

Wednesday, 22 February 2012

TREASURY GROUP LIMITED HALF YEAR RESULTS – 31 DECEMBER 2011

Overview

Treasury Group (ASX:TRG) today announced a consolidated profit after tax of \$4.2 million for the six months ended 31 December 2011.

Normalised net profit after tax was \$5.2 million, which was flat relative to the same result last year.

The company has a conservative balance sheet and generates strong cash flows. Other than the investments in the Group's boutique asset management businesses, the majority of the asset base is comprised of cash or liquid investments. The result highlights the improved diversification not only through various business ownership interests but also asset classes.

Treasury Group has declared a fully franked final dividend of 14 cents per share to be paid on 26 March, 2012. This dividend is the same as the dividend declared and paid for the half year to December 2010.

Treasury Group Chairman, Mike Fitzpatrick said:

***“The first six months of financial year 2011 brought significant change to group. Andrew McGill commenced as CEO in July 2011 and initiated a review of the Group. The Global Value Investors (GVI) Board, with the support of Treasury Group as a large shareholder in GVI restructured the company following sustained poor performance and falling FUM. TRG also addressed key man events at AR Capital. These initiatives were necessary to deal with fundamental business issues at those boutiques. Our half year result includes \$974,972 of abnormal expenses largely in relation to these actions.*”**

The funds management industry continued to experience difficult conditions in the last six months. However TRG's diversified structure and capable management teams enabled TRG to achieve a result comparable with the previous December half. In that context, the Board has decided to maintain the interim dividend.”

A summary of the Profit and Loss follows (see also section titled “Detailed Financial Analysis”):

	6 months to 31 December		
\$000's	2011	2010	% Change
Total Revenue	2,182	2,234	(2.3)
Equity Share of Associates	5,794	7,302	(20.6)
Expenses	(3,885)	(4,299)	9.6
Net Profit After Tax	4,203	5,232	(19.7)
NORMALISED NET PROFIT	5,178	5,232	(1.0)
Basic Earnings Per Share	18.22	22.68	(19.7)
Dividend Per Share (cents)	14.00	14.00	-

(for further details on Normalised Net Profit – refer to “Detailed Financial Analysis” section)

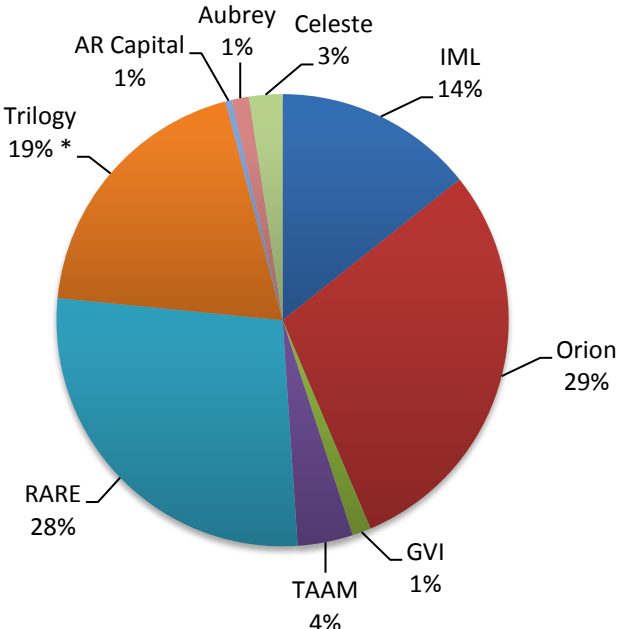
The result reflects diversification across three main businesses namely Investors Mutual Limited (IML), Orion Asset Management (Orion) and RARE Infrastructure (RARE). Over the last six months RARE has continued to win fund inflows both locally and internationally. The investment performance of all IML's funds during the six months ended 31 December 2011 was strong. IML was reviewed by some of the major institutional consultants resulting in the company being shortlisted for several institutional mandates.

Celeste Funds Management continues to show positive inflows from both retail and institutional investors, Treasury Asia Asset Management (TAAM) has shown early signs of improving investment performance. Aubrey Capital Management continues to perform well and has delivered strong early performance for the investors in the GVI funds.

Funds Under Management

Total Funds Under Management (FUM) at 31 December 2011 amounted to \$15.75 billion, an increase of \$0.24 billion on the previous corresponding half year or 1.5%. The attribution of FUM across the Group boutiques is shown below:

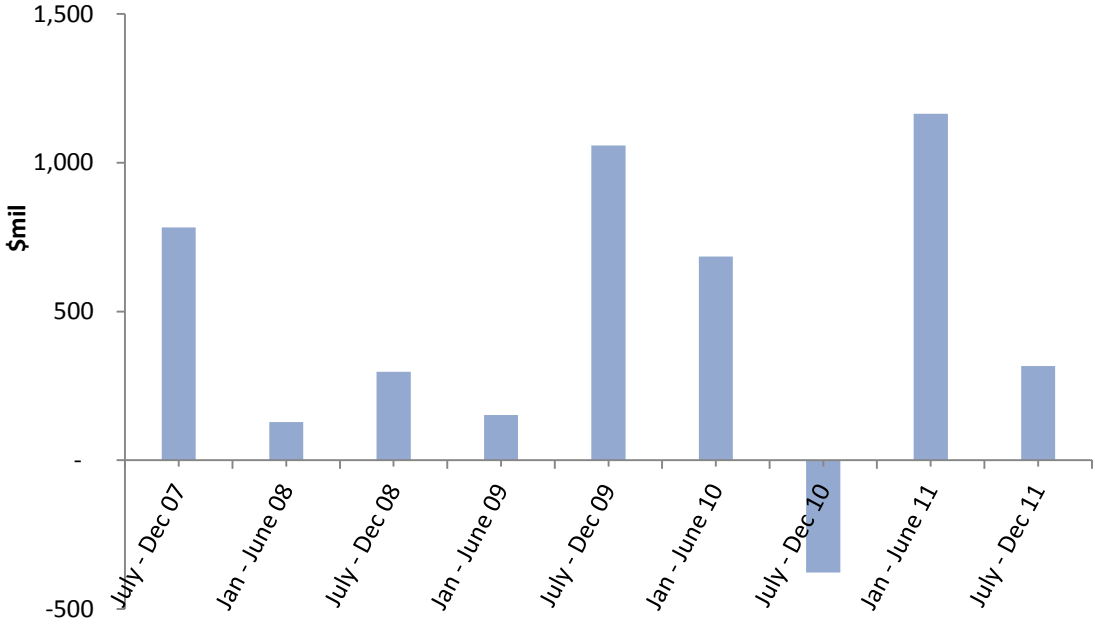
FUM BY TRG BOUTIQUES



* Trilogy Global Advisors ia a New York based asset management business with whom Orion has a strategic alliance. TRG benefits from the distribution and administration commission paid to Orion on these funds. Unlike all other FUM, no fund management fees are earned on these funds.

Fund flows were positive overall for the six months. The first half saw net out flows at IML, Orion and GVI while RARE, TAAM and Trilogy were the main sources of net inflows.

Half Yearly Net New Funds Flow 2007 - 2011



As indicated in the June 2011 results, the composition of Treasury Group FUM by product has also changed over time. There has been a shift towards Alternatives such as RARE Infrastructure.

Consistent with our strategy, Treasury Group is continuing to expand its distribution footprint. In September a senior distribution executive was appointed based in London. This is seen as an important step to assist in the diversification of the investor base especially against a backdrop in Australia where there is ongoing consolidation among large institutional investors.

Comments on Current Market Conditions

The level of caution among retail investors is ongoing. Businesses including IML and GVI which have predominantly retail clientele, suffered net outflows as a result of continued market uncertainty. However as a result of consistent strong performance over the last 2 years IML has seen renewed interest from institutional clients.

The management of gatekeeper relationships is crucial especially at the institutional level of the business. Treasury Group is active in the management of such relationships whether directly or indirectly with the boutiques. Investment performance and consistent branding become important to maintain ongoing interest and support.

Notes:

Treasury Group equity accounts all the fund management businesses except Aubrey. The ownership interest in the asset managers is as follows:

Investors Mutual Limited	47.50%
Orion Asset Management	41.99%
Treasury Asia Asset Management	40.00%
Global Value Investors ¹	72.50%
RARE Infrastructure	40.00%
Celeste Funds Management	39.17%
AR Capital Management ²	30.00%
Aubrey Capital Management ³	

- 1: TRG has a direct interest of 72.50% as at 31 December 2011 and is expected to own 100% by the end of March 2012 once a buyback is completed.
- 2: TRG is expected to own 100% by the end of March 2012 once a buyback is completed.
- 3: TRG owns convertible preference shares entitling to 20% of ordinary equity in Aubrey on conversion. TRG also holds options to acquire a further 10% based on predetermined FUM targets.

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Detailed Financial Analysis

Normalised Earnings

The underlying performance of Treasury Group's business can only be understood after consideration of earnings normalised for abnormal and non recurring items. The Company's results in 1H12 were impacted by two restructures of businesses in the last two months of the period. In the case of GVI, the impact on TRG was as a result of being a direct investor as well as its indirect exposure through its ownership in IML which owned 47.5%. The investment operations of GVI were closed and Aubrey Capital Management appointed to manage the funds going forward.

TRG reflected an impairment charge in the carrying value of its investment in AR Capital. As a result of key man issues within the business, management of the fund was awarded to Evergreen Capital, a specialist alternatives manager. As a result of the change, there were net out flows from the Ascot fund impacting on the carrying value of the business.

Normalised NPAT for the six months to 31 December, 2011 was \$5.18 million or 1.0% lower relative to 31 December 2010 normalised NPAT which was \$5.23 million. This is calculated as follows:

December 2011 NPAT		\$4.203 million
Less:		
GVI restructuring (direct and indirect)	\$0.509 million	
Impairment charge – AR Capital	\$0.361 million	
Loss on disposal of assets (GVI funds)	\$0.105 million	\$0.974 million
Normalised NPAT		\$5.178 million

Share of Net Profit from Equity Accounted Investments

Share of net profit from equity accounted investments was down from \$7.3m to \$5.8m. On a normalised basis the share of net profits from associates, was \$6.8 million compared to \$7.3 million in the previous corresponding period. The remaining reduction was due to falls in FUM in key groups such as IML and Orion. Orion added some resources as part of a strategy to diversify its product offering. GVI reflected a net loss due to the restructuring costs and closure of business operations. Share of profit from RARE and Celeste increased due to growing FUM from the previous corresponding period. The restructuring costs in GVI also had an impact on the IML result as IML was a major shareholder up until 14 December 2011.

Cash Flow

Net cash flow from operating activities was \$3.3 million. Operating cash flows are affected by the timing of payments as well as declaration and receipt of dividends and distributions from associated businesses. During the half year Treasury Group invested \$1.7 million in various investment funds managed by Group boutiques and received \$0.7 million from redeeming fund investments. Treasury Group also received \$0.5 million in loan repayments from associated entities.

Balance Sheet

The Company's balance sheet is ungeared and maintains a healthy position in liquid assets. The cash balance at 31 December 2011 was \$9.6 million which includes statutory liquidity requirements for the Responsible Entity licence. In addition, there was a total of \$6.3 million invested as seed funding into newer funds managed by Group boutiques. Generally the intention is that these positions will be redeemed once a critical mass and investment track record have been established in the relevant funds. This is seen as an important step in the business development plan of the Treasury Group boutiques.

Treasury Group also has \$4.6 million in loans outstanding to group boutiques. These will be repaid according to agreed schedules over the loan periods. Another important component of the balance sheet is the investment in the respective boutique asset management businesses. The carrying amount of \$30.3 million represents the historical entry price as well as Treasury Group's share of undistributed profits over the period of our involvement. Treasury Group does not mark to market the carrying value of its interests and as such the carrying value is not reflective of market value. However the \$30.3 million is supported by cash and other net assets at the boutique level.

Dividend

On 22 February, 2012, the Treasury Group board declared a 14 cents per share (cps) fully franked dividend.

The interim dividend will be paid on 26 March, 2012. The record date is 5 March 2012.

Detailed Disclosure of Business Profit and Loss

a. Aggregated Profit and Loss of our Boutique Managers:

This table shows the aggregate financial result of all Group boutiques except Aubrey. The aggregation includes IML, Orion, TAAM, RARE, GVI, Celeste and AR Capital.

6 months to 31 December			
\$000s	2011	2010	% Change
Net Management Fees	35,744	36,187	(1.2)
Other Income	1,229	1,783	(31.1)
Gross Profit	36,973	37,970	(2.6)
Expenses			
Staff Related Expenses	11,579	9,593	20.7
Other Expenses	8,247	6,940	18.8
Total Expenses¹	19,826	16,533	19.9
Net Profit Before Tax	17,147	21,437	(20.0)
Income Tax	4,230	4,675	(9.5)
Net Profit After Tax	12,917	16,762	(22.9)
Add back: One-off items relating to GVI restructure	2,882	-	-
Normalised Net Profit After Tax	15,799	16,762	(5.7)
TRG's Share of After Tax Profit	5,794	7,302	(20.6)
Normalised TRG's Share of After Tax Profit	6,824	7,302	(6.6)
Ratio of Normalised TRG's Share to Normalised Net Profit After Tax	43.2%	43.6%	(0.09)

¹ Current year expenses include the one-off effects of restructuring costs in the GVI business and the related effect of the sale of IML's equity holding in GVI. These effects are added back to display a normalised aggregated profit. On a normalised basis, total expenses increased 2.5%.

The boutique asset managers do not have any external borrowings. Some managers do have loans from TRG that are issued to assist with working capital requirements during the start up phase and the loans are structured to meet Australian Financial Services Licensing (AFSL) requirements. These loans are repaid over time according to agreed schedules. All businesses hold minimum cash levels to meet AFSL requirements. In some cases, surplus liquid assets have been maintained in the form of cash or as investments in various funds.

b. Treasury Group Income Statement

The table below summarises the statutory income statement for Treasury Group.

\$000s	6 months to 31 December		
	2011	2010	% Change
Revenue ²	2,182	2,234	(2.33)
Gains/(losses) on Investments	86	-	-
Employee Expenses ¹	(2,403)	(2,742)	(12.36)
Other Expenses	(1,482)	(1,557)	(4.82)
Equity Share of Associates Profit	5,794	7,302	20.65
Profit Before Tax	4,176	5,237	(20.26)
Tax Benefit	27	(5)	(640)
Net Profit After Tax	4,203	5,232	(19.67)
Normalised Net Profit	5,178	5,232	(1.05)
Diluted Earnings Per Share (cents)	18.22	22.68	(19.67)
Basic Earnings Per Share (cents)	18.22	22.68	(19.67)
Dividend Per Share (fully franked)	14	14	-

Notes:

1. Decrease was due to decline of commission entitlement of executives.
2. Interest income is less in 2011 due to loans to boutique asset managers being partially repaid and lower interest earnings on cash due to lower interest rates compared to December 2010.

Funds Under Management (FUM)

The proportion of Group FUM within International Equities and Alternatives increased during the year while the proportion in Domestic Equities decreased.

Asset Class	Dec 2011	%	June 2011	%	Dec 2010	%
Australian Equities	7,248,954,948	46.04	8,180,996,267	48.81	8,139,438,203	52.47
International Equities	4,072,416,431	25.86	4,269,658,640	25.47	3,973,840,151	25.62
Alternatives	4,424,683,385	28.10	4,310,833,197	25.72	3,400,352,240	21.91
TOTAL	15,746,054,764		16,761,488,104		15,513,630,594	

FUM is sourced from both domestic and international clients. Due to the growth in RARE and Trilogy over the last 12 months, the relative attribution of domestic sourced FUM has increased relative to offshore clients as shown below:

Investor Origin	Dec 2011	%	June 2011	%	Dec 2010	%
Domestic	14,219,533,249	90.30	15,143,624,090	90.35	14,027,299,426	90.42
International	1,526,521,515	9.70	1,617,864,014	9.65	1,486,331,168	9.58
Total	15,746,054,764		16,761,488,104		15,513,630,594	

The proportion of institutional client FUM increased relative to retail client FUM as the table below shows:

Investor type	Dec 2011	%	June 2011	%	Dec 2010	%
Institutional	12,742,906,196	80.93	13,224,858,113	78.90	11,971,821,957	77.17
Retail	3,003,148,568	19.07	3,536,629,991	21.10	3,541,808,637	22.83
Total	15,746,054,764		16,761,488,104		15,513,630,594	

Review of Operations



Investors Mutual Limited (IML) - (47.50% owned at 31 December 2011)

The investment performance of all IML's funds during the six months ended 31 December 2011 was strong. IML was reviewed by some of the major institutional consultants which has resulted in the company being shortlisted for several institutional mandates. IML offers a consistent performance record, good depth and stability of its investment team as well as the maintenance of a core value investment style which suits the needs of many investors in volatile times.



Orion Asset Management Limited (Orion) - (41.99% owned at 31 December 2011)

Orion had another solid six months of investment performance and maintains strong client relationships with a range of institutional investors including some of the largest in Australia. Orion has also an important retail client base and in July 2011 refocused its distribution strategy for retail products resulting in retail distribution now being undertaken in-house rather than by a third party.

Orion's alliance with Trilogy Global Advisors of New York saw considerable net new fund flows during the six months into Trilogy's global and emerging market equity products.

In addition, Orion continued to expand its product range in Australian Equities and also established a new absolute return style hedge fund called Orion Sirius.



Global Value Investors (GVI) - (72.50% owned at 31 December 2011)

Following a period of sustained poor investment returns and declining FUM, the Board of GVI took the difficult decision to restructure the company and appoint Aubrey Capital Management as the sub - manager of the GVI funds. These actions dramatically lowered the breakeven point for the business and restored its viability on an on-going basis.

It is expected that with improved investment performance and increasing investor and researcher awareness of Aubrey that GVI can see its funds under management grow in the medium term.



Treasury Asia Asset Management (TAAM) - (40% owned at 31 December 2011)

TAAM's performance stabilised in the second half of 2011 and early 2012, having made some slight enhancements to its investment process earlier in the year. After a number of years of heavily macro driven Asian equity markets, fundamental analysis on individual stocks is re-emerging as the favoured way to invest in Asian markets. This will benefit TAAM going forward.

TAAM continues to maintain key relations with institutional investors, both in Australia and in the UK and Europe. It also continues to build its profile in the retail market in Australia.

Subsequent to 31 December 2011, Treasury Group has agreed to invest further funds in support of the growth of TAAM going forward.



RARE Infrastructure (RARE) - (40% owned at 31 December 2011)

RARE has had another strong six months of investment performance as well as increased brand awareness both domestically and offshore. RARE is further developing its position in the North American market as well as establishing a base in the UK.

RARE's defensive and yield focused product line is well suited to the appetite of risk averse investors looking for a defensive play in these volatile times.



AR Capital Management - (30% owned at 31 December 2011)

AR Capital has recently been restructured following key man events amongst investment staff. The board of AR capital appointed Evergreen Capital managed by Tim Hannon, to manage the Ascot fund. The operation and overhead cost of the company have been effectively closed.

TRG is confident that under Evergreen's stewardship that the fund can generate strong investment returns and find new wholesale interest.



Celeste Funds Management (39.7% owned at 31 December 2011)

Celeste is an equity manager with a focus on listed Australian small companies. Celeste has had a solid six months earning strong investment ratings from key research groups, showing net inflows and seeing increased interest institutional investor interest.



Aubrey Capital Management (TRG owns redeemable preference shares entitling it to 20% of ordinary equity in Aubrey)

Aubrey was appointed as sub manager of the GVI funds in November 2011. In addition to this new line of business, Aubrey have been introduced to an increased number of institutional investors through the TRG distribution executive in the UK and through that expect FUM to grow in the next 12 months.

TREASURY GROUP LIMITED

Treasury Group Ltd

Results Presentation
31 December 2011



Agenda

1. Summary
2. FUM & Performance
3. Financial Results
4. GVI & AR Capital
5. Outlook & Summary

1. Summary

- Total Funds Under Management (FUM) at 31 December 2011 - \$15.75 billion, up \$0.24 billion on the previous corresponding half year period (or 1.5%) but down \$0.95 billion (or 5.7%) versus 30 June 2011
- Normalised NPAT was flat from the previous corresponding period
- Restructuring of Global Value Investors and AR Capital during the period resulted in one off costs of \$0.974 million at Treasury Group (plus additional abnormals at boutiques)
- The Company's balance sheet is ungeared and maintains a healthy position in liquid assets
- Strong performance at IML, RARE and Celeste

1. Summary – Growth in FUM at boutiques and flat normalised NPAT

	\$	% Change vs PCP
31 December 2011 FUM (\$bn)	15.8	+1.5
Average FUM (\$bn)	15.9	+5.2
Aggregate Boutique Mgmt Fees (\$m)	35.7	-1.2
Reported NPAT (\$m)	4.2	-19.7
Normalised NPAT (\$m)	5.2	- 1.0
Interim Dividend (cps)	14	-

- Growth in FUM achieved in difficult market conditions
- FUM over the last six months impacted by market volatility
- TRG Normalised NPAT basically flat
- Interim dividend maintained

1. Summary – Influences of key profit drivers were mixed during 2011

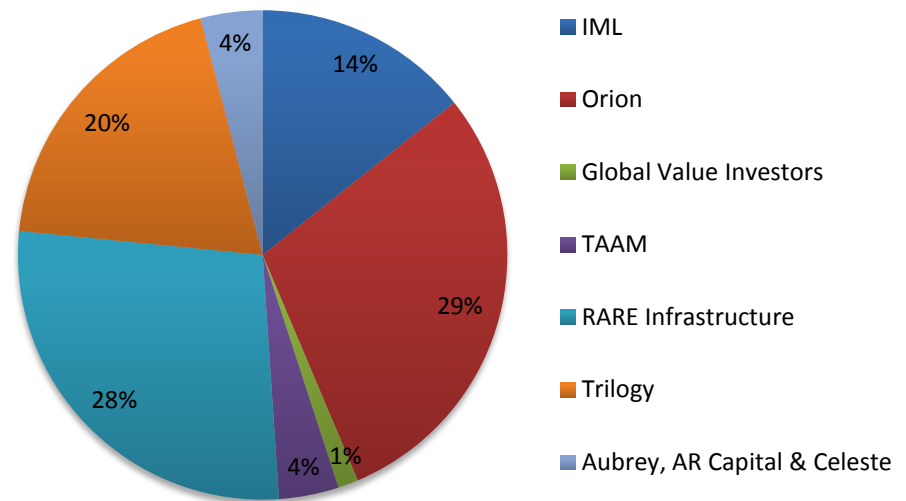
Drivers of Treasury Group NPAT	Dec 2011 Impact
Primary	
FUM	↑
Investor/Product mix & Average margin	↓
Investment Performance	↑
Secondary	
Costs	↓
TRG Revenue	→

- Net new funds flow was strong during the half year
 - Institutional flows strong, particularly at RARE
 - Outflows following GVI restructuring
- Investment performance during the period was generally strong relative to benchmarks
- Reduction in employee and other costs at Treasury Group
- Balance sheet remains strong – no debt

2. FUM & Performance - new funds inflow achieved in spite of difficult market conditions

- TRG continues to diversify assets across managers
- Net fund inflows of \$316m over the period (incl. Trilogy). Net outflows of \$190m for TRG boutiques, particularly GVI
- Funds flow primarily to institutional. Retail remains weak

\$15.75bn FUM
as at 31 December 2011



2. FUM and Performance – Diversification away from Australian Equities continues. Concentration to Institutional investors is increasing

FUM by Asset Class	Dec 2011	June 2011	June 2010	June 2009	June 2008	June 2007
Australian Equities	46%	49%	56%	64%	74%	86%
International Equities	26%	25%	26%	27%	20%	12%
Alternatives	28%	26%	18%	9%	6%	2%
TOTAL	100%	100%	100%	100%	100%	100%

FUM by Investor Location	Dec 2011	June 2011	June 2010	June 2009	June 2008	June 2007
Domestic	90%	90%	92%	91%	97%	99%
International	10%	10%	8%	9%	3%	1%
TOTAL	100%	100%	100%	100%	100%	100%

FUM by Investor Type	Dec 2011	June 2011	June 2010	June 2009	June 2008	June 2007
Institutional	81%	79%	77%	69%	63%	61%
Retail	19%	21%	23%	31%	37%	39%
TOTAL	100%	100%	100%	100%	100%	100%

3. Financial Results – Aggregated Profit & Loss of our Boutique Managers

Aggregate P&L of Boutiques (\$m)	Dec 2011	Dec 2010	% Change
Average FUM (\$bn)	15.9	15.1	+5.3
Base Management Fees	35.7	36.2	-1.2
Other Income	1.2	1.8	-31.1
Average Net Margin (%pa)	0.45%	0.48%	-6.7
Total Expenses	19.8	16.5	+19.9
NPBT	17.1	21.4	-20.0
Income Tax	4.2	4.7	-9.5
NPAT	12.9	16.8	-22.9
GVI & AR Capital Abnormals	2.9	-	-
Normalised NPAT	15.8	16.8	-5.7
TRG's Share of NPAT	5.8	7.3	-20.6
Normalised TRG Share of NPAT	6.8	7.3	-6.6

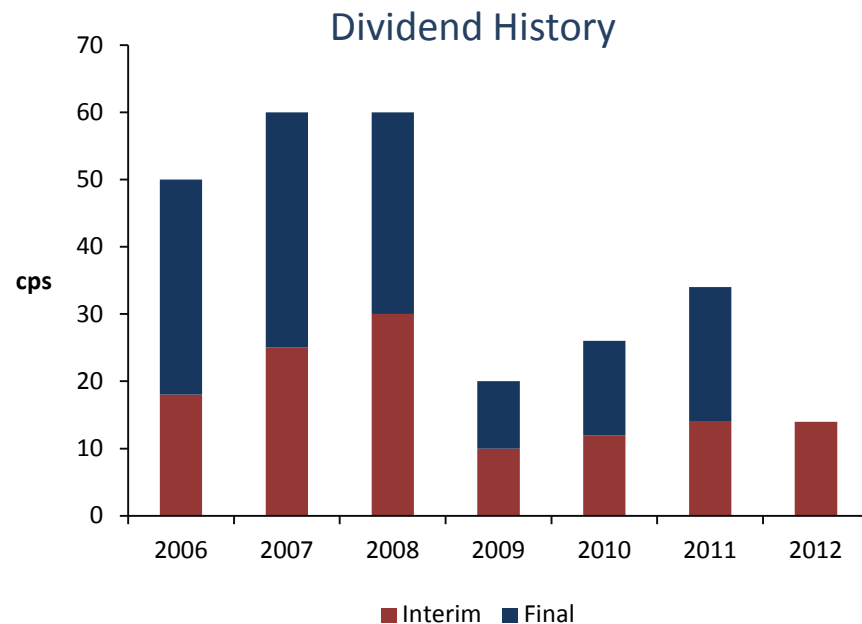
- Average FUM higher due primarily to net flows at RARE and Trilogy
- Margins slightly lower due to adverse changes in FUM mix towards Institutional and growth of Trilogy
- Expenses on a normalised basis flat
- TRG share of Normalised NPAT lower due to institutional inflows at RARE

3. Financial Results – Normalised Profit Flat

Treasury Group P&L (\$m)	Dec 2011	Dec 2010	% Change
Revenue	2.182	2.234	-2.3
Expenses	3.885	4.299	-9.6
Gains/(losses) on investments	0.086	-	-
Equity share of associates NPAT	<u>5.794</u>	<u>7.302</u>	-20.6
Profit Before Tax	4.176	5.237	-20.3
Tax Benefit/(expense)	<u>0.027</u>	<u>(0.005)</u>	nm
Net profit after tax	4.203	5.232	-19.7
Normalised NPAT	5.178	5.232	-1.0

- Lower Expenses due to reduced staff costs

3. Financial Results – Dividend



- Interim fully franked dividend of 14cps
- Interim dividend payout ratio of 77% of NPAT
- Payout ratio in future years will depend on capital requirements for growth opportunities

4. GVI & AR Capital

- GVI
 - Poor investment performance led to declining FUM
 - Treasury Group agrees with actions taken by board of GVI to improve outcomes for investors and shareholders
 - GVI funds ongoing, sub-advisory agreement with Aubrey
- AR Capital
 - Key man events
 - Evergreen appointed to manage Ascot Fund
- Contribution of GVI and AR Capital to Treasury Group 30 June 2011 FY NPAT was 1%
- Non-recurring one-off costs relating to the restructure of GVI and AR Capital had a \$0.974 million impact on TRG NPAT and \$2.9 million at boutiques

5. Outlook & Summary

- Strong momentum in IML, RARE, Aubrey and Celeste
- 14 cps interim dividend
- Investor confidence remains fragile, equity market conditions volatile
- Significant strategic opportunities available – strong balance sheet positions Treasury Group well