GAM

Results and Review 2016

Dear Shareholders

2016 was an eventful and testing year for the markets, our industry and our company. Against a challenging environment, we made real and tangible progress on all our strategic initiatives to position GAM for long-term growth, while keeping a tight control on costs.

First, our external positioning and brand recognition improved substantially in 2016. Second, we are well ahead of plan in delivering cost savings and have further projects in place to significantly enhance operating efficiency in 2017 and beyond. Third, in investment management we continued to refine our product range by closing or merging sub-optimal funds and at the same time launching promising strategies designed for today's volatile and low-yield market environment. We made a significant acquisition to diversify our active investment capabilities into the systematic space; this complements our successful discretionary offering and enabled us to launch our new GAM Systematic platform. And, importantly, we strengthened the senior leadership team with external and internal appointments.

Despite this broad progress, our 2016 earnings were disappointing on two fronts: we recorded net outflows for the year and realised very low performance fees, both hurting our earnings. Through our strategic initiatives, we are addressing the underlying causes and have undertaken a number of important steps to better position our business for future growth.

As of 1 January 2017, distribution, marketing and product development activities are led by Tim Rainsford, previously Global Co-Head of Sales and Marketing at Man Group. His expertise in selling and marketing sophisticated investment solutions, including systematic strategies, and his proven track record in business development across different geographies and client segments will be invaluable in achieving organic growth. We are focused on improving the quality of our distribution reach and have made a number of senior hires under Tim last month, with more to come. We are upgrading our distribution capabilities across the board to ensure we are aligned for growth in each of our core markets.

Over the past two years, we have been simplifying our brand architecture, redesigning and strengthening our master brand – GAM. The final step to reduce brand complexity was achieved through an agreement with Julius Baer to terminate our licence to use Julius Baer trademarks. This is an important milestone for our company, seven years after we separated from Julius Baer to form an independent pure-play asset management group. This now removes all confusion over our product branding, allowing us to invest in our single brand, and also positively impacts the Group's earnings.

Our high-performance culture gives us confidence that performance fees will be a meaningful contributor to earnings in the future. Over the previous five years, performance fees on average contributed about 12% of our total net fee and commission income. The mix of multiple and diverse products eligible for performance fees has generally provided a good offset between strategies surpassing their high-water mark performance levels and those underperforming. The strategies that were the most significant contributors to performance fees in the past, struggled to exceed their high-water marks in 2016 amid irrational and highly correlated markets. However, the upside potential from these and other performance fee-eligible strategies, which together make up about 30% of investment management assets, is still intact for future fee generation.

We improved investment processes, risk management systems, portfolio monitoring and support functions to assist investment managers as they focus on realising the full potential of their portfolios. We also continued to attract top investment talent and broaden our innovative product range in 2016.

To bolster our successful range of absolute return funds, we launched a merger arbitrage strategy in July under the leadership of a newly hired portfolio manager, Roberto Bottoli, an experienced and highly regarded investor in this category. We also launched two new factor-based target return products to complement our multi asset range and two trade finance investment solutions, adding to our private market offering. To further develop scalable equity strategies, in August 2016 we acquired the investment management business of Taube Hodson Stonex (THS), a UK-based global equity investment firm known for its successful thematic bottom-up and benchmark-agnostic approach. Last month we hired Matthew Beesley to a new role as Head of Equities to work with the various equity teams to optimise performance and risk management and ensure strong links with sales and marketing.

Finally, we launched GAM Systematic through the acquisition of Cantab Capital Partners (Cantab) in October 2016. With this step, we have expanded and diversified our active investment management capabilities into the systematic space – a segment at the forefront of investor demand and where returns show low correlation to traditional asset classes. We have already launched two new systematic products in the form of Undertakings for Collective Investment in Transferrable Securities (UCITS). The acquisition of Cantab will be highly accretive to our earnings from the first full year of ownership.

At the same time, we continued to optimise our product range to concentrate on the most promising and scalable strategies. In 2016, we merged or closed 25 funds in addition to 41 funds in the previous year, with a de minimis loss of assets. In 2017 we will continue to pare uncompetitive funds, ensuring our offering is relevant and lean across different product cycles, and will be guided by a strong emphasis on innovation and rigorous strategic thought.

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The senior leadership team was strengthened with a number of key appointments and hires: Tim Rainsford, Head of Distribution; Dirk Spiegel, General Counsel; and Elmar Zumbuehl, Chief Risk Officer – all became members of the Group Management Board.

2016 results

Political and economic uncertainty heightened risk aversion among investors in 2016, impacting flows across our industry. Our investment management business reported net outflows of CHF 10.7 billion. The addition of CHF 6.2 billion of assets through the acquisitions of THS and Cantab and CHF 0.4 billion in net gains from market and foreign exchange movements partly offset the outflows, resulting in investment management assets of CHF 68.2 billion at the end of 2016 compared with CHF 72.3 billion a year earlier. This decrease was more than offset by an increase in private labelling assets, which rose to CHF 52.5 billion from CHF 46.7 billion as a result of inflows of CHF 4.3 billion and a net positive impact from market and foreign exchange movements. **Group assets under management rose to CHF 120.7 billion** from CHF 119.0 billion.

Net management fees and commissions declined 9% in 2016 to CHF 470.5 million. This was driven by lower average assets under management and a slight decline in management fee margins as a result of fluctuations in the asset mix between products and client segments, in particular outflows from higher-margin absolute return products. In private labelling, the margin was impacted by the sale of our Cayman business at the end of 2015, which operated above the average margin, and the average margin on new assets being lower than those redeemed. Performance fees fell to CHF 3.0 million from CHF 82.8 million.

We have managed costs tightly and cut total expenses 11% in 2016 compared with the previous year, despite the acquisitions of THS and Cantab. Variable compensation was 28% lower as both discretionary and contractual bonuses were reduced, helping partially mitigate the reduction in fee income. **Our underlying pre-tax profit of CHF 120.1 million** was down 39% from the previous year and our operating margin declined to 24.3% from 32.8%. The increase in the compensation ratio, which tracks our ability to manage our largest expense category (personnel expenses) in line with net fee and commission income, was less pronounced, rising to 52.0% from 48.3%.

Diluted underlying earnings per share fell to CHF 0.60 from CHF 0.98, as the benefit of our share buy-back programme, through the reduction in the number of shares outstanding, could only partly offset the decline in underlying net profit. In line with our commitment to sustainable, progressive and predictable dividend payments, the Board of Directors proposes to leave the **dividend unchanged at CHF 0.65 per share**, subject to shareholders' approval at the upcoming Annual General Meeting on 27 April 2017.

Under IFRS, our net profit was CHF 134.3 million, 3% lower than in 2015. The IFRS figure includes two items that are not reflected in the underlying results: non-recurring items that resulted in a net gain of CHF 30.0 million and acquisition-related items that resulted in a net gain of CHF 10.1 million (all net of taxes). The former include the recognition of deferred tax assets related to the merger of certain Swiss legal entities, a credit arising from changes to the Swiss pension plan to ensure its long-term financial stability and a settlement from Julius Baer for the termination of the licence fee agreement, partly offset by reorganisation costs, deal and integration expenses and a revaluation of the deferred contingent consideration. Acquisition-related items include a reduction in our estimate of the deferred consideration liability for the acquisitions of Arkos (now GAM Lugano), Singleterry Mansley Asset Management and Renshaw Bay, partly offset by the amortisation of investment management and client contracts from businesses we acquired and finance charges on the deferred consideration liabilities.

Summary and outlook

We are steadfastly progressing with the business restructuring we started in 2015. Many of our strategic initiatives have started to bear fruit and our unrelenting focus on cost discipline is showing results. Our DNA as truly active managers of differentiated investment strategies continues to guide us as we transform GAM into a company with a far more efficient operating model, a more focused and balanced product shelf, strengthened distribution and powerful brand recognition.

The market and industry environment is not making this an easy journey, and it is clear to us that sustainable long-term growth cannot be achieved through cost savings alone. As the asset management industry goes through fundamental changes, the new GAM will be exceptionally well positioned to gain market share.

The market environment will continue to be affected by political uncertainty in 2017. The longer-term impacts from policies being implemented by US President Donald Trump are yet unclear. Elections in the Netherlands, France and Germany this year will test the era of centrist policies in Europe, while the UK government is progressing on the difficult process of exiting from the European Union. The key concern for 2017 is, therefore, whether politics will undermine a generally improving economic environment.

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For now, the market environment appears favourable for a continuation of the broad trends observed since mid-2016: higher global bond yields, underpinned by resilient economic growth and normalising monetary policies, and rotation away from traditional fixed income allocations toward equities, absolute return products as well as emerging markets. Dispersion of returns within markets is likely to become more pronounced, providing richer opportunities for selected absolute return and active management styles, positioning us well to capture investor demand in these areas.

Our business is highly scalable, and we can manage higher levels of assets without adding more resources. We are confident that we can navigate the challenging industry and market environment and reach our financial targets. We are committed to increasing diluted underlying earnings per share in excess of 10% on an annualised basis and achieving an operating margin of 35–40%, both over the five to eight-year business cycle.

We would like to thank our employees, clients and shareholders for their support, patience and loyalty.

With best regards,

Johannes A. de Gier Chairman	Alexander S. Friedman Group Chief Executive Officer

Zurich, 2 March 2017

‘Forward-looking statements’
This letter to shareholders contains statements that constitute ‘forward-looking statements’, including statements on the future financial performance of GAM Holding AG (the Company), its plans and objectives and their anticipated effect on the Company’s future business and development, as well as other projections and statements that are forward-looking or contain subjective assessments, regarding the intent, belief or current expectations of the Company. The Company has tried to identify those forward-looking statements by using words such as ‘may’, ‘will’, ‘would’, ‘should’, ‘expect’, ‘intend’, ‘estimate’, ‘anticipate’, ‘project’, ‘believe’, ‘predict’ and similar expressions. Such statements are made on the basis of assumptions, estimates and expectations which, although the Company believes them to be reasonable at this time, may prove to be erroneous or unfounded in the future, as forward-looking statements are subject to risks and uncertainties that could cause the actual development, results and financial position of the Company to differ materially from the information presented herein. If risks or uncertainties materialise or if underlying assumptions prove to be incorrect, actual outcomes may vary materially from those indicated in the forward-looking statements. Other than in accordance with the ad-hoc publicity rules of the SIX Swiss Exchange, the Company undertakes no obligation to release publicly any revisions or updates to any forward-looking statements herein to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events or to reflect any change in the Company’s expectations.

KEY FIGURES 2016 (CONSOLIDATED)

Income statement

	2016 CHF m	2015 CHF m	Change in %
Net management fees and commissions	470.5	517.8	(9)
Net performance fees	3.0	82.8	(96)
Net fee and commission income	**473.5**	**600.6**	**(21)**
Net other income	5.1	0.7	629
Income	**478.6**	**601.3**	**(20)**
Personnel expenses	246.2	290.0	(15)
Fixed personnel expenses	155.7	165.1	(6)
Variable personnel expenses	90.5	124.9	(28)
General expenses	102.9	104.9	(2)
Occupancy expenses	25.7	28.6	(10)
IT expenses	16.2	18.3	(11)
Communication and marketing expenses	29.2	29.4	(1)
Professional services, other fees and charges	13.6	14.4	(6)
Administration expenses	6.1	-	-
Other general expenses	12.1	14.2	(15)
Depreciation and amortisation	9.4	8.6	9
Expenses	**358.5**	**403.5**	**(11)**
Underlying profit before taxes	**120.1**	**197.8**	**(39)**
Underlying income tax expense	25.9	39.4	(34)
Underlying net profit	**94.2**	**158.4**	**(41)**
Acquisition-related items	8.6	(13.4)	-
Non-recurring items	2.9	(8.5)	-
Tax on acquisition-related items	1.5	(0.5)	-
Tax on non-recurring items	(0.7)	2.3	-
Non-recurring tax item	27.8	-	-
IFRS net profit	**134.3**	**138.3**	**(3)**
Operating margin (%)[1]	24.3	32.8	(26)
Compensation ratio (%)[2]	52.0	48.3	8
Personnel at the end of the year (FTEs)	979	1,074	(9)

Client assets – investment management

	2016 CHF bn	2015 CHF bn	Change in %
Assets under management at the end of the year	68.2	72.3	(6)
Average assets under management[3]	68.3	73.7	(7)
Net flows	(10.7)	0.3	-
Total fee margin (bps)[4]	64.1	75.8	(15)
Management fee margin (bps)[5]	63.6	64.6	(2)

Client assets – private labelling

	2016 CHF bn	2015 CHF bn	Change in %
Assets under management at the end of the year	52.5	46.7	12
Average assets under management[3]	48.9	49.6	(1)
Net flows	4.3	2.7	59
Management fee margin (bps)[5]	7.4	8.4	(12)

Balance sheet

	31.12.2016 CHF m	31.12.2015 CHF m	Change in %
Net cash	352.7	632.9	(44)
Assets	2,378.5	2,296.9	4
Equity	1,844.0	1,876.4	(2)
Tangible equity[6]	107.4	487.0	(78)

Share information

	2016	2015	Change in %
Number of registered shares at the end of the year	160,294,731	163,394,731	(2)
Share capital at the end of the year (CHF m)	8.0	8.2	(2)
Diluted underlying EPS (CHF)[7]	0.60	0.98	(39)
Closing price at the end of the year (CHF)	11.80	16.70	(29)

[1] (Net fee and commission income - expenses) / net fee and commission income.
[2] Personnel expenses / net fee and commission income.
[3] Average calculated with 13 month-end values (December to December).
[4] Net fee and commission income / average assets under management.
[5] Net management fees and commissions / average assets under management.
[6] Equity excluding non-controlling interests, goodwill and other intangible assets.
[7] Underlying net profit excluding non-controlling interests / weighted average number of shares outstanding for diluted EPS.