BT Investment Management Limited

2014 Annual General Meeting

Chairman's Address

James Evans

Chief Executive Officer's Address

Emilio Gonzalez

The Westin Sydney

1 Martin Place, Sydney

BT INVESTMENT MANAGEMENT LIMITED

ANNUAL GENERAL MEETING

TUESDAY, 9 DECEMBER 2014

ADDRESS BY JAMES EVANS, CHAIRMAN

Whilst I have been on the Board since 2010, this is my first year as Chairman and I am delighted to be speaking to you today.

BTIM has a rich history and has delivered considerable growth for our shareholders. This morning I would like to summarise the company's performance and talk to BTIM's global business, our approach to capital management and investments that we are making for the future.

Firstly, let me start with reporting that the 2014 financial year has been an exceptional year for BTIM and its shareholders.

Highlights for the 2014 financial year included:

- Reporting a Cash net profit after tax of $127.0 million, an increase of 105 per cent,
- Cash earnings per share growth of 100 per cent to 42.6 cents per share, a record outcome for BTIM,
- Average funds under management up 23 per cent to $63.1 billion from $51.5 billion which drove a 36 per cent increase in base management fees,
- Record performance fees of$121.8 million of which $113.6 million related to the J O Hambro Capital Management (JOHCM) range of funds and $8.2 million generated from the domestic funds. This is almost three times the amount earned in FY13,
- Strong net inflows into JOHCM products totalling $3.5 billion,
- Building out our global presence by opening a second office in the US, located in Boston,
- Ongoing success in raising FUM in our new products and in particular our Equity Income fund which raised $414 million during the year,
- Continued strong investment performance with 97 per cent of the Group's FUM generating returns above their benchmarks over the three years ending September
- Receiving a number of awards recognising our investment excellence which our CEO, Emilio Gonzalez will talk more about later; and,
- Investment in distribution, teams and product development to support our future growth.

The results and success have been reflected in the share price which has appreciated considerably from $4.31 to $6.15 at 30 Sep 2014. This has delivered total shareholder return of 49.2 per cent for the year compared to 5.7 per cent for the ASX 300 Accumulation Index over the same period.

Delivering these exceptional results has been a number of years in the making, starting in 2010 with a strategy to diversify the revenue streams in the business and resulting in the acquisition of JOHCM in 2011. BTIM has been on a transformational journey from a domestic focussed funds management business, to a diversified global asset manager and our business continues to expand offshore. We are particularly pleased with our recent progress in the US where we see strong opportunity for growth.

In the 2013 financial year, we established an office in New York and hired an investment team to manage a new International Small Cap fund. We also re-negotiated our existing sales distribution agreement so that we now have a dedicated sales team for our products in the US. This year, we established a trading office in Boston following the hiring of a specialist US small/midcap equity team.

Our reach now extends from Sydney to Singapore, London, New York and Boston. Whilst we recognise the success to date, the journey is still new and there is much work to do in order to build on the growth opportunities that we believe exist in our asset management business.

In Australia, steady growth in superannuation will continue to support our business. Australia has one of the largest and fastest growing funds management sectors in the world driven by compulsory superannuation. Within this growing funds management sector, the structure of the industry is changing. We are seeing an increased level of direct investing, significant growth in self-managed super funds and ongoing pressures on fees.

With these changes bring opportunities. Our focus has been on delivering products with a clear value proposition, using our investment expertise, that cannot easily be replicated and that services the demand from self-managed super funds who are seeking regular income and capital preservation. We have had early success in this area, and Emilio will discuss this in more detail shortly.

Turning to capital management, the Board has declared a final dividend of 19 cents per share, bringing total dividends for the year to 35 cents per share, which represents a 94 per cent increase on the previous year.

The total dividend represents a dividend payout ratio of 82 per cent of Cash net profit after tax which remains within your Board's policy to pay out 80 – 90 per cent of cash net profit after tax. We have been able to maintain this policy whilst delivering growth, growing our dividends and continuing to invest for the future.

When we expanded offshore with the acquisition of the JOHCM business in 2011, we advised that franking levels would decline over time due to offshore earnings becoming a greater proportion of the Group's profitability.

In the 2014 financial year, 78 per cent of the Group's earnings were sourced from our offshore business. For this reason, franking in percentage terms has declined on an annual basis to 35 per cent from 72 per cent the prior year.

I would like to highlight that while the franking levels for FY14 compared to FY13 in percentage terms have declined from 72 per cent to 35 per cent of the dividend, the dollar value of franking has only declined by 0.6 per cent from 13.0 cents per share to 12.3 cents per share, and shareholders have benefitted from growth in the unfranked portion of the dividend from 5.0 cents per share in FY13 to 22.7 cents per share in FY14 through the profits from the offshore business.

The final dividend applies to all shares on issue at 5th December 2014, and the payment date will be on 19th December 2014.

What has been particularly gratifying is that we have been able to grow the business whilst strengthening our balance sheet.

One of the responsibilities of the Board is to assess the risks faced by the business and ensure that the business is positioned strongly to manage any potential risks. The Board is conscious that, as a funds management company with broad reach across markets, BTIM is highly leveraged to movements in markets. It is with this in mind that we have progressively reduced our debt originally taken on to part-fund the JOHCM acquisition, from $80 million down to a current level of $36 million. This places our coverage ratios at very comfortable levels with interest cover over 100 times and a debt to equity level of 6 per cent.

Looking to the future, your Board believes that BTIM continues to be well positioned for growth.

By all accounts global financial conditions are likely to be accommodative with interest rates remaining low as central banks around the world try to reflate their economies. Inflation does not seem to be a concern and there is a global appetite for yield.

This bodes well for investment managers like ourselves who have broad based equity portfolios and despite the cyclical nature of equity markets there is likely to be continued demand for equities as investors search for higher returns in a low interest rate environment.

In Australia, consensus is for moderate growth. The drop-off in resources sector growth continues to be a drag on the economy, while the RBA has maintained low interest rates in order to stimulate other sectors of the economy that can support overall growth going forward. These conditions are likely to put downward pressure on the Australian dollar which, given our level of offshore earnings, will be a positive for our business.

There also remains a high level of activity on the regulatory front following the Global Financial Crisis with various reviews generating significant amounts of regulatory change. As BTIM has expanded offshore our regulatory requirements have increased and this is an area where we need to ensure that we have adequate resources.

Australian regulators are seen to be moving beyond traditional conduct and disclosure regulation towards the use of regulatory tools that address the problems that investors experienced in financial markets. This has been seen through the proposed changes to the Future of Financial Advice requirements and other reviews such as the Australia's Financial Systems Inquiry released only two days ago recommending further change.

In the UK market, the new regulator, the Financial Conduct Authority, continues to pay close attention to the asset management industry, with the objective of ensuring that it is fair, transparent and competitive.

There have also been a growing number of interactions in the United States due to the increasing regulatory legislation.

There is a silver lining behind the growing regulatory burden and that is, organisations such as BTIM who can meet the necessary regulatory requirements and standards to run a global asset management business, are supported by a strong balance sheet and have a capable operational platform are seen as an attractive proposition for investment professionals looking for a home. BTIM is able to offer these professionals investment autonomy with a business model that rewards for success and alignment to the shareholder.

This is an important message which is why we continue to invest in new teams and products that build a foundation for our future growth.

Despite the success we have enjoyed, we remain focused on the future, and continue to invest in people, systems and in delivering investment outperformance. Emilio will expand on our strategy for the future in his address.

I would like to acknowledge the efforts of our people for their dedication, commitment and hard work they have shown and the outcomes that have been achieved.

I would also like to commend Emilio and his management team, including Gavin Rochussen the CEO of JOHCM, on an outstanding year and for their excellent execution of the Group's strategy. It has been an exceptional year for BTIM and its shareholders.

ADDRESS BY EMILIO GONZALEZ, CHIEF EXECUTIVE OFFICER

As our Chairman, Jim Evans has mentioned, 2014 has been an exceptional year for BTIM with the Group reporting record results.

To re-iterate we were pleased to be able to report strong growth across the business, with a 62 per cent increase in fee revenue, a 105 per cent increase in Cash net profit after tax, a 100 per cent increase in cash earnings per share and a 94% increase in dividends.

The business highlights for the year were:

- Exceptional performance fees from J O Hambro Capital Management,
- Strong momentum with growth in funds under management (FUM), fee revenue and expanded margins,
- Base management fee margin expanding from 41 basis points to 46 basis points,
- New product offerings attracting strong interest from investors, and
- Building-out the global asset management business by expanding our presence in the United States.

Over the past few years our business has transformed into a global asset management business with offshore earnings in 2014 representing 78 per cent of Group earnings. This has been a successful journey that has resulted in BTIM's Total Shareholder Return (TSR) being one of the highest among the ASX 200 company universe. For the three years ended September 2014, BTIM had the second highest TSR out of the top 200 ASX listed companies.

This has been achieved through significant growth in our offshore business and by building new revenue streams domestically. It has also meant that our mix of assets has changed considerably, resulting in a stronger and more diversified business.

Australian equities as a percent of total FUM invested is now 17 per cent compared to 34 per cent four years ago and FUM from international equities has increased to 46 per cent of total FUM, from only 5 per cent four years ago. Within international equities we are invested in Asian equities, European equities, United Kingdom (UK) equities, Japanese equities, emerging market equities and global equities.

Our overall equity portfolio has grown from $13.7 billion in 2010 to $42.2 billion today.

We now have a significant equity book, which is diversified across client segments, geographies and investment strategies. Combined with the FUM in cash, fixed interest and diversified funds we run domestically, this diversification has brought a number of benefits to the business.

Firstly, the spread of assets in our business means that we have been able to de-risk the Group which was previously heavily reliant on Australian equities.

Secondly, we have benefitted from favourable movements in stock markets across the major markets globally, increasing our funds under management and underpinning growth.

Thirdly, we have experienced an increase in group margins from sales into higher margin channels, and while this has also been supported by our product focus domestically, we have been able to access markets offshore where margins have been attractive.

And lastly, our growing investment in offshore markets means that we now have currency exposure and we have benefitted from favourable currency movements over the past year. A decline in the Australian Dollar against other currencies has a beneficial impact to our cash net profit given our offshore earnings.

During the course of the year we continued to receive strong client support for a number of funds.
Total net flows for the year were $2.5 billion after taking into account outflows of $1.1 billion from the legacy products.

The key investment strategies that received the most flows included:

- UK equities with net inflows of $1.4 billion
- Global equities net inflows of $900 million and
- Our range of European funds which experienced net inflows totalling $500 million

The highlight for the year was the $3.5 billion in total net inflows in the JOHCM business. Flows were particularly strong in the higher margin wholesale channel, which comprises financial planners, private clients and platforms. Also pleasing was the strong interest in the US-registered pooled funds which accounted for over one quarter of the JOHCM net inflows. This re-affirms the Group’s strategy to build distribution capabilities in the US and reflects the early success of the dedicated sales team that was added in the preceding year.

Domestically, we witnessed improved conditions with Australian equity outflows improving markedly from the previous year’s outflow of $1.1 billion ex-legacy to positive flows of $100 million this year. A key contributor to this growth has been the success in our Equity Income product which has gained strong support amongst clients looking for yield.

Investment performance is the foundation of our business and the reason our clients place their money with us.

In the year to 30 September 2014, 97 per cent of the Group’s funds produced returns above their benchmarks, measured over a three year time frame, and 96 per cent of Group funds outperformed their benchmarks over a five year time frame. This is a strong outcome for our clients. Domestically our Australian equity funds had a strong year particularly amongst our more targeted strategies such as the BT Smaller Companies Fund which ended the year ahead of its benchmark by 5.8 per cent, the Wholesale Microcap Fund which was ahead by an impressive 21.9 per cent and the BT Focus Australian Share Fund which exceeded its benchmark by 1.6 per cent.

Our offshore funds, through JOHCM, also performed extremely well with 12 of the 15 JOHCM investment strategies ahead of their respective benchmarks. The Global Select Fund which is well supported in the US, outperformed by 11 per cent and there was also strong outperformances from the UK fund range, the Asia ex-Japan strategy and the Continental European strategy.

Our success and the performance of our funds has been recognised in various forms across the industry throughout the year. The BTIM Group received a number of prestigious awards including “Best of the Best Fund Manager” by Money Magazine, and “Fund House of the Year Award – Australia” by Asian Investor Investment Performance Awards.

We are particularly pleased with the recognition for the Equity Income Series where Money Management awarded BTIM the "Retirement Product Innovation' award along with the Lonsec/SuperRatings award for Innovation.

JOHCM performance was also recognised, winning the "Outstanding Investment House" award from Morningstar for the high level of quality demonstrated across their range of funds and strategies.

A highlight of the 2014 financial results was the performance fees which were generated predominantly from our offshore funds. Revenue from performance fees for the 2014 Financial Year totalled $121.8 million.

Investment performance fees by their very nature are volatile and can vary significantly from year to year. To provide some historical context, investment performance over the last three years has varied from a low of $12.2 million in fiscal 2012 to the $121.8 million fiscal 2014 outcome. In fiscal 2013 performance fees were $43.5 million. Whilst we have been consistent in generating performance fees every year based on the strong investment performance we are delivering to our clients, it can be volatile.

Performance fees on Australian funds are reported on a June to June record date so it is too early to make any meaningful assessment for the current Financial Year. The JOHCM performance fee period however, is accounted for on a calendar year basis and so come the end of December, we will be able to advise the market on the outcome of the performance fees generated from the JOHCM business in our January FUM announcement.

At our year-end financial results announcement we advised that as at 30 September the assessed performance fee for JOHCM, being 9 months into the performance period, was $27.3 million. Since then, investment performance has remained steady and in line with the September quarter end announcement.

Importantly, our base fee revenue, as seen by this chart, has seen continued steady growth. This reflects the strong underlying growth in the business, supported by strong net inflows generating long term revenue streams. Our base fee revenue has grown from $176 million in 2012 to $289.7 million in 2014, strong and steady growth representing total growth of 65 per cent over a very short period of time. The ability to earn higher margins in offshore markets re-emphasises the importance of our offshore growth strategy that has led to improved operating margins in our business.

This time last year I spoke about remaining focused on our key strategic imperatives which included adding new investment capabilities for growth and diversification. This we have achieved by expanding offshore and focusing on building new revenue streams in the domestic market.

Our annual report this year outlines our strategic focus in detail including the progress we have made in fiscal 2014 and the focus for fiscal 2015. I encourage you all to read this. There you will see that we remain committed to:

- growing in new and existing markets,
- increasing our margins,
- building-out further current distribution channels,

And importantly, to continue:

- expanding our investment capabilities

Growth in new and existing markets

A focus of the Group has been expansion in the US market through the launch of new mutual fund offerings, and opening an office in Boston where client service and future distribution teams will be based in due course. This complements the establishment of a New York office in the previous year and our existing distribution team.

In the US, our net flows have gathered momentum reflecting the increased focus and investment we have made in that region. As of 30 September 2014, total funds under management on behalf of US clients totalled US$4.9 billion of which US$1.0 billion was raised in the last twelve months.

Establishing a permanent presence in the world's largest investment market is a significant milestone for BTIM and represents good growth opportunities.

The geographical expansion has been supported by product launches. In the last four years we have launched nine new strategies which have collectively raised $3.1 billion in funds under management demonstrating not only our investment capability but the ability to leverage our distribution network.

In 2015, we plan to launch a Global Small and Mid Cap strategy, as well as a Global Emerging Markets Small Cap strategy. Our approach is to create additional capacity either through the launch of new strategies from new but proven investment teams, or by launching complementary strategies managed by our existing teams.

We are also investing in the private client/high net worth sector targeting self-managed super funds in Australia and looking to expand our product range targeted at the growing need for income. We have seen good success with the launch of our Equity Income Fund which targets clients seeking regular income with low volatility. This has raised over $600 million in just two years.

Our vision is to be seen as the preferred supplier of retirement income type products.

Build on current distribution channels

Our distribution channels are now diverse spanning across Australia, Asia, Europe, UK and the US. We have built strong relationships globally with asset consultants, the institutional channel as well as intermediaries such as financial planners and private client businesses. Part of our strategy is to better leverage off this broader distribution network and relationships. In light of this, during the year we added further resource for institutional sales for the US, UK and Europe markets and broadened our sales coverage in Europe.
Offshore the focus is on generating OEIC and mutual fund flows from UK, Europe and US and to roll out new products that leverage the expanded distribution network.

In Australia, our aim is to increase our share of flows from the private client/high net worth channel and work with selected institutional clients to provide solution based outcomes.

We have a strong domestic brand that places us in a competitive position in the wholesale/intermediary market and we continue to work with the Westpac Group to be a supplier of investment solutions for their clients.

Focus on increasing margins

One of the features of the 2014 financial results is the margin expansion in revenues and operating profit. We have seen an increase in operating margins as a result of a change in asset mix, as equities have become a growing portion of our FUM, channel mix as an increasing portion of our flows have been coming from the higher margin wholesale channel and from being disciplined on price where we have capacity constraints, and focusing our product development where demand is driven by value not cost. Capacity management is a hallmark of our business so that we can deliver on investment outcomes. So getting the right channel mix and price particularly where there are capacity constraints remains a focus for the Group.

Our product development is focused on targeted, niche products that cannot be easily replicated but are highly valued thereby resulting in higher revenue margins.

Expand investment capabilities

We have a strong and successful business model predicated on attracting investment professionals into a boutique environment where investment independence is valued and preserved. The ability to build FUM is very much related to identifying suitable individuals or investment teams to add to the Group's global capability platform.

This year, in the US we hired a US small to mid-cap equities team and launched the US Small and Mid-Cap equity strategy, which will add an additional US$5 billion of investment capacity. We have also expanded our emerging markets team to be able to offer a global small cap product.

Our business success to date, the boutique business model, our track record in building funds under management, broad distribution capability and stability in the investment teams means that we are becoming an employer of choice for many investment managers. This has resulted in an increase in the number of discussions we are having with individuals and teams interested in becoming a part of the Group. Our criteria remains firm and that is the ability to generate above market investment returns that can lead to growth in FUM.

Our strategy has delivered strong growth and we remain focused on investing for the future. We are in a strong position to build on our success this year.

We have growth momentum in the offshore JOHCM business which has continued into the current year, and we have invested in distribution to support new and growing channels. Our planned new product launches will also provide further capacity for growth. I look forward to providing updates on those and other initiatives as the year progresses.

Whilst performance fees are likely to be lower in fiscal 2015 compared to fiscal 2014 we have strong momentum and except for any material changes in market levels we expect continued growth in our base fee revenues.

I would like to thank our teams across Australia, UK, Europe, Asia and the US for their hard work this year. It is the quality of our people that ensures our business continues to deliver outstanding results for our clients and shareholders.

I also want to thank you, our shareholders for your ongoing support for the business. I look forward to another successful year.