GAM | Holding AG

Press Release

GAM Holding AG reports underlying net profit of CHF 93.1 million for the first half of 2014

Zurich, 12 August 2014

Underlying net profit of CHF 93.1 million, basic earnings per share of CHF 0.57

Return to a more normalised tax rate of 17.7%

Before tax, underlying profit of CHF 113.1 million: H1 2014 results surpassed pre-tax profit of H2 2013 as cost cuts exceeded revenue fluctuations. H1 2014 results below H1 2013 as cost reductions did not fully offset a year-on-year decline in performance fees

IFRS net profit of CHF 90.8 million, of which CHF 89.8 million attributable to GAM Holding AG shareholders

Improved cost/income ratio of 63.2% well within mid-term target range of 60–65%; cost saving targets from 2013 organisation changes achieved

Investment management:

- **Net new money inflows of CHF 1.3 billion driven by improving flow momentum across product range**
- **Period-end assets under management – an indicator for future earnings capacity – rose 5% from year-end 2013 to CHF 73.4 billion**
- **Return on assets resilient at 79.5 basis points**

Private labelling:

- **Period-end assets under management up 4% from year-end, at CHF 46.2 billion, reflecting positive market performance**
- **Marginal net new money outflows of CHF 0.1 billion, mainly due to redemptions experienced by private labelling partners**
- **Return on assets slightly improved**

Commenting on the results, *David M. Solo*, Group CEO, said: "Our efforts to create a leading independent asset management group are paying off. Growth in our core investment management business, with broadly diversified net new money inflows, robust profitability and a solid balance sheet combine to create a healthy and strongly positioned Group."

Underlying profitability and earnings per share[1]

Before tax, underlying profit for the first half of 2014 was CHF 113.1 million. Costs were reduced to compensate for revenue fluctuations, more than offsetting the decline in net fee and commission income from the second half of 2013. Pre-tax profitability therefore improved by 6% over the last six months of the previous year.

[1] The **results for H1 2014** have been adjusted to exclude an impairment of investments of CHF 2.3 million. Including this item, the Group's net profit for H1 2014 amounted to CHF 90.8 million, as shown in the Condensed Interim Consolidated Financial Statements.
The **results for 2013** were previously adjusted to exclude the gain from the sale of the Group's investment in Artio (H1: CHF 13.1 million), the amortisation of customer relationships (H1 and H2: CHF 5.8 million each), the impairment of investments (H2: CHF 5.8 million) and office move expenses (net of taxes, H2: CHF 4.5 million). Including those items, the Group's net profit amounted to CHF 119.0 million in H1 2013 and CHF 82.4 million in H2 2013, as shown in the Condensed Interim Consolidated Financial Statements.

Compared to the first half of 2013 – when net fee and commission income reached an all-time high – underlying profit before tax declined by 10%. Performance fees were lower, as a stronger contribution from the absolute return/unconstrained bond strategy was more than offset by softer revenues from macro/managed futures and non-directional equity strategies. This development was largely – but not fully – absorbed by a 16% cut in operating expenses.

Underlying net profit for the first half of 2014 was CHF 93.1 million. A more normalised tax rate (17.7% vs 7.9% in the second half of 2013 and 11.5% in the first half) meant that after tax results were lower than those achieved in the previous year. Underlying net profit declined by 5% from the second half of 2013 and by 17% from the first half.

Basic earnings per share, at CHF 0.57, declined slightly less (3% from the second half of 2013 and 15% from the first half), as the decrease in net profits was somewhat mitigated by the buy-back of own shares for cancellation.

H1 2014 results in detail[2]

The Group's *operating income* totalled CHF 307.4 million, down 2% from the second half of 2013. A reduction in average assets under management in investment management, reflecting the outflows experienced in the second half of 2013 and in the first quarter of this year, drove net management fees and commissions down 3% to CHF 267.3 million. This was largely offset by a 17% rise in performance fees which amounted to CHF 34.9 million. Performance fee contributions from a number of equity and fixed income strategies improved, particularly from the absolute return/unconstrained bond strategy whose annual performance fee is booked at the end of June.

Other operating income – which includes the impact of foreign exchange movements as well as recurring fund-related fees and service charges – was CHF 5.2 million, compared to CHF 7.8 million in the second half of 2013.

Operating expenses were 6% lower than in the second half of 2013, at CHF 194.3 million. Personnel expenses, at CHF 141.1 million, fell by 3%. Costs for salaries were lower, despite the addition of personnel in the first half of 2014 (12 full-time equivalents), helped by cost savings from a flatter organisation structure introduced in 2013 and reduced severance payments. Variable contractual payments to personnel entitled to receive a formula bonus were reduced proportionally with net management fees and commissions. The impact of the amortisation of share-based compensation plans according to IFRS 2 was largely unchanged, at CHF 2.1 million. A small decline in GAM Holding AG's share price in the first half of 2014 resulted in a credit of CHF 0.6 million related to the social security expenses on these plans, compared to a charge of CHF 3.3 million in the second half of 2013.

General expenses decreased by 12% to CHF 49.7 million, reflecting reductions in most cost categories as well as a non-recurring credit of CHF 2.1 million relating to prior years.

Compared to the second half of 2013, the Group's *cost/income ratio* improved from 65.8% to 63.2% and was in line with the range of 60–65% targeted over the medium term, reflecting the full impact of the cost savings from the introduction of a flatter and more integrated organisation structure in early 2013.

[2] An overview over the key figures for H1 2014, H2 2013 and H1 2013 is included on page 7 of this press release. A full discussion of the Group's H1 2014 results, analysing their development from H1 and H2 2013 can be found in the half-year report on www.gamholding.com.

Investment management

Return on assets in investment management for the first half of 2014 was 79.5 basis points. It was only slightly below the 79.7 basis points recorded in the second half of 2013, as average assets under management and total net fee and commission income both declined by 2%.

Assets under management in investment management as at 30 June 2014 were at CHF 73.4 billion. They rose by CHF 3.6 billion from year-end 2013, driven by market performance (CHF 2.5 billion) and net new money inflows (CHF 1.3 billion). The impact of currency movements was negative, at CHF 0.2 billion, reflecting a slight weakening of the US dollar and the euro against the Group's Swiss franc reporting currency.

Net new money inflows for the first six months of the year of CHF 1.3 billion were fuelled by strong inflows across the Group's offering. They also include assets of CHF 361 million acquired in June 2014 from Singleterry Mansley Asset Management, a US asset and mortgage-backed securities specialist.

Relative to assets under management at the beginning of the year, this result represents an annualised net new money growth rate of 3.8% compared to the Group's mid-term target of 5–10%. It signals a convincing return towards normalised growth levels after the disappointing CHF 2.4 billion of net outflows posted in the second half of 2013.

A strong contribution came from specialist fixed income strategies, in particular the GAM-branded credit opportunities and cat bond strategies as well as the Julius Baer-branded European asset-backed securities strategy. Flows into most emerging market fixed income improved markedly and turned positive in the second quarter.

The absolute return/unconstrained bond fund continued to experience strong inflows from institutional investors, but these were offset by the tail-end of outflows from financial intermediaries in the first quarter of 2014. Following the improved returns produced by the strategy in 2014, net new money flows from the intermediaries channel turned positive in the second quarter of this year. Other absolute return single manager strategies enjoyed ongoing strong net new money inflows, in particular the non-directional funds under both the GAM and Julius Baer brand.

Net new money inflows into directional equity products remained robust across the range, signalling investor demand for active strategies with differentiated performance. Important contributors were the technology strategy and GAM's 30-year-old global and North American equity strategies. Net inflows for the Julius Baer-branded funds which have been strengthening their deviation from benchmarks over recent years continued to grow as planned.

Redemptions from the physical gold ETF continued, but started to stabilise over the first half of 2014, in line with the development of the gold price.

In alternative investments solutions, solid institutional wins for GAM's innovative alternative risk premia approach were offset by outflows from certain traditional fund of hedge funds strategies due to their recent soft absolute performance.

Assets in discretionary and advisory portfolios, on the other hand, grew during the reporting period – for the first time after a protracted decline over the past six years. This reflects the growing success of GAM's discretionary fund management service launched in 2012. As anticipated, inflows into its risk-rated model portfolios for independent financial advisers now more than compensated for the redemptions by private clients of GAM's previous owners.

Private labelling

The private labelling business, which represents around 6% of Group revenues and provides outsourcing solutions to third-parties, reported a *return on assets* of 9.3 basis points for the first half of 2014, up from the low level of the second half of 2013 (8.3 basis points). Average assets under management grew by 2% while net management fees and commissions rose by 15% as margins from new mandates were higher than those from business lost.

Assets under management in private labelling were CHF 46.2 billion as at 30 June 2014, up from CHF 44.6 billion at year-end 2013, driven by positive market performance of CHF 1.8 billion. The currency impact was negative at CHF 0.1 billion.

The increase from market performance was also partly offset by *net new money* outflows of CHF 0.1 billion. This compares to net outflows of CHF 0.7 billion in the second half of 2013. Launches of Swiss-domiciled funds during the reporting period were partly offset by the closure of an offshore mandate and by net redemptions experienced by the Group's private labelling clients, particularly by money market funds. The Group's ability to achieve the targeted annualised net new money growth rate of 5% of assets under management over the medium term will largely depend on two factors: its ability to capitalise on the still uncertain outcome of European fund regulation, and the flows into its clients' funds. Given the Group's discerning risk and compliance standards and strict pricing discipline, it does not intend to pursue a strategy of growth of assets under management at any cost and will rather retain the focus on bottom-line profitability.

Group balance sheet – cash and tangible equity

The Group's *net cash* position as at 30 June 2014 amounted to CHF 533.0 million, compared to CHF 592.6 million at year-end 2013. The decline reflects the dividend payment to its shareholders for the 2013 financial year (CHF 105.5 million) and, to a lesser extent, the repurchase of own shares for cancellation (CHF 22.7 million). This was partly offset by the strong cash flows generated throughout the first half of the year.

Total equity as at 30 June 2014 was CHF 1,873.4 million. Excluding non-controlling interests, goodwill and other intangible assets, *tangible equity* stood at CHF 501.3 million, compared to CHF 551.4 million at year-end 2013. This decrease was also driven by the dividend payment for 2013 and the share buy-backs in the first half of 2014, partly offset by the net profit generated during this period.

As in the previous year, the Group has no financial debt.

Treasury shares and share buy-backs

On 30 June 2014, the Group held 4.4 million of its own shares (2.6% of shares in issue).

Of these shares, 2.9 million are held to cover share-based compensation plans and were bought back over the regular trading line at the SIX Swiss Exchange (first trading line).

The remaining 1.5 million shares are earmarked for cancellation. They were repurchased over the first half of 2014 over a second trading line at the SIX Swiss Exchange: 1,227,000 shares as part of the Group's former buy-back programme which expired on 17 April 2014, and 230,000 shares as part of its current buy-back programme launched on 28 April 2014.

The current share buy-back programme allows for the repurchase of up to 16.7 million shares over a period of three years. The buy-backs are funded from the Group's substantial cash flows and will complement dividend payments in its policy of returning cash and capital to shareholders.

Outlook

David M. Solo, Group CEO, said: "For us it is evident that actively managed solutions will play an essential part in investors' portfolios over the coming years. Rising geopolitical tensions, the prospects of monetary tightening and the unwinding of Quantitative Easing all create the need for proven active management to navigate the increasingly volatile markets ahead. We now have a broad set of active investment capabilities in place, supported by strong track records and an effective distribution platform. From here, our focus lies in promoting our capabilities more actively, through enhanced sales and marketing activities, in order to raise the awareness of our unique investment skills with the leading asset allocators globally."

The presentation for media, analysts and investors on the results of GAM Holding AG for the first half of 2014 will be webcast on 12 August 2014 at 9:30am (CET). Materials relating to the results (presentation slides, half-year report 2014 and press release) are available on www.gamholding.com.

Forthcoming events:

21 Oct 2014	Interim management statement Q3 2014
3 Mar 2015	Annual results 2014
21 Apr 2015	Interim management statement Q1 2015
30 Apr 2015	Annual General Meeting
11 Aug 2015	Half-year results 2015
20 Oct 2015	Interim management statement Q3 2015

For further information please contact:

Media Relations:
Larissa Alghisi Rubner
T: +41 (0) 58 426 62 15

Investor Relations:
Patrick Zuppiger
T: +41 (0) 58 426 31 36

Notes to editors

About GAM Holding AG

GAM Holding AG is an independent, pure-play asset management group with a focus on active investing. With global distribution networks and investment teams based in five investment centres in Europe, the US and Asia, it delivers investment solutions to institutions, intermediaries and private clients through two leading brands – Julius Baer Funds (distributed by Swiss & Global Asset Management) and GAM. The Group's investment management business is complemented by a private labelling unit (operated by Swiss & Global), which provides outsourcing solutions for third parties.

Headquartered in Zurich, 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 119.6 billion (as at 30 June 2014) and employs over 1,000 staff in 11 countries.

Key Figures H1 2014

Group income statement[1]	H1 2014 CHF m	H2 2013 CHF m	H1 2013 CHF m	Change from H2 2013 in %	Change from H1 2013 in %
Net management fees and commissions	267.3	275.2	278.9	-3	-4
Net performance fees	34.9	29.8	70.9	17	-51
Net fee and commission income	**302.2**	**305.0**	**349.8**	**-1**	**-14**
Other operating income	5.2	7.8	7.6	-33	-32
Operating income	**307.4**	**312.8**	**357.4**	**-2**	**-14**
Personnel expenses	141.1	145.8	175.5	-3	-20
General expenses	49.7	56.2	52.5	-12	-5
Depreciation and amortisation	3.5	3.9	3.2	-10	9
Operating expenses	**194.3**	**205.9**	**231.2**	**-6**	**-16**
Underlying profit before taxes	**113.1**	**106.9**	**126.2**	**6**	**-10**
Underlying income taxes	20.0	8.4	14.5	138	38
Underlying net profit	**93.1**	**98.5**	**111.7**	**-5**	**-17**
Cost/income ratio	*63.2%*	*65.8%*	*64.7%*	-	-
IFRS net profit	90.8	82.4	119.0	10	-24

Client assets - investment management	H1 2014 CHF bn	H2 2013 CHF bn	H1 2013 CHF bn	Change from H2 2013 in %	Change from H1 2013 in %
Assets under management at the end of the period	73.4	69.8	72.1	5	2
Average assets under management[2]	70.6	71.9	74.2	-2	-5
Net new money	1.3	-2.4	-0.2	-	-
Return on assets (bps)[3]	79.5	79.7	88.9	-	-

Client assets - private labelling	H1 2014 CHF bn	H2 2013 CHF bn	H1 2013 CHF bn	Change from H2 2013 in %	Change from H1 2013 in %
Assets under management at the end of the period	46.2	44.6	44.5	4	4
Average assets under management[2]	45.8	44.7	44.4	2	3
Net new money	-0.1	-0.7	-0.4	-	-
Return on assets (bps)[3]	9.3	8.3	9.2	-	-

Personnel	30.06.2014	31.12.2013	30.06.2013	Change from 31.12.2013 in %	Change from 30.06.2013 in %
Number of full-time equivalents	1,084	1,072	1,093	1	-1
in Switzerland	343	340	352	1	-3
in the United Kingdom	367	371	380	-1	-3
in the rest of Europe	261	250	250	4	4
in the rest of the world	113	111	111	2	2

Group balance sheet	30.06.2014 CHF m	31.12.2013 CHF m	30.06.2013 CHF m	Change from 31.12.2013 in %	Change from 30.06.2013 in %
Net cash	533.0	592.6	466.1	-10	14
Assets	2,261.2	2,329.7	2,240.5	-3	1
Equity	1,873.4	1,919.7	1,842.8	-2	2
Tangible equity[4]	501.3	551.4	472.9	-9	6
Return on tangible equity[5]	36.7%	34.6%	46.6%	-	-

Share information	H1 2014	H2 2013	H1 2013	Change from H2 2013 in %	Change from H1 2013 in %
Number of registered shares at the end of the period	166,661,731	173,229,660	173,229,660	-4	-4
Share capital at the end of the period (CHF m)	8.3	8.7	8.7	-5	-5
Basic EPS (CHF)[6]	0.57	0.59	0.67	-3	-15
Closing price (CHF)	16.90	17.35	14.50	-3	17

1) The result for H1 2014 has been adjusted to exclude the impairment of investments of CHF 2.3 million. Including this item, the Group's net profit for H1 2014 amounted to CHF 90.8 million, as shown in the Condensed Interim Consolidated Financial Statements.
The result for 2013 has been adjusted to exclude the gain from the sale of our investment in Artio of CHF 13.1 million (H1 2013: CHF 13.1 million, H2 2013: none), the amortisation of customer relationships of CHF 11.6 million (H1 2013: CHF 5.8 million, H2 2013: CHF 5.8 million), the impairment of investments of CHF 5.8 million (H1 2013: none, H2 2013: CHF 5.8 million) and office move expenses (net of taxes) of CHF 4.5 million (H1 2013: none, H2 2013: CHF 4.5 million). Including those items, the Group's net profit for 2013 amounted to CHF 201.4 million (H1 2013: CHF 119.0 million, H2 2013: CHF 82.4 million), as shown in the Condensed Interim Consolidated Financial Statements.
2) Average calculated with seven month-end values (December to June for H1 2014 and H1 2013, June to December for H2 2013).
3) Annualised.
4) Equity excluding non-controlling interests, goodwill and other intangible assets.
5) Underlying net profit excluding non-controlling interests (annualised) / tangible equity at the end of the period.
6) Underlying net profit excluding non-controlling interests / weighted average number of shares outstanding, excluding treasury shares.