

ASX Announcement

7 December 2012

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BT Investment Management Limited – 2012 Annual General Meeting

In accordance with Listing Rule 3.13.1, please find enclosed the proposed addresses of the Chairman and Chief Executive Officer of BT Investment Management Limited (**Company**) to be delivered at the Company's annual general meeting on 7 December 2012, commencing at 10.00 am.

A copy of the presentation slides to be displayed at the annual general meeting will be lodged separately.

For further information in relation to this announcement, please contact:

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BT Investment Management
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BT INVESTMENT MANAGEMENT LIMITED

FRIDAY, 7 DECEMBER 2012

MEETING ADDRESSES

CHAIRMAN, BRIAN SCULLIN:

I wish to make some remarks about the Company's performance and activities during the financial year to 30 September 2012.

Our CEO, Emilio Gonzalez will talk about these matters in more detail, but I will remark on some of the highlights for the year including;

- Successfully executing on the J O Hambro Capital Management acquisition.
- The transformation of BTIM from a domestic focused business into a global asset management business resulting in a business far more diversified and less reliant on any single asset class or product.
- Growth in funds under management during the course of the year by 9% to \$46.6 billion as at the end of September 2012.
- Continued success in building our fixed interest capability by obtaining buy rating recommendations from key asset consultants and securing a number of mandates in this growing asset class and being nominated as Fund Manager of the Year for in the fixed interest category of the annual Fund Manager Awards.
- The launch of a range of new innovative products to reflect the demand for yield and income with low volatility aimed at the retiree market.
- All this leading to a step change in our business where revenue was up 52% to \$192.5 million, and Cash Net Profit After Tax up 36% to \$41.5 million.
- Cash Earnings Per Share were down 22% which primarily reflects lower domestic equity markets on average this year compared to the previous year and a difficult trading environment in Australia where growth assets across the industry have experienced outflows.

Financial markets have continued to be plagued by ongoing uncertainty particularly around the prospects of Europe and the outlook for global growth in general. Whilst our business is not immune to this, BT Investment Management is today a globally diverse and financially strong business with strong growth prospects as a result of the strategy and initiatives that have been put in place. It is a very different business today than from 12 months ago; a larger business that is more diverse, with a better range of products and with expanded investment capabilities.

The J O Hambro business is demonstrating continued growth in fund flows despite many other competitors in the industry experiencing net outflows. We are excited by the opportunities this represents and the benefits it brings to our business.

Domestically we have expanded our investment capability and have built and launched new products that better reflects the changing nature of what our clients are looking for backed by a brand that is highly respected in the marketplace.

Emilio will in his address, expand on a lot of the initiatives the company has taken and provide further detail on our business.

I will however touch on the importance of financial markets to our business.

We are a business in which the markets directly affect our profitability. We respond by having a cost base that's variable to the extent that we can, tightly managing our fixed costs, focusing on the delivery of investment performance for our clients irrespective of market conditions and performing ongoing reviews of our product range.

Our other strategy has been to diversify our revenue so that the business is not overly reliant on any one asset class or style that may fall in and out of favour. In essence, de-risking the portfolio. This we have done through the J O Hambro acquisition and the re-building of our fixed interest capability in addition to several new product launches.

Nonetheless, the movement in level of financial markets will continue to significantly influence our revenue. When BT Investment Management was floated at the end of 2007 the ASX All Ordinaries price index was 6,537.

As of close yesterday it is 4,515 some 31% lower and the markets during 2012 were significantly lower on average than the two prior years. Investment management businesses during that period have also seen a downward re-rating, reflecting overall market conditions.

Let me assure you that the Board and the Management team is focused on delivering shareholder value through all cycles of the market and our strategy and initiatives that we have taken are aimed at growing long term shareholder value and we are all aligned behind that common goal.

We believe we offer many unique opportunities to shareholders looking to participate in the investment management business with a number of strategic advantages.

- We are a pure investment management business
- We have diversity of revenue across asset classes, clients and products
- We have exposure to growth in the offshore investment management market as well as the domestic market. This we consider important as it provides currency diversification but with a continued strong domestic presence, a mix that many of our competitors do not offer as well as exposure to growth assets offshore that benefit from next to zero level interest rates; and
- We have a strong domestic brand with access to distribution

This strategic positioning has positively differentiated us from our peers and strongly positioned BTIM to take advantage of market and sector growth opportunities to deliver long term shareholder value.

Turning to capital management, the Board has declared interim and final dividends of 5.5 and 7 cents per share respectively this financial year, bringing total dividends for the year to 12.5 cents per share.

This represents a dividend payout ratio of 86% of Cash Net profit after tax, which remains within the Board's stated target range of 80-90% of Cash NPAT.

The final dividend applies to all shares on issue as at 7 December 2012, and the Payment Date will be on 20 December.

I remind all shareholders that the final dividend will be fully franked, as we noted in last year's AGM. At that time, we also advised that going forward franking is likely to decline as a larger proportion of earnings will be generated offshore.

We understand the importance of dividends to our retail shareholders, and as such, we are focused on maintaining a steady cash flow to our shareholders while still growing our business.

I would also note that this year the Board has decided to activate, for the first time, the Dividend Reinvestment Plan, or DRP.

You will recall that last year we raised \$232 million in the pro rata shareholder entitlement offer associated with the J O Hambro acquisition. This resulted in an expansion of the equity base and the taking on of additional debt. As at the end of September, our bank debt obligations were \$52 million. The DRP will assist in the reduction of this debt.

I am pleased to note our majority shareholder, Westpac Banking Corporation, has indicated its intention to fully participate in the DRP. The DRP will allow eligible shareholders to have all or a part of their dividends automatically reinvested in additional BTIM shares, with no commissions or brokerage fees will be payable by shareholders in connection with the additional shares acquired.

Shares issued under the DRP will be at a zero discount to the allocation price.

The Board believes the activation of the DRP at this time is a prudent approach to capital management which is under regular review.

Looking to the future, the Board believes that BTIM is well positioned for growth. However, we are mindful of the continued macro-economic uncertainty and fragile investor sentiment that persists.

Global events, heightened market volatility and investor sentiment will be the biggest factors to impact on fund flows. Investors will require market volatility to moderate, and a period of stability to prevail, before we will see any meaningful improvement to investor sentiment.

Domestically, we operate in an industry that is supported by the compulsory superannuation guarantee which will continue to grow the available pool of investable funds. The industry will be supported by a 3% increase to the Compulsory Superannuation Guarantee, commencing its phased introduction in July 2013.

A number of headwinds of the past such as high term deposit rates, declining commodity prices and a high Australian dollar, could potentially turn and become tailwinds which we are well positioned to benefit from.

In short, The BTIM Group is well positioned to deliver long-term shareholder value based on the success and momentum of our strategic initiatives, the diversity of our offering, the strong industry fundamentals supported by future growth of superannuation and our superior competitive positioning within the industry.

The Board would like to recognise the achievements of your company's management, led by Emilio Gonzalez, in continuing to execute on BTIM's strategy, placing the business in a strong position particularly in the face of difficult market conditions.

CHIEF EXECUTIVE OFFICER, EMILIO GONZALEZ

2012 marks a significant year for our business and in particular the progress we have made on our strategy in what continues to be a challenging environment for investment management businesses.

Our business is closely linked to movements in investment markets and investor sentiment. Both of these factors have been headwinds but we have responded in a very positive way to seek opportunities and position the business for growth. We have positive momentum going into 2013 notwithstanding major movements in investment markets.

Two years ago in my Annual General Meeting address I outlined a strategy about the need to:

- Diversify our business with growth opportunities
- Increase our presence in the retail channel through financial planners and intermediaries
- Build on our distribution reach as part of the broader Westpac Group; and

I further pointed out the need to be well positioned to take advantage of the growing demand for income type products

The results and activities of 2012 reflect our focus in delivering on these objectives.

The importance of the strategy has been further heightened given market developments and the entrenchment of the trends originally identified.

Firstly, I'll touch on the financial highlights for 2012 and then I will expand on how our business strategy has been important to build the platform for growth in light of market developments

- Cash Net Profit After Tax for the financial year ended 30 September 2012, was \$41.5m, up 36% on the previous year. This reflects the full year contribution from the acquisition of J O Hambro Capital Management and a step change in business around funds under management, revenue and expenses.
- Average funds under management increased 27% to \$44.6b with average fee margins of 39basis points compared to 34 basis points the prior year. Over the course of the year BTIM Australia's FUM grew by \$1.7bn or 5% whilst JOHCM FUM grew \$2.3bn or 23% over the same period.
- Overall, the Group experienced net outflows for the year of \$0.6bn which was primarily driven by \$1.2bn in outflows from the legacy book.

- Revenue for the group was \$192.5m up 52%
- Total pre-tax cash expenses were \$135.2m up 63% again both representative of the enlarged group post the JOHCM acquisition.
- Cash earnings per share for the year was lower by 22%, which largely reflects the average level of the equity markets in Australia being 8.3% lower than the previous year flowing through in the form of lower revenue for the BTIM Australian business

Investment markets are important to our business in a number of ways. Our revenue is closely linked to market levels, market returns in turn has a direct impact on investor sentiment which in turn has an impact on investment flows into our products. From time to time like any other industry certain products will come in and out of favour but we are today operating in an environment where investor attitudes and habits have changed.

The fall out of the global financial crisis such as the ongoing concerns over the Euro zone, a “lower growth for longer” outlook for developed economies under the strain of fiscal imbalances, increased volatility, and event risk has led to a strong preference for safe defensive assets with investors becoming very risk averse.

This chart plots the 5 year annual compound rolling return for the All Ords Index. You’ll see that it rarely falls below zero and in the last 28 years it has only done so on only two occasions. Once briefly in September 1992 but even then long term returns were mostly sustained above the 5% mark. In contrast, we have now experienced over 12 months of 5yr annual compound returns below zero per cent and this has had a negative flow-on effect on investor sentiment and risk appetite.

This has resulted in a strong shift towards safe defensive assets with retail investors preferring stable, income generating products over traditional growth products, at least domestically where interest rates have been an attractive option. As a result, this response has been reflected in flows across the industry at historically low levels.

The following chart demonstrates the close relationship between market returns and industry flows. Here again I’ve plotted the 5yr annual compound return for the All Ords markets as an indicator of long term returns from 2000 onwards and superimposed industry flows. Market returns peaked in 2007, saw a period of decline before a brief recovery 2009 and then continued on its decline to below zero percent return on a 5yr compound basis. Arguably you could now present a case that based on historical patterns you should see an improvement, particularly as domestic interest rates are declining and the yield on

equities on a pre-tax basis are well above the prevailing cash rate. What this chart is telling you is that the market is factoring in a high price for risk.

Nonetheless, there is a close relationship between long term equity returns and investment flows. The investment that has benefitted has been term deposits.

Term deposits held with deposit taking financial institutions grew from \$300 billion in mid 2005 to over \$800 billion. This coincided at a time when the banking system was also seeking to fund their balance sheets from domestic sources, hence offering term rates well above cash rates for the first time in a long time and encouraged further with the introduction of the government guarantee. It was convenient for both suppliers and borrowers of capital, and although recent declines in term deposit rates by 2 full percentage points is enticing some investors to seek alternatives there remains an embedded level of conservatism.

Paying down debt has been a priority and combined with the preference for term deposits and cash, this represents close to 60% of savings compared to less than 40% in 2006, and it has come at the expense of growth assets.

The perception of risk has changed from capital accumulation to capital preservation, or put another way the pool of assets are shifting from investments to savings at a time where a change in demographics is increasingly moving from an accumulation phase to a retirement phase.

Our strategy whilst consistent throughout the past two years has adapted well to these market changes by delivering an investment platform that is far more diverse and catering to the changing needs of clients in a more risk averse world.

Our business was heavily biased towards domestic equities and we had little in the way of income type products to offer the market place. We have responded by focusing on executing our strategy and diversifying our business to build a stronger portfolio, adding new growth engines, re-building our fixed income capability and launching new innovative products whilst at the same time reducing the BTIM Australia cost base.

As a result our business is now globally diverse with expanded investment capabilities.

Our funds under management by asset class is now 22% in Australian equities, 31% in offshore equities, 21% in cash and fixed income, 23% in balanced portfolios with 3% in property. This is a strong and well diversified portfolio.

From a distribution channel perspective, we have a good spread of clients with 23% through the financial planning network and intermediaries which we refer to as wholesale, 40% in institutional and 37%

representing the Westpac Group. The legacy book, which is run-off mode, now accounts for only 20% of FUM, compared to 29% last year.

What it has meant, is that for our core business, across the Group we posted net inflows totalling \$0.6 million evenly spread across the institutional, wholesale and Westpac (ex-legacy) channels. These flows have been driven by strong net inflows out of JOHCM.

Our range of offshore equity funds, property, cash and fixed income ex-legacy products all posted positive net inflows for the year with only Australian equities experiencing negative outflows, reflective of the overall industry flows.

As Brian has already pointed out an important initiative for the past twelve months has been ensuring a smooth transition of ownership of the J O Hambro acquisition. Fund management acquisitions are not easy but we were confident of our ability to successfully execute due to the cultural like-mindedness between both businesses, a common belief in the principles of the boutique business model with staff aligned through common equity.

J O Hambro has been able to deliver positive fund flows for the year totalling \$1.1 billion, with FUM growing by 23% in difficult market conditions. It has retained all of its fund ratings, no client has withdrawn funds as a result of the transaction and all the investment and management personnel continue in the business.

Equity assets have increased from \$9.9 billion to \$12.2 billion. By region the investment strategies that materially benefitted from net inflows were global/international, emerging markets and UK equities. With deposit rates offshore at close to zero levels equity income type funds offshore such as our UK Equity Income Fund are proving attractive particularly during periods when markets stabilise and volatility reduces.

An important part of the J O Hambro business is diversity of investment capabilities and investment styles. In September 2011, two Asia Pacific funds were launched: the all-cap JOHCM Asia ex-Japan and the JOHCM Asia ex-Japan Small and Mid Cap Fund. Both of these funds are managed from the Singapore office and are well positioned to garner assets as allocation to Asian equities rise with the region's growing economic power.

Approximately, 60% of the J O Hambro institutional net inflows in the past two years have emanated from the US. The range of products on offer supported with strong investment performance has been appealing to US investors. We do see continued opportunity in the US and we will be seeking ways to leverage our growing presence in that market.

Domestically, we have focused on re-aligning our product range and building new investment capability to compete in a risk averse world.

Transition to retirement will be one of the fastest growing segments of the market with flows from accumulation to retirement forecast to exceed \$1 billion over the next ten years. The biggest concern among a growing portion of investors, particularly retirees and those approaching retirement in this new era of conservatism is capital preservation and delivering an ongoing income sufficient to maintain their standard of living.

This has led us to assess our product range and respond with the launch of the BT Equity Income Series. These are investment strategies designed to deliver to specific outcomes and look and feel like savings products with managed risk.

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 targeting a total return outcome after fees of 8.5% and 10.0% per annum including franking credits, we believe the funds will prove to be very attractive to financial planners and their clients who are looking for alternatives particularly as rates on term deposits decline, where current rollover rates are considerably lower than what was previously on offer.

The products draw on our capability in Australian equities and added expertise in risk management strategies.

This is a good example of our business strategy at work. Expanding our investment capability platform allows us to create new products whereby we can grow our presence in the retail channel through financial planners and intermediaries and to also bring innovative product solutions to the broader Westpac distribution channel where we have strong relationships, and in doing so diversifying our investment revenue. This product for example was available on the BT Wrap and BT owned Asgard platforms at launch and we also worked with the Westpac private banking division to make these products available to their clients.

Pleasingly also, through our strong working relationship with BT Financial Group we were also awarded a \$5.5 billion strategic asset allocation mandate for a 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 asset allocation overlay we earn an additional fee.

Whilst we acknowledge that conditions in the Australian retail marketplace have been tough, we have nonetheless searched for where the opportunities lie and continue to grow our presence for what still is a

sizeable market. Since 2010 we have expanded our products on platforms and Approved Product Lists with representation across 16 platforms, 20 Approved Product Lists and in 24 model portfolios.

At our end of year financial results, we advised the market that the performance fees accrued on the J O Hambro funds stood at \$26.6 million and materially higher than the \$4.3 million posted a year earlier. As of the 30th of November the performance fee accrual stood at \$A28.1 million a slight increase on the September quarter end. Performance fees can vary significantly from month to month and are not realised until 31 December 2012.

Performance fees are an increasing percentage of our revenue as the majority of the JOHCM funds have performance fees and domestically we are seeing an increased preference for performance fees as superannuation funds look to reduce the base cost to members. It is our intention therefore to provide regular updates throughout the year on the Groups performance fee accrual position.

I conclude by acknowledging that although it has been a challenging time in investment markets we have been proactive in responding to these challenges by provided solutions for our clients and pursuing growth opportunities. Our business is in a very strong position.

We are now a much larger business with a sound portfolio with diversity of revenue and clients across the globe. We have expanded our investment capabilities organically and via acquisition so that we are not overly reliant on any one asset class or product, making us less susceptible to any individual market factor, and we have invested in developing new innovative products targeted at the growing income segment. We have done this in volatile and difficult markets whilst maintaining a tight control on costs.

Notwithstanding significant movements in markets we head into fiscal 2013 with a strong and growing offshore capability in JOHCM, expanded opportunities that our business strategy has created and starting FUM levels higher than the fiscal 2012 average, all of which positions the business for growth.

I take this opportunity to thank our staff across the group who have worked diligently during the course of the year and all our shareholders for their ongoing support.