GAM

Press Release

GAM reports underlying net profit of CHF 81.2 million for the first half of 2015 and net new money inflows of CHF 6.3 billion

Zurich, 11 August 2015

Underlying net profit of CHF 81.2 million, basic earnings per share of CHF 0.51, IFRS net profit of CHF 80.9 million

Strong net new money inflows and convincing investment performance across the board

Mid-term strategic plan on track:

- **New operating model defined, projected cost reductions of CHF 20 million+ annually, fully implemented by year-end 2016**
- **Acquisition of Renshaw Bay real estate finance business announced, with additional acquisitions planned**
- **Product shelf simplification underway**
- **Brand re-design and increased recognition underway**

AuM and profit development impacted by Swiss franc appreciation

Investment Management:

- **Solid net new money inflows of CHF 2.0 billion and positive market performance of CHF 0.8 billion**
- **Period-end assets under management down 3% from year-end 2014 to CHF 73.5 billion, entirely due to negative currency impact of CHF 5.4 billion**

Private Labelling:

- **Period-end assets under management up 8% from year-end 2014 to CHF 50.7 billion, driven by net new money inflows of CHF 4.3 billion and positive impact of market performance**

Commenting on the results, *Alexander S. Friedman*, Group CEO, said: "GAM is in the midst of an ambitious and achievable growth agenda, which is well on track. At the same time, we have been successful in navigating the external headwinds during the first half of the year, with positive underlying business momentum delivering solid profitability and robust net new money inflows."

Currency impact on H1 financial results

Underlying net profit for the first half of 2015 was CHF 81.2 million, a decline of 3% compared to the second half of 2014 and of 13% from the first half of 2014.

With its international presence and business activities, almost 90% of GAM's operating income and approximately 60% of its costs are denominated in other currencies than the company's Swiss franc reporting currency. This exposes GAM's results to foreign exchange translation effects, which were particularly pronounced during the first half of this year, following the Swiss National Bank's decision to remove the CHF 1.20 per euro floor in January 2015.

Absent foreign exchange rate movements from year-end 2014, operating income for the first half of 2015 would have increased by approximately 4% and operating expenses would have been essentially flat compared to the second half of the previous year.

H1 2015 results in detail

The Group's *operating income* for the first half of 2015 totalled CHF 303.6 million, compared to CHF 316.1 million in the second half of 2014. This reflects a decline in net fee and commission income and in 'other operating income'.

Net fee and commission income declined 2%. This development was due to currency effects which caused a reduction in management fee income. Performance fees, on the other hand, climbed from CHF 31.0 million in the second half of 2014 to CHF 44.1 million – an increase of 42% – with strong contributions from global macro and select fixed income strategies as well as from the Julius Baer-branded non-directional European equity strategy. Performance fees from the GAM-branded non-directional equity range remained solid, although they were lower than in the second half of 2014.

Other operating income – which includes the impact of foreign exchange movements, gains and losses on seed capital investments as well as recurring fund-related fees and service charges – was CHF 1.8 million, compared to CHF 9.5 million in the second half of 2014, when GAM benefited from strong seed capital and currency gains.

Operating expenses decreased by 5% compared to the second half of 2014, from CHF 212.5 million to CHF 202.1 million. Personnel expenses declined by 5% and general expenses by 6%, aided by the positive impact of currency movements. Accruals for variable compensation declined in line with lower net management fees and commissions. Salary costs and other personnel expenses also fell, despite a small increase in headcount. This was partly offset by higher charges for share-based compensation plans and an increase in related social security expenses (driven by the appreciation of GAM's share price).

Compared to the first half of 2014, operating expenses increased by 4%, mainly due to a non-recurring credit booked in the previous year, higher severance payments and an increase in charges for share-based compensation plans (including related social security expenses).

For the first half of 2015, GAM reports a *cost/income ratio* of 66.6%. While this is just above the Group's mid-term target range of 60–65%, it represents an improvement from the ratio of 67.2% reported for the second half of 2014 and demonstrates the Group's ability to align its cost base with revenue fluctuations.

Basic earnings per share remained unchanged from the second half of 2014, at CHF 0.51, as the reduction in the number of shares outstanding through the Group's buy-back activity compensated for the shortfall in profitability. Return on tangible equity was 34.5% compared to 30.3% in the previous six months, with a decline in tangible equity more than offsetting the profit decrease.

Investment Management

Assets under management for the investment management business as at 30 June 2015 amounted to CHF 73.5 billion, compared to CHF 76.1 billion at year-end 2014. The reduction was entirely driven by foreign exchange movements, since assets in investment management are reported in Swiss francs but largely denominated in other currencies. The appreciation of GAM's reporting currency over the first half of 2015 had a negative effect of CHF 5.4 billion. This was partly offset by solid net new money inflows of CHF 2.0 billion and a positive market performance of CHF 0.8 billion.

Net new money growth was particularly strong from March 2015 onwards. An important contribution came from specialist fixed income strategies, in particular the GAM-branded credit opportunities and catastrophe bond strategies as well as the Julius Baer-branded European total return strategy. A shift in demand from traditional to higher-yielding bond allocations benefited GAM's mortgage-backed securities capability derived from the acquisition of the Singleterry Mansley business in 2014: the UCITS version of their strategy, launched in July 2014, more than tripled in size during the first half of 2015. Emerging market debt, on the other hand, continued to be affected by volatile market sentiment, leading to small net outflows in the Julius Baer-branded strategy investing in local currency bonds. With its performance track record and growing support from investment consultants, however, the fund is well positioned to benefit when the current US dollar strength abates.

Net flows into the Group's absolute return/unconstrained bond strategy turned positive in the first half of 2015, following a marked improvement in absolute and relative investment performance since the beginning of the year. During the first six months of 2015, resilient inflows from global institutional clients more than compensated for the redemptions from financial intermediaries resulting from the strategy's weak performance in 2014.
Other absolute return products achieved ongoing strong net new money inflows, in particular the GAM-branded global macro strategy and the European long/short equity strategy distributed under the Julius Baer Funds brand.

Flows into directional equity products were largely flat. While the Julius Baer-branded Japan strategy saw significant inflows, other equity funds experienced net outflows, in particular GAM's US and Chinese equity strategies. Launched in 2007, GAM's Chinese equity strategy is one of the largest and most competitive in the market. Amidst recent volatility, the fund still experienced significant gross inflows and largely retained its strong relative and absolute performance.

Redemptions from the Group's physical gold ETF slowed during the first half of 2015. They were more than offset by net inflows into the Julius Baer-branded long-only commodities strategy.

GAM's alternative investments solutions reported net outflows for the six-month period, reflecting negative industry trends affecting traditional fund of hedge funds strategies.

In GAM's multi-asset class capability, client flows into the risk-rated model portfolios offered to independent financial advisers remained strong, and net new money from Continental European institutions rose compared to 2014. These positive developments more than offset redemptions from private clients of the Group's previous captive channels (UBS and Julius Baer).

Private Labelling

Assets under management in private labelling were CHF 50.7 billion as at 30 June 2015, up CHF 3.6 billion from year-end 2014, driven by net new money inflows (CHF 4.3 billion) and the positive impact of market performance (CHF 1.2 billion). Foreign exchange movements had a negative impact of CHF 1.9 billion, due to the strengthening of the Swiss franc.

Net new money inflows of CHF 4.3 billion were recorded during the first half of 2015. They were driven by new mandate wins in Switzerland and Italy, and represent a successful rebound from the negative results seen in 2014, offsetting outflows in offshore and Swiss-domiciled funds.

While private labelling client relationships are generally long term, asset flows from new or lost mandates in any period can be somewhat concentrated. These fluctuations, however, do not have a material impact on private labelling revenues, which are well diversified, and the Group's profitability.

Update on mid-term strategic initiatives

In March 2015, at the presentation of its 2014 annual results, GAM unveiled a focused growth agenda for the coming years. The following initiatives are designed to implement strategic change, in order to redeploy resources in areas of growth:

- increasing external recognition and profile through strategic brand building
- simplifying the operating model to achieve greater efficiency
- growing through organic investment and targeted acquisitions.

Tangible achievements on these initiatives were already made during the first half of 2015.

As previously announced, as of 1 June 2015, all of the Group's businesses were united under the GAM brand, with the trademark 'Julius Baer Funds' (licensed from Bank Julius Baer under an exclusive agreement) retained purely as a product brand. A strategic repositioning of the brand is well under way and will be implemented in the second half of 2015.

In addition to having re-designed its operating model (more details below), the Group is in the process of calibrating its product shelf, in order to focus its future product management, sales and marketing resources on those areas with the strongest growth potential. It is combining sub-scale strategies with similar or related products, in order to drive critical mass. This streamlining project is to be completed by the end of the year.

GAM continues to actively drive its search for acquisition targets that represent a compelling strategic and cultural fit to its business. If the right opportunity arises, it will act in a disciplined manner in line with its commitment to prudent capital management and sustainable shareholder distributions.
(*Please see separate press release for details on the acquisition of the Renshaw Bay real estate finance business announced today.*)

To lead its corporate development strategy, GAM has hired Tim Dana as Group Head of Corporate Development. He will join in the fall of 2015 from Citigroup's Financial Institutions Group, where he was a Managing Director and a senior M&A investment banker specialising in asset management, after formerly serving as a Managing Director at Lazard.

Re-design of operating landscape across the Group

As announced at its annual results presentation in March, GAM performed an in-depth review of its operations and IT infrastructure, which – as a result of the company's history – today is fragmented across different legal entities and product brands.

In order to reduce complexity and duplication, GAM has now developed an 18-month plan to introduce a consistent operating 'backbone' for its business. Its operations and IT function will be focused on core parts of the value chain: the support of portfolio management and client servicing activities. Conversely, fund accounting and middle office processes, which are becoming increasingly commoditised, are to be outsourced to a specialist provider, State

Street. In addition, across the Group, remaining duplications in processes, structures and systems will progressively be reduced to further integrate our business.

The implementation of the new operating model will start in the second half of 2015, and is anticipated to be completed by the end of 2016. This should result in a structural cost reduction of CHF 20 million+ annually (5%+ of the Group's 2014 cost base). These savings will fully materialise upon completion of the project and improve GAM's profitability as well as provide a buffer against future investments the Group might make to drive organic growth.

As a result of the planned restructuring measures, the total number of jobs in the Group across all locations is likely to be reduced by approximately 15% over the next 18 months. GAM will try to avoid redundancies to the extent possible, by using the Group's natural personnel turnover to find alternative roles in-house. For individuals who will not find an adequate position, GAM will provide support in search of new employment and appropriate redundancy payments.

Overall, the costs associated with the restructuring (including redundancy payments and, to a lesser extent, the expenses for the decommissioning of software) are expected to result in a one-time charge of approximately CHF 13 million. This charge will be booked in the second half of 2015. It will be reflected in the Group's 2015 IFRS net profit, but excluded from the discussion and presentation of the underlying results.

Outlook

Alexander S. Friedman, Group CEO, said: "As we enter the second half of 2015, we have seen the positive underlying momentum in our business continuing. Global monetary policy remains broadly accommodative, even as US rates could begin the path to a gradual normalisation. While some market valuations look fuller, policy divergence and resulting volatility enables increasing opportunities for alpha generation through active investment. We believe this creates an attractive tailwind for risk assets, and GAM is well positioned to capitalise on these market conditions.

However, the macroeconomic and political issues that characterised the first half of 2015 are likely to persist. The overall economic environment remains challenging and difficult to predict. Beyond navigating its immediate impact on our results, we focus on addressing the long-term dynamics in our industry – by delivering consistent and excellent investment performance, building a strong and efficient infrastructure, and fostering an effective and entrepreneurial approach to growth. The benefits from the changes we are implementing will not be fully realised overnight. We are highly confident that we have taken the right steps to significantly strengthen our company's competitive advantage and secure our long-term success."

The presentation for media, analysts and investors on the results of GAM for the first half of 2015 will be webcast on 11 August 2015 at 9:00am (CET). Materials relating to the results (presentation slides, half-year report 2015 and press release) are available on www.gam.com.

Forthcoming events:

20 Oct 2015	Interim management statement Q3 2015
1 Mar 2016	Full-year results 2015
20 Apr 2016	Interim management statement Q1 2016
27 Apr 2016	Annual General Meeting

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About GAM

GAM is one of the world's leading independent, pure-play asset managers. It provides active investment solutions and products for institutions, financial intermediaries and private investors, under two brands, GAM and Julius Baer Funds. Its core investment business is complemented by private labelling services, which include fund administration and other support services to third-party institutions. GAM employs over 1,000 people in 11 countries with investment centres in London, Zurich, Hong Kong, New York, Lugano and Milan. The investment managers are supported by an extensive global distribution network.

Headquartered in Zurich, GAM 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 124.2 billion (USD 132.8 billion)*.

* Source: GAM. Data as at 30 June 2015.

Disclaimer regarding forward-looking statements

This press release by GAM Holding AG ('the Company') includes forward-looking statements that reflect the Company's intentions, beliefs or current expectations and projections about the Company's future results of operations, financial condition, liquidity, performance, prospects, strategies, opportunities and the industry in which it operates. Forward-looking statements involve all matters that are not historical facts. 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', 'seek', 'plan', 'predict', 'continue' and similar expressions. Such statements are made on the basis of assumptions and expectations which, although the Company believes them to be reasonable at this time, may prove to be erroneous.

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Key Figures H1 2015

Group income statement	H1 2015 CHF m	H2 2014 CHF m	H1 2014 CHF m	Change from H2 2014 in %	Change from H1 2014 in %
Net management fees and commissions	257.7	275.6	267.3	-6	-4
Net performance fees	44.1	31.0	34.9	42	26
Net fee and commission income	**301.8**	**306.6**	**302.2**	**-2**	**0**
Other operating income	1.8	9.5	5.2	-81	-65
Operating income	**303.6**	**316.1**	**307.4**	**-4**	**-1**
Personnel expenses	145.2	152.1	141.1	-5	3
General expenses	52.6	56.1	49.7	-6	6
Depreciation and amortisation	4.3	4.3	3.5	0	23
Operating expenses	**202.1**	**212.5**	**194.3**	**-5**	**4**
Underlying profit before taxes	**101.5**	**103.6**	**113.1**	**-2**	**-10**
Underlying income tax expenses	20.3	19.5	20.0	4	2
Underlying net profit[1]	**81.2**	**84.1**	**93.1**	**-3**	**-13**
Cost/income ratio	*66.6%*	*67.2%*	*63.2%*	-	-
IFRS net profit	80.9	78.2	90.8	3	-11

Client assets - investment management	H1 2015 CHF bn	H2 2014 CHF bn	H1 2014 CHF bn	Change from H2 2014 in %	Change from H1 2014 in %
Assets under management at the end of the period	73.5	76.1	73.4	-3	0
Average assets under management[2]	73.6	75.3	70.6	-2	4
Net new money	2.0	1.1	1.3	82	54
Return on assets (bps)[3]	76.4	76.2	79.5	0	-4
Return on assets - excluding performance fees (bps)[3]	64.4	67.9	69.6	-5	-7

Client assets - private labelling	H1 2015 CHF bn	H2 2014 CHF bn	H1 2014 CHF bn	Change from H2 2014 in %	Change from H1 2014 in %
Assets under management at the end of the period	50.7	47.1	46.2	8	10
Average assets under management[2]	49.5	47.5	45.8	4	8
Net new money	4.3	-0.7	-0.1	-	-
Return on assets (bps)[3]	8.4	8.4	9.3	0	-10

Personnel	30.06.2015	31.12.2014	30.06.2014	Change from 31.12.2014 in %	Change from 30.06.2014 in %
Number of full-time equivalents	1,097	1,094	1,084	0	1
in Switzerland	343	348	343	-1	0
in the United Kingdom	376	372	367	1	2
in the rest of Europe	266	265	261	0	2
in the rest of the world	112	109	113	3	-1

Group balance sheet	30.06.2015 CHF m	31.12.2014 CHF m	30.06.2014 CHF m	Change from 31.12.2014 in %	Change from 30.06.2014 in %
Net cash	504.3	643.9	533.0	-22	-5
Assets	2,253.1	2,370.7	2,261.2	-5	0
Equity	1,842.9	1,915.9	1,873.4	-4	-2
Tangible equity[4]	470.4	540.6	501.3	-13	-6
Return on tangible equity[5]	34.5%	30.3%	36.7%	-	-

Share information	H1 2015	H2 2014	H1 2014	Change from H2 2014 in %	Change from H1 2014 in %
Number of registered shares at the end of the period	166,661,731	166,661,731	166,661,731	0	0
Share capital at the end of the period (CHF m)	8.3	8.3	8.3	0	0
Basic EPS (CHF)[6]	0.51	0.51	0.57	0	-11
Closing price (CHF)	19.65	18.00	16.90	9	16

1) The underlying net profit for H1 2015 excludes the amortisation of customer relationships of CHF 0.3 million. Including this item, the Group's IFRS net profit for H1 2015 was CHF 80.9 million.
The underlying net profit for 2014 excludes the adjustment of the GAM Lugano deferred liability of CHF 5.9 million (H2 2014: CHF 5.9 million, H1 2014: none) and the impairment of investments of CHF 2.3 million (H2 2014: none, H1 2014: CHF 2.3 million). Including these items, the Group's IFRS net profit for 2014 was CHF 169.0 million (H2 2014: CHF 78.2 million, H1 2014: CHF 90.8 million).

2) Average calculated with seven month-end values (December to June for H1 2015 and H1 2014, June to December for H2 2014).

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.