Results and Review 2017

Dear Shareholder,

We started transforming and repositioning GAM for growth three years ago. Today we are pleased to report on the good progress we made in 2017 and on the substantial improvement in our financial performance.

The market environment, which has been challenging for active asset managers for a number of years, improved in 2017, benefitting some providers of differentiated investment strategies. The beginning of monetary policy normalisation by central banks around the world is increasing dispersion of returns in the markets, creating a more fertile environment for high performing active managers.

Over the past three years, we have undertaken a top-to-bottom revamp of our business to create an investment management firm designed to gain market share in the new industry environment. We have refined our product range to ensure we have truly differentiated and scalable investment strategies, suited for the changing market conditions, and we have taken a myriad of steps to bolster our investment performance. It is gratifying to see that our well positioned, diversified, and performing products are now enabling the Group's accelerating growth.

We have strengthened our distribution team and implemented a new sales strategy under the leadership of Tim Rainsford, who joined us in January 2017. This has translated into a more active, targeted engagement with our clients and generated attractive net inflows. Some of the changes on the distribution side included the creation of a new team to cover global consultants, new sales leadership in the UK, Japan and in Asia Pacific, new sales quant expertise in the US, a new head of institutional sales for the Middle East, and the addition of new sales offices in Vienna and Paris.

We attracted net inflows in investment management of CHF 8.6 billion in 2017, the highest level since the independent listing of our company in 2009. A large part of these flows went into our specialist fixed income range, which we have been proactively developing over the past years. Clients also favoured our European and emerging markets equity funds, alternative risk premia and merger arbitrage products, while the unconstrained/absolute return bond strategy had net inflows for the first time since 2013. Overall, 10 investment strategies delivered net inflows of more than CHF 300 million, highlighting the growing diversification of our business.

Our investment performance over a three-year period improved substantially in 2017, with 77% of our strategies outperforming their benchmarks. Specialist fixed income, systematic and various equity strategies all contributed to this positive and important development. The focus on delivering superior investment performance continues to be a key strategic priority, alongside thoughtful product diversification and refinement, strengthening our distribution globally and optimising our operating model to improve efficiency.

In 2017 we took a number of important steps to strengthen our investment capabilities. We created a new role of head of investments, tasked with improving links between investment teams (without compromising their decision-making autonomy) as well as the connectivity with distribution and support functions. Increased collaboration and debate will lead to better risk-adjusted outcomes for our clients, as well as a more productive environment for innovative thinking and product development.

In October 2017 we launched the GAM UK Equity Income fund to capture significant demand from the UK intermediary market. We also launched three existing strategies in the form of Open Ended Investment Companies in the UK earlier in the year for this client segment.

GAM Systematic launched its fifth strategy, Discovery, off Cantab's platform in October 2017. This Cayman-domiciled product offers access to about 200 less liquid markets, and diversification relative to other assets as well as to more traditional managed-futures strategies. Additionally, we launched an Australian-domiciled Alternative Risk Premia fund for the Australian superannuation sector and have plans to expand our offering further for this market.

We also repositioned our offering in the higher-return spectrum of our unconstrained/absolute return bond range of funds and launched the GAM Star Absolute Return Macro fund. This fund, which trades in fixed income, currency and equity markets, blends discretionary investing with quantitative model-driven strategies and employs leverage to target annualised returns of 8–10% above Libor.

We have a strong organic pipeline of fund launches underway, including an equity fund focused on Europe, Australasia and the Far East (EAFE), an insurance-linked securities product, a global income fund and a global equity systematic strategy. These strategies will all be managed by existing GAM investment teams, leveraging our platform. At the same time, we continue to simplify our product range to concentrate on the most promising and scalable strategies, and we merged or closed 16 funds in 2017 in addition to 66 funds in the previous two years, with a de minimis loss of assets under management.

We achieved the final step to reduce our brand complexity through an agreement with Julius Baer to terminate our licence to use the Julius Baer trademarks. The funds formerly bearing the trademarks were successfully rebranded in early July 2017, with clients informed that their portfolio managers, strategies and investment processes remained unchanged. No loss of business was experienced following these rebranding activities.

We are progressing well with our multi-year change programme to optimise GAM's efficiency, creating a robust, scalable operating platform aligned with our growth ambitions. Key achievements in 2017 included ensuring GAM was ready for the new Markets in Financial Instruments Directive (MiFID II), implementing the governance framework around our change programme, selecting partners and beginning the outsourcing of IT infrastructure and services, starting implementation of the data architecture solution and the signing of a new lease to consolidate our London offices. Cost discipline remains a key priority, and we reduced our annual fixed personnel costs and general expenses by approximately CHF 12 million in 2017 (excluding the impact from 2016 acquisitions) compared with 2016, ahead of our CHF 10 million target.

Lastly, our private labelling capability is growing rapidly and is a highly complementary services business positioned alongside our core investment management business. We are the largest independent, non-bank provider of such capabilities in Europe, and are beginning to reach a scale where future growth will provide attractive operating leverage. We believe it is a differentiated competitive advantage for a publicly listed active asset management firm to have such a high-growth services business.

2017 results

Group assets under management rose to **CHF 158.7 billion** as at 31 December 2017 from CHF 120.7 billion a year earlier. In investment management, the net inflows of CHF 8.6 billion were augmented by CHF 7.6 billion of net gains from investment returns and foreign exchange movements. Private labelling assets rose by CHF 21.8 billion to CHF 74.3 billion. Net inflows added CHF 15.7 billion, while market and foreign exchange movements resulted in net gains of CHF 6.1 billion.

Net fee and commission income increased 16% to CHF 547.7 million, due to higher management and performance fees. Net management fees and commissions rose 7% in 2017 to CHF 503.6 million. This was driven by higher average assets under management, only partly offset by the slight reduction in the management fee margins as a result of fluctuations in the asset mix between products and client segments and the lower margin on new assets in private labelling compared with the existing portfolio. Performance fees increased to CHF 44.1 million from CHF 3.0 million, with GAM Systematic strategies as well as the unconstrained/absolute return bond and other specialist fixed income strategies contributing the majority of these fees. Importantly, even as our performance fees recover, growth in other strategies will reduce the relative proportion of overall earnings driven by performance fees.

We have managed costs tightly, and total expenses increased only 5% in 2017 compared with the previous year, mainly as a result of the full-year impact of costs associated with the acquisition of Cantab Capital Partners in the fourth quarter of 2016. Personnel expenses increased 7% to CHF 264.6 million, largely as a result of Cantab, and improved investment performance with higher associated contractual bonuses. General expenses rose 3% to CHF 106.1 million, with the increase mainly reflecting a full year of administration expenses paid for the outsourced fund back and middle office services.

Our underlying pre-tax profit of CHF 172.5 million was 44% higher than in 2016 and our operating margin improved to 31.1% from 24.3%, moving closer to our target range of 35–40%. The compensation ratio, which tracks our ability to manage our largest expense category (personnel expenses) in line with net fee and commission income, declined to 48.3% from 52.0%. This is within the target range of our new compensation framework of 45–50% and demonstrates the Group's operating leverage.

Diluted underlying earnings per share rose to CHF 0.86 from CHF 0.60. 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 26 April 2018.

Under IFRS, our net profit was CHF 123.2 million, 8% lower than in 2016. The IFRS figure includes two items that are not reflected in the underlying results: non-recurring items that resulted in a net loss of CHF 17.2 million and acquisition-related items that resulted in a net gain of CHF 3.3 million (all net of taxes). The former include reorganisation charges related to the multi-year change programme and an impairment of investment management and client contracts related to the acquisition of THS. In 2016, the non-recurring items resulted in a net gain of CHF 30.0 million, primarily due to a one-time tax credit. Acquisition-related items include a net reduction in our estimate of the deferred consideration liabilities for the acquisitions of Arkos (now GAM Lugano), Singleterry Mansley Asset Management, Cantab and THS, partly offset by the amortisation of investment management and client contracts from businesses we acquired and finance charges on the deferred consideration liabilities. In 2016, the acquisition-related items resulted in a net gain of CHF 10.1 million as a reduction in deferred consideration liabilities more than offset amortisation and other charges.

Summary and outlook

We are pleased with the financial results achieved in 2017, but recognise there is still a lot to do. We are committed to continuing the disciplined execution of our strategy, aimed at delivering superior investment returns, a differentiated product range, global distribution strength, operating efficiency and sound risk management.

In consultation with shareholders, the Board of Directors conducted a comprehensive review of the Group's compensation policies and structures in 2017 and implemented changes to ensure greater alignment of remuneration with the long-term performance of our business and shareholder interests, while focusing on transparency and sound risk management. The Board of Directors believes that these changes will support the entrepreneurial business environment within GAM and help drive further progress on delivering the turnaround we embarked on in 2015.

The steps we have taken over the past three years are showing tangible results, and the outlook gives us confidence in the long-term performance of the business. We are progressing well to position GAM for sustainable growth and increased market share, with an efficient and scalable platform.

Further improvements in operating efficiency are crucial to unlocking GAM's full potential. Over the coming years, revenue growth will be the key driver for improving profitability and returns for our shareholders. Therefore, alongside our continuous efforts to make GAM as efficient as it can be, we are planning to invest in a measured manner into the development of investment and distribution talent and improving our technology, infrastructure, risk and compliance resources.

The Group has made good progress on rebuilding capital buffers in 2017, and we are committed to increasing shareholder returns in line with our sustainable, progressive and predictable dividend payments policy.

The markets have become more volatile and challenging for investors in 2018. A further de-rating of equities, higher bond yields and widening credit spreads may all be factors throughout this year. Still, barring a prolonged risk-off environment, we continue to see opportunities for high performing active asset managers to capture growing investor demand for strategies that offer true diversification versus traditional asset classes and broad market trends. Our portfolio of well performing specialist fixed income, differentiated high active-share equity and market-leading systematic products positions us well in this regard.

We remain 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.

With best regards,

Hugh Scott-Barrett
Chairman

Alexander S. Friedman
Group chief executive officer

Zurich, 1 March 2018

'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 2017 (CONSOLIDATED)

Income statement

	2017 CHF m	2016 CHF m	Change in %
Net management fees and commissions	503.6	470.5	7
Net performance fees	44.1	3.0	-
Net fee and commission income	**547.7**	**473.5**	**16**
Net other income	2.2	5.1	(57)
Income	**549.9**	**478.6**	**15**
Personnel expenses	264.6	246.2	7
Fixed personnel expenses	150.1	155.7	(4)
Variable personnel expenses	114.5	90.5	27
General expenses	106.1	102.9	3
Occupancy expenses	22.2	25.7	(14)
IT expenses	18.2	16.2	12
Communication and marketing expenses	28.7	29.2	(2)
Professional services, other fees and charges	15.3	13.6	13
Administration expenses	8.8	6.1	44
Other general expenses	12.9	12.1	7
Depreciation and amortisation	6.7	9.4	(29)
Expenses	**377.4**	**358.5**	**5**
Underlying profit before taxes	**172.5**	**120.1**	**44**
Underlying income tax expense	35.4	25.9	37
Underlying net profit	**137.1**	**94.2**	**46**
Acquisition-related items	(3.1)	8.6	-
Non-recurring items	(21.2)	2.9	-
Tax on acquisition-related items	6.4	1.5	-
Tax on non-recurring items	4.0	(0.7)	-
Non-recurring tax item	-	27.8	-
IFRS net profit	**123.2**	**134.3**	**(8)**
Operating margin (%) [1]	31.1	24.3	28
Compensation ratio (%) [2]	48.3	52.0	(7)
Personnel at the end of the year (FTEs)	927	979	(5)

Client assets – investment management

	2017 CHF bn	2016 CHF bn	Change in %
Assets under management at the end of the year	84.4	68.2	24
Average assets under management [3]	74.7	68.3	9
Net flows	8.6	(10.7)	-
Total fee margin (bps) [4]	68.0	64.1	6
Management fee margin (bps) [5]	62.1	63.6	(2)

Client assets – private labelling

	2017 CHF bn	2016 CHF bn	Change in %
Assets under management at the end of the year	74.3	52.5	42
Average assets under management [3]	63.3	48.9	29
Net flows	15.7	4.3	265
Management fee margin (bps) [5]	6.3	7.4	(15)

Balance sheet

	31.12.2017 CHF m	31.12.2016 CHF m	Change in %
Net cash	373.8	352.7	6
Assets	2,445.4	2,378.5	3
Equity	1,882.6	1,844.0	2
Tangible equity [6]	166.1	107.4	55

Share information

	2017	2016	Change in %
Number of registered shares at the end of the year	159,682,531	160,294,731	0
Share capital at the end of the year (CHF m)	8.0	8.0	0
Diluted underlying EPS (CHF) [7]	0.86	0.60	43
Closing price at the end of the year (CHF)	15.75	11.80	33

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.