ASX Release

BT Investment Management Limited delivers record result with Cash NPAT of $173.1 million for the year ended 30 September 2017

BT Investment Management Limited (BTIM) today announced a record result for the fifth consecutive financial year. For the year ended 30 September 2017, Statutory NPAT increased by four per cent to $147.5 million and Cash net profit after tax (Cash NPAT) was $173.1 million, 11 per cent higher compared to the previous corresponding period (pcp). Cash earnings per share (Cash EPS) rose by nine per cent to 55.3 cents per share and a final dividend of 26.0 cents per share was declared bringing total dividends for the year to 45.0 cents per share, an increase of seven per cent on pcp.

Positive net inflows of $4.7 billion and higher global equity markets contributed to a 14 per cent increase in funds under management (FUM) throughout the financial year to $95.8 billion. This strong growth in FUM resulted in a 12 per cent increase in base management fee revenue compared to pcp. Performance fees, which are inherently variable, were 51 per cent lower at $37.9 million.

	FY 2017	FY 2016	Change
Full year to 30 September:			
➢ Cash NPAT[i]	**$173.1m**	$156.0m	+11%
➢ Statutory NPAT	**$147.5m**	$142.0m	+4%
➢ Fee Revenue	**$491.0m**	$493.9m	-1%
➢ Base Management Fees	**$447.2m**	$399.8m	+12%
➢ Base Management Fee Margin	**50bps**	50bps	-
➢ Performance Fees	**$37.9m**	$77.2m	-51%
➢ Operating Expenses	**$281.9m**	$297.0m	-5%
➢ Operating Margin	**43%**	40%	+7%
➢ Cash EPS	**55.3cps**	50.8cps	+9%
➢ Dividends[ii]	**45.0cps**	42.0cps	+7%
➢ Average FUM	**$90.4b**	$80.2b	+13%
As at 30 September:			
➢ Closing FUM	**$95.8b**	$84.0b	+14%

Note: footnotes are detailed on page 4

Mr Emilio Gonzalez, BTIM Group CEO, said, “BTIM's fifth consecutive record result has been underpinned by strong net inflows, particularly in the higher margin wholesale channels, and continued growth in base management fees.

“This year, we attracted net inflows of $4.7 billion with healthy inflows into our US mutual funds continuing the good momentum built over the last few years. Base management fees have continued to increase and over the last five years have now grown at a compound growth rate of 20 per cent per annum. This is a testament to the strength and diversity of our business.

“In executing our long-term strategy, we have expanded our investment capability that complements our existing range of investment strategies. During the year we added a multi-asset capability based in the US, as we continue to target the significant opportunities in that market.”

Financial results

Cash NPAT for the year was $173.1 million, an increase of 11 per cent on pcp. The increase was the result of higher average FUM, driven by strong net inflows and higher markets on average over the course of the year.

Average FUM rose by 13 per cent to $90.4 billion supported by strong global markets which saw the average level of the MSCI All Countries World Index in local currency terms up 13 per cent, and the average level of the S&P/ASX 300 Index by nine per cent. Base management fees increased by 12 per cent to $447.2 million led by the higher average FUM while base management fee margins were steady at 50 basis points for the year.

Performance fees for the year were $37.9 million, 51 per cent lower than the $77.2 million earned in the previous year. Total cash operating expenses decreased five per cent to $281.9 million primarily due to a decrease in employee expenses linked to lower performance fee revenue.

A stronger Australian dollar provided a notable headwind for the Group's 2017 financial year earnings, with the average level of the Australian dollar 17 per cent higher relative to the British Pound, four per cent higher relative to the Euro, and three per cent higher relative to the US dollar over the year.

Funds under management

Closing FUM was $95.8 billion as at 30 September 2017, up $11.8 billion from $84.0 billion last year. The 14 per cent increase in FUM resulted from net inflows of $4.7 billion, $7.2 billion from positive markets and investment performance, offset by unfavourable foreign exchange movements of $0.1 billion.

J O Hambro Capital Management (JOHCM) attracted $6.0 billion of net inflows including $2.6 billion through the higher margin US pooled funds, $2.7 billion via segregated mandates, and $0.7 billion into the OEICs[iii]. BTIM (Australia) saw net outflows of $1.3 billion over the year predominantly through the institutional channel and the ongoing run-off of the Westpac legacy book.

Investment strategies that garnered significant inflows included global/international equities (+$4.2 billion) and European equities (+$1.4 billion) while cash strategies also attracted $0.8 billion in net flows during the year.

Investment performance

The long-term fund performance track record across the Group remains solid with 82 per cent of FUM exceeding respective benchmarks over three years, and 95 per cent of FUM exceeding benchmarks over five years for the period ending 30 September 2017.

Performance over one year is mixed with the more defensive equity strategies such as the JOHCM UK Opportunities Fund and JOHCM Global Opportunities Fund underperforming their benchmarks, together with the JOHCM Global Select Fund and the JOHCM Asia ex-Japan Fund. However, a number of funds have performed strongly outperforming their benchmarks by a considerable margin over the same 12 month period to 30 September 2017. These included the JOHCM UK Dynamic Fund (+9.7 per cent), JOHCM UK Equity Income Fund (+9.5 per cent), BT Wholesale Focus Australian Share Fund (+8.1 per cent), BT Wholesale MicroCap Opportunities Fund (+7.2 per cent) and the BT Wholesale Ethical Share Fund (+5.6 per cent).

Regulation

Across the Group significant work has been undertaken in preparation of new regulations scheduled to take effect in the coming year. Heading the regulatory changes are the reforms to the European Union's Market in Financial Instruments Directive (known as MiFID II) which will come into effect on 3 January 2018. In preparedness for the new MiFID II regulations, JOHCM announced in August 2017 that it will absorb the cost of all external research. New requirements around product governance, transaction reporting, best execution and client reporting are also some of the new standards that will be implemented in the coming year.

Also in the UK, following on from an industry thematic review, JOHCM is the subject of an investigation from its regulator relating to the eligibility of certain services approximating $8.6 million paid for out of dealing commissions between 2006 and 2016. It is possible that as part of the investigation the eligibility of other services may also be assessed. The likely outcome or consequence of this matter (including any sanctions or penalties) is unable to be reliably estimated at this time.

Capital management

The Board declared a final dividend of 26.0 cents per share, bringing total dividends for the 2017 financial year to 45.0 cents per share, up seven per cent on the previous year. Total dividends represent a payout ratio of 81 per cent of Cash NPAT, in line with the Board's targeted payout ratio of between 80 and 90 per cent of Cash NPAT.

The final dividend will be 25 per cent franked and paid on 20 December 2017 to ordinary shareholders at record date, 8 December 2017. The Dividend Reinvestment Plan (DRP) remains active for the final dividend at a zero discount to the allocation price as determined by the DRP rules.

Summary

In commenting on BTIM's strategy, Mr Gonzalez said, "This year's record result reflects the focus of our long-term strategy of continuing to invest in new capabilities, delivery of superior long-term investment performance and continued development across our global distribution.

"Whilst there were a number of headwinds during the year, the diversity of our business across investment strategies, distribution channels and client base meant we were able to continue to generate another year of strong inflows, grow our base management fee revenue and deliver another record result for the fifth consecutive year."

For further information on this announcement, please contact:

Emilio Gonzalez	**Louise Watson / Bo Briedis**
Group CEO	Media / Investors
BTIM Group	Symbol Strategic Communications
Telephone: +61 2 9220 2144	Telephone: +61 2 8011 0591 / +61 2 8011 0593

Appendix

Reconciliation of Statutory and Cash NPAT

$ million	FY 2017	FY 2016
Statutory NPAT	**147.5**	142.0
Add back: amortisation of employee equity grants	**53.7**	58.1
Add back: amortisation and impairment of intangibles [iv]	**7.8**	9.9
Deduct: cash cost of acquiring ongoing employee equity grants payable for the year	**(38.8)**	(49.3)
Add back (Deduct): tax effect	**2.9**	(4.7)
Cash NPAT	**173.1**	156.0

Notes:

i Cash NPAT comprises statutory NPAT adjusted for certain non-cash items. These non-cash items include the amortisation of employee equity grants less the after-tax cash costs of ongoing equity grants made in respect of the current year. Other non-cash items adjusted include the after-tax amortisation and impairment of intangibles, and fair value adjustments on equity settled converting notes issued at the time of the JOHCM acquisition. BTIM believes that these non-cash items do not form part of the underlying earnings of the business and Cash NPAT is a more suitable measure of profitability.

ii The FY17 final dividend of 26.0 cps is to be 25 per cent franked and 75 per cent unfranked. The whole of the unfranked amount of the dividend will be Conduit Foreign Income, as defined in the Income Tax Assessment Act 1997.

iii An open-ended investment company (OEIC) is a collective investment vehicle that is sold in the UK and Europe.

iv Amortisation and impairment of intangibles relates to JOHCM fund and investment management contracts.