration Report

The Directors present the Remuneration Report for the year ended 30 September 2012. The Remuneration Report provides a description of BTIM's remuneration approach and current practices and forms part of the Directors' Report.

The Remuneration Report more specifically sets out remuneration information for the Company's key management personnel (KMP) who are accountable for planning, directing and controlling the affairs of the Company and its controlled entities.

The KMP for BTIM, who held positions for the whole of the 2012 Financial Year, are listed in the table below:

Non-executive Directors

Brian Scullin	Chairman
Brad Cooper	Director
James Evans	Director
Andrew Fay	Director
Carolyn Hewson	Director

CEO and other Senior Executives

Emilio Gonzalez	Chief Executive Officer
Geraldine Bouquet	Head of Human Resources
Martin Franc	Head of Sales & Marketing
Gavin Rochussen	CEO, JOHCM
Phil Stockwell	COO
Cameron Williamson	CFO
Brian Wright	Head of Corporate Development

The information provided in this Remuneration Report has been audited by the Company's auditors, PricewaterhouseCoopers, as required by section 308(3C) of the *Corporations Act 2001*.

Report structure

The Remuneration Report is structured in the following sections:

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A message from the Chairman of the Remuneration & Nominations Committee

BTIM is a talent driven business and our multi-boutique strategy is designed to incentivise people and harness their entrepreneurial drive, while achieving synergies by sharing a common infrastructure.

In addition to the normal disclosure requirements that we are required to meet as a listed company, upfront in the Remuneration Report we have provided a more “matter of fact” description of the remuneration arrangements, including the Board’s policy on KMP remuneration, and have attempted to provide deeper insight into the key elements and drivers that underpin why our remuneration is structured in the way it is and its key determinants across the BTIM Group. We are open to sharing with you and our clients, details on the drivers of remuneration and how employees are rewarded up to a point of granularity that does not disadvantage BTIM commercially, so as to better understand how our business model works.

We are confident that we have in place robust remuneration arrangements which achieve a direct alignment between the remuneration of our employees and the interests of our shareholders. To ensure our remuneration arrangements remain relevant and competitive we will continue to review these arrangements in consideration of a changing business environment, legislative reform and your feedback.



Brian Scullin

Chairman of the Remuneration & Nominations Committee

The Multi-Boutique Approach and Fund Manager Remuneration

Our remuneration policy is very important to us as we rely heavily on our people to deliver superior investment returns for our clients as the basis of creating value for our business. In order to provide both shareholders and clients clarity and additional transparency in relation to how employees are rewarded and how reward is aligned to performance, we have expanded below our approach to remuneration.

Our model is a “multi-boutique” business model that involves the Company contracting with teams of investment professionals to share the profit that can be generated from their efforts, their experience and, above all, their skill. The model is an attempt to provide “the best of both worlds” where fund managers operate in a boutique environment (investment lead with independence, share in economic value created, creative independence, absence of bureaucratic structures) combined with the strengths of a significant institution (brand, distribution, compliance, back-office). This makes it possible to attract and retain the very best investment talent.

Why the multi-boutique approach?

Over recent years there has been a strong movement away from the traditional approach of fund management teams residing within large financial institutions, such as banks and insurance companies.

It has been difficult for large diversified organisations to create an appropriate cultural environment for fund managers and to structure suitable remuneration arrangements. The inclusion of equity in remuneration arrangements was often unattractive to fund management teams who viewed the primary stock of the company too far removed from their own activities or even their own industry. Consequently, there has been a tendency for fund management teams to spin out from such organisations and to form their own independent boutiques.

This has been accelerated by a growing view among the key gatekeepers – asset consultants and research houses – that the employment of fund managers within large institutions is inherently unstable. As a result, they have been increasingly unwilling to recommend the use of such teams.

How does BTIM approach a multi-boutique structure?

A number of competitors approach the creation of a multi-boutique business by taking an equity stake (usually minority) in boutique investment management businesses (for example, Challenger, Treasury Group, NAB Invest). With this arrangement, the fund managers will have a large equity stake in their own business but, in many cases, little or no equity in the listed company.

BTIM’s approach is quite different, and in our opinion, superior. BTIM aims to take 100% of the equity in all the funds management businesses and teams that are part of the Company. BTIM then contracts with each of the teams to give them an agreed proportion of the revenue from the funds they manage but requires that a proportion of the income generated by them through this contracted arrangement be taken in the form of deferred equity in BTIM shares. The result is that, for fund management teams, their income each year is a direct function of the financial success of their own efforts but their wealth is driven by the success of the total Company. This creates an investment management organisation with consistent alignment.

BTIM believes that this provides considerable advantages to fund managers, clients and shareholders. For **fund managers** it means that their equity is not tied up in small unlisted vehicles whose securities have no liquidity other than a business sale as the only true means to realise value. By having equity in BTIM, our fund managers know the value of their shareholding on a day-to-day basis and can realise value over time.

As a result of BTIM being a pure asset management manager, the equity is not in a remote company operating in a different industry and perhaps subject to different P/E multiples.

We also believe it works for **clients** who are primarily interested in ensuring that there is a performance oriented, stable and culturally-attuned environment for their chosen fund managers. It has been suggested that rewarding fund managers from a profit pool might encourage an asset-gathering mentality and that it is better to reward fund managers on the basis of investment performance.

However:

- within our system, investment performance, and the individual contribution to it, is a key factor in how the boutique pool is divided up;
- there is no evidence of an asset-gathering mentality – indeed every equity boutique has voluntarily imposed capacity constraints on some or all of their products; and
- interests are also aligned by earning performance fees on fund returns that exceed benchmarks.

For our **shareholders**, our approach produces a very strong alignment between the fund managers and shareholder interests. Our senior fund managers are among our most significant shareholders and consequently have the same interests as other shareholders in terms of dividends and Cash Earnings Per Share (EPS) growth. In fact, many of our fund managers would gain or lose much more from share price movements than they would expect in terms of the fluctuations in their annual profit share.

Is there a set percentage of profits that is awarded to fund management teams?

Our fund management teams are not awarded a set percentage of profits.

Each team negotiates an arrangement with the CEO upon joining the Company. The contracted sharing arrangement is expressed as a percentage of revenue and takes into account direct expenses incurred by the fund management team.

The revenue share will depend upon the source of funds. Where revenue is directly attributable to the skill and efforts of the fund management team (e.g. performance fees) this will generally attract a higher revenue share arrangement. On the other hand, assets which have come from the Company attract a much lower revenue share.

Will the total remuneration paid to fund managers as a percentage of total revenue be constant over time?

The total remuneration paid to fund managers as a percentage of total revenue will not necessarily be constant over time.

There are a number of factors that could cause the profit share percentage to fluctuate from year to year. For example, in years in which performance fees are a high proportion of total revenue, then the profit share earned by fund managers will be higher and the reverse will be true in years when the Company earns less in performance fees.

How is the revenue share split within individual teams?

All fund managers are paid a fixed remuneration package which is set at the beginning of each financial year in consultation between the CEO and the boutique Heads in the case of BTIM.

At the end of the financial year, the profit share for each boutique is calculated by the Finance department. The profit share also takes into consideration direct expenses including fixed remuneration. This gives a balance which we term the variable remuneration available to be distributed within the team.

The boutique Head allocates this pool based on an individual's contribution to the investment and financial performance of the boutique.

The recommended allocation of the variable remuneration pool is then discussed with the CEO to ensure that the individual allocations are fair and reasonable and based on criteria which reward performance for the year and that will enhance future performance and the long term viability of the boutique. The CEO then reports to the Remuneration & Nominations Committee on the broad process that has been followed within each boutique, the outcomes for individual fund managers, particularly senior fund managers, and his assessment that appropriate processes have been followed.

Each fund manager who receives a variable reward payment is required to take a proportion of their remuneration in the form of deferred equity. The equity vests over five years.

While the equity allocations only vest over time, they are regarded as having been "earned" through the revenue share arrangement and hence are not subject to any additional hurdles. As a result of the equity vesting automatically in line with the applicable vesting schedule, provided the recipient is still employed by BTIM, and it is not subject to further performance hurdles, it attracts dividends immediately from the time of allocation and the voting rights also fall to the recipient.

These dividend payments are an important part of the overall remuneration package for employees and are partial compensation for the fact that, even though their variable remuneration has been earned, a substantial proportion is deferred for a significant period.

Sales Remuneration

Up until this financial year, the variable remuneration for BTIM's sales force was incorporated as part of the Corporate Variable Reward (VR) pool. However, as noted in last year's report we have recently created a sales incentive plan for the BTIM sales teams that aligns reward with sales outcomes.

Under the sales remuneration arrangements, the business development managers in our retail and institutional sales teams (sales teams) are paid a fixed remuneration package which is reviewed at the beginning of each financial year. The variable remuneration to be paid on top of this fixed remuneration package is derived from the actual sales performance of individual members of the sales teams according to an agreed formula.

The formula will tend to be different for different sales channels so that there is one approach for the "institutional" business and a different approach for "retail" (in Australia the wholesale channel, and in Europe OEICS) business.

In line with fund managers and other employees, sales employees are required to take a portion of their variable remuneration in the form of deferred equity, vesting over a five year period.

Payments in relation to sales achievement are typically spread over a one to three year period but with considerable front-end loading. The result is that in periods of strong sales success, the payments to the sales teams will run ahead of the revenue increase to shareholders which will come over time. Importantly, the system creates a strong alignment between generating revenue and rewarding the sales teams.

Senior Executive / Corporate Employee Remuneration

Our corporate employees consist of the Senior Executives (other than the CEO), Finance, Human Resources, Investments Operations, Information Technology, Client Service, Legal and Risk and Compliance teams. All corporate employees have a fixed remuneration package which is set at the beginning of each year.

In addition, a variable reward pool is set aside each year for allocation to corporate employees. Individual employees have a target variable reward which is established on market data, having regard to the seniority, complexity and responsibility associated with their position. Each employee undergoes a performance review outlining key performance objectives. Depending on individual and Company performance, employees can achieve up to 200% of their target reward.

The Corporate VR pool is subject to the Company's capacity to pay. As a result, in Sydney the pool for this financial year is lower due to a decline in profitability. In London, where profit has remained strong, there has been no reduction in the overall size of the Corporate VR pool.

Corporate employees, as the variable reward increases above a certain threshold, are required to take an increasing proportion of their remuneration in the form of deferred equity.

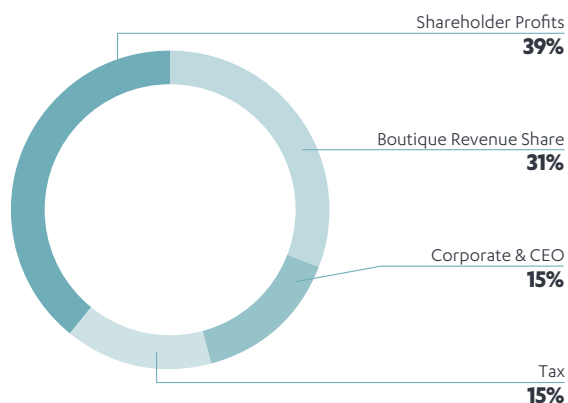
How is the Share of Profits (Pre-Tax Pre-Variable Reward) divided?

As mentioned in the introduction outlining BTIM's remuneration philosophy, our "multi-boutique" business is one that involves in the sharing of the profits between employees and shareholders that can be generated from the efforts and skill of the fund management teams with the support of corporate employees. The different schemes that apply to various groups of employees provide the right level of alignment to drive performance and reward outcomes, which may vary depending on an individual's role in the business.

Taking into account all of the variable remuneration schemes across the business as described above, when the share of pre-tax pre-variable reward profits (revenue less operating costs of running the business prior to distribution of variable reward and profits to shareholders) is assessed, as shown in the chart below, the share of wallet as a percentage of profits attributed to:

- shareholders is 39%;
- the revenue share linked to fund manager schemes is 31%;
- corporate employees is 15%; and
- the remaining 15% is towards the payment of taxes.

Chart 1: Share of Profits (Pre-tax Pre-VR)



CEO Remuneration

Our CEO, Emilio Gonzalez was recruited in 2010 on a fixed remuneration package of \$600,000 per annum and a variable reward target of \$1.8m. Up until this year Mr Gonzalez was remunerated out of the Corporate VR pool.

During the year the Board conducted an extensive review of the CEO's remuneration with the assistance of its remuneration adviser, Guerdon Associates. The review was conducted within the context of BTIM's existing remuneration philosophy and remuneration guiding principles with the objective of further aligning the CEO's remuneration with the business strategy and shareholders' interests.

With the acquisition of the JOHCM business, the Board has acknowledged the increased size and complexity of the business and the importance to align the CEO to the success and growth of the whole Group. Consequently, commencing in the 2012 Financial Year a new arrangement has been put in place that reduces his Short Term Incentive (STI), replacing it with a Long Term Incentive (LTI) program linked to performance hurdles. Mr Gonzalez's annual remuneration now consists of three elements:

- a fixed remuneration package of \$600,000 per annum including base salary (includes any fringe benefits tax charges related to employee benefits) as well as employer contributions to superannuation. The fixed remuneration package has been determined based on analysis of competitor market data and independent advice. The CEO's fixed remuneration package is reviewed annually to ensure it is competitive with the market. There are no guaranteed fixed remuneration increases included in the CEO's employment agreement;
- a STI target of \$1.2m of which \$600,000 will be awarded in the form of equity deferred over five years; and
- an LTI of \$1.0m in the form of performance share rights deferred for three years and subject to Cash EPS and Total Shareholder Return (TSR) hurdles. Upon meeting the performance hurdles, the performance share rights vest and convert into ordinary BTIM shares.

The CEO's STI outcome for the 2012 Financial Year was \$1.2m and was determined after taking into consideration the Company & the CEO's overall performance.

The LTI has been issued under the newly created Performance Reward Scheme. The LTI component is designed to incentivise the CEO to maximise the value of the JOHCM acquisition together with future growth and development of the Sydney business. Consequently, it is subject to performance hurdles, the first of which is Cash EPS growth (full payment dependent on Cash EPS growth of more than 10% per annum) and the second is TSR (full payment dependent on TSR equal to top quartile of the ASX 200).

It is important to note that the shares allocated under the LTI program are on the basis of market value and not the more common "fair value" basis. The Board received advice that the CEO's total remuneration this year would be about \$2.35m (which includes an adjustment of the \$1.0m LTI), which compares to the starting remuneration of \$2.4m in 2010.

Because the LTI is subject to hurdles and may not be fully earned, the shares allocated under the LTI program will not attract dividends until the end of the vesting period and then only in respect of those shares which are actually allocated. The non-payment of dividends on LTI shares further reduces the value of the remuneration package. Voting rights will still be allocated to the CEO but of course he is not able to vote in relation to remuneration issues.

As with all other employees, shares allocated under the STI arrangements attract dividends post allocation.

Oversight of Remuneration

The Board and its Remuneration & Nominations Committee (Committee) and the JOHCM Remuneration Committee provide oversight of remuneration and incentive policies. This includes specific recommendations on remuneration packages and other terms of employment for Executive Directors, Senior Executives, NEDs and fund managers.

In summary, the Committees are responsible for recommending to the Board for approval:

- remuneration for senior executive appointments;
- remuneration arrangements and all reward outcomes for the CEO and senior direct reports to the CEO; and
- significant changes in remuneration policy and structure, including employee equity plans and benefits.

During the 2012 Financial Year, the Board and the Remuneration Committees made a number of decisions in relation to remuneration arrangements, including:

Review of CEO's remuneration	Review and redesign of the CEO's remuneration structure and quantum, taking into account broadening of his role following the acquisition of JOHCM.
Independent adviser appointed	The appointment of Guerdon Associates as its remuneration adviser to provide independent remuneration consulting services.
Review of remuneration policies and governance structure	Reviewed BTIM's and JOHCM's remuneration policies and the Committee Charters for compliance with new regulatory requirements and alignment to industry practice.

Engagement of remuneration consultants

This year, the Committee appointed Guerdon Associates as its remuneration adviser and has made amendments to its Charters that acknowledge the changes to the *Corporations Act* in respect to remuneration advice or remuneration recommendations for KMP. This includes:

- requiring Committee approval to appoint any remuneration consultant to advise in relation to KMP remuneration;
- any advice from the remuneration consultant must be provided directly to the Chairman of the Committee and not to management; and
- precludes dialogue between KMP and the remuneration consultant, declaration of their independence from the KMP to whom their recommendations relate, and also confirmation that the Committee's conditions of engagement have been observed.

By observing these requirements, the Committee receive assurance that the remuneration advice and recommendations provided by remuneration consultants are independent from management.

Remuneration advice and services received in 2012

To ensure that BTIM's remuneration practices remain competitive and relevant in the current employment environment, the Remuneration & Nominations Committee and management obtained remuneration advice, services and market data from the following organisations during the year.

Independent Board advice and services

Guerdon Associates were engaged to provide advice to the Committee in relation to KMP remuneration elements. All advice was provided to the Committee. No advice was provided to management.

Fees for advice in relation to KMP incentive elements that fit within the definition of a "remuneration recommendation" under the *Corporations Act* were \$26,043.

Guerdon Associates were also engaged to provide the Committee with KMP market data.

Services provided to management

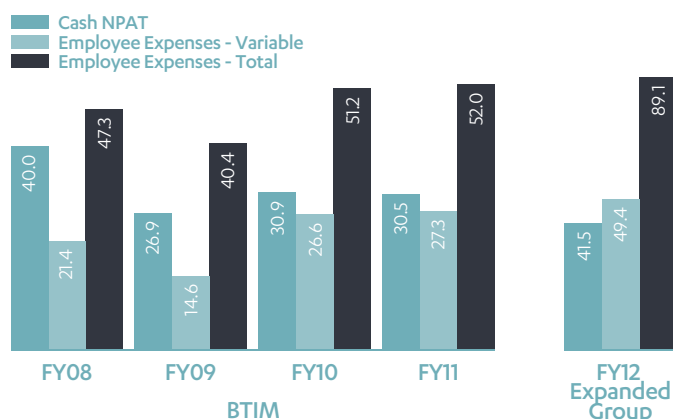
The following organisations provided management with remuneration benchmarking data for all employees:

- Financial Institutions Remuneration Group (FIRG);
- McLagan; and
- PRPi

Link between remuneration outcomes and Company performance

Chart 2 demonstrates the linkage between Company performance (i.e. Cash NPAT) and overall remuneration outcomes (i.e. variable reward and total employee expenses) over the last five years. The 2008 to 2011 Financial Years are not comparable with the 2012 Financial Year given the expanded BTIM Group following the acquisition of JOHCM. Remuneration outcomes and company performance is linked primarily via two schemes, the contracted revenue scheme with the boutiques and the Corporate VR pool for corporate employees including Senior Executives. Both arrangements link variable remuneration to either changes in revenue as in the case for the Boutiques under a revenue sharing agreement or a change in company profitability in the case for the corporate scheme.

Chart 2: VR Outcomes compared to company performance over the last five years



BTIM Remuneration structure

The remuneration paid and payable to employees including Senior Executives comprises fixed and variable cash and deferred equity components. The way these components are determined and their alignment to BTIM's performance are outlined below.

Fixed remuneration

Fixed remuneration package consists of base compensation (and includes any fringe benefits and other applicable tax charges related to employee benefits) as well as employer contributions to superannuation. Fixed remuneration package for all employees is reviewed annually. The level of fixed remuneration is determined based on competitor market data for each role, internal relativities and in some cases, independent advice. It is aimed at market median (based on geographical location) using external benchmark data. The fixed remuneration package varies based on an employee's role, responsibilities, skills and experience. There are no guaranteed fixed increases included in contracts.

Variable remuneration

While fixed remuneration is an important part of an employee's total remuneration, it is the variable remuneration that provides significant financial upside. Further, the equity component of variable remuneration provides alignment with BTIM and its shareholders.

Variable remuneration is granted in the form of a STI and in some cases LTI.

Short Term Incentive

STI plans have been put in place to help retain our people, to reward performance and balance short and long term results by aligning remuneration with shareholders' interests through the allocation of equity.

STI is governed by equity plan rules and the various Corporate and Boutique / fund manager variable reward schemes. All variable reward schemes include a cash component and in some cases a deferred equity component, and are designed to motivate employees to meet and exceed their financial and non-financial performance measures. It is important to note the deferred component will typically be greater at higher levels of total remuneration.

STI is awarded annually based on an individual's performance against financial and non-financial objectives. In some instances STI may be granted as a sign-on or retention-based payment.

Long Term Incentive

A LTI plan has been put in place for the BTIM Group CEO in lieu of a reduction in the STI target following a review of the CEO's remuneration.

Details of the plan are outlined on page 48 of this report.

JOHCM Remuneration arrangements

BTIM have kept in place the existing bonus arrangements for sharing in the management and performance fee revenue. However, there has been a transition period to bonuses being paid in BTIM securities, which will be subject to forfeiture restrictions for up to five years.

The existing equity incentive arrangements for new investment professionals have been retained, but they will receive equity in BTIM rather than JOHCM. BTIM has put in place other incentive schemes focused on the incentivising and retention of management and investment professionals together with a broader employee equity program under which BTIM securities are earned over a period of time. Details of the various equity-based reward plans are noted in Table 1 below.

Table 1 – Equity-based employee reward schemes/plans

Table 1 provides an overview of short term and long term equity-based employee variable reward schemes/plans that are in place across the Group and their objective:

VARIABLE REWARD SCHEME/PLAN	DESCRIPTION
BTIM Corporate Variable Reward (VR) Scheme	The Corporate VR Scheme is a variable reward scheme which is aimed at rewarding employees for performance. The Scheme has been designed to reward performance specifically for employees who work within the BTIM corporate support teams and not on a profit share scheme. The VR target for each individual employee is set annually and is based on regular analysis of competitor market data for each role. The Corporate VR Scheme is linked to the performance of the Company through the creation of a VR pool from which employees are paid their VR outcomes. The size of the VR pool for the Corporate VR Scheme is based on the Company's performance against its financial objectives.
BTIM Boutique Variable Reward (VR) Scheme	The Boutique VR Scheme is a scheme to reward performance specifically for investment employees who are in boutiques on a profit share arrangement. For the 2012 Financial Year, the Equity Strategies, Macro Strategies and Income & Fixed Interest boutiques operated under their own contracted arrangements, as per the Boutique VR Scheme. The VR pool for each boutique is based on an agreed formula that accounts for revenue share and expenses.
BTIM General Reward Plan (GRP)	The GRP is a reward scheme that allows certain eligible employees to participate in BTIM's success by receiving an offer of BTIM shares. The GRP has been established to enable all employees to have a greater involvement and share in the future growth and profitability of BTIM. Its aim is to create a stronger link between employee reward and long term shareholder value. The award is at the discretion of the Remuneration & Nominations Committee and takes into consideration BTIM's overall financial performance, measured by a relative increase in cash earnings achieved versus the prior year. The maximum value of shares each employee can receive is \$2,000 per annum. Each share grant allocated under the GRP vests at the end of three years. Employees are required to be employed by the Company on the date of vesting, to be eligible to receive shares granted to them. Dividends are paid from the date shares are allocated.
JOHCM Senior Staff Bonus Scheme and General Staff Bonus scheme	The Senior Staff and General Staff Bonus Schemes have been designed to reward performance specifically for senior and general employees who work within the JOHCM corporate support teams (including the JOHCM CEO) and are not on a revenue share scheme. Both Schemes are aimed at rewarding performance and are linked to the performance of the Company through the creation of a VR pool from which employees are paid their VR outcomes. The size of the VR pool for the Senior and General Staff Bonus Schemes are based on JOHCM's performance against its financial objectives. From the 2014 Financial Year a portion of the variable reward is required to be taken in the form of BTIM equity with a vesting period of up to five years.

VARIABLE REWARD SCHEME/PLAN	DESCRIPTION
JOHCM Fund Manager Remuneration Schemes (FMRS)	The FMRS for the fund managers are designed to recognise and reward fund performance and asset/client retention. The FMRS cater for two plans depending on the lifecycle of the fund. Those fund managers managing more established funds receive a variable reward as part of the revenue share which is based off their fund performance after taking into account direct costs. A portion of the variable reward is required to be taken in the form of BTIM shares with a vesting period of up to five years. The FMRS also cater for fund managers who are rewarded for growth in newly established investment strategies by receiving a share of the funds revenue. They are also given the right to convert that share of revenue into BTIM shares over multiple years. The value of BTIM shares received in exchange is linked to the value of the funds at that time. BTIM shares acquired will then be subject to vesting restrictions over five years.
JOHCM Long Term Incentive Reward Schemes	Following the JOHCM acquisition, selected employees were granted an award of BTIM shares. These awards are subject to performance hurdles linked to the growth in the profitability of the JOHCM business measured over three to five years. Any equity granted where performance hurdles are not met lapses. The schemes replaced pre-acquisition LTI schemes and dividends are payable during the performance period.
Long Term Retention Equity	LTI plans have been put in place to provide long term retention of employees and are linked to individual performance. Part of the LTI plans is linked to the variable reward where a portion of the variable reward is awarded in the form of BTIM shares with vesting conditions up to seven years. Following the JOHCM acquisition, selected employees were issued retention awards in the form of BTIM shares. These retention awards after a specified holding period vest over multiple years or after cessation of employment, provided certain conditions have been satisfied.

CEO and other Senior Executive remuneration components and performance

The key components of the CEO and other Senior Executive remuneration, including target remuneration mix for the 2012 Financial Year, are summarised below.

Target remuneration mix for Senior Executives

The Remuneration & Nominations Committee takes into account a target remuneration mix in determining the level of each remuneration component. When setting target remuneration levels, our key objective is to remain competitive by attracting and retaining highly talented executives. We do this by considering the size and responsibilities of each role, using any relevant executive remuneration surveys and disclosed data. Target fixed remuneration is generally set around the market median.

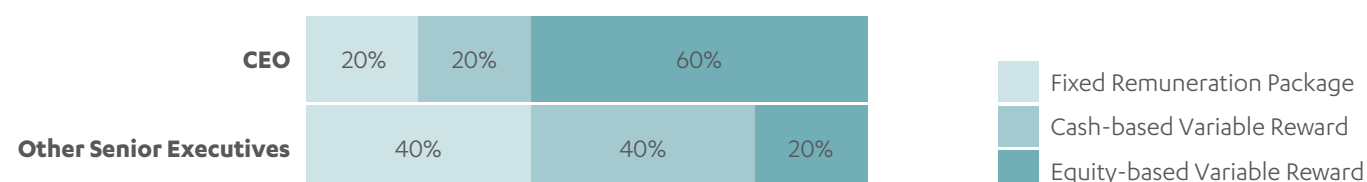
Each component of remuneration has a direct link to our business strategy as detailed above in the Remuneration Structure section.

In determining total remuneration levels for the 2012 Financial Year, the Remuneration & Nominations Committee:

- reviewed fixed remuneration packages effective from 1 January 2012 as outlined in Tables 3a, b and c; and
- set VR outcomes based on a target remuneration mix as outlined in Chart 3. Actual VR outcomes including cash payments and allocation of deferred equity are expected to be provided to the CEO and other Senior Executives in December 2012.

Chart 3 illustrates the target remuneration mix for the CEO and other Senior Executives. Details of the remuneration components for the 2012 Financial Year, for the CEO and other Senior Executives are included in Table 3a.

Chart 3: CEO and other Senior Executives – target remuneration mix



Senior Executive Performance

Each year the CEO taking into consideration market data and the scope of the role considers the appropriate variable reward target for each Senior Executive and makes recommendations to the BTIM Remuneration & Nominations Committee who discuss and approve the remuneration package for all of the CEO's direct reports. Changes in company profitability that impact the size of the Corporate VR pool are an important determinant in Senior Executive variable outcomes with non-financial factors also having an influence. Financial performance indicators considered include Company profitability, expense management and sales performance.

At the beginning of each year the CEO outlines for each Senior Executive a set of priorities and key deliverables that aligns with the goals of the business. These discussions include a review of key achievements during the period under review as well as areas for improvement and focus going forward. The non-financial measures that are incorporated will differ from one Senior Executive to the next depending on the role but will capture areas specific to that Senior Executive's role such as, business strategy, people management, quality and delivery of project work, client satisfaction, support to the Boutiques, ability to resolve issues and risk management. The CEO meets regularly with his direct reports to assess progress and adjust or change priorities depending on the needs of the business. A more formal review of achievements and assessment against objectives is carried out twice a year. The CEO reviews the performance of his Senior Executives annually with the Remuneration & Nominations Committee.

Disclosure of CEO and other Senior Executive remuneration and Employment Agreements

BTIM is required by the *Corporations Act* and the Australian Accounting Standards to make specific disclosures in relation to the remuneration of KMP.

Actual remuneration awarded to the CEO and other Senior Executives in 2012

Chief Executive Officer

Table 2 outlines the CEO's remuneration structure and remuneration that has been awarded in relation to performance for the 2012 Financial Year. For the 2012 Financial Year, a greater proportion of the CEO's VR outcome has been issued as equity compared to previous years. This provides greater alignment between the CEO and the success of the business in light of the JOHCM acquisition.

Table 2 – CEO Remuneration structure

REMUNERATION COMPONENT	DESCRIPTION
Fixed remuneration \$600,000	Fixed remuneration package consists of base compensation (and includes any fringe benefits and other applicable tax charges related to employee benefits) as well as employer contributions to superannuation. There was no change in the CEO's fixed remuneration package for 2012.
Short term incentive \$1,200,000	The STI target was revised down by approximately 33% from \$1.8m to \$1.2m as part of the review the Board conducted. The STI outcome is approved annually by the Board. Under the revised structure, 50% of the STI outcome is received as equity, subject to vesting over five years. The CEO's STI target is directly linked to performance measures that are set annually by the Board, as part of the annual performance review cycle. For 2012 the Board had the absolute discretion to vary the CEO's STI outcome up or down based on first meeting financial performance outcomes and then the CEO's overall performance. For the 2012 Financial Year, 50% of the CEO's STI outcome has been issued as equity.
Long term incentive \$1,000,000	The LTI was awarded to the CEO for the first time in 2012 Financial Year and was issued under the Performance Reward Scheme. The award is due to vest in three years (i.e. 2014). No value is delivered unless hurdles are met. The award is split into two parts as follows: → 50% (\$500,000) subject to TSR versus comparator group; and → 50% (\$500,000) subject to Cash EPS growth. TSR performance hurdle If TSR achievement is based at the weighted median of the ASX 200 for the performance period, then 50% of the award will be allocated as BTIM ordinary shares at the end of three years. If TSR achieved is at top quartile of the ASX 200 for the performance period, then 100% of the award will be allocated as BTIM ordinary shares at the end of three years. For achievement between the weighted median and top quartile achieved for the performance period then a pro rata of the award will apply. EPS performance hurdle If Cash EPS compounded annual growth more than 5% has been achieved then 50% of the award will vest at the end of three years. For every one percentage point increase of Cash EPS compounded annual growth rate above 5% is achieved, the percentage of the award that vests increases accordingly on a pro rata basis. If 10% compounded Cash EPS annual growth rate has been achieved then 100% of the award will vest at the end of three years. If the hurdles are not met, the award will forfeit. The CEO can only access up to 100% of the award based on the performance hurdles being met at the maximum level. The performance share rights allocation does not qualify for any dividends throughout the performance period. However, there will be a dividend-equivalent payment made to the CEO for dividends that apply to the performance period based on the number of performance share rights that ultimately vest at the end of the performance period and are allocated as BTIM ordinary shares. The cash payment, in lieu of dividends, will be grossed-up for the effect of any franking credits attached to the relevant dividends. The payment will be cash settled and paid on or around the date of allocation and subject to PAYG withholding tax.

CEO and other Senior Executive remuneration

The actual remuneration presented in Table 3a below provides the remuneration that the CEO and other Senior Executives have been awarded and have the potential to convert into BTIM shares in future years in relation to their performance for the 2012 Financial Year.

This voluntary disclosure includes a summary of the following remuneration components for the CEO and other Senior Executives during the 2012 Financial Year:

- fixed remuneration package (consisting of cash salary, superannuation, packaged employee benefits, associated fringe benefits tax). Where increases have occurred these have been made to align Senior Executives to market; and
- short and long term incentives awarded for the 2012 Financial Year (paid in April and payable in December 2012).

Remuneration details that are provided in accordance with the Australian Accounting Standards are included in Table 3b.

Table 3a – Actual remuneration awarded to the CEO and other Senior Executives in 2012

2012		EMPLOYMENT BENEFITS							
		Short term					Share-based payments		
		Salary and fees \$	Superan- uation benefits ⁵ \$	Total fixed remune- ration \$	Cash component of VR ¹ \$	Non- monetary benefits ^{3&4} \$	Short term equity payments ² \$	Long term equity payments ⁸ \$	Total \$
CEO and other Senior Executives									
Emilio Gonzalez ⁷	2012	565,718	25,000	590,718	600,000	9,282	600,000	1,000,000	2,800,000
	2011	567,494	25,000	592,494	600,000	9,282	1,200,000	0	2,401,776
Geraldine Bouquet	2012	206,676	18,532	225,208	65,000	0	0	0	290,208
	2011	192,126	17,188	209,314	88,000	0	66,000	0	363,314
Martin Franc	2012	319,968	25,000	344,968	121,891	9,282	34,109	0	510,250
	2011	321,109	25,000	346,109	156,135	9,282	47,865	0	559,391
Gavin Rochussen ⁶	2012	459,418	0	459,418	545,669	7,781	233,858	2,247,450	3,494,176
Phil Stockwell	2012	275,229	24,771	300,000	142,764	0	42,236	0	485,000
	2011	275,368	24,681	300,049	169,951	0	270,049	0	740,049
Cameron Williamson ⁷	2012	264,379	23,486	287,865	187,513	0	62,488	0	537,866
	2011	248,847	22,293	271,140	156,135	0	443,865	0	871,140
Brian Wright	2012	260,872	21,840	282,712	142,764	0	42,109	0	467,585
	2011	224,236	20,078	244,314	156,135	0	443,865	0	844,314
Total CEO and other Senior Executive Remuneration	2012	2,352,260	138,629	2,490,889	1,805,601	26,345	1,014,800	3,247,450	8,585,085
	2011	1,829,180	134,240	1,963,420	1,326,356	18,564	2,471,644	0	5,779,984

Notes to Table 3a

- The cash component of VR includes payment for performance made during the 2012 Financial Year. These projected amounts were determined on 21 September 2012, after performance reviews were completed, and approved by the Board. It should be noted there may be immaterial changes to these figures following final approval of the relative proportions of cash and equity as part of the annual remuneration review cycle.
- Equity-based remuneration in Table 3a represents the actual short term equity awarded for performance for the 2012 Financial Year. These projected amounts were determined on 21 September 2012, after performance reviews were completed, and approved by the Board. It should be noted there may be immaterial changes to these figures following final approval of the relative proportions of cash and equity as part of the annual remuneration review cycle.
- The non-monetary benefit for Emilio Gonzalez and Martin Franc is a salary sacrifice benefit which is accessible to all employees and includes but is not limited to car parking, novated leases and/or computers etc.
- The non-monetary benefits provided to Gavin Rochussen include healthcare coverage, life cover and long term disability cover.
- Emilio Gonzalez and Martin Franc have chosen to cap their superannuation at \$25,000 and exercised superannuation variation and taken the remaining employer superannuation contribution as cash (i.e. which is captured under the total fixed remuneration).
- Gavin Rochussen was declared a KMP from 26 October 2011 as part of the JOHCM acquisition. He was not considered a KMP in 2011 and therefore disclosure of his 2011 remuneration is not required.
Gavin Rochussen is remunerated in British Pounds. An average exchange rate of 0.6350 has been applied to convert his remuneration to Australian dollars. His remuneration package consists of a fixed remuneration component of £300,000 and he is a participant in three equity schemes including the Senior Staff Bonus Scheme, the CEO and the Senior Management Award.
With effect from 26 October 2011, a portion of any annual bonus in respect of the relevant financial year payable under the Senior Staff Bonus Scheme is deferred and paid in BTIM Shares (Senior Staff Bonus Deferred Shares). The Senior Staff Bonus Deferred Shares will be held over the period of five years from the date the bonus is deferred (the Deferral Period). 20% of the Senior Staff Bonus Deferred Shares will become capable of sale or transfer on the relevant date after each anniversary of the date the bonus is deferred into Senior Staff Bonus Deferred Shares.
With effect from 26 October 2011 Gavin Rochussen was granted two further equity awards classified as the CEO Award and the Senior Management Award. He was granted an award over 484,364 BTIM shares per scheme.
- Emilio Gonzalez and Cameron Williamson are employees of BTIM and did not receive additional remuneration as directors of JOHCM.
- LTI awards given to Emilio Gonzalez and Gavin Rochussen are subject to performance hurdles. The amounts represented in Table 3a represent the face value of the grants at time of issue. Actual outcomes may differ materially from zero to the value of the shares represented by the number of shares that meet the performance hurdles by the share price at the time of the vesting.

CEO and other Senior Executive remuneration – prepared in accordance with Australian Accounting Standards

Table 3b is prepared in accordance with Australian Accounting Standards which includes actual remuneration and amortisation of an estimate of future share-based remuneration that might be earned under the various variable reward schemes, if target performance is achieved. Because the Australian Accounting Standards remuneration table contains estimates as well as actual payments, this does not reflect the actual amounts received by Senior Executives in the year and therefore Table 3a provides this information. While Table 3a is not required under Australian Accounting Standards (and not audited to Australian Accounting Standards requirements), it more accurately reflects the total remuneration received by Senior Executives during the period. Table 3c outlines remuneration received and equity that has vested in the 2012 Financial Year.

Table 3b: 2012 and 2011 CEO and other Senior Executive remuneration – prepared in accordance with Australian Accounting Standards

2012		EMPLOYMENT BENEFITS								
		Short term				Long term		Share-based payments		
		Salary and fees \$	Super-annuation benefits ⁷ \$	Total fixed remuneration \$	Cash component of VR ¹ \$	Non-monetary benefits ⁴ \$	Long service leave ⁶ \$	LTI equity ¹⁰ \$	STI equity ^{2a,3,5} \$	Total \$
CEO and other Senior Executives										
Emilio Gonzalez ⁹	2012	565,718	25,000	590,718	600,000	9,282	7,409	104,037	1,052,950	2,364,396
	2011	567,494	25,000	592,494	600,000	9,282	6,915	0	1,007,577	2,216,268
Geraldine Bouquet	2012	206,676	18,532	225,208	65,000	0	4,243	0	61,212	355,663
	2011	192,126	17,188	209,314	88,000	0	5,570	0	33,418	336,302
Martin Franc	2012	319,968	25,000	344,968	121,891	9,282	4,984	0	94,593	575,718
	2011	321,109	25,000	346,109	156,135	9,282	4,942	0	113,086	629,554
Gavin Rochussen ⁸	2012	459,418	0	459,418	545,669	7,781	0	383,616	188,411	1,584,895
Phil Stockwell	2012	275,229	24,771	300,000	142,764	0	4,669	0	221,475	668,908
	2011	275,368	24,681	300,049	169,951	0	5,134	0	101,361	576,495
Cameron Williamson ⁹	2012	264,379	23,486	287,865	187,513	0	4,946	0	306,668	786,992
	2011	248,847	22,293	271,140	156,135	0	3,478	0	45,341	476,094
Brian Wright	2012	260,872	21,840	282,712	142,764	0	5,138	0	306,897	737,511
	2011	224,236	20,078	244,314	156,135	0	3,500	0	45,932	449,881
Total CEO and other Senior Executive remuneration	2012	2,352,260	138,629	2,490,889	1,805,601	26,345	31,389	487,653	2,232,206	7,074,083
	2011	1,829,180	134,240	1,963,420	1,326,356	18,564	29,539	0	1,346,715	4,684,594

Table 3c: 2012 CEO and other Senior Executive remuneration – based on the vesting schedule

2012		EMPLOYMENT BENEFITS								
		Short term				Long term	Share-based payments	Other		
		Salary and fees \$	Super-annuation benefits ⁷ \$	Total fixed remuneration \$	Cash component of VR ¹ \$	Non-monetary benefits ⁴ \$	Long service leave ⁶ \$	LTI Equity ¹⁰	STI Equity ^{2b,3&5} \$	Termination Payments
CEO and other Senior Executives										
Emilio Gonzalez ⁹		565,718	25,000	590,718	600,000	9,282	7,409	0	633,854	0
Geraldine Bouquet		206,676	18,532	225,208	65,000	0	4,243	0	44,078	0
Martin Franc		319,968	25,000	344,968	121,891	9,282	4,984	0	171,368	0
Gavin Rochussen ⁸		459,418	0	459,418	545,669	7,781	0	0	0	0
Phil Stockwell		275,229	24,771	300,000	142,764	0	4,669	0	249,221	0
Cameron Williamson ⁹		264,379	23,486	287,865	187,513	0	4,946	0	219,195	0
Brian Wright		260,872	21,840	282,712	142,764	0	5,138	0	206,638	0
Total CEO and other Senior Executive remuneration		2,352,260	138,629	2,490,889	1,805,601	26,345	31,389	0	1,524,354	0
										5,878,578

Notes to Tables 3b and 3c

- 1 The cash component of VR includes payment for performance made during the 2012 Financial Year. These projected amounts were determined on 21 September 2012, after performance reviews were completed, and approved by Board. It should be noted there may be immaterial changes to these figures following final approval of the relative proportions of cash and equity as part of the annual remuneration review cycle.
- 2 Equity-based remuneration in Tables 3b and 3c are represented differently and as follows:
 - a. equity-based remuneration in Table 3b represents the amortisation of 'fair value' at grant over the vesting period (five years) of all grants allocated up to the year ended 30 September 2012, and does not represent the vested portions of the grant (refer to Table 7). 'Fair value' is defined by accounting standards as 'the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged. Accounting standards set out specific requirements in relation to the calculation of fair value of equity-based remuneration. BTIM complies with all relevant requirements; and
 - b. equity-based remuneration in Table 3c represents the actual portion of equity allocations that have vested in the 2012 Financial Year.
- 3 The equity component of the VR outcome for KMP for the 2012 Financial Year is not included in Tables 3b and 3c as the equity was not granted in the 2012 Financial Year and will be reported in the 2013 Financial Year. Table 5 includes equity that vested on 1 October 2012.
- 4 The non-monetary benefit for Emilio Gonzalez and Martin Franc is a salary sacrifice benefit which is accessible to all employees and includes but is not limited to car parking, novated leases and/or computers etc. The non-monetary benefits provided to Gavin Rochussen include healthcare coverage, life cover and long term disability cover.
- 5 The equity component represented in Tables 3b and 3c includes the Initial Public Offering (IPO) grants, acquisition grants, other retention-based grants as well as the equity grants as a component of VR made subsequent to the IPO for Martin Franc and Phil Stockwell.
- 6 Although long service leave benefits continue to accumulate, the amount recognised in the financial statements for such benefits has been revalued during the financial year in accordance with actuarial-based valuation methodologies.
- 7 Emilio Gonzalez and Martin Franc have chosen to cap their superannuation at \$25,000 and exercised superannuation variation and taken the remaining employer superannuation contribution as cash (i.e. which is captured under the total fixed remuneration).
- 8 Gavin Rochussen was declared a KMP from 26 October 2011 as part of the JOHCM acquisition. He was not considered a KMP in 2011 and therefore disclosure of his 2011 remuneration is not required.
 Gavin Rochussen is remunerated in British Pounds. An average exchange rate of 0.6350 has been applied to convert his remuneration to Australian dollars. His remuneration package consists of a fixed remuneration component of £300,000, and he participated in three equity schemes including the Senior Staff Bonus Scheme, the CEO & the Senior Management Award.
 With effect from 26 October 2011, a portion of any annual bonus in respect of the relevant financial year payable under the Senior Staff Bonus Scheme is deferred and paid in BTIM Shares (Senior Staff Bonus Deferred Shares). The Senior Staff Bonus Deferred Shares will be held over the period of five years from the date the bonus is deferred (the Deferral Period). 20% of the Senior Staff Bonus Deferred Shares will become capable of sale or transfer on the relevant date after each anniversary of the date the bonus is deferred into Senior Staff Bonus Deferred Shares.
 With effect from 26 October 2011 Gavin Rochussen was granted two further equity awards classified as the CEO Award and the Senior Management Award. He was granted an award over 484,364 BTIM shares per scheme.
- 9 Emilio Gonzalez and Cameron Williamson are employees of BTIM and did not receive additional remuneration as Directors of JOHCM.
- 10 The LTI equity has been valued independently by Ernst & Young using Binomial/Monte-Carlo simulation models which take into account the performance hurdles relevant to the issue of those equity instruments. The share-based payment remuneration in relation to the LTI equity is the amount expensed in the financial statements for the year and includes adjustments to reflect the most current expectation of vesting of LTI grants with non-market hurdles. For grants with non-market conditions including EPS hurdles, the number of shares expected to vest is estimated at the end of each reporting period and the amount to be expensed is adjusted accordingly. For grants with market conditions such as TSR hurdles, the number of shares expected to vest is not adjusted during the life of the grant and no adjustment is made to the amount expensed in the financial statements (except if the service condition is not met). The accounting treatment of non-market and market conditions is in accordance with Accounting Standards.

Table 4: 2012 and 2011 fixed and variable components of total remuneration

Table 4 illustrates the relative proportions of remuneration (based on Australian Accounting Standards Table 3b) as a percentage of total remuneration that are linked to performance, IPO, sign on, retention and those that are fixed components. Table 4 differs to Chart 3 which is based on actual remuneration (refer to Table 3a).

	FIXED REMUNERATION AS A PERCENTAGE OF TOTAL REMUNERATION ²		CASH VR AS A PERCENTAGE OF TOTAL REMUNERATION		EQUITY AS A PERCENTAGE OF TOTAL REMUNERATION ¹	
	FY12	FY11	FY12	FY11	FY12	FY11
CEO and other Senior Executives						
Emilio Gonzalez	26%	27%	25%	27%	49%	46%
Geraldine Bouquet	65%	64%	18%	26%	17%	10%
Martin Franc	63%	57%	21%	25%	16%	18%
Gavin Rochussen ³	29%	N/A	34%	N/A	37%	N/A
Phil Stockwell	46%	53%	21%	29%	33%	18%
Cameron Williamson	37%	57%	24%	33%	39%	10%
Brian Wright	39%	55%	19%	35%	42%	10%

Notes to Table 4

- 1 The equity component represented in this table includes the equity component of VR for the 2012 and 2011 Financial Years and long term incentives.
- 2 Non-monetary benefits and long service leave have been included in the fixed remuneration calculation, if applicable.
- 3 Gavin Rochussen became a KMP on 26 October 2011 as part of the JOHCM acquisition. He was not considered a KMP in 2011 and therefore disclosure of his 2011 remuneration is not required.

Share-based payments

Table 5: CEO and other Senior Executive short term equity allocations

Details of the shares in BTIM, granted as compensation to the CEO and the other Senior Executives under the Employee Equity Plan – during the reporting period are set out in Table 5:

2012	Date of grant	Number of shares granted during FY12 ¹	Number of shares granted during FY11 ¹	Value per share at grant date \$	Number of shares vested 1 Oct 2012 ¹	% Vested	Number of shares vested 1 Oct 2011 ¹
CEO							
Emilio Gonzalez	10 Mar 10	0	0	2.98	114,398	75	228,795
	2 Dec 10	0	326,809	2.83	65,362	40	65,362
	1 Dec 11	553,708	0	1.95	55,371	10	0
Other Senior Executives							
Geraldine Bouquet	2 Dec 10	0	26,144	2.83	5,083	40	5,083
	1 Dec 11	30,454	0	1.95	15,227	50	0
Martin Franc	7 Dec 07	0	0	4.80	16,666	100	16,666
	14 Feb 08	0	0	3.57	13,999	100	13,999
	4 Dec 08	0	0	2.09	3,742	80	3,742
	3 Dec 09	0	0	3.06	2,785	60	2,786
	2 Dec 10	0	29,042	2.83	5,808	40	5,809
	1 Dec 11	22,086	0	1.95	4,418	20	0
Gavin Rochussen	2 May 12	50,366	0	2.15	0	0	0
Phil Stockwell	7 Dec 07	0	0	4.80	14,583	100	14,583
	14 Feb 08	0	0	3.57	11,199	100	11,199
	4 Dec 08	0	0	2.09	3,706	80	3,706
	3 Dec 09	0	0	3.06	3,384	60	3,384
	2 Dec 10	0	25,158	2.83	5,032	40	5,032
	1 Dec 11	124,606	0	1.95	54,821	44	0
Cameron Williamson	4 Dec 08	0	0	2.09	906	100	0
	11 Jun 09	0	0	2.04	4,909	80	4,909
	22 Feb 10	0	0	3.10	3,230	60	3,230
	2 Dec 10	0	18,603	2.83	3,721	40	3,721
	1 Dec 11	204,810	0	1.95	95,780	47	0
Brian Wright	2 Dec 10	0	35,825	2.83	7,020	40	7,020
	1 Dec 11	204,810	0	1.95	95,780	47	0

Notes to Table 5

- The shares issued for IPO, deferred VR, sign on and retention vest over five years with vesting dates of 1 October each year in most cases.
- There were no forfeitures in the 2012 Financial year.

Long Term Performance

Our remuneration outcomes also focus on driving performance and creating shareholder alignment in the longer term. We do this by providing our executives with LTI awards in the form of performance share rights and converting notes with a three and five year vesting period. Vesting is subject to performance against TSR and Cash EPS hurdles. The table below provides an overview of the CEO and other Senior Executives current LTI awards which have not yet vested.

Table 6 – CEO and other Senior Executive long term incentive awards

Table 6 details the performance share rights and converting notes granted as compensation to the CEO and the other Senior Executives under the Employee Equity Plans during the 2012 Financial Year are set out below:

2012	Year of grant	Award Type	Number of rights / notes granted	Value of award at grant date \$ ¹	Year of Vesting ²	Vested during the year	Lapsed during the year	Balance as at 1 Oct 2012
Emilio Gonzalez	2011	Performance share rights	495,417	1.62	2014	0	0	495,417
Gavin Rochussen	2011	Converting notes	968,728	1.98	2016	0	0	968,728

Notes to Table 6

- The actual share price on allocation was \$2.01. Table 6 outlines the fair value of the performance share rights which has been based on Australian Accounting Standards and has been independently calculated using Binomial / Monte-Carlo simulation models. The assumptions included in the valuation of the 1 October 2011 awards to Emilio Gonzalez include a risk free interest rate of 3.62%, a dividend yield on BTIM ordinary shares of zero and volatility in the BTIM share price of 30%.
- These LTI's are subject to performance hurdles which are tested at the end of three years for performance share rights and at the end of three and five years for converting notes.

Table 7: Components of variable remuneration

Table 7 outlines the cash VR and VR deferred to equity awarded to the CEO and other Senior Executives with an associated vesting schedule for the 2012 Financial Year. No part of the cash bonuses is payable in future years. The shares vest over a period of up to five years, provided the vesting conditions are met. No shares will vest if the vesting conditions are not satisfied, hence the minimum value of the shares yet to vest is nil. The maximum value of the shares yet to vest has been determined as the market value of the share at grant as reflected as follows:

2012		CASH COMPONENT OF VR			EQUITY					
					Maximum value of equity grants allocated by the company that may vest in future years ^{1&2}					
			Value of Shares/ Perfor- mance share rights at grant	Minimum total value of grant yet to vest						
	\$	Year of grant	\$	\$	FY13 \$	FY14 \$	FY15 \$	FY16 \$	FY17 \$	FY18 \$
CEO and other Senior Executives										
Emilio Gonzalez	600,000	2010	2,272,697	Nil	340,906	340,903	227,270	0	0	0
		2010	924,869	Nil	184,974	184,974	184,974	184,973	0	0
		2011	1,079,731	Nil	107,973	107,973	377,906	242,941	242,938	0
		2011	1,000,000	Nil	0	1,000,000	0	0	0	0
Geraldine Bouquet	65,000	2010	73,988	Nil	14,385	14,388	16,442	14,388	0	0
		2011	59,385	Nil	29,693	14,847	14,845	0	0	0
Martin Franc	121,891	2007	400,000	Nil	80,000	0	0	0	0	0
		2008	249,853	Nil	49,978	0	0	0	0	0
		2008	39,102	Nil	7,821	7,818	0	0	0	0
		2009	42,617	Nil	8,522	8,522	8,522	0	0	0
		2010	82,189	Nil	16,437	16,437	16,437	16,439	0	0
		2011	43,068	Nil	8,615	8,613	8,613	8,613	8,614	0
Gavin Rochussen	545,669	2012	108,289	Nil	0	21,660	21,657	21,657	21,657	21,658
Phil Stockwell	142,764	2007	350,000	Nil	70,000	0	0	0	0	0
		2008	199,913	Nil	39,984	0	0	0	0	0
		2008	38,730	Nil	7,746	7,746	0	0	0	0
		2009	51,775	Nil	10,355	10,355	10,355	0	0	0
		2010	71,197	Nil	14,240	14,240	14,239	14,238	0	0
		2011	242,982	Nil	106,901	58,315	58,315	9,727	9,724	0
Cameron Williamson	187,513	2008	1,894	Nil	0	0	0	0	0	0
		2009	50,000	Nil	10,000	10,000	0	0	0	0
		2010	50,000	Nil	10,000	10,000	10,000	0	0	0
		2010	52,646	Nil	10,530	10,530	10,530	10,526	0	0
		2011	399,380	Nil	186,771	97,691	97,691	8,613	8,614	0
Brian Wright	142,764	2010	101,385	Nil	19,867	19,866	21,921	19,864	0	0
		2011	399,380	Nil	186,771	97,691	97,691	8,613	8,614	0

Notes to Table 7

- The shares and performance share rights issued vest over three or five years with vesting dates of 1 October each year in most cases.
- The vesting schedule for the sign on equity allocation and a component of VR equity allocation for Emilio Gonzalez (granted in March 2010 and December 2011) and a component of VR equity for the other Senior Executives differs from the standard vesting schedule, whereby shares vest equally over five years.

Senior Executive Employment Agreements

Remuneration and other terms of employment for the Senior Executives are also formalised in employment agreements. Each of these agreements takes into consideration the provision of a fixed remuneration package (which is reviewed annually), performance-based cash bonuses, other benefits, and participation, when eligible, in the Employee Equity Plan. The employment agreements for the Senior Executives are open ended permanent full time common law employment agreements.

Other significant provisions of the agreements relating to remuneration are set out in Tables 8 and 9.

Table 8: Summary of notice periods

NAME	NOTICE PERIOD
Emilio Gonzalez	6 months
Geraldine Bouquet	1 month
Martin Franc	3 months
Gavin Rochussen	6 months
Phil Stockwell	3 months
Cameron Williamson	3 months
Brian Wright	1 month

Table 9: Summary of termination entitlements

TERM	WHO	CONDITIONS
Termination with notice	Emilio Gonzalez, CEO	Any amount payable on the termination of employment will be made up of the following components: → accrued but unpaid fixed remuneration as at the date of termination of employment; → accrued but unused annual leave and long service leave as at the termination date; → all vested shares relating to the initial grant as at the date of notice of termination; → all unvested shares will be determined by the Board at its discretion; → any payment of a variable reward in the year of termination, including cash and / or equity, will be determined by the Board at its discretion; and → BTIM retains the right to bring the employment to an immediate end and pay an amount in lieu of notice, equal to the fixed remuneration that would have applied during the notice period.
	Gavin Rochussen	Any amount payable on the termination of employment will be made up of the following components: → accrued but unpaid fixed remuneration as at the date of termination of employment; → any payment of a VR in the year of termination, including cash and/or equity, will be determined by the Board at its discretion; and → if his employment ceases on the grounds of redundancy, ill-health/disability or death, those BTIM shares subject to an LTI award, which have not reached their vesting dates, will be subject to Board approval.
	Other Senior Executives	Any amount payable on the termination of employment will be made up of the following components: → accrued but unpaid fixed remuneration package as at the termination date; → accrued but unused annual leave and / or long service leave as at the termination date; → any payment of a VR in the year of termination, including cash and / or equity, and all unvested equity entitlements relating to grants as at the termination date will be determined in accordance with the relevant plan rules; and → BTIM retains the right to bring the employment to an immediate end and pay an amount in lieu of notice, equal to the fixed remuneration that would have applied during the notice period.

TERM	WHO	CONDITIONS
Termination for cause	Emilio Gonzalez, CEO	Any amount payable on the termination of employment will be made up of the following components: → accrued but unpaid fixed remuneration package as at the date of termination of employment (termination date); → accrued but unused annual leave and long service leave as at the termination date; and → no entitlement to any VR for the year in which termination occurs or to any unvested equity grants.
	Gavin Rochussen	Any amount payable on the termination of employment will be made up of the following components: → accrued but unpaid fixed remuneration as at the date of termination of employment; and → any payment of a variable reward in the year of termination, including cash and/or equity, and all unvested equity entitlements relating to grants as at the termination date will be determined in accordance with the relevant plan rules.
	Other Senior Executives	Any amount payable on the termination of employment will be made up of the following components: → accrued but unpaid fixed remuneration package as at the date of termination of employment (termination date); → accrued but unused annual leave and long service leave as at the termination date; and → any payment of a VR in the year of termination, including cash and / or equity, and all unvested equity entitlements relating to grants as at the termination date will be determined in accordance with the relevant plan rules.

Post-employment restraint

Employment agreements for Senior Executives include a post-employment restraint clause which provides that for a period of six months (in the case of Emilio Gonzalez, Gavin Rochussen and Geraldine Bouquet) and three months (in the case of Martin Franc, Phil Stockwell, Cameron Williamson and Brian Wright) after cessation of employment, there is a prohibition during that period on soliciting employees or clients of the Company.

Disclosure of Non-executive Director remuneration and Employment Agreements

Non-executive Director fees

NEDs receive a fixed fee and superannuation payments that are made in accordance with legislative requirements. NEDs do not receive performance-based remuneration and are not eligible to participate in any share plan or other incentive arrangements.

Fees for NEDs were set shortly before the Company's listing in December 2007, having regard to market data. There has been no increase in the fixed fees payable to NEDs since December 2007. It is anticipated that the NED fees will be reviewed for the 2013 Financial Year.

The fixed fees paid to NEDs during the year are set out in Table 10:

Table 10: NED fees

FIXED FEES	
Chairman	\$245,000 + superannuation
Other NEDs	\$90,000 + superannuation
ADDITIONAL FEES	
Audit & Risk Management Committee – Chairman	\$40,000 + superannuation
Audit & Risk Management Committee – member	\$20,000 + superannuation
Remuneration & Nominations Committee – Chairman	No additional fee
Remuneration & Nominations Committee – member	No additional fee

DIRECTORS' REPORT CONTINUED

Fee pool

In accordance with the BTIM's Constitution, a maximum annual fee pool for NEDs of \$800,000 was set prior to the Company's listing in 2007. Any increase in this maximum amount must be approved at a general meeting of BTIM's shareholders. The total fees paid to BTIM NEDs since listing has been approximately \$550,000 per year. In the 2012 Financial Year, the total fees paid to BTIM NEDs were approximately \$590,000.

During the 2012 Financial Year, James Evans was appointed as a non-executive director of JOHCM Holdings and Chairman of the JOHCM Audit Committee and was paid an additional fee in relation to that directorship, which is disclosed in Table 11 footnotes below. The fees paid to Mr Evans in relation to his directorship of JOHCM are not included in the maximum fee pool for BTIM NEDs.

Retirement allowances

No allowance is payable on the retirement of NEDs. Superannuation payments are made in line with legislative requirements.

Remuneration for NEDs

Listed below (refer to Table 11) are details of the nature and amount of each major element of remuneration for each of the NEDs.

The fees paid to NEDs in the 2012 and 2011 Financial Years are shown in Table 11.

Table 11: 2012 and 2011 Non-executive Director remuneration

		Notes	Fees \$	Super- annuation \$	Total \$
2012					
Non-executive Directors					
Brian Scullin	2012		219,157	15,874	235,031
	2011	1	248,467	15,273	263,740
Andrew Fay	2012	2	87,586	7,883	95,469
Brad Cooper	2012	3	0	0	0
	2011		0	0	0
James Evans	2012	4	129,502	11,655	141,157
	2011		129,502	12,087	141,589
Carolyn Hewson	2012		109,579	9,862	119,441
	2011		109,579	10,486	120,065
Total	2012		545,824	45,274	591,098
	2011		487,548	37,846	525,394

Notes to Table 11

- 1 Brian Scullin's fees decreased in April 2011. Therefore, the fees have been pro rata on the old rate for six months and based on the new rate for the remaining six months of the year.
- 2 Andrew Fay joined BTIM as a NED on 1 October 2011. Therefore, there were no fees to report for the 2011 Financial Year.
- 3 Brad Cooper is an employee of Westpac and did not receive additional remuneration as a Director
- 4 An additional fee of \$70,000 was paid to James Evans in relation to his Non-executive directorship of JOHCM Holdings and Chairman of the JOHCM Audit Committee.

Payments to persons before taking office

There have been no payments made to Directors prior to taking office.

NED Employment agreements

On appointment to the Board, all NEDs enter into an employment agreement with BTIM in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of the NED.

Table 12: Director and Senior Executive holdings

Table 12 represents all holdings, including holdings not yet vested. For vesting, refer to Table 7.

2012	Year of grant	Type of holding	Balance 1 October 2011	Number of securities acquired ¹	Granted as remuneration	Net change other	Balance 30 September 2012
Brian Scullin		Ordinary	163,696	0	0	0	163,696
Brad Cooper		Ordinary	0	0	0	0	0
James Evans		Ordinary	5,000	0	0	0	5,000
Andrew Fay		Ordinary	0	12,500	0	0	12,500
Carolyn Hewson		Ordinary	27,937	0	0	0	27,937
Total for NEDs			196,633	12,500	0	0	209,133
Emilio Gonzalez		Ordinary	280,000	0	0	0	280,000
	2010	Sign on	762,650	0	0	0	762,650
	2010	Ordinary	326,809	0	0	0	326,809
	2011	Ordinary	0	0	553,708	0	553,708
	2011	Performance share rights	0	0	495,417	0	495,417
Geraldine Bouquet	2010	Ordinary	25,418	0	0	0	25,418
		Ordinary	726	0	0	0	726
	2011	Ordinary	0	0	30,454	0	30,454
Martin Franc	2007	Ordinary	83,333	0	0	0	83,333
	2008	Ordinary	69,998	0	0	0	69,998
	2008	Ordinary	18,709	0	0	0	18,709
	2009	Ordinary	13,927	0	0	0	13,927
	2010	Ordinary	29,042	0	0	0	29,042
	2011	Ordinary	0	0	22,086	0	22,086
Gavin Rochussen	2012	Ordinary	0	0	50,366	0	50,366
	2011	Loan notes	0	3	0	(1)	2
	2011	Converting notes	0	1,510,142	968,728	0	2,478,870
Phil Stockwell		Ordinary	5,730	0	0	0	5,730
	2007	Ordinary	72,916	0	0	0	72,916
	2008	Ordinary	55,998	0	0	0	55,998
	2008	Ordinary	18,531	0	0	0	18,531
	2009	Ordinary	16,920	0	0	0	16,920
	2010	Ordinary	25,158	0	0	0	25,158
	2011	Ordinary	0	0	124,606	0	124,606
Cameron Williamson		Ordinary	48,162	0	0	0	48,162
	2008	Ordinary	906	0	0	0	906
	2009	Ordinary	24,545	0	0	0	24,545
	2010	Ordinary	16,148	0	0	0	16,148
	2010	Ordinary	18,603	0	0	0	18,603
	2011	Ordinary	0	0	204,810	0	204,810
Brian Wright	2010	Ordinary	35,099	0	0	0	35,099
		Ordinary	726	0	0	0	726
	2011	Ordinary	0	0	204,810	0	204,810
Total for Senior Executives			1,950,054	1,510,145	2,654,985	(1)	6,115,183

Notes to Table 12

¹ Loan notes and converting notes awarded to Gavin Rochussen were granted in exchange for his shares in JOHCM at the time of the acquisition.

Non-audit services

The Company may decide to employ the external auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the BTIM Group are important.

Details of the amounts paid or payable to the external auditor, PricewaterhouseCoopers (PwC), for audit and non-audit services provided during the year are set out below.

The Directors have considered the position and are satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act for the following reasons:

- all non-audit services have been reviewed by the Audit & Risk Management Committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermines the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the 2012 Financial Year the following fees were paid for non-audit services provided by the auditor of the BTIM Group, its related practices and non-related audit firms in relation to the acquisition of JOHCM:

	2012 \$	2011 \$
Other assurance services		
PricewaterhouseCoopers – Australian firm:		
Audit of Australian Financial Services Licence	8,500	8,164
Advisory services	15,000	454,000
Due diligence services	–	450,000
Prospectus related services	–	430,000
Total remuneration for non-audit services	23,500	1,342,164
PricewaterhouseCoopers – other network firms:		
Audit of Financial Services Authority Licence	27,259	–
Advisory services	100,028	–
Due diligence services	–	–
Prospectus related services	–	–
Total remuneration for non-audit services	127,287	–

Rounding of amounts

The BTIM Group is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the rounding of amounts in the Directors' Report and financial report. Amounts in this report and the accompanying financial report have been rounded to the nearest thousand dollars in accordance with that class order, unless otherwise stated.

Loans to Directors and Senior Executives

There were no loans made to, nor are there any outstanding loans with, Directors or Senior Executives.

Auditor's independence declaration

PwC continues in office in accordance with section 327 of the Corporations Act. A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is set out on page 59.

This report is made in accordance with a resolution of Directors.



Brian Scullin

Director

1 November 2012



Emilio Gonzalez

Director

1 November 2012

AUDITOR'S INDEPENDENCE DECLARATION



As lead auditor for the audit of BT Investment Management Limited for the year ended 30 September 2012, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of BT Investment Management Limited and the entities it controlled during the period.

A handwritten signature in dark ink, appearing to read 'A J Loveridge'.

A J Loveridge

Partner

PricewaterhouseCoopers

Sydney, 1 November 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2012

	Notes	2012 \$'000	2011 \$'000
Revenue from continuing operations			
Investment management fees	4	189,569	126,037
Property administration fees	4	2,548	–
		192,117	126,037
Other income	5	2,212	2,569
Expenses			
Employee expenses			
Salaries and related expenses		79,792	42,548
Amortisation of employee equity grants	33	21,584	10,385
Depreciation, amortisation and impairment		13,328	1,820
Fund administration		10,671	10,301
Investment management		7,162	5,437
Business development and promotion		6,908	4,368
Information and technology		4,608	3,119
Professional services		4,398	2,257
General office and administration		5,125	2,936
Occupancy		3,906	2,273
Loss on financial liabilities at fair value through profit and loss		1,090	–
Acquisition transaction costs	6	–	11,835
Finance costs	6,7	3,461	708
Total expenses		162,033	97,987
Profit before income tax		32,296	30,619
Income tax expense	8	10,898	13,722
Profit attributable to owners of BTIM		21,398	16,897
Other comprehensive income for the financial year			
Exchange differences on translation of foreign operations	22	2,684	–
Net unrealised gain on available-for-sale assets	22	2,815	–
Income tax relating to components of other comprehensive income	8, 22	(478)	–
Gain on cash flow hedge	22	–	9,834
Other comprehensive income, net of tax		5,021	9,834
Total comprehensive income for the financial year attributable to owners of BTIM		26,419	26,731
		Cents	Cents
Earnings per share for profit attributable to ordinary equity holders of BTIM			
Basic earnings per share	32	8.8	11.7
Diluted earnings per share	32	8.5	11.5

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying Notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2012

	Notes	2012 \$'000	2011 \$'000
Current assets			
Cash and cash equivalents	9	53,492	283,703
Trade and other receivables	10	30,536	18,462
Prepayments	11	3,603	1,838
Total current assets		87,631	304,003
Non-current assets			
Property, plant and equipment	12	3,828	3,618
Available-for-sale financial assets	13	25,017	100
Deferred tax assets	14	8,695	7,630
Intangible assets	15	546,124	233,614
Total non-current assets		583,664	244,962
Total assets		671,295	548,965
Current liabilities			
Trade and other payables	16	16,976	17,587
Employee benefits	17	33,309	21,155
Borrowings	18	46,547	–
Converting notes	19	2,262	–
Lease incentive		451	350
Current tax liabilities		2,796	1,977
Total current liabilities		102,341	41,069
Non-current liabilities			
Employee benefits	17	895	794
Borrowings	18	21,928	–
Converting notes	19	22,823	–
Lease incentive		1,496	1,928
Deferred tax liabilities	20	27,273	2,651
Total non-current liabilities		74,415	5,373
Total liabilities		176,756	46,442
Net assets		494,539	502,523
Equity			
Contributed equity	21	462,490	464,558
Reserves	22	26,068	33,432
Retained earnings		5,981	4,533
Total equity		494,539	502,523

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying Notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2012

	Notes	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 October 2011		464,558	33,432	4,533	502,523
Profit for the financial year		–	–	21,398	21,398
Other comprehensive income for the financial year		–	5,021	–	5,021
Total comprehensive income for the financial year		–	5,021	21,398	26,419
Transactions with owners in their capacity as owners:					
Rights issue – associated costs	21	105	–	–	105
Treasury shares acquired	21	(6,878)	–	–	(6,878)
Treasury shares released	21	4,705	(4,705)	–	–
Share-based payments	22	–	26,233	–	26,233
Changes in cash flow hedge	22	–	(9,834)	–	(9,834)
Dividends and dividend-linked coupons paid	23	–	(24,079)	(19,950)	(44,029)
		(2,068)	(12,385)	(19,950)	(34,403)
Balance at 30 September 2012		462,490	26,068	5,981	494,539

	Notes	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 October 2010		254,709	14,187	13,149	282,045
Profit for the financial year		–	–	16,897	16,897
Other comprehensive income for the financial year		–	9,834	–	9,834
Total comprehensive income for the financial year		–	9,834	16,897	26,731
Transactions with owners in their capacity as owners:					
Rights issue (less costs)	21	227,674	–	–	227,674
Treasury shares acquired	21	(18,799)	–	–	(18,799)
Treasury shares released	21	974	(974)	–	–
Share-based payments	22	–	10,385	–	10,385
Dividends paid	23	–	–	(25,513)	(25,513)
		209,849	9,411	(25,513)	193,747
Balance at 30 September 2011		464,558	33,432	4,533	502,523

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying Notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2012

	Notes	2012 \$'000	2011 \$'000
Cash flows from operating activities			
Fees and other income received		211,719	142,070
Interest received		790	853
Distributions from unit trusts		1,362	1,504
Expenses paid		(160,243)	(91,358)
Income tax paid		(10,532)	(16,358)
Net cash inflows from operating activities	31	43,096	36,711
Cash flows from investing activities			
Payment for the acquisition of JOHCM (net of cash acquired)	29	(260,024)	–
Payments for JOHCM share transfers		(1,596)	–
Payments for property, plant and equipment	12	(524)	(129)
Payments for available-for-sale financial assets		(550)	–
Payments for IT development	15	(26)	(154)
Net cash outflows from investing activities		(262,720)	(283)
Cash flows from financing activities			
Proceeds from rights issue less costs	21	105	227,674
Payments for purchase of treasury shares	21	(6,878)	(18,799)
Proceeds from external borrowings	18	65,279	–
Repayment of external borrowings	18	(13,988)	–
Interest and other financing costs		(2,207)	(708)
Dividends and dividend-linked coupons paid	23	(44,029)	(25,513)
Net cash inflows / (outflows) from financing activities		(1,718)	182,654
Net increase in cash and cash equivalents		(221,342)	219,082
Cash and cash equivalents at the beginning of the financial year		283,703	54,787
Effects of exchange rate changes on cash and cash equivalents		(8,869)	9,834
Cash and cash equivalents at the end of the financial year	9	53,492	283,703

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying Notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2012

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of accounting

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The BTIM Group is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

The consolidated financial statements of the BTIM Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

This financial report was authorised for issue by the Board on 1 November 2012.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss.

Excess of current liabilities over current assets

The Group's revolving loan facility which is due to expire 29 September 2013 is classified as a current liability. This has created an excess of current liabilities over current assets. The Directors believe that the ongoing cash flows of the business are adequate to meet the debts and commitments of the Group as and when they fall due and payable. Accordingly, the financial report has been prepared on a going concern basis.

Comparative revisions

Comparative information has been revised where appropriate to enhance comparability. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(b) Critical accounting assumptions and estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are outlined below.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the ordinary shares at the date at which they are granted. The fair value is determined using Binomial / Monte-Carlo simulation valuation techniques, taking into account the terms and conditions upon which the equity instruments were granted, as discussed in Note 33.

The fair value calculation is performed by an external valuer.

Intangible assets

Identifiable intangible assets acquired through a business combination in accordance with AASB 3 *Business Combinations* are measured at their fair value. This involves the use of judgements, estimates and assumptions about future fund and investment performance, based largely on past experience and contractual arrangements.

Financial liabilities — converting notes

The fair value of converting notes is measured with reference to the fair value of BTIM ordinary shares at the date at which they were granted and remeasured at balance date. The fair value has been adjusted to reflect the number of converting notes that are expected to convert into BTIM ordinary shares.

(c) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of the subsidiaries of BTIM as at 30 September 2012 and the results of the subsidiaries for the financial year then ended. BTIM and its controlled entities together are referred to in this financial report as the BTIM Group.

Subsidiaries are all those entities over which the BTIM Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the BTIM Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the BTIM Group. They are de-consolidated from the date that control ceases.

Inter-entity transactions, balances and unrealised gains on transactions between BTIM Group entities are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of impairment of the asset transferred.

The BTIM Group has two employee benefit trusts to administer the BTIM Group's two employee share schemes. These trusts are consolidated, as the substance of the relationships are that the trusts are controlled by the BTIM Group. Shares held by BT Investment Management Limited Employee Equity Plan and J O Hambro Capital Management Limited Employee Equity Plan are disclosed as treasury shares and deducted from contributed equity. For further information refer Note 33.

(d) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the BTIM Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars, which is the parent company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Group companies

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income in the foreign currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(e) Revenue recognition

Fee income

Fees and commissions are generally recognised on an accrual basis over the period during which the service is performed. Management, fund and trustee fees are recognised based on the applicable service contracts, usually on a time proportionate basis. Management fees related to investment funds are recognised over the period the service

is provided. Performance fees are recognised in the accounting period in which the performance hurdles have been met.

Distribution income

Distributions are recognised as revenue when the right to receive payment is established.

Property administration fees

Property administration services include accounting, finance, and company secretarial. Income is recognised on an accrual basis over the period during which the service is performed.

Interest income

Interest income is recognised on a time proportionate basis using the effective interest method.

(f) Expense recognition

Interest expense

Interest expense is recognised in the Statement of Comprehensive Income for all financial liabilities using the effective interest method.

Rights issue and acquisition transaction costs

Costs directly attributable to the rights issue are recognised in equity. Those costs in relation to the acquisition are recognised in the Statement of Comprehensive Income in the period during which the related service is received.

Other fees

All commissions and other fees are recognised in the Statement of Comprehensive Income over the period which the related service is consumed.

(g) Income tax

Income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and any adjustment to tax payable in respect of previous periods.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the original recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, or differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted for each jurisdiction by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences only if it is probable that future taxable amounts will be available to utilise those temporary differences.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing

of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current and deferred income tax is recognised in profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Except as noted above, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Tax consolidation legislation

BTIM and its wholly-owned Australian controlled entity have implemented the tax consolidation legislation.

The head entity, BTIM, and the controlled entity in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in Note 8.

Non-Australian subsidiaries are not subject to tax consolidation legislation; however, they are each subject to taxation in the applicable jurisdiction as separate taxpayers.

(h) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the BTIM Group as lessee are classified as operating leases. Payments made under operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease, net of any incentives received from the lessor which are deducted from the lease liability in the Statement of Financial Position.

Leases in which the BTIM Group has substantially all the risks and rewards of ownership are classified as finance leases. The BTIM Group had no finance leases as at 30 September 2012.

(i) Investments and other financial assets

The BTIM Group classifies its investments and other financial assets in the following categories: receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments and other financial assets were acquired. Management determines the classification of the BTIM Group's investments at initial recognition.

Loans and receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the BTIM Group provides goods or services directly to a debtor with no intention of selling the receivable.

Trade and other receivables are recognised at fair value and collectability is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment for receivables is established when there is objective evidence that the BTIM Group will not be able to collect all amounts due.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or that are not classified as financial assets through profit or loss or loans and receivables.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2012

1. Summary of significant accounting policies *continued*

Available-for-sale financial assets *continued*

Purchases and sales of available-for-sale financial assets are recognised on trade date, being the date on which the BTIM Group commits to purchase or sell the asset. Available-for-sale financial assets are initially recognised at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs. Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where the BTIM Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is de-recognised at which time the cumulative gain or loss previously recognised in equity is recognised in the Statement of Comprehensive Income when the right to receive a payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active, the BTIM Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Impairment

The BTIM Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the Statement of Comprehensive Income. Impairment losses recognised in the Statement of Comprehensive Income on equity instruments classified as available-for-sale financial assets are not reversed through the Statement of Comprehensive Income.

(j) Non-financial assets

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation, amortisation and impairment. Cost is the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the Statement of Comprehensive Income as an expense as incurred. Impairment is recognised as part of operating expenses in the Statement of Comprehensive Income.

Computer software is capitalised at cost and classified as property, plant and equipment where it is integral to the operation of associated hardware.

Depreciation and amortisation is calculated using the straight-line method to allocate the cost of assets less any residual value over their estimated useful lives, as follows:

→ computer hardware	3-7 years
→ office furniture and fittings	4-5 years
→ computer software	3 years
→ leasehold improvements	5-7 years

The residual value and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on the disposal of property, plant and equipment are determined by reference to their carrying value, and are included in the Statement of Comprehensive Income.

IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and / or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of service and are recognised as intangible assets. Amortisation is calculated on a straight-line basis over a three year period.

Fund and investment management contracts

Fund and investment management contracts acquired as part of a business combination are recognised separately from goodwill. Fund management contracts relate to contractual relationships to manage open-ended funds (OEICs). Investment management contracts comprise contractual relationships with individual clients and a property investment trust. The investment management contracts and OEIC fund management contracts are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives currently estimated at between 5 and 20 years.

Fund and investment management contracts are tested for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The recoverable amount of each contract is measured using the present value of future cash flows expected to be derived for each asset. Impairment losses are recognised through the Statement of Comprehensive Income for the amount by which the assets carrying amount exceeds its recoverable amount.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the BTIM Group's share of the net identifiable assets acquired at the date of acquisition. Goodwill on acquisition is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Goodwill is allocated to cash generating units (CGUs) for the purpose of impairment testing. The CGU represents the lowest level for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets. To determine if goodwill is impaired, the carrying value of the identified CGU to which the goodwill is allocated, including the allocated goodwill, is compared to its recoverable amount.

Recoverable amount is the higher of the CGU's fair value less costs to sell or its value-in-use. Value-in-use is the present value of expected future cash flows from the CGU. Fair value is the amount obtainable for the sale of the CGU in an arm's length transaction between knowledgeable, willing parties.

(k) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Company or the BTIM Group. Trade payables other than those owing to related entities are normally settled within 30 days. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(l) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as finance costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised

as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the Statement of Comprehensive Income as other income or finance costs.

Borrowings are classified as current liabilities, unless the BTIM Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(m) Borrowing costs

All borrowing costs are expensed as Finance costs.

(n) Financial liabilities

Financial liabilities are recognised in the Consolidated Statement of Financial Position when the Group becomes party to the contractual provision of an instrument which is initially recognised at fair value plus transaction costs. Financial liabilities are recognised when an obligation arises and derecognised when it is discharged, cancelled or expires.

Converting notes at fair value

Converting notes issued by BTIM for consideration as part of the acquisition of JOHCM are recognised in the balance sheet at fair value with any changes in fair value recorded through profit or loss. Fair value is determined by using option pricing models which incorporate the BTIM share price, time to conversion, dividend yield and volatility in the BTIM share price.

(o) Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages, salaries, annual leave and accumulating sick leave expected to be settled within 12 months of the balance date are recognised in provisions in respect of employee services up to the balance date and are measured at the amounts expected to be paid when the liabilities are settled. No provision is made for non-vesting sick leave.

Long service leave

Liabilities for long service leave, expected to be settled within 12 months of the balance date, are recognised in the provision for long service leave and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for long service leave expected to be settled more than 12 months from the balance date are recognised in the provision for long service leave and are measured at the present value of future payments expected to be made in respect of services provided by employees up to the balance date. Consideration is given to expected future wage and salary levels, experience of employee departure and periods of service. Expected future payments are discounted to their net present value using market yields at the balance date on national government bonds with terms that match, as closely as possible, the estimated timing of future cash flows.

Share-based payments

Share-based payment compensation benefits are provided to employees via employee share and option schemes. The fair value of shares and options granted to employees for no consideration under the employee share and option schemes is recognised as an expense over the vesting period, with a corresponding increase in shareholders' equity. The fair value of shares granted without market-based vesting conditions approximates the listed market price of the shares on the ASX at the date of grant. The fair value of shares granted with market-based vesting conditions has been determined using option-equivalent valuation methodologies. The fair value of options granted is measured using the binomial model, taking into account the terms and conditions upon which the options were granted.

Converting notes issued to JOHCM employees on acquisition requiring future services are measured at fair value at the date of acquisition and recognised as an expense over the vesting period, with a corresponding increase in shareholders' equity. Each converting note will convert into one BTIM ordinary share over a period of up to five years provided that certain conditions are met.

BTIM has two employee benefit trusts to purchase shares for future allocations to both BTIM and JOHCM employees and to hold any shares forfeited by employees until they are reallocated at a later date. Shares held by the trusts as a result of purchases for future allocations to employees, forfeitures not yet reallocated to employees and those held in the name of the employee which are yet to satisfy certain holding restrictions are treated as treasury shares and deducted from shareholders' equity. Shares granted to employees but not yet released are also treated as treasury shares and deducted from shareholders' equity.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The BTIM Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Employee benefits on-costs

A liability is also carried for on-costs, including payroll tax, in respect of provisions for certain employee benefits which attract such costs.

(p) Equity

Ordinary shares

Ordinary shares are recognised at the amount paid up per ordinary share, net of directly attributable issue costs.

Treasury shares

Where BTIM or other entities of the BTIM Group purchase shares in BTIM, the consideration paid is deducted from total shareholders' equity and the shares treated as treasury shares. When restrictions on the sale of shares granted to employees are lifted from the employee share plans, the cost of such shares is treated as a reduction in treasury shares. The corresponding offset is reflected in the share-based payment reserve.

(q) Reserves

Common control reserve

The differences, if any, between the cost of acquisition (fair value of consideration paid), and the amounts at which the assets and liabilities are initially recorded has been recognised directly in equity as part of a business combination under common control reserve.

Share-based payment reserve

The share-based payment reserve comprises the amortised portion of the fair value of performance share rights, shares and options granted to employees for no consideration, recognised as an expense. The share-based payment reserve is a separate component of equity. The balance of the share-based payment reserve is reduced by the payment of certain dividends not paid from retained earnings, where the requirements of the Corporations Act are met.

Cash flow hedge reserve

The effective portion of changes in the fair value of instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expense.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2012

1. Summary of significant accounting policies *continued*

Cash flow hedge reserve *continued*

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, that is, when the forecast transaction that is hedged takes place. When the forecast transaction that is hedged results in the recognition of a non-financial asset, such as fixed assets or an investment in a subsidiary, the gains and losses previously recognised in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts in relation to non-financial assets are ultimately recognised in profit or loss as impairment.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

Available-for-sale financial assets reserve

Changes in the fair value and exchange differences arising on translation of investments, classified as available-for-sale financial assets, are recognised in other comprehensive income, and accumulated in the available-for-sale financial assets reserve within equity. Amounts are reclassified to profit or loss when the associated assets are sold or impaired.

(r) Provision for dividends

Provision is made for the amount of any dividend declared or dividend-linked coupon, determined or recommended by the Directors before or at the end of the financial period but not distributed at balance date.

(s) Funds management and trust activities

Controlled entities within the BTIM Group conduct investment management and other fiduciary activities as RE, trustee or manager on behalf of individuals, trusts, retirement benefit plans and other institutions.

These activities involve the management of assets in investment schemes and superannuation funds, and the holding or placing of assets on behalf of third parties.

Where the controlled entities, as RE or trustee, incur liabilities in respect of these activities, a right of indemnity exists against the assets of the applicable trusts. To the extent these assets are sufficient to cover liabilities, and it is not probable that the controlled entity will be required to settle them, the liabilities are not included in the consolidated financial statements.

(t) Earnings per share

Basic earnings per share is determined by dividing net profit after tax attributable to equity holders of the Company, excluding costs of servicing other equity instruments, by the weighted average number of ordinary shares outstanding during the financial period, that is, ordinary shares less treasury shares.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares, plus converting notes issued which are considered potential ordinary shares. The number of ordinary shares assumed to be issued for no consideration represents the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average market price over the financial period.

Options, where ordinary shares will be acquired on-market over time to settle the exercise of the options, are not included in the calculation of diluted Earnings per Share (EPS).

(u) Cash

Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions and with maturities of three months or less that are readily convertible to known amounts of cash.

(v) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

(w) Rounding of amounts

In accordance with Australian Securities and Investments Commission Class Order 98/100, all amounts have been rounded to the nearest thousand dollars, unless otherwise stated.

(x) Segment reporting

Operating segments have been reported in a manner consistent with internal management reporting provided to the chief operating decision-maker (CODM). As a result, the BTIM Group has determined it has two operating segments, being the BTIM Group's investment management business in Australia (BTIM Australia) and the BTIM Group's investment management business outside of Australia (BTIM UK).

(y) Parent entity financial information

The financial information for the parent entity, BTIM, disclosed in Note 34 has been prepared on the same basis as the consolidated financial statements of the BTIM Group except for the item disclosed below.

Share-based payments

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

(z) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the BTIM Group. Acquisition related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date. For each business combination, the non-controlling interest is measured either at fair value or at the proportionate share of the acquiree's identifiable net assets. The excess of the consideration transferred over the fair value of the BTIM Group's share of the identifiable net assets acquired is recorded as goodwill.

The BTIM Group has applied the acquisition method of accounting for the JOHCM acquisition disclosed in Note 29.

Business combinations under common control are accounted for in the consolidated accounts prospectively from the date the BTIM Group obtains the ownership interest. Assets and liabilities are recognised

upon consolidation at their carrying amount in the consolidated financial statements of the ultimate parent entity, Westpac. Any difference between the fair value of the consideration paid and the amounts at which the assets and liabilities are recorded is recognised directly in equity in the common control reserve.

(aa) New accounting standards

New and revised standards and interpretations effective and adopted

The BTIM Group has adopted all of the new and revised standards and interpretations issued by the AASB that are relevant to its operations and effective for the current reporting period. New and revised standards and interpretations effective for the current reporting period that are relevant to the BTIM Group include:

- Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards*.

The adoption of this new and revised Standard and Interpretation has not affected amounts recognised in the financial statements for the current period.

New and revised standards not mandatory and not adopted

Certain new and revised accounting standards have been published that are not mandatory for 30 September 2012 reporting periods. They are available for early adoption but have not been applied in preparing this financial report. The BTIM Group's assessment of the impact of these new standards is set out below:

AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective for annual reporting periods beginning on or after 1 January 2015).

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and replaces the multiple classification and measurement models in AASB 139 *Financial Instruments: Recognition and Measurement* with a single model that has two classification categories: amortised cost and fair value.

When adopted, the standard will relate in particular to the BTIM Group's accounting for its available-for-sale financial assets. Since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading, and BTIM currently accounts for its available-for-sale financial assets in this manner, it is unlikely to have any impact on the BTIM Group's accounting for financial assets or related disclosures. No impairment will be recognised for equity instruments and there is no recycling to profit or loss for any fair value movement taken to reserves. The standard has not been adopted early by the BTIM Group.

AASB 10 *Consolidated Financial Statements* (effective 1 January 2013).

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. The BTIM Group does not expect the new standard to have a significant impact on its composition.

AASB 12 *Disclosure of Interests in Other Entities* (effective 1 January 2013).

AASB 12 sets out the required disclosures for entities reporting under AASB 10 and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the BTIM Group will not affect any of the amounts recognised in the financial statements nor the type of information disclosed under AASB 10.

AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013).

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The BTIM Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements.

However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The BTIM Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 September 2014.

AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013).

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income* (effective 1 July 2012).

In September 2011, the AASB made an amendment to AASB 101 *Presentation of Financial Statements* which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The BTIM Group intends to adopt the new standard in the annual reporting period ending 30 September 2013.

AASB 2012-3 *Amendments to Australian Accounting Standard – Offsetting Financial Assets and Financial Liabilities* and AASB 2012-2 *Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective 1 January 2014 and 1 January 2013 respectively)

In June 2012, the AASB approved amendments to the application guidance in AASB 132 *Financial Instruments: Presentation*, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. The standard adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the entity's current offsetting arrangements.

However, the AASB has also introduced more extensive disclosure requirements into AASB 7 which will apply from 1 January 2013. When they become applicable, the BTIM Group may have to provide a number of additional disclosures in relation to its offsetting arrangements. The BTIM Group intends to apply the new rules for the first time in the annual reporting period ending 30 September 2014.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2012

1. Summary of significant accounting policies *continued*

AASB 2012-5 Amendments to Australian Accounting Standard arising from Annual Improvements 2009-2011 cycle (effective for annual periods beginning on or after 1 January 2013).

In June 2012, the AASB approved a number of amendments to Australian Accounting Standards as a result of the 2009-2011 annual improvements project. These include:

- AASB 101 *Presentation of Financial Statements* – Clarification of the requirements for comparative information
- AASB 116 *Property, Plant and Equipment* – Classification of servicing equipment
- AASB 132 *Financial Instruments: Presentation* – Tax effect of distribution to holders of equity instruments
- AASB 134 *Interim Financial Reporting* – Interim financial reporting and segment information for total assets and liabilities

The BTIM Group will apply the amendments in the annual reporting period ending 30 September 2013. The BTIM Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

2. Financial risk management

As a result of the JOHCM acquisition, the BTIM Group is exposed to a number of additional financial risks. The key financial risks now faced are market risk (including price risk, interest rate risk and foreign exchange risk), credit risk and liquidity risk. The Board is responsible for the establishment and oversight of an effective system of risk management. The Board delegates authority to management to conduct business activity within the limits of the approved business plans, policies and procedures.

The BTIM Group held the following financial instruments as at 30 September:

	2012 \$'000	2011 \$'000
Financial assets		
Cash and cash equivalents	53,492	283,703
Trade and other receivables	30,536	18,462
Available-for-sale financial assets	25,017	100
	109,045	302,265
Financial liabilities		
Trade and other payables	16,976	17,587
Borrowings	68,475	–
Converting notes	25,085	–
	110,536	17,587

(a) Market risk

The BTIM Group may take on exposure to market risks which include securities price and interest rate risk due to the nature of its investments and liabilities. The key direct risks are driven by investment and market volatility which have a resulting impact on the funds under management (FUM) of the BTIM Group. A reduction in FUM will reduce management fee income, calculated as a percentage of FUM, and consequently reduce NPAT. The BTIM Group estimates the potential movements in overall FUM, covering all its asset classes, and their impact on NPAT is as follows:

Profit sensitivity to movement in FUM

	2012		2011	
	10% increase	10% decrease	10% increase	10% decrease
Impact on:				
FUM (\$ billion)	4.7	(4.7)	3.3	(3.3)
NPAT (\$'000)	10,457	(10,499)	5,262	(5,008)

The sensitivity calculation is made on the basis of FUM as at 30 September 2012 increasing or decreasing by 10%. The profit or loss sensitivity calculation is derived by holding net flows and market movements flat for 12 months, maintaining the current average management fee margin, and flowing the revenue result through the current operating cost parameters and/or assumptions. Depending on the extent and duration of an actual FUM movement, management would respond with appropriate measures which would change the parameters and/or assumptions and potentially reduce or improve the calculated profit or loss impact.

(i) Price risk

The BTIM Group is exposed to securities' price risk. This arises from both FUM and investments directly held by the BTIM Group. The majority of the BTIM Group's revenue consists of fees derived from FUM. Exposure to securities' price risk could result in fluctuations in FUM that would impact the BTIM Group's profitability.

Exposure to price risk also exists from directly held equity securities in funds managed by JOHCM (refer Note 13). The directly held securities consist of shares in unlisted companies and other investments.

Equity price risk sensitivity

The BTIM Group provides seed capital into a number of funds which invest in regions including the UK, Europe, Emerging markets and Asia (ex-Japan) which may be subject to price volatility. In aggregate, if the price increased or decreased by 10% with all other variables held constant, the value of other components of equity would increase by \$2,473,539 or decrease by (\$2,473,539) respectively.

(ii) Interest rate risk

The BTIM Group is also subject to interest rate risk, which impacts both the BTIM Group's FUM and the BTIM Group's cash balances and borrowings. This risk is managed through asset / liability management strategies that seek to limit the impact arising from interest rate movements.

Fair value sensitivity analysis

The BTIM Group does not account for any fixed rate financial instruments at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not result in a change of fair value affecting profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change in interest rates would be applicable to the Group's cash balances and borrowings. A change of 50 bps in the average of the effective interest rates over the year ended 30 September 2012 would have increased / (decreased) profit or loss after tax (NPAT) and equity by the amounts shown below. This analysis assumes that all other variables remain constant.

	PROFIT OR LOSS AFTER TAX		OTHER COMPONENTS OF EQUITY	
	50 bps increase \$'000	50 bps decrease \$'000	50 bps increase \$'000	50 bps decrease \$'000
30 September 2012				
Cash and cash equivalents	192	(192)	–	–
Borrowings	(252)	252	–	–
30 September 2011				
Cash and cash equivalents	1,419	(1,419)	–	–
Borrowings	–	–	–	–

(iii) Foreign exchange risk

The BTIM Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the GBP. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the BTIM Group's functional currency.

The following table details the BTIM Group's net exposure to foreign currency as at reporting date in Australian dollar equivalent amounts:

	30 SEPTEMBER 2012			30 SEPTEMBER 2011		
	GBP \$'000	EUR \$'000	USD \$'000	GBP \$'000	EUR \$'000	USD \$'000
Financial assets						
Cash at bank	17,339	–	–	233,071	–	–
Trade receivables	17,813	–	–	–	–	–
Available-for-sale	19,829	1,354	3,734	–	–	–
Financial liabilities						
Trade payables	(15,492)	–	–	–	–	–
Borrowings	(68,475)	–	–	–	–	–
Net exposure in AUD	(28,986)	1,354	3,734	233,071	–	–

The foreign currency exposure is mitigated through future ongoing cash flows generated by the JOHCM business. No specific assets and liabilities are hedged directly.

The table below shows the impact on the BTIM Group's NPAT and equity of a 10% movement in foreign currency exchange rates against the Australian dollar on the financial assets and financial liabilities.

	Movement in variable against A\$	Profit or loss after tax 30 Sep 2012 \$'000	Changes in Equity 30 Sep 2012 \$'000	Profit or loss after tax 30 Sep 2011 \$'000	Changes in Equity 30 Sep 2011 \$'000
British pound (GBP)	+10%	(1,178)	(1,216)	–	16,315
	–10%	1,178	1,216	–	(16,315)
Euro (EUR)	+10%	–	135	–	–
	–10%	–	(135)	–	–
US Dollar (USD)	+10%	–	373	–	–
	–10%	–	(373)	–	–

(b) Credit risk

Credit risk exposures are monitored regularly with all BTIM Group counterparties. The major counterparties are Westpac, HSBC, Royal Bank of Scotland, the funds for which BTIM and JOHCM are the fund managers as well as outstanding receivables including credit exposures to wholesale and institutional clients. Exposure to credit risk arises on the BTIM Group's financial assets which are disclosed at the beginning of this Note.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. The credit quality of financial assets is A1+ for Westpac and HSBC and A for Royal Bank of Scotland (2011: AA for both Westpac and HSBC; Royal Bank of Scotland not applicable). For wholesale customers the credit quality of the customer is assessed by taking into account its financial position, past experience and other factors.

Credit risk further arises in relation to financial guarantees given to certain parties (refer Note 28). Such guarantees are only provided in exceptional circumstances and are subject to specific Board approval.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2012

2. Financial risk management *continued*

(c) Liquidity risk

Liquidity risk is the risk that the BTIM Group may not be able to meet its financial obligations in a timely manner at a reasonable cost. The BTIM Group maintains sufficient cash and working capital in order to meet future obligations and statutory regulatory capital requirements.

Maturities of financial liabilities

The table below analyses the BTIM Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year \$'000	Between 1 – 2 years \$'000	Over 2 years \$'000	Total contractual cash flows \$'000	Carrying amount of liabilities \$'000
30 September 2012					
Trade and other payables	16,976	–	–	16,976	16,976
Borrowings	48,937	23,318	542	72,797	68,475
Converting notes	2,262	1,916	20,907	25,085	25,085
30 September 2011					
Trade and other payables	17,587	–	–	17,587	17,587
Borrowings	–	–	–	–	–

Financing arrangements

The BTIM Group has borrowing facilities with HSBC denominated in GBP. Details of these at balance date were as follows:

- Facility A – £18 million (\$28 million) term debt facility expiring 29 September 2014
- Facility B – £15 million (\$23 million) revolving loan facility expiring 29 September 2013

BTIM is the guarantor on the above facilities and at 30 September 2012, a further £10 million (\$15 million) remains undrawn on Facility B.

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of borrowings for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the BTIM Group for similar financial instruments. The fair value of current borrowings approximates the carrying amount, as the impact of discounting is not significant.

The BTIM Group classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities – Level 1;
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) – Level 2;
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) – Level 3.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
30 September 2012				
Financial assets				
Available-for-sale assets:				
Shares in Regnan-Governance Research and Engagement Pty Limited	–	–	100	100
Shares in James Hambro & Partners LLP	–	–	180	180
Units held in open-ended investment companies (OEICs)	–	22,062	–	22,062
Units held in a listed property trust	2,675	–	–	2,675
Total financial assets	2,675	22,062	280	25,017
Financial liabilities				
Converting notes	–	25,085	–	25,085
Total financial liabilities	–	25,085	–	25,085

30 September 2011	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Available-for-sale assets:				
Shares in Regnan-Governance Research and Engagement Pty Limited	–	–	100	100
Total financial assets	–	–	100	100

Refer Note 13 for further information.

3. Segment information

(a) Description of segments

The BTIM Group has identified two operating segments based on internal management reports that are reviewed and used by the chief operating decision-maker (CODM) in assessing performance and in determining the allocation of resources. The CODM is BTIM's Senior Management Team. Segment information is provided on the basis by which the BTIM Group manages its business which is split by the BTIM Group's investment management business in Australia (BTIM) and the BTIM Group's investment management business outside of Australia (BTIM UK operations). The BTIM UK operations comprise the JOHCM group of companies together with external debt financing in the UK.

(b) Segment information provided to the chief operating decision-maker

	BTIM AUSTRALIA		BTIM UK		TOTAL BTIM GROUP	
	30 Sep 2012 \$'000	30 Sep 2011 \$'000	30 Sep 2012 \$'000	30 Sep 2011 \$'000	30 Sep 2012 \$'000	30 Sep 2011 \$'000
Revenue ¹	117,132	126,555	75,333	–	192,465	126,555
Inter-segment revenue	39	–	80	–	119	–
Total segment revenue	117,171	126,555	75,413	–	192,584	126,555
Inter-segment expense	(80)	–	(39)	–	(119)	–
Depreciation and amortisation	(1,104)	(1,820)	(300)	–	(1,404)	(1,820)
Interest expense	(950)	–	(2,511)	–	(3,461)	–
Other operating expenses ¹	(82,528)	(80,980)	(47,766)	–	(130,294)	(80,980)
Total segment expenses	(84,662)	(82,800)	(50,616)	–	(135,278)	(82,800)
Income tax expense	(9,839)	(13,278)	(5,963)	–	(15,802)	(13,278)
Cash NPAT	22,670	30,477	18,834	–	41,504	30,477
Deduct: amortisation of employee equity grants	(18,194)	(10,385)	(3,390)	–	(21,584)	(10,385)
Add back: cash cost of ongoing equity grants	7,668	9,598	1,920	–	9,588	9,598
Deduct: amortisation and impairment of intangibles	–	–	(11,924)	–	(11,924)	–
Deduct: loss on financial liabilities at fair value through the profit and loss	(1,090)	–	–	–	(1,090)	–
Deduct: acquisition transaction costs ²	–	(12,348)	–	–	–	(12,348)
Add back: tax effect	867	(445)	4,037	–	4,904	(445)
Statutory NPAT	11,921	16,897	9,477	–	21,398	16,897
Segment assets	298,512	548,965	372,783	–	671,295	548,965
Segment liabilities	(79,813)	(46,442)	(96,943)	–	(176,756)	(46,442)
Net assets	218,699	502,523	275,840	–	494,539	502,523

¹ Management's internal reporting of revenue differs from revenue as disclosed in the Consolidated Statement of Comprehensive Income as revenue in the Consolidated Statement of Comprehensive Income includes expense recoveries from funds managed by BTIM and fees received for services provided by BTIM to a number of Westpac related entities. These have been netted off with the related expenses in internal management reporting.

² Included in net acquisition transaction costs for the 2011 Financial Year are \$12,543,163 in acquisition related costs shown in the Statement of Comprehensive Income, partially offset by \$194,683 in realised foreign exchange gains on currency contracts.

The CODM assesses the performance of the operating segments based on a measure of Cash NPAT. This measurement basis excludes the amortisation of equity-settled share-based payments, and includes the after-tax cost of equity grants made for the current period as these non-cash charges do not influence the performance of the business. Cash NPAT also excludes the amortisation and impairment of intangibles relating to fund and investment management contracts and fair value adjustment on converting notes recognised as a result of the acquisition of JOHCM. These non-cash charges are not considered part of the BTIM Group's underlying operations.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2012

4. Revenue from continuing operations

	2012 \$'000	2011 \$'000
Management, fund and trustee fees	175,238	117,815
Realised performance fees	12,246	6,161
Property administration fees	2,548	–
Service fees from related parties	1,426	1,406
Expense recoveries	439	451
Other revenue	220	204
Total revenue from continuing operations	192,117	126,037

5. Other income

	2012 \$'000	2011 \$'000
Distributions from unit trusts	1,231	1,516
Interest revenue	735	858
Net foreign exchange gains	246	–
Realised foreign exchange gains on currency contracts	–	195
Total other income	2,212	2,569

6. Acquisition transaction costs

The following expenses are transaction costs relating to the acquisition of JOHCM:

	2012 \$'000	2011 \$'000
Due diligence and other professional costs	–	9,089
UK transaction taxes	–	1,662
Other costs	–	1,084
Total acquisition transaction costs	–	11,835
Finance costs	–	708
Total acquisition transaction and finance costs	–	12,543

7. Finance costs

	2012 \$'000	2011 \$'000
Finance costs relating to the ongoing business:		
Interest and finance charges paid / payable for borrowings	3,461	–

8. Income tax expense

	2012 \$'000	2011 \$'000
(a) Income tax expense		
Current tax	15,421	13,253
Deferred tax ¹	(4,341)	475
Adjustments for current tax of prior periods	(182)	(6)
Income tax expense	10,898	13,722

¹ Deferred income tax expense / (revenue) included in income tax expense comprises:

Increase in deferred tax assets	(747)	(270)
(Decrease) / increase in deferred tax liabilities	(3,594)	745
Total (decrease) / increase in deferred tax	(4,341)	475

Deferred tax also arose during the financial year as a result of the acquisition of JOHCM (Note 14), which is not recognised in net profit or loss or other comprehensive income.

	2012 \$'000	2011 \$'000
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	32,296	30,619
Income tax calculated at the Australian tax rate of 30% (2011: 30%)	9,689	9,186
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Employee equity grant amortisation	2,553	1,245
Acquisition transaction costs	(21)	3,145
Fair value of financial liabilities	327	–
Sundry non-deductible items	270	152
	12,818	13,728
Difference in overseas tax rates	(524)	–
Effect on deferred taxes of reduction in tax rates	(900)	–
Previously unrecognised capital losses used to reduce deferred tax expense	(314)	–
Adjustments for current tax of prior financial year	(182)	(6)
Income tax expense in the Statement of Comprehensive Income	10,898	13,722
(c) Tax expense relating to items of other comprehensive income		
Available-for-sale financial assets	478	–
	478	–
(d) Unrecognised temporary differences		
Temporary difference relating to investments in subsidiaries for which deferred tax liabilities have not been recognised:		
Foreign currency translation	2,684	–
Unrecognised deferred tax liabilities relating to the above temporary differences	805	–

A deferred tax liability has not been recognised in respect of temporary differences arising as a result of the translation of the financial statements of the consolidated entity's subsidiaries. The deferred tax liability will only arise in the event of disposal of the subsidiary, and no such disposal is expected in the foreseeable future.

(e) Tax consolidation legislation

BTIM and its wholly-owned Australian entity have implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in Note 1(g).

The entities in the tax consolidated group have entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entity in the case of a default by the head entity, BTIM.

The entities have also entered into a tax funding agreement under which the wholly-owned entity fully compensates BTIM for any current tax payable assumed and is compensated by BTIM for any current tax receivable. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entity's financial statements.

The amounts receivable/ payable under the tax funding agreement are due when advised by the head entity, which occurs when a tax liability is due and payable by the head entity. The funding amounts are recognised as current inter-company receivables or payables.

9. Cash and cash equivalents

	2012 \$'000	2011 \$'000
Cash at bank and in hand	22,906	249,985
Deposits at call	30,586	33,718
Balance as per Consolidated Statement of Cash Flows	53,492	283,703

Included in cash for the year ended 30 September 2011 were funds for the acquisition of JOHCM.

Deposits at call are invested in cash management trusts managed by the BTIM Group.

Risk exposure

The BTIM Group's exposure to interest rate risk is disclosed in Note 2. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2012

10. Trade and other receivables

	2012 \$'000	2011 \$'000
Trade receivables	30,536	18,462

Trade receivables are expected to be cleared within one to three months.

(a) Related party receivables

Related party receivables are disclosed in Note 28(e).

(b) Impaired receivables and receivables past due

None of the trade receivables are impaired or past due but not impaired.

(c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of the receivables mentioned above. Refer Note 2 for more information on the risk management policy of the BTIM Group and the credit quality of its trade receivables.

11. Prepayments

	2012 \$'000	2011 \$'000
Prepayments	3,603	1,838

Prepayments substantially relate to prepaid information and technology related expenses.

12. Property, plant and equipment

	2012 \$'000	2011 \$'000
Computer hardware		
Cost	4,129	1,665
Accumulated depreciation	(3,485)	(1,478)
Net carrying value	644	187
Office furniture and fittings		
Cost	2,982	1,899
Accumulated depreciation	(2,295)	(1,205)
Net carrying value	687	694
Computer software		
Cost	1,719	1,724
Accumulated depreciation	(1,719)	(1,722)
Net carrying value	–	2
Leasehold improvements		
Cost	4,445	3,829
Accumulated depreciation	(1,947)	(1,094)
Net carrying value	2,498	2,735
Total property, plant and equipment		
Cost	13,275	9,117
Accumulated depreciation	(9,447)	(5,499)
Net carrying value	3,828	3,618

Reconciliations of the carrying amount for each class of property, plant and equipment are set out below:

	2012 \$'000	2011 \$'000
Computer hardware		
Balance at the beginning of the financial year	187	357
Acquisition of subsidiary	390	–
Exchange differences	(10)	–
Additions	307	127
Disposals	(149)	(128)
Depreciation	(82)	(169)
Balance at the end of the financial year	643	187
Office furniture and fittings		
Balance at the beginning of the financial year	694	1,228
Acquisition of subsidiary	87	–
Exchange differences	(3)	–
Additions	215	–
Depreciation	(306)	(534)
Balance at the end of the financial year	687	694
Computer software		
Balance at the beginning of the financial year	2	231
Depreciation	(2)	(229)
Balance at the end of the financial year	–	2
Leasehold improvements		
Balance at the beginning of the financial year	2,735	3,280
Acquisition of subsidiary	432	–
Exchange differences	(13)	–
Additions	–	2
Depreciation	(656)	(547)
Balance at the end of the financial year	2,498	2,735
Total property, plant and equipment		
Balance at the beginning of the financial year	3,618	5,096
Acquisition of subsidiary	909	–
Exchange differences	(26)	–
Additions	524	129
Disposals	(151)	(128)
Depreciation	(1,046)	(1,479)
Balance at the end of the financial year	3,828	3,618

13. Available-for-sale financial assets

	2012 \$'000	2011 \$'000
Unlisted securities		
Shares in Regnan-Governance Research and Engagement Pty Limited ¹	100	100
Shares in James Hambro & Partners LLP ²	180	–
Units held in open-ended investment companies (OEICs) ³	22,062	–
Units held in a listed property trust ³	2,675	–
	25,017	100

¹ These securities are measured at cost which approximates the fair value of the shares (refer Note 2).

² James Hambro & Partners LLP is an independent private asset management partnership business.

³ These securities represent shares held in offshore unlisted OEICs and units held in a listed property trust which are either managed or administered by the BTIM Group and are measured at fair value. The fair value is measured with reference to underlying net asset value of the OEICs and the quoted market price of the listed property trust.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2012

14. Deferred tax assets

The balance comprises temporary differences attributable to:

	2012 \$'000	2011 \$'000
Amounts recognised in profit or loss		
Employee benefits	7,148	6,582
Initial Public Offer transaction costs	(984)	(787)
Accrued expenses	314	352
Lease expenses	(234)	(129)
Property, plant and equipment	708	628
Share of partnership income	219	–
Unutilised foreign tax credits	16	–
Capital losses carried forward	227	–
	7,414	6,646
Amounts recognised directly in equity		
Initial Public Offer transaction costs	984	984
Amounts recognised on acquisition of subsidiary		
Employee benefits	10	–
Fixed asset depreciation	51	–
Employee equity grants	(33)	–
Capital losses carried forward	269	–
	297	–
Deferred tax assets to be settled after more than 12 months	8,695	7,630
Movement in temporary differences during the financial year:		
Balance at the beginning of the financial year	7,630	7,360
Credited to profit or loss	768	270
Recognised on acquisition of subsidiary	297	–
Balance as at the end of the financial year	8,695	7,630

15. Intangible assets

	2012 \$'000	2011 \$'000
Goodwill		
Cost	442,282	233,300
Accumulated impairment	–	–
Net carrying value	442,282	233,300
Fund and investment management contracts		
Cost	115,614	–
Accumulated amortisation	(7,308)	–
Impairment ¹	(4,616)	–
Net carrying value	103,690	–
IT development and software		
Cost	715	689
Accumulated amortisation	(563)	(375)
Net carrying value	152	314
Total intangible assets		
Cost	558,611	233,989
Accumulated amortisation	(7,871)	(375)
Impairment	(4,616)	–
Net carrying value	546,124	233,614

¹ An impairment loss of \$4.6m million due to the remeasurement of the fund and investment management contracts to the lower of their carrying value and their recoverable amount is included in the depreciation, amortisation and impairment expense in the Statement of Comprehensive Income.

The recoverable amount of each fund and management contract has been measured using the present value of future cash flows expected to be derived for each asset. The discount rate used to discount the cash flow projections (post tax) is 15% based on the Group's cost of capital (post tax).

Reconciliations of the carrying amounts for each class of intangibles are set out below:

	2012 \$'000	2011 \$'000
Goodwill		
Balance at the beginning of the financial year	233,300	233,300
Acquisition via a business combination	207,878	–
Foreign exchange gain	1,104	–
Balance at the end of the financial year	442,282	233,300
Fund and investment management contracts		
Balance at the beginning of the financial year	–	–
Acquisition via a business combination	115,180	–
Foreign exchange gain	434	–
Amortisation and impairment expense	(11,924)	–
Balance at the end of the financial year	103,690	–
IT development and software		
Balance at the beginning of the financial year	314	372
Additions	26	153
Amortisation expense	(188)	(211)
Balance at the end of the financial year	152	314
Total intangible assets		
Balance at the beginning of the financial year	233,614	233,672
Acquisition via a business combination	323,058	–
Foreign exchange gain	1,538	–
Additions	26	153
Amortisation expense and impairment	(12,112)	(211)
Balance at the end of the financial year	546,124	233,614

Goodwill has been derived from the following business combinations:

	2012 \$'000	2011 \$'000
Purchase of the investment management business from Westpac Banking Corporation effective 19 October 2007	233,300	233,300
Acquisition of JOHCM effective 1 October 2011	208,982	–
Total goodwill	442,282	233,300

Fund and investment management contracts were acquired via the business combination with JOHCM and are made up as follows:

	2012 \$'000	2011 \$'000
<i>Fund management contracts</i>		
OEIC fund management contracts	86,006	–
<i>Investment management contracts</i>		
Segregated mandates	15,586	–
Property management	2,098	–
Total fund and investment management contracts	103,690	–

Goodwill is allocated to the BTIM Group's cash-generating units (CGUs) identified according to operating segments (refer Note 3). Goodwill attributable to BTIM Australia and BTIM UK is \$233,300,000 and \$208,981,760 respectively.

The recoverable amount of each CGU is determined using a 'Fair value less cost to sell' methodology that utilises cash flow projections (post tax) based on management's best estimates over a 5 year period and then applying a terminal value in perpetuity of 3%. The discount rate used to discount the cash flow projections is 15% based on the Group's cost of capital (post tax).

There has been no impairment of goodwill during the 2012 Financial Year.

Management is of the view that reasonably possible changes in the key assumptions, such as an increase to the discount rate of 2% or a reduction in cash flow of 10%, would not cause the recoverable amount for each CGU to fall short of the carrying amounts as at 30 September 2012.

NOTES TO THE FINANCIAL STATEMENTS
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16. Trade and other payables

	2012 \$'000	2011 \$'000
Trade payables	13,236	13,634
Payables – related entities (refer Note 28(e))	3,740	3,953
Total trade and other payables	16,976	17,587

Risk exposure

Information about the BTIM Group's exposure to liquidity risk is provided in Note 2.

17. Employee benefits

	2012 \$'000	2011 \$'000
Current liabilities		
Annual leave	1,623	1,545
Long service leave	938	931
Provision for bonus	30,748	18,679
Total current employee liabilities	33,309	21,155
Non-current liabilities		
Long service leave	895	794
Total non-current employee liabilities	895	794

Included in employee expenses recognised in the Statement of Comprehensive Income is an amount related to the BTIM Group's contributions to employees' superannuation and pensions, as follows:

Defined contribution superannuation expense	2,661	1,802
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18. Borrowings

	2012 \$'000	2011 \$'000
Current	46,547	–
Non-current	21,928	–
Total borrowings	68,475	–

Details of borrowings, including accrued interest, as at 30 September 2012:

	Less than 1 year \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Carrying amount liabilities \$'000
Bank loans					
Term debt facility	13,988	13,988	–	–	27,976
Revolving loan facility	23,674	–	–	–	23,674
Loan notes	8,885	7,940	–	–	16,825
Total Borrowings	46,547	21,928	–	–	68,475

Bank loans

All borrowing facilities are denominated in GBP and were used to fund the acquisition of JOHCM. The aggregate facilities of the BTIM Group's borrowings is £43 million (\$67 million) of which £33 million (\$52 million) is drawn and £10 million (\$15 million) remains undrawn at 30 September 2012. BTIM is the guarantor on all borrowing facilities. Interest has been fixed for a 12 month period and is payable semi-annually.

The revolving loan facility of £15 million (\$24 million) which is due to expire on 29 September 2013 has been classified as a current liability. The BTIM Group expects to roll the facility beyond the expiry term.

Loan notes

Loan notes are denominated in GBP and were issued to JOHCM employees in October 2011. The loan notes are redeemable over a two year period and mature over a period of two to four years. Interest accrues at a fixed rate per annum payable annually.

Risk exposures

Details of the BTIM Group's exposure to risks arising from current and non-current borrowings are set out in Note 2.

19. Converting notes

Conversion profile as at 30 September 2012:

	Less than 1 year \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Carrying amount liabilities \$'000
Converting notes	2,262	1,916	20,907	–	25,085

The converting notes were issued to JOHCM employees in October 2011. Subject to certain adjustments, each converting note will convert into one BTIM ordinary share over a period of up to five years provided certain conditions are met. The value of the converting notes represents the fair value of the conversion right that the note holder will receive irrespective of whether they continue in employment. The fair value of the converting notes at balance date has been determined with reference to the BTIM share price at 30 September 2012 (refer Note 33).

The dividend-linked coupon payment dates and distribution rates on converting notes will be the same as those dividends declared on ordinary shares.

20. Deferred tax liabilities

The balance comprises temporary differences attributable to:

	2012 \$'000	2011 \$'000
Amounts recognised in profit or loss		
Employee equity grants	3,214	2,651
Foreign exchange loss	(275)	–
Amortisation of intangible assets	(3,941)	–
	(1,002)	2,651
Amounts recognised in other comprehensive income		
Available-for-sale financial assets	485	–
Amounts recognised on acquisition of subsidiary		
Intangible assets	27,790	–
Net deferred tax liabilities	27,273	2,651
Deferred tax liabilities to be settled after more than 12 months	27,273	2,651
Balance at the beginning of the financial year	2,651	1,906
Charged / (credited) to profit or loss	(3,653)	745
Charged to other comprehensive income	485	–
Recognised on acquisition of subsidiary	27,790	–
Balance at the end of the financial year	27,273	2,651

21. Contributed equity

	2012 \$'000	2011 \$'000
Ordinary shares 267,906,977 (2011: 267,906,977) each fully paid	499,613	499,508
Treasury shares 24,541,450 (2011: 24,313,507)	(37,123)	(34,950)
Total contributed equity 243,365,527 (2011: 243,593,470)	462,490	464,558

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21. Contributed equity *continued*

	2012 Shares ('000)	2012 \$ ('000)	2011 Shares ('000)	2011 \$ ('000)
Movements in ordinary shares during the financial year				
Balance at the beginning of the financial year	267,907	499,508	160,000	271,834
Rights issue ¹			107,907	232,000
Rights issue – associated costs		105	–	(4,326)
Balance at the end of the year	267,907	499,613	267,907	499,508
Movements in treasury shares during the financial year				
Balance at the beginning of the year	(24,314)	(34,950)	(17,099)	(17,125)
Treasury shares acquired	(3,412)	(6,878)	(8,001)	(18,799)
Treasury shares released	3,185	4,705	786	974
Balance at the end of the year	(24,541)	(37,123)	(24,314)	(34,950)
Total contributed equity	243,366	462,490	243,593	464,558

¹ The purpose of the rights issue during the 2011 Financial Year was to partially fund the acquisition of JOHCM.

(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends as declared and in the event of a winding up of the Company, to participate in the proceeds in proportion to the number of and amounts paid on the shares held. Ordinary shares entitle the holder to one vote per share, either in person or by proxy, at a meeting of BTIM shareholders.

(b) Treasury shares

Treasury shares are those shares issued through the Initial Public Offer, and purchased as necessary, in order to meet the obligations of the BTIM Group under its employee share plans. These are recorded at cost and when restrictions on employee shares are lifted, the cost of such shares is written back to treasury shares. The corresponding offset is reflected in the share-based payment reserve.

Details of the balance of treasury shares at the end of the financial year were as follows:

	2012 Shares ('000)	2012 \$ ('000)	2011 Shares ('000)	2011 \$ ('000)
Unallocated shares held by trustees	4,438	5,184	6,578	11,120
Shares allocated to employees	20,103	31,939	17,736	23,830
Balance at the end of the financial year	24,541	37,123	24,314	34,950

(c) Rights Issue

On 26 August 2011, the Company invited its shareholders to participate in a four for five pro rata entitlement offer (rights issue) of new ordinary shares at an offer price of \$2.15 per new share, with such shares issued and ranked for dividends on 20 September 2011. As a result of the rights issue, 107,906,977 new ordinary shares were issued.

(d) Capital management

The BTIM Group's objectives when managing capital are to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders, benefits for other stakeholders and maintain an optimal capital structure to reduce the cost of capital.

The Board monitors NPAT, cash, tax and other financial factors in order to maintain or adjust the capital structure. The BTIM Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The BTIM Group has two employee benefit trusts, the trustees of which purchase BTIM shares, intended to be used to satisfy the BTIM Group's obligations under the employee share plans. For further information on the employee share trusts and schemes refer Note 33.

BTIM RE is required to maintain minimum capital requirements as part of the Australian Securities and Investments Commission's Australian financial services licensing conditions. These conditions are as follows:

- hold at least \$5 million Net Tangible Assets (NTA) in respect of its managed investments and custody services;
- have Adjusted Surplus Liquid Funds (ASLF) of:
 - \$50,000; plus
 - 5% of adjusted liabilities between \$1 million and \$100 million; plus
 - 0.5% of adjusted liabilities for any amount of adjusted liabilities exceeding \$100 million, up to a maximum ASLF of \$100 million.
- have at least \$50,000 in Surplus Liquid Funds (SLF) (i.e. its own funds in liquid form).

BTIM RE has complied with all requirements during the financial year.

Due to changes, effective 1 November 2012, implemented by ASIC Class Order 11/1140, BTIM RE will be required to:

- prepare 12 month cash flow projections which must be approved at least quarterly by Directors, and reviewed annually by auditors;
- hold at all times a minimum NTA, the greater of:
 - \$150,000;
 - 0.5% of the average value of scheme property (capped at \$5 million); or
 - 10% of the average responsible entity (RE) revenue (uncapped).

BTIM RE must hold at least 50% of its minimum NTA requirement as cash or cash equivalents and hold at least \$50,000 in SLF.

BTIM RE must comply with these new requirements to hold an AFSL.

J O Hambro Capital Management Limited is also required to maintain minimum capital requirements as part of its licencing requirements with the Financial Services Authority in the UK.

22. Reserves

	2012 \$'000	2011 \$'000
Common control reserve		
Balance at the beginning of the financial year	(25,472)	(25,472)
Balance at the end of the financial year	(25,472)	(25,472)
Share-based payment reserve		
Balance at the beginning of the financial year	49,070	39,659
Share-based payment expense	21,584	10,385
Share-based payment reserve via a business combination	4,649	–
Treasury shares released	(4,705)	(974)
Dividend paid	(24,079)	–
Balance at the end of the financial year	46,519	49,070
Foreign currency translation reserve		
Balance at the beginning of the financial year	–	–
Currency translation difference arising during the year	2,684	–
Balance at the end of the financial year	2,684	–
Available-for-sale-financial assets reserve		
Balance at the beginning of the financial year	–	–
Revaluation	2,937	–
Exchange differences	(122)	–
Deferred tax	(478)	–
Balance at the end of the financial year	2,337	–
Cash flow hedge reserve		
Balance at the beginning of the financial year	9,834	–
Currency gain on designated hedge instrument	–	9,834
Transfer to profit or loss	(256)	–
Transferred to purchase consideration on JOHCM acquisition	(9,578)	–
Balance at the end of the financial year	–	9,834
Total Reserves	26,068	33,432

Common control reserve

The common control reserve relates to the BTIM purchase of the investment management business from a number of wholly owned subsidiaries of Westpac Banking Corporation effective 19 October 2007. Any difference between the cost of acquisition (fair value of consideration paid), and the amounts at which the assets and liabilities are recorded, has been recognised directly in equity as part of a business combination under the common control reserve.

Share-based payment reserve

The share-based payment reserve relates to the amortised portion of the fair value of performance share rights, shares and options granted to employees for no consideration, recognised as an expense. The balance of the share-based payment reserve is reduced by the payment of certain dividends not paid from retained earnings, where the requirements of the Corporations Act are met.

Foreign currency translation reserve

Exchange differences arising on the translation of the foreign controlled entity are recognised in other comprehensive income and accumulated in the foreign currency translation reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

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FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2012

22. Reserves *continued*

Available-for-sale financial assets reserve

The available-for-sale financial assets reserve represents changes in the fair value and exchange differences arising on translation of investments, classified as available-for-sale financial assets. Amounts are reclassified to profit or loss when the associated assets are sold or impaired.

Cash flow hedge reserve

The cash flow hedge reserve reflects the currency movement of the balance in the foreign currency bank account held to settle the purchase of JOHCM. On settlement the reserve subsequently transferred into the purchase consideration (refer Note 29).

23. Dividends

Equity dividends on ordinary shares

	2012 \$'000	2011 \$'000
(a) Dividends declared and paid during the 2012 Financial Year		
Final fully franked dividend for the 2011 Financial Year: 10.0 cents per share (2010 Financial Year: 10.0 cents per share)	26,696	15,944
Interim fully franked dividend paid for the 2012 Financial Year: 5.5 cents per share (2011 Financial Year: 6.0 cents per share)	14,536	9,569
	41,232	25,513
(b) Dividends proposed to be paid subsequent to the end of the 2012 Financial Year and not recognised as a liability		
Final fully franked dividend for the 2012 Financial Year: 7.0 cents per share (2011 Financial Year: 10.0 cents per share)	18,753	26,791

Dividend-linked coupons on converting notes

	2012 \$'000	2011 \$'000
(a) Dividends declared and paid during the 2012 Financial Year		
Final fully franked dividend for the 2011 Financial Year: 10.0 cents per share (2010 Financial Year: 0.0 cents per share) ¹	1,805	–
Interim fully franked dividend paid for the 2012 Financial Year: 5.5 cents per share (2011 Financial Year: 0.0 cents per share)	992	–
	2,797	–
(b) Dividends proposed to be paid subsequent to the end of the 2012 Financial Year and not recognised as a liability		
Final fully franked dividend for the 2012 Financial Year: 7.0 cents per share (2011 Financial Year: 10.0 cents per share)	1,260	1,805

¹ Converting notes were issued on 26 October 2011 as part of the acquisition of JOHCM.

Franked dividends

Dividends and dividend-linked coupons declared or paid during the year were fully franked at the tax rate of 30%.

The franked portions of the final dividends and dividend-linked coupons recommended after 30 September 2012 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 September 2013.

	2012 \$'000	2011 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2011: 30%)	11,138	21,794

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- (i) franking credits that will arise from the payment of the amount of the provision for income tax
- (ii) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- (iii) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The impact on the franking account of the dividends recommended by the Directors since year end, but not recognised as a liability at financial year end, will be a reduction in the franking account of \$8,577,366 (2011: \$12,472,299).

24. KMP disclosures**(a) KMP compensation**

	2012 \$	2011 \$
Short-term employee benefits	4,730,030	3,661,648
Post-employment benefits	183,903	172,086
Long-term benefits	31,389	29,539
Share-based payments	2,719,859	1,346,715
	7,665,181	5,209,988

(b) Shareholdings

The following table sets out details of number of BTIM ordinary shares held by key management personnel (including their related parties) during the year ended 30 September 2012:

	Held at 1 October 2011	Granted as compensation	Purchases	Sales	Held at 30 September 2012
Non-executive Directors					
Brian Scullin	163,696	–	–	–	163,696
Brad Cooper	–	–	–	–	–
James Evans	5,000	–	–	–	5,000
Carolyn Hewson	27,937	–	–	–	27,937
Andrew Fay	–	–	12,500	–	12,500
Executive Director					
Emilio Gonzalez	1,369,459	553,708	–	–	1,923,167
Other KMP					
Gavin Rochussen	–	50,366	–	–	50,366
Phil Stockwell	195,253	124,606	–	–	319,859
Cameron Williamson	108,364	204,810	–	–	313,174
Martin Franc	215,009	22,086	–	–	237,095
Brian Wright	35,825	204,810	–	–	240,635
Geraldine Bouquet	26,144	30,454	–	–	56,598
	Held at 1 October 2010	Granted as compensation	Purchases	Sales	Held at 30 September 2011
Non-executive Directors					
Brian Scullin	87,014	–	76,682	–	163,696
Brad Cooper	–	–	–	–	–
James Evans	–	–	5,000	–	5,000
Carolyn Hewson	15,385	–	12,552	–	27,937
Executive Director					
Emilio Gonzalez	762,650	326,809	280,000	–	1,369,459
Other KMP					
Phil Stockwell	170,095	25,158	–	–	195,253
Cameron Williamson	41,599	18,603	48,162	–	108,364
Martin Franc	185,967	29,042	–	–	215,009
Brian Wright	–	35,825	–	–	35,825
Geraldine Bouquet	–	26,144	–	–	26,144

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2012

24. KMP disclosures *continued*

(c) Other equity instruments

The following table sets out the number of performance share rights and converting notes held by key management personnel (including related parties) for the year ended 30 September 2012:

	Type of Equity based instrument	Held at 1 October 2011	Granted as compensation	Acquired during the year ¹	Vested during the year	Lapsed during the year	Held at 30 September 2012
Emilio Gonzalez	Performance share rights	–	495,417	–	–	–	495,417
Gavin Rochussen	Converting notes	–	968,728	1,510,142	–	–	2,478,870

¹ Converting notes provided to Gavin Rochussen in exchange for his shareholding in the JOHCM Group. Subject to certain adjustments each converting note will convert into one BTIM ordinary share over a period of up to five years provided certain conditions are met.

(d) Loan notes

The following table sets out the number of loan notes held by key management personnel (including related parties) for the year ended 30 September 2012:

	Held at 1 October 2011	Granted as compensation	Acquired during the year ²	Redeemed during the year	Held at 30 September 2012
Gavin Rochussen	–	–	3	1	2

² Loan notes provided to Gavin Rochussen in exchange for his shareholding in the JOHCM Group. The total value acquired was \$8,446,402 (£5,456,116).

An amount of \$5,958,149 (£3,897,225) was redeemed on 26 October 2011. The total value of loan notes held at 30 September 2012 is \$2,422,894 (£1,558,890). Loan notes accrue interest at 6% per annum, the amount of interest accrued at 30 September 2012 is \$145,374 (£93,533).

(e) Loans or transactions with KMP

There were no loans or other transactions to KMP during the financial year (2011: Nil).

25. Remuneration of Auditors

During the financial year, the following fees were paid or payable for services provided by the auditor of the BTIM Group, its related practices and non-related audit firms:

	2012 \$	2011 \$
(a) Audit and other assurance services – Australia		
PricewaterhouseCoopers firm		
Audit and review of financial reports	426,500	313,436
Other assurance services		
Due diligence	–	450,000
Advisory services	15,000	454,000
Prospectus related services	–	430,000
Audit of Australian Financial Service Licence	8,500	8,164
Total remuneration for Australian assurance services	450,000	1,655,600
(b) Audit and other assurance services – other network firms		
PricewaterhouseCoopers firm		
Audit and review of financial reports	315,620	–
Other assurance services		
Advisory services	100,028	–
Audit of Financial Services Authority Licence	27,259	–
Total remuneration for assurance services (Non-Australian)	442,907	–

(c) Non-audit services

It is the BTIM Group's policy to engage PwC on assignments additional to their statutory audit duties where PwC's expertise and experience is important to the BTIM Group.

The external auditor, PwC, provides audit and non-audit services to non-consolidated trusts for which BTIM RE is trustee, manager or RE. The fees in respect of their services were approximately \$1,248,215 for the financial year (2011: \$1,249,370).

26. Contingent assets and liabilities**Performance fees**

The BTIM Group manages the investments of certain funds and clients for which it may be entitled to receive fees contingent upon performance of the portfolio managed, on an annual basis or longer. Performance fees which are contingent upon performance to be determined at future dates have not been recognised as income or as a receivable at 30 September 2012 as they are not able to be estimated or measured reliably and may change significantly. All fees are exposed to significant risk associated with the funds' performance, including market risks (such as price risk, interest rate risk and foreign exchange risk) and liquidity risk.

UK tax liability

The BTIM Group is currently in discussions with the UK tax authorities regarding the treatment of certain prior period tax deductions. The amount which is currently being disputed approximates £6.5 million (\$10.0 million), plus any interest and / or penalties. Under the terms of the Share Purchase Agreement (SPA) BTIM is indemnified by the sellers.

Guarantee on bank loans

BTIM has entered into a guarantee with HSBC Bank PLC in relation to the debts of its subsidiary BTIM UK Limited. For further information about guarantees given by entities within the BTIM Group, including the parent entity, refer Note 34.

To the extent that the BTIM Group, in the normal course of business, has incurred various contingent obligations at 30 September 2012, none of those contingent obligations are anticipated to result in any material loss.

Deed of Guarantee on long term warranties

As part of the demerger of the JOHCM Group prior to acquisition, Harwood Capital Management Limited (Harwood) on 29 September 2011 indemnified JOHCM against all losses arising under the Deed of Guarantee entered into by JOHCM on 29 September 2006. The maximum liability of Harwood in respect of this indemnity is \$932,546 (£600,000) which has a maximum expiry date of 29 September 2013. BTIM is also indemnified by the sellers of JOHCM under the Share Purchase Agreement (SPA).

27. Commitments

	2012 \$'000	2011 \$'000
Lease commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	2,684	2,588
Later than one year but not later than five years	7,650	9,631
Later than five years	—	—
Total commitments	10,334	12,219

The Company entered into a new lease agreement for its Australian premises from 14 March 2009 for seven years with an option for a further five years. As part of the lease agreement, the Company has a bank guarantee with The Westpac Group of \$1,419,393. JOHCM entered into lease agreements for its UK premises until 2015.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2012

28. Related party transactions

(a) Parent entity

The parent entity within the BTIM Group is BTIM. The immediate parent entity is Westpac Financial Services Group Limited which at 30 September 2012 owned 172,800,000 ordinary shares of BTIM. The ultimate parent entity is Westpac, incorporated in Australia, which at 30 September 2012 owned 100% (2011: 100%) of the issued ordinary shares of WFSGL.

(b) Subsidiaries and controlled entities

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(c):

EQUITY HOLDING				
Name	Country of Incorporation / formation	Class of shares	2012 %	2011 %
BT Investment Management (RE) Limited	Australia	Ordinary	100	100
BTIM UK Limited	UK	Ordinary	100	100
J O Hambro Capital Management Holdings Limited ¹	UK	Ordinary	100	–
J O Hambro Capital Management Limited ¹	UK	Ordinary	100	–
JOHCM (USA) General Partner Inc ¹	USA	Ordinary	100	–
JOHCM (Singapore) PTE Limited ¹	Singapore	Ordinary	100	–
JOHCM Share Trustee Limited ¹	UK	Ordinary	100	–
BT Investment Management Employee Share Trust	Australia	–	–	–
BTIM Employee Benefit Trust ²	Jersey	–	–	–

¹ Acquired as part of the acquisition of JOHCM and its subsidiaries in October 2011.

² Established to administer the employee share plan for JOHCM employees.

(c) KMP

Disclosures relating to KMP are set out in Note 24 and the Remuneration Report of the Directors' Report.

(d) Transactions with the Westpac Group of companies

The following transactions occurred with related parties:

	2012 \$	2011 \$
<i>Rendering of services</i>		
Management, fund and trustee fees	53,785,363	56,914,489
Service fees from related parties	1,425,567	1,405,857
<i>Purchase of goods and services</i>		
Service fees to related parties	7,875,734	7,932,019
Insurance premiums to related parties	126,458	112,911
<i>Interest income</i>		
Interest received on cash balances held with Westpac	340,660	815,215
<i>Other transactions</i>		
Contribution to rights issue by Westpac	–	165,120,000
Dividends paid to the immediate parent entity, WFSGL	26,784,000	15,360,000
Sponsorships paid to the Westpac Group of companies	4,000	2,273

(e) Outstanding balances with Westpac arising from sales / purchases of goods and services

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	2012 \$	2011 \$
<i>Current receivables (rendering of services)</i>		
Other related entities	5,393,912	4,769,679
<i>Current payables (purchase of services)</i>		
Ultimate parent entity	2,373,861	2,554,146
Other related entities	1,366,485	1,398,684

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

(f) Cash and cash equivalents

\$4,506,973 (2011: \$16,745,960) was in bank accounts held with Westpac at 30 September 2012.

As part of the lease agreement for its premises, the Company has a bank guarantee with The Westpac Group of \$1,419,393 (refer Note 27).

(g) Terms and conditions

Transactions relating to dividends and subscriptions for new ordinary shares were on the same terms and conditions that applied to other shareholders.

Outstanding balances are unsecured.

The following material contracts and agreements were in place with The Westpac Group during the financial year (unless otherwise stated):

Agreement	Term	Description
Name Licensing Agreement	Five years to 19 October 2012 plus a further five year extension by mutual agreement. Currently under renegotiation.	Non-exclusive licence for the BTIM Group to use the 'BT' brand in Australia in connection with providing investment management services, and the distribution and marketing of investment management funds. Annual fee of \$1.0 million plus contribution to marketing spend.
Master Relationship Agreement	Initial three year term extended to 31 March 2015.	Governs the terms on which BTIM RE acts as the investment manager of certain Westpac Group retail funds, pooled superannuation trusts and statutory funds (Funds), including management fees payable, the rights of members of The Westpac Group to withdraw funds from management and / or terminate BTIM RE's appointment.
Investment Management Agreement	Ongoing, subject to termination rights under the agreement and the Master Relationship Agreement.	Appoints BTIM RE as the investment manager for the Funds for which members of The Westpac Group act as the RE.
PPM Advisory Agreement	Initial three years, extended for a further three years to 19 October 2013.	Appointment of BTIM RE to provide investment advisory and other services to the managed account business within The Westpac Group which provides advice to high net worth clients.
Services Agreements	Ongoing, unless terminated in accordance with the provisions of the agreement.	The Westpac Group's provision of registry, customer relations, technology, finance, compliance, payroll and other miscellaneous services to the BTIM Group. In addition, the BTIM Group will provide services (including performance measurement and client services) to The Westpac Group.
Investment Accounting Agreement	Ongoing, until terminated by either party.	Provision of investment accounting services by The Westpac Group to the BTIM Group.

(h) Other related parties

J D Hambro is chairman of JOHCM Holdings Limited and is a member of James Hambro & Partners LLP, of which JOHCM holds a 9.9% interest. J D Hambro is also a director and majority shareholder of Runnall Limited, one of its Designated Members.

J D Hambro is a director of Primary Health Properties PLC (PHP) from which JOHCM receives fees in addition to Mr Hambro's fees for his services as a director. Directors fees received during the year were \$38,285 (£25,000). During the year, JOHCM received fees for services provided to PHP of £1,617,754 (\$2,477,418) and at balance date the amount due from PHP was \$204,361 (£133,448). J D Hambro holds an equity interest in Wiltons Holdings Limited which holds the trademark licences for the Hambro name. The trademark licence is for a term of 7 years at a fee of \$91,883 (£50,000) and may be renewed thereafter.

Transitional Service Agreements are in place with each of Harwood Capital LLP (formerly North Atlantic Value LLP) and James Hambro & Partners LLP for a period of 12 months from 26 October 2011. During the year, JOHCM received \$267,170 (£174,462) and \$215,949 (£141,015) respectively from each LLP in respect of these services.

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FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2012

29. Business combinations

On 26 October 2011 the BTIM Group settled its acquisition of JOHCM. For consolidation purposes, the transaction is effective 1 October 2011.

(a) Details of the purchase consideration are set out below:

	£'000	\$'000
Cash paid	183,183	282,812
Loan notes issued	10,218	16,309
Converting notes issued	15,032	23,994
Share-based payment awards replacing existing awards held by JOHCM employees	2,913	4,649
Total purchase consideration	211,346	327,764

Cash paid includes £12.4 million (\$19.0 million) to acquire seed capital and other investments. It also includes the payment of £25.2 million (\$38.8 million) for loan notes which were fully redeemed on 26 October 2011. Refer Notes 18 and 19 for further information on loan notes and converting notes.

Included in the purchase consideration is an amount of £6.5 million (\$10.0 million) held in escrow in relation to certain tax indemnities (refer Note 26). To the extent that any amounts are claimed by the BTIM Group from the escrow account in the future any tax in excess of the escrow amount can be recovered from the sellers under the terms of the SPA and would not have an effect on the purchase consideration.

(b) Purchase consideration – cash outflow

	£'000	\$'000
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration	183,183	282,812
Less: balances acquired	(14,277)	(22,788)
Outflow of cash – investing activities	168,906	260,024

Details of the fair value of the identifiable assets and liabilities acquired and goodwill are set out below:

	£'000	\$'000
Cash	14,277	22,788
Trade and other receivables	15,237	24,321
Current tax asset	2,082	3,323
Property, plant and equipment	566	903
Available-for-sale financial assets	13,801	22,029
Deferred tax asset	194	309
Intangible assets: fund and investment management contracts	74,500	115,180
Trade and other payables	(18,549)	(29,607)
Employee benefits	(7,341)	(11,717)
Deferred tax liability	(17,880)	(27,643)
Net identifiable assets acquired	76,887	119,886
Goodwill	134,459	207,878
	211,346	327,764

The goodwill balance is attributed to the skills and talent of the acquired business workforce, revenue growth and future market developments. It is not deductible for tax purposes.

The deferred tax liability arises on the recognition of intangible assets from the acquisition.

All costs in relation to the acquisition were expensed in the 2011 Financial Year.

There were no other business acquisitions in the year ended 30 September 2012.

30. Subsequent events

No matter or circumstance which is not otherwise reflected in this financial report has arisen subsequent to the balance date, which has significantly affected or may significantly affect the operations of the BTIM Group, the results of those operations or the state of affairs of the BTIM Group in subsequent financial periods.

31. Reconciliation of profit after income tax to net cash inflow from operating activities

	2012 \$'000	2011 \$'000
Profit after tax for the financial year	21,398	16,897
<i>Adjustments for non-cash expense items:</i>		
Depreciation and amortisation	1,404	1,820
Amortisation and impairment of intangibles	11,924	–
Amortisation of employee equity grants	21,584	10,385
Interest and finance costs	2,207	708
Loss on financial liabilities at fair value through profit and loss	1,090	–
Net exchange differences	(246)	–
<i>Change in operating assets and liabilities, net of effects from the purchase of JOHCM:</i>		
Decrease in trade and other receivables	4,965	4,498
Increase in prepayments	(342)	(203)
Increase in deferred tax assets	(755)	(270)
(Decrease) / increase in trade and other payables	(21,974)	5,716
Increase / (decrease) in employee benefits	1,051	(235)
Decrease in lease liabilities	(331)	(241)
Increase / (decrease) in current tax liabilities	4,142	(3,109)
(Decrease) / increase in deferred tax liabilities	(3,021)	745
Net cash inflow from operating activities	43,096	36,711

32. Earnings per share

	2012 Cents per share	2011 Cents per share
(a) Basic earnings per share		
Profit attributable to ordinary equity holders of BTIM	8.8	11.7
(b) Diluted earnings per share		
Profit attributable to ordinary equity holders of BTIM	8.5	11.5

(c) Reconciliation of earnings used in calculating earnings per share

	2012 \$'000	2011 \$'000
<i>Basic earnings per share</i>		
Profit attributable to owners of BTIM used in calculating basic earnings per share	21,398	16,897
<i>Diluted earnings per share</i>		
Profit attributable to owners of BTIM used in calculating diluted earnings per share	21,398	16,897

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32. Earnings per share *continued*

(d) Weighted average number of shares used as the denominator

	2012 Number of shares '000	2011 Number of shares '000
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	242,687	144,294
<i>Adjustment for calculation of diluted earnings per share</i>		
Effect of own shares held	2,834	3,260
Converting notes ¹	5,286	–
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	250,807	147,554

¹ Converting notes issued on 26 October 2011, totalling 18,005,223 at 30 September 2012, are considered potential ordinary shares and have been included in the determination of diluted earnings per share from their issue date.

Options totalling 5,844,665 were issued to JOHCM staff during the financial year and as part of the acquisition have not been included in the calculation of diluted EPS for the year ended 30 September 2012. This is because ordinary shares will be acquired on-market over time to settle the exercise of the options.

33. Share-based payments

The BTIM Group has two employee benefit trusts to administer the BTIM Group's employee share schemes. The BT Investment Management Employee Share Trust (ESP) is used by BTIM to administer the employee share plan for its Australian employees and on 31 December 2011, the BTIM Employee Benefit Trust (EBT) was formed to administer the employee share plan for its UK employees. Share purchases are undertaken by the specially established trusts that are funded on an ongoing basis by the BTIM Group and controlled by BTIM.

(a) BTIM employee equity grants

Ordinary shares have been granted to employees and KMP under the following schemes:

Upfront Equity Grants

The shares comprising Upfront Equity Grants were issued under the BTIM Employee Equity Plan at listing. These shares were not a cash expense to the business and are subject to a vesting period of up to five years. These shares have fully vested as at 1 October 2012.

New and Existing Employee Equity Grants

BTIM satisfies any grants to new employees, current employees where equity is provided for retention for employees filling new or existing positions by either issuing treasury shares from forfeited shares in the ESP or from shares purchased on market (refer Note 21).

	2012	2011
Number of shares issued under the New and Existing Employee Equity Grants to participating employees under the ESP	1,605,607	357,885

Each participant was issued shares with a weighted average market price of between \$1.90 and \$2.17 (2011: between \$2.02 and \$2.89).

Ongoing Equity Grants

Boutique Variable Reward

The ongoing remuneration structure for investment managers has two components: fixed remuneration and variable reward. Investment managers are eligible for a profit share payment consisting of a combination of cash and / or shares (Ongoing Equity Grants).

Corporate Variable Reward Scheme

Management employees of BTIM are paid a combination of fixed remuneration and variable reward made up of cash and / or shares (Ongoing Equity Grants).

Employee Share Plan – Gift Plan

Certain employees are eligible for up to \$2,000 of Company shares subject to certain performance criteria being met.

Annual CEO Award

To recognise outstanding individual achievement, the winner of the Annual CEO Award is eligible to receive \$10,000 of Company shares.

	2012	2011
Number of shares issued under the Ongoing Equity Grants		
Grants to participating employees of the ESP	4,069,176	2,858,157
Grants to participating employees of the EBT	50,366	–
Total grants to participating employees of the BTIM Group	4,119,542	2,858,157

ESP participants were issued shares with a weighted average market price of \$2.17 (2011: \$2.83). EBT participants were issued shares with a weighted average market price of \$1.99.

Shares granted in Ongoing Equity Grants have time-based vesting conditions and may contain performance hurdles.

(b) JOHCM employee equity grants

As part of the acquisition of JOHCM, BTIM has provided JOHCM employees short, medium and long term equity incentives in the form of BTIM shares or other BTIM securities. These are equity-settled share-based payment transactions, where JOHCM receives services as consideration for the equity instruments granted. The fair value of the services received cannot be estimated reliably and therefore the company has measured their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

The following share-based payment compensation schemes were in operation during the 2012 Financial Year for JOHCM employees:

Rollover Equity and Fund Equity – Converting Notes

On transaction date, a total number of 14,009,668 BTIM converting notes were issued to JOHCM employees in exchange for their JOHCM Group shares or other equity entitlements. Each converting note will convert into one BTIM ordinary share over a period of up to five years provided that the note holder continues in employment. If the employment conditions are not met the number of converting notes that will convert may be reduced.

The employees are entitled to receive dividend-linked coupons during the vesting period.

The fair value of the converting notes are based on the BTIM share price at the grant date of \$1.98 and allocated between purchase consideration and remuneration. The fair value of the converting notes treated as purchase consideration and classified as a financial liability (refer Note 19), represents the fair value of the conversion right that the note holder will receive irrespective of whether they continue in employment. The remuneration component is accounted for as equity-settled share-based payment with a vesting period of up to five years. The assessed fair value of the remuneration component is in the range of \$0.26 to \$0.28 per converting note. It was independently determined using Monte-Carlo simulation valuation techniques that take into account the following inputs:

- the term of the converting note
- the impact of dilution
- the share price at grant date of \$1.98
- expected volatility of the underlying share of 30%
- the expected dividend yield of 6%
- the risk free rate of return for the term of the converting note of 3.81%

The number of converting notes outstanding and convertible into BTIM ordinary shares at 30 September 2012 is 14,009,668.

Staff Equity Plan – Converting Notes

Equity was granted in the form of BTIM converting notes to JOHCM senior and general staff with performance hurdles attached. The total number of converting notes issued was 4,047,220. The fair value of the converting notes was determined to be the BTIM share price on grant date of \$1.98. The converting notes will vest and convert into unrestricted ordinary shares in BTIM in two tranches after three and five years, subject to operating earnings growth targets and the employee remaining in employment. The number of shares to which the noteholder shall be entitled upon conversion will be equal to the number of notes.

The employees are entitled to receive dividend-linked coupons during the vesting period. A total number of 51,665 converting notes were forfeited during the year. The total number of converting notes outstanding at 30 September 2012 is 3,995,555.

Fund Linked Equity

JOHCM investment managers who held long term equity awards under a JOHCM equity scheme prior to the BTIM Group's acquisition have been awarded new equity grants under substantially the same terms. The new equity awards will convert into a number of BTIM ordinary shares over a period of up to eight years.

Retention Equity

Two tranches of BTIM equity in the form of BTIM nil cost options were awarded to existing JOHCM fund managers as part of the acquisition. A total number of 5,844,665 nil cost options were issued which will vest and be exercised into BTIM ordinary shares over a period of up to ten years. The exercise price of these options is \$nil per option.

The employee is not entitled to receive dividends during the vesting period.

The fair value of the options was determined using the binomial method based on the BTIM share price at grant date of \$1.98 and dividend yield of 6%. The assessed fair value of the nil cost options issued during 2012 based on these inputs was between \$1.09 and \$1.38 depending on their vesting date.

No nil cost options were exercised during the year. The total number of nil cost options at 30 September 2012 is 5,844,665.

JOHCM Ongoing Equity Grants

For the financial year ended 30 September 2012 and in subsequent financial years, eligible JOHCM employees are paid a combination of fixed remuneration and variable reward made up of cash and / or BTIM ordinary shares. Each participant was issued shares with a weighted average market price of \$1.99.

The shares will vest over a period of up to five years.

The Company's Constitution provides that the aggregate number of shares issued to current employees under the employee share plans (ESP and EBT) must not exceed 15% of the shares then on issue. This restriction may only be waived or amended by the approval of shareholders in a general meeting.

The total number of shares held within the ESP and EBT at 30 September 2012 was 9.2%.

(c) Long-term incentive plan (LTIP)

During the year the BTIM Board Remuneration & Nomination Committee approved the introduction of a new plan, the BTIM Performance Reward Scheme (PRS). The PRS is a long-term incentive plan for BTIM employees, aimed at driving performance by delivering value only when BTIM meets or exceeds specific performance hurdles. Under the PRS selected employees will be granted performance share rights which will vest into BTIM ordinary shares at the end of the three year period subject to meeting employment and performance conditions. The performance conditions are based on total shareholder returns (TSR) and Cash earnings per share (Cash EPS) growth.

Performance share rights do not qualify for any dividends throughout the performance period. However, there will be a dividend-equivalent payment made for dividends attributable to performance share rights that vest at the end of the performance period.

The scheme was in place for the BTIM CEO during the financial year ended 30 September 2012.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2012

33. Share-based payments *continued*

(c) Long-term incentive plan (LTIP) *continued*

A total of 495,417 performance share rights were granted effective 1 October 2011 which have been independently valued. 50% of the performance share rights granted are linked to TSR hurdles over three years and valued using a Monte Carlo simulation model. 50% of the performance share rights granted are linked to Cash EPS performance hurdles over three years and valued using a binominal option pricing model. The fair value at grant date was \$1.26 and \$1.98 for the TSR and Cash EPS performance share rights respectively.

Key inputs in the valuation model include a share price at grant date of \$1.98, volatility of 30%, a dividend yield of zero and a risk free interest rate of 3.62%.

(d) Expenses arising from share-based payment transactions

Total expenses of the BTIM Group arising from share-based payment transactions recognised during the financial year as part of employee benefit expense were as follows:

	2012 \$'000	2011 \$'000
Amortisation of employee equity grants	21,584	10,385

34. Parent entity financial information

The individual financial statements for the parent entity, BTIM, show the following aggregate amounts:

	2012 \$'000	2011 \$'000
(a) Summary financial information		
Profit for the financial year	25,177	16,897
Total comprehensive income for the financial year	25,177	16,897
Current assets	46,240	281,988
Total assets	565,727	531,602
Current liabilities	36,303	23,838
Total liabilities	72,397	29,211
Shareholders' equity:		
Contributed equity	462,490	464,558
Reserves		
Common control reserve	(25,472)	(25,472)
Share-based payment reserve	46,547	48,952
Cash flow hedge reserve	–	9,834
Retained earnings	9,765	4,519
Total equity	493,330	502,391

(b) Guarantees entered into by the parent entity

The parent entity entered into a guarantee with HSBC Bank PLC in relation to the debts of its subsidiary, BTIM UK Limited.

(c) Contingent liabilities of the parent entity

The parent entity has contingent liabilities as outlined in Note 26.

(d) Contractual commitments for the acquisition of property, plant or equipment

The parent entity has no contractual commitments for the acquisition of property, plant or equipment.

DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 60 to 94 are in accordance with the Corporations Act, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements
 - (ii) giving a true and fair view of the BTIM Group's financial position as at 30 September 2012 and of its performance, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that BT Investment Management Limited will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations required under section 295A of the Corporations Act by the Chief Executive Officer and Chief Financial Officer.

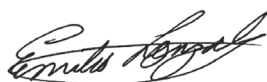
This declaration is made in accordance with a resolution of the Directors.

For and on behalf of the Board.



Brian Scullin

Director



Emilio Gonzalez

Director

Sydney, 1 November 2012

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BT INVESTMENT MANAGEMENT LIMITED



Report on the financial report

We have audited the accompanying financial report of BT Investment Management Limited (the company), which comprises the consolidated statement of financial position as at 30 September 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the BTIM Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of BT Investment Management Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 September 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

PricewaterhouseCoopers, ABN 52 780 433 757

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Liability limited by a scheme approved under Professional Standards Legislation.



Report on the Remuneration Report

We have audited the remuneration report included in pages 42 to 57 of the directors' report for the year ended 30 September 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of BT Investment Management Limited for the year ended 30 September 2012, complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of BT Investment Management Limited (the company) for the year ended 30 September 2012 included on BT Investment Management web site. The company's directors are responsible for the integrity of the BT Investment Management's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

A stylized, handwritten signature of the PricewaterhouseCoopers firm, written in a dark grey or black ink.

PricewaterhouseCoopers

A stylized, handwritten signature of A J Loveridge, written in a dark grey or black ink.

A J Loveridge
Partner

Sydney
1 November 2012

SHAREHOLDER INFORMATION

The shareholder information set out below is current as at 15 October 2012.

Number of shareholders and shares on issue

The Company has issued 267,906,977 fully paid ordinary shares and these are held by 9,500 shareholders.

Top twenty shareholders

Details of the 20 largest holders of ordinary shares in the Company are:

	NAME	NUMBER OF SHARES	%
1	Westpac Financial Services Group Limited	172,800,000	64.50
2	JP Morgan Nominees Australia Limited	11,878,630	4.43
3	JP Morgan Nominees Australia Limited	8,397,743	3.13
4	HSBC Custody Nominees (Australia) Limited	5,779,044	2.16
5	EFJ Investments Pty Limited	4,179,826	1.56
6	Pacific Custodians Pty Limited	3,613,352	1.35
7	Diversified United Investment Limited	2,597,734	0.97
8	National Nominees Limited	2,267,859	0.85
9	Australian United Investment Company Limited	2,147,734	0.80
10	Emilio Gonzalez	1,923,167	0.72
11	Citicorp Nominees Pty Limited	1,455,545	0.54
12	Andrew Waddington	1,410,845	0.53
13	James Taylor	1,273,604	0.48
14	Adina Holdings No 2 Pty Limited	1,246,940	0.47
15	Noel Webster	1,097,141	0.41
16	NSW Investor Nominees Pty Limited	923,540	0.34
17	Equinity Trust (Jersey) Limited	824,590	0.31
18	National Investment Holdings Pty Limited	786,961	0.29
19	Sondal Bensen	759,171	0.28
20	Paul Hannan	718,539	0.27
	Total	226,081,965	84.39
	Balance of Register	41,825,012	15.61
	Grand TOTAL	267,906,977	100.00

Distribution of shareholders

HOLDING	NUMBER OF SHARES	%	NUMBER OF SHAREHOLDERS
100,001 and Over	234,267,880	87.4	59
10,001 to 100,000	12,724,659	4.8	540
5,001 to 10,000	6,003,853	2.2	804
1,001 to 5,000	14,587,378	5.5	7,522
1 to 1,000	323,207	0.1	575
Total	267,906,977	100.00	9,500

Unmarketable parcels of shares

There are 121 shareholders holding less than a marketable parcel of ordinary shares.

Substantial shareholders

The number of securities held by substantial shareholders and their associates, as disclosed in substantial holding notices given to the Company, is set out below:

NAME	NUMBER OF SHARES	%
Westpac Financial Services Group Limited	172,800,000	64.50

Restricted securities

There are no restricted securities or securities subject to voluntary escrow.

Unquoted securities

The following unquoted securities are on issue:

Converting notes: 18,005,223

Nil cost options: 5,844,665

Voting rights

The voting rights attached to ordinary shares are that on a show of hands, every member present, in person or proxy has one vote and upon a poll, each share shall have one vote.

No voting rights are attached to converting notes or nil cost options.

GLOSSARY

\$

Australian dollars, unless indicated otherwise

£ or GBP

Pounds sterling

2012 Financial Year or FY12

The financial year ended 30 September 2012

20XX Financial Year or FYXX

Refers to the financial year ended 30 September 20XX, where XX is the two digit number for the year

AASB

Australian Accounting Standards Board

ABN

Australian Business Number

ACN

Australian Company Number

AFSL

Australian Financial Services Licence

ASX

Australian Securities Exchange or ASX Limited
(ABN 98 008 624 691)

ASX Recommendations

The Corporate Governance Principles and Recommendations (Second Edition) published by the ASX Corporate Governance Council

Board

Board of Directors

bps

Basis points

BTFG

BT Financial Group, the wealth management division of the Westpac Group

BTIM or Company

BT Investment Management Limited
(ABN 28 126 385 822)

BTIM ESP

The BT Investment Management Limited Employee Share Plan

BTIM Funds

The managed investment schemes or unit trusts of which BTIM RE is the RE

BTIM Group

BTIM, BTIM RE, BTIM UK Ltd, JOHCM Holdings, J O Hambro Capital Management Limited, and its subsidiaries

BTIM RE

BT Investment Management (RE) Limited (ABN 17 126 390 627), a wholly-owned subsidiary of BTIM and the RE of the BTIM Funds

CEO

Chief Executive Officer

CFO

Chief Financial Officer

CGU

Cash generating unit

CODM

Chief operating decision-maker.
This is BTIM's Senior Management Team

COO

Chief Operating Officer

Corporations Act

Corporations Act 2001

cps

Australian cents per share

Directors

Directors of BTIM

FUM

Funds under management

IASB

International Accounting Standards Board

JOHCM

J O Hambro Capital Management Limited

JOHCM EBT

J O Hambro Capital Management Limited Employee Benefit Trust

Key management personnel or KMP

Those persons having authority and responsibility for planning, directing and controlling the activities of BTIM, including the Directors, the members of the Senior Management Team and the Chief Executive Officer of JOHCM

KPIs

Key performance indicators

M & A

Mergers and acquisitions

NED

Non-executive Directors

NPAT

Net profit after tax

PwC

PricewaterhouseCoopers, the external auditor of the BTIM Group

RE

Responsible entity

Reporting Period

The financial year ended 30 September 2012

Senior Executives

Members of the Senior Management Team

Senior Management Team

Senior Management Team of BTIM. During the 2012 Financial Year, the Senior Management Team was the CEO, CFO, COO, the Head of Sales & Marketing, the Head of M & A and Strategy and the Head of Human Resources

VR

Variable reward

Westpac

Westpac Banking Corporation
(ABN 33 007 457 141)

Westpac Group

Westpac and its controlled entities

WFSGL

Westpac Financial Services Group Limited

CORPORATE DIRECTORY

Directors

Brian Scullin (Chairman)
Emilio Gonzalez (Chief Executive Officer)
Brad Cooper
James Evans
Andrew Fay
Carolyn Hewson

Company Secretary

Chris Millard

Registered Office

Level 14
The Chifley Tower
2 Chifley Square
Sydney NSW 2000
Telephone: +612 9220 2000
Facsimile: +612 9220 2307
Email: enquiries@btim.com.au

Postal address

GPO Box 7072
Sydney NSW 2001

Website

www.btim.com.au

Australian Company Number

126 385 822

Australian Business Number

28 126 385 822

ASX Code

BTT

Auditors

PricewaterhouseCoopers
Darling Park Tower 2
201 Sussex Street
Sydney NSW 2000

Share Registry

Link Market Services Limited
Level 12
680 George Street
Sydney NSW 2000
Telephone: +612 8280 7111
Facsimile: +612 9287 0303



