GAM | Holding AG

Press Release

GAM Holding AG reports underlying net profit of CHF 100.4 million for the first half of 2011

Zurich, 23 August 2011

- Assets under management of CHF 113.5 billion, down 4% from year-end 2010 due to strengthening of Swiss franc reporting currency.
- Net new money inflows of CHF 0.6 billion, with positive contributions from both GAM and Swiss & Global Asset Management.
- Underlying net profit of CHF 100.4 million[1], down 6% year-on-year but up 5% from second half of 2010, reflecting attractive margins and effective cost control. EPS at CHF 0.54, unchanged from the first half of 2010.
- Non-cash charge of CHF 92.2 million from reduction in carrying value of 28% stake in Artio Global Investors Inc., excluded from underlying net profit.
- Balance sheet remains strong and highly liquid with tangible equity of CHF 0.8 billion, cash of CHF 0.6 billion and practically no debt.
- Cautious outlook given continued strength of the Swiss franc and turbulent investment environment.

Assets under management for the Group were CHF 113.5 billion[2] as at 30 June 2011, a fall of CHF 4.3 billion or 4% from year-end 2010. This decrease was fully attributable to the appreciation of the Group's Swiss franc reporting currency against the currencies in which the majority of its asset base is denominated – the US dollar, the euro and, to a lesser extent, the British pound. In total, the effect from foreign exchange movements reduced the Group's asset base by CHF 4.9 billion.

At CHF 0.6 billion[2], *net new money* inflows for the first six months of 2011 were lower than the significant inflows recorded last year (CHF 5.6 billion in the first half of 2010, CHF 2.4 billion in the second half). Turbulent market conditions and widespread macroeconomic and geopolitical concerns unsurprisingly led to extreme caution among investors, markedly reducing their activity levels.

Chairman and CEO *Johannes A. de Gier* commented: "Inevitably, a resumption of net new money inflows more in line with our mid-term targets will be dependent on a return to normalised levels of investor engagement and activity. While we don't anticipate such a turn-around in the short term, our operating businesses are well-prepared to take advantage of it when it comes, thanks to the diversification of their product ranges. We also expect their ongoing expansion in key markets to unlock further growth potential once conditions improve."

[1] The underlying net profit of CHF 100.4 million excludes the CHF 92.2 million non-cash reduction in the carrying value of Artio Global Investors Inc. and the amortisation of customer relationships of CHF 5.8 million. Including these items, the Group's net profit according to IFRS as shown in the Condensed Interim Consolidated Financial Statements amounted to CHF 2.4 million.

[2] Group assets under management and net new money totals exclude the funds advised by GAM and distributed by Swiss & Global Asset Management, which are reported in both businesses. Including these assets, Group assets under management totalled CHF 130.3 billion as at 30 June 2011 and net new money inflows CHF 1.8 billion for the first half of 2011.

“The fact that our asset and revenue base is reported in the Swiss franc, which has continued to strengthen considerably against the US dollar and the euro since the beginning of July, creates a significant hurdle for the growth of our bottom-line profit despite the positive development of our underlying businesses.”

Net new money – GAM

GAM’s net new money inflows for the first six months of 2011 totalled CHF 0.4 billion, compared to CHF 3.7 billion in the first half of 2010 and CHF 2.2 billion in the second half.

The ongoing shift in private client preferences away from traditional multi-strategy offshore funds of hedge funds and the related attrition from GAM’s managed portfolios were counteracted by net inflows from a wide range of other distribution channels. In particular, they included successful mandate wins with institutions worldwide across a number of equity products, fixed income and multi-manager strategies, highlighting GAM’s successful efforts to reduce its dependence on its historic private banking partners.

While the volume of inflows was generally muted compared to 2010, GAM’s UCITS III range remained a key contributor to net new money, as private investors continued to show a preference for single-manager and tax-efficient onshore products. Net inflows into equity funds were driven by select demand for products that have strong long-term track records such as GAM’s Asian and US equity strategies, and for thematic funds that convincingly address investors’ current priorities. Inflows into GAM’s global rates strategies, its absolute return fixed income range and emerging market strategies (including the funds GAM advises for Swiss & Global Asset Management) were robust, but did not reach the strong levels of 2010.

GAM’s *assets under management* as at 30 June 2011 were CHF 50.7 billion, down 5% from CHF 53.6 billion at year-end 2010, reduced by a substantial negative impact from foreign exchange movements of CHF 3.7 billion.

Net new money – Swiss & Global Asset Management

Net new money inflows at Swiss & Global Asset Management for the first six months of 2011 were CHF 1.3 billion, compared to CHF 7.4 billion in the first half of 2010 and CHF 2.3 billion in the second half of 2010.

The range of Julius Baer fixed income funds experienced moderate inflows. Net new money inflows into the products advised by GAM were resilient, although not as high as in the first half of 2010. In addition, certain bond funds managed in-house by Swiss & Global Asset Management saw encouraging demand on the back of strong investment performance. The physical precious metal range continued to grow with solid net inflows particularly in the silver and platinum funds. In equities, higher inflows into funds focused on topical themes (energy transition, luxury) and specialty mandates (growth, absolute return) were offset by redemptions from regional products and from the Northern Africa fund following the temporary closure of the Egyptian stock exchange.

The institutional business recorded slight outflows, mainly from the closure of smaller, less profitable mandates. The contribution to growth from private label funds was solid, but smaller than in 2010.

At Swiss & Global Asset Management, *assets under management* as at 30 June 2011 were CHF 79.6 billion, CHF 0.8 billion or 1% lower than at year-end 2010, reflecting a significant negative currency impact of CHF 2.2 billion.

H1 2011 Group results

Adjusted for certain non-cash items[3], *underlying net profit* for the first half of 2011 fell 6% year-on-year to CHF 100.4 million. Reported on the same basis, *earnings per share* were CHF 0.54, unchanged from the previous year, and *return on tangible equity* rose to 24.4%, supported by the Group's active approach to managing its capital base.

The Group's *operating income* totalled CHF 324.9 million for the first half of 2011, down 12% year-on-year, reflecting the strengthening of the Swiss franc against the US dollar and the euro – the currencies in which both operating businesses generate the majority of their revenues.

Net fee and commission income was only marginally down (-1%) given the average asset base was practically unchanged from the first half of 2010.

Performance fees, mainly reported by GAM, were CHF 15.6 million, significantly lower than the CHF 57.7 million recorded in the first six months of 2010 when the fixed income range saw outstanding growth combined with strong investment performance. This fall in performance fees led to a decrease in the Group's annualised *gross margin* from 62.4 basis points in the first six months of 2010 to 55.2 basis points. Excluding performance fees, the gross margin remained unchanged from the first half of 2010.

The income from the retained 28% stake in Artio Global Investors Inc., held as a financial investment and reported as income from investment in associates, decreased by 24% to CHF 12.4 million. This income is derived from publicly available financial information and was particularly affected by the weakening of the US dollar against the Swiss franc.

Other operating income – which includes foreign exchange gains from hedging activities undertaken with respect to the Group's currency exposure – rose by CHF 5.4 million year-on-year to reach CHF 13.1 million.

Operating expenses fell to CHF 200.2 million, a 14% reduction from the first half of 2010. The decline in most cost categories was driven by cost discipline, aided by foreign exchange movements that reduced expenses incurred in currencies other than the Swiss franc, in particular the British pound.

Personnel expenses saw a 15% reduction, reflecting a fall in contractual-based compensation to investment professionals on the back of lower performance fees and a reduced accounting impact from the options awarded to all Group employees under the 2009 long-term incentive plan.

General expenses declined by 12%, driven by effective cost discipline and the one-off release of CHF 4 million in provisions. In the second half of the year, costs are expected to increase modestly following the relocation of Swiss & Global Asset Management to its new headquarters.

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[3] The net profit for the first half of 2011 has been adjusted to exclude the reduction in the carrying value of the investment in associates (Artio Global Investors Inc.) of CHF 92.2 million and the amortisation of customer relationships of CHF 5.8 million. Including those non-cash items, the Group's net profit for the first half of 2011 according to IFRS as shown in the Condensed Interim Consolidated Financial Statements amounted to CHF 2.4 million.
The net profit for 2010 was adjusted to exclude the reduction in the carrying value of the investment in associates (Artio Global Investors Inc.) of CHF 180.3 million (recognised in H2 2010) and the amortisation of customer relationships of CHF 11.7 million (CHF 5.8 million in H1 2010, CHF 5.9 million in H2 2010). The Group's net profit for 2010 according to IFRS as shown in the Condensed Interim Consolidated Financial Statements amounted to CHF 10.2 million (CHF 100.5 million in H1 2010, CHF -90.3 million in H2 2010).

The Group's *cost/income ratio* for the first half of 2011 was 61.6%, down from 63.1% a year ago, reflecting cost control as well as the impact from non-recurring factors such as the release of provisions and gains on currency hedges for the current fiscal year. Absent a weakening of the Swiss franc, the cost/income ratio is expected to increase in future periods.

Group balance sheet

The Group's balance sheet remained strong, with *total assets* as at 30 June 2011 of CHF 2,575.8 million. The *cash* position was substantial at CHF 644.3 million, despite a dividend payment of CHF 94.1 million for 2010 and the buy-back of own shares both for the purposes of hedging the Group's economic exposure to the options granted under the 2009 long-term incentive plan and for cancellation as part of its buy-back programme.

The carrying value of the stake in Artio Global Investors Inc., reported as *investment in associates*, was reduced to CHF 194.3 million as at 30 June 2011, based on the outcome of an impairment test performed according to IFRS. The related non-cash charge of CHF 92.2 million is reflected in the Group's consolidated income statement for the first half of 2011, but excluded from underlying net profit. The unrealised impact of the US dollar depreciation on the value of the participation in Artio as at 30 June 2011, which amounted to CHF 30.4 million, was recorded through equity, in line with IFRS.

Total equity amounted to CHF 2,200.6 million. Excluding GAM goodwill, customer relationships and brand, *tangible equity* stood at CHF 821.6 million compared to CHF 1,066.8 million at year-end 2010. This decrease was mainly driven by the dividend payment, the reduction in the carrying value of Artio and the increase in the Group's treasury share position.

Tangible equity exceeded the Group's regulatory capital requirements, which amounted to approximately CHF 70 million as at 30 June 2011 (calculated by aggregating all the regulatory requirements of the operating businesses), highlighting the Group's strong capitalisation.

Capital management

The Group's capital management strategy is based on a firm commitment to deploying its capital in a disciplined way so as to maximise shareholder value in the long term whilst retaining its balance sheet strength. Capital exceeding regulatory requirements and not required for the growth of its businesses – organic or through acquisitions – will be returned to shareholders.

In the 18 months between the beginning of 2010 and the end of June 2011, the Group distributed CHF 314 million to its shareholders, through dividends and share buy-backs.

In July 2011, following shareholder approval at the Annual General Meeting (AGM) held in April 2011, 10.3 million shares repurchased under the 2010 buy-back programme were cancelled.

At the same AGM, shareholders approved a new share buy-back programme, which allows for the repurchase of up to 41.3 million shares for cancellation and is scheduled to run for a maximum period of three years. The programme was launched on 9 May 2011 and, as of 22 August 2011, the Group had bought back 5.3 million shares for future cancellation.

Johannes A. de Gier said: "Our balance sheet strength is particularly important in challenging environments and gives us options – and we have no intention of giving up the flexibility to pursue attractive growth opportunities when they arise."

The presentation for media, analysts and investors on the results of GAM Holding AG for the first half of 2011 will be webcast on 23 August 2011 at 9:30am (CET). Materials relating to the results (presentation slides, Half-Year Report 2011 and press release) are available on www.gamholding.com.

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Notes to editors

About GAM Holding AG

GAM Holding AG is an independent, well-diversified asset management group. Its operating businesses – GAM and Swiss & Global Asset Management – focus on the manufacturing and distribution of actively managed investment products and services.

GAM Holding AG is listed on the SIX Swiss Exchange and is a component of the Swiss Market Index Mid (SMIM) with the symbol "GAM". The Group has assets under management of CHF 113 billion (as at 30 June 2011) and employs over 1,000 staff with offices in Zurich (head office), Bermuda, Grand Cayman, Dubai, Dublin, Frankfurt, Geneva, Hong Kong, London, Luxembourg, Madrid, Milan, New York and Tokyo.

Key Figures H1 2011

Consolidated income statement	H1 2011 CHF m	H1 2010 CHF m	H2 2010 CHF m	Change from H1 2010 in %	Change from H2 2010 in %
Net fee and commission income	283.8	286.1	284.3	-1	-0
Performance fees	15.6	57.7	31.8	-73	-51
Income from investment in associates	12.4	16.4	11.1	-24	12
Other operating income	13.1	7.7	17.4	70	-25
Operating income	324.9	367.9	344.6	-12	-6
Personnel expenses	146.6	171.9	162.6	-15	-10
General expenses	50.3	56.9	67.6	-12	-26
Depreciation and amortisation	3.3	3.4	3.6	-3	-8
Operating expenses	200.2	232.2	233.8	-14	-14
Profit before taxes	124.7	135.7	110.8	-8	13
Income taxes	24.3	29.4	14.9	-17	63
Underlying net profit[1]	100.4	106.3	95.9	-6	5
Gross margin (basis points)[2]	*55.2*	*62.4*	*58.2*	-	-
Cost/income ratio	*61.6%*	*63.1%*	*67.8%*	-	-
Pre-tax margin (basis points)[2]	*21.2*	*23.0*	*18.7*	-	-

Client assets	H1 2011 CHF bn	H1 2010 CHF bn	H2 2010 CHF bn	Change from H1 2010 in %	Change from H2 2010 in %
Assets under management at the end of the period[3]	113.5	116.6	117.8	-3	-4
Average assets under management	117.8	117.9	118.4	-0	-1
Net new money[4]	0.6	5.6	2.4	-89	-75

Personnel	30.06.2011	30.06.2010	31.12.2010	Change from 30.06.2010 in %	Change from 31.12.2010 in %
Number of full-time employees	1,061	1,042	1,052	2	1
in Switzerland	314	313	313	0	0
abroad	747	729	739	2	1

Consolidated balance sheet	30.06.2011 CHF m	30.06.2010 CHF m	31.12.2010 CHF m	Change from 30.06.2010 in %	Change from 31.12.2010 in %
Total assets	2,575.8	3,042.3	2,883.0	-15	-11
Total equity	2,200.6	2,659.6	2,451.7	-17	-10
Tangible equity[5]	821.6	1,268.9	1,066.8	-35	-23
Return on tangible equity[6]	24.4%	16.8%	18.0%	-	-

Share information	H1 2011	H1 2010	H2 2010	Change from H1 2010 in %	Change from H2 2010 in %
Number of registered shares at the end of the period	206,630,756	206,630,756	206,630,756	0	0
Share capital at the end of the period (CHF m)	10.3	10.3	10.3	0	0
EPS (CHF)[7]	0.54	0.54	0.49	0	10
Book value at the end of the period (CHF)[8]	4.51	6.40	5.65	-30	-20
Closing price (CHF)	13.80	11.75	15.45	17	-11

[1] The net profit for H1 2011 has been adjusted to exclude the reduction in the carrying value of the investment in associates (Artio Global Investors Inc.) of CHF 92.2 million and the amortisation of customer relationships of CHF 5.8 million. Including those non-cash items, the Group's net profit for H1 2011 amounted to CHF 2.4 million, as shown in the Condensed Interim Consolidated Financial Statements.

The net profit for 2010 has been adjusted to exclude the reduction in the carrying value of the investment in associates (Artio Global Investors Inc.) of CHF 180.3 million (recognised in H2 2010) and the amortisation of customer relationships of CHF 11.7 million (H1 2010: CHF 5.8 million, H2 2010: CHF 5.9 million). Including those non-cash items, the Group's net profit for 2010 amounted to CHF 10.2 million (H1 2010: CHF 100.5 million, H2 2010: CHF -90.3 million), as shown in the Condensed Interim Consolidated Financial Statements.

[2] Annualised.

[3] Excludes CHF 16.8 billion of funds advised by GAM and distributed by Swiss & Global Asset Management.

[4] CHF 1.8 billion in total before removing double-count of net new money relating to funds advised by GAM and distributed by Swiss & Global Asset Management, which are reported in both businesses.

[5] Total equity excluding goodwill, customer relationships and brand.

[6] Underlying net profit (annualised) / tangible equity at the end of the period.

[7] Underlying net profit / weighted average number of shares outstanding.

[8] Tangible equity / number of shares outstanding at the end of the period.