

Wednesday 24 February 2010

TREASURY GROUP LIMITED HALF YEAR RESULTS – 31 DECEMBER 2009

Overview

Treasury Group (ASX:TRG) today announced a profit of \$6.42 million for the half year ended 31 December 2009, up by 101% from \$3.20 million for the previous corresponding period.

Our growth in assets remains strong with positive net funds flow of \$869.2m (excluding acquisitions) for the half year. When combined with market movements and new acquisitions our total funds under management has risen to \$14.46 billion at 31 December 2009 – a growth of 39.8% on the corresponding period.

The key developments since the beginning of the new financial year include:

- Strong net new funds flow;
- Three outstanding new partnerships;
- Bringing together IML and Cannae investment teams;
- Addition of senior retail distribution talent to Treasury Group;
- Cost control during the period.

Treasury Group has declared a fully franked interim dividend of 12 cents per share to be paid on 26 March 2010.

The balance sheet position of the company remains strong with no debt.

Treasury Group Chairman, Mike Fitzpatrick said:

“The last six months have been an exciting period for the company. We have partnered with three outstanding investment groups including our first offshore partners and our first group in the alternative/absolute return asset class. With our existing managers continuing to perform well, with solid net funds flow and the addition of retail distribution resources, we are confident that Treasury Group is positioned for medium term earnings growth”.

A summary of the Profit and Loss is as follows:

\$000	6 months to 31 December		
	2009	2008	% Change
Total revenue	2,476	2,953	(16%)
Equity share of associates	7,404	5,431	36%
Expenses	(4,681)	(4,892)	(4%)
Net profit after tax	6,421	3,196	101%
NORMALISED NET PROFIT	5,397	5,480	(1%)
Basic earnings per share	27.83	13.84	101%
Dividend per share (fully franked)	12.00	10.00	20%

Overview since the beginning of the financial year

The Company has undertaken an exciting period of growth since the beginning of the financial year. We remain focused on three key principles:

1. working with outstanding investment talent
2. expanding our distribution capabilities both locally, offshore, retail and institutional and
3. offering the highest quality, cost competitive support and service to our managers.

During the current financial year we have:

- **Added three new investment partners** to our stable of outstanding investment managers:



- **Aubrey Capital** in Edinburgh (a global equity management with a focus on growth oriented companies)



- **Celeste Funds Management** (formerly Souls Funds Management) – an outstanding team managing Australian small capitalisation funds



- **AR Capital** – an Australian equity long/short manager with an outstanding track record in the management of absolute return funds
- **Injected senior investment talent into IML** – we announced recently that Hugh Giddy and his investment team from Cannae will be joining IML. This deepens the experience levels at IML, allows for succession planning and creates a platform for future growth. We believe that Hugh and his team's value investment style and depth of experience will add to the existing strengths of IML.
- **Seen strong new net fund inflows** – we have seen solid inflows across our group with Orion Asset Management, Treasury Asia Asset Management and RARE Infrastructure enjoying solid support from both local and international investors
- **Expanded our retail distribution** with the addition of outstanding retail distribution staff to the Treasury Group service offering, with the appointment of Peter Walsh as Head of Retail
- **Maintained cost control** – our expense management during the half year reflects our focus on tight expense management. Although we do expect variable compensation to rise in the second half from cyclically low levels in 2008/09, our overall costs for the half year were well controlled and reflect a focus on tight expense management.

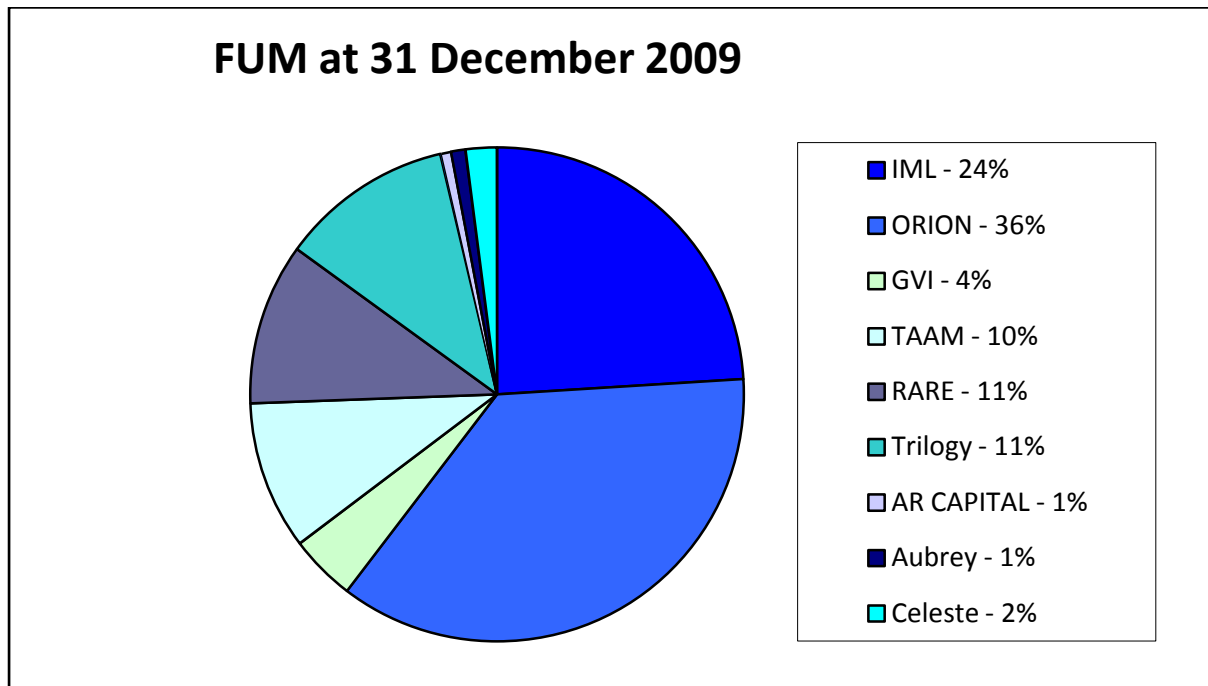
Funds under management (FUM)

Total funds under management at 31 December 2009 amounted to \$14.46 billion, an increase of \$4.117 billion on the previous corresponding year or 39.79%.

Net new funds flow for the half year was \$869.2m – a continuation of strong net funds flow seen through the recent market downturn. With the majority of new funds flow being institutional during the market downturn, our retail share has declined affecting the overall margins. Treasury Group remains committed to retail funds flow, and we have recently added additional resources to this area. As the markets stabilise and investor confidence improves, we are targeting growth in the retail market.

The three new partners added during the half year have increased our assets under management by an additional \$520 million.

As noted in our previous updates, we have specifically targeted an approach of diversification in both client type (domestic and offshore), client source (retail and institutional) and across managers. As the attached chart indicates, Treasury Group has a high quality diversification of managers, while focusing on working with only the highest quality investment partners.



Results details

Detailed below is TRG's consolidated income statement:

Income Statement

\$000	6 months to 31 December		
	2009	2008	% Change
Revenue	2,476	2,953	(16%)
Equity share of associates profit	7,404	5,431	36%
Gains/(losses) on investments	640	(1,238)	152%
Employee expenses	(2,836)	(2,890)	(2%)
Funds management and admin exp	(358)	(522)	(31%)
Other Expenses	(1,487)	(1,480)	1%
Profit before tax	5,839	2,253	159%
Tax benefit	583	944	(38%)
Profit after tax	6,421	3,196	101%
Minority interests		1	
Net profit after tax (NPAT)	6,421	3,195	101%
Diluted earnings per share (cents)	27.83	13.84	101%
Basic earnings per share (cents)	27.83	13.84	101%
Dividend per share (fully franked)	12.00	10.00	20%

Normalised Earnings

The result for the half year ended 31 December 2009 was impacted by a number of non operational items that are explained below. The normalised profit for the December 2009 half year was \$5.40m.

Although our average assets under management rose year on year, our margins were affected by the change in mix to institutional clients during the market downturn. Retail fund flow has been mixed across the group with moderate outflows in Australian equities. As noted above, we continue to target growth in retail assets as client sentiment improves as markets stabilise.

In normalising earnings we have excluded the following items:

- Gain on acquisition of Celeste Funds Management

Following the opportunity for Treasury Group to partner with Frank Villante and his team at Celeste Funds Management, we were in a position to purchase the business at an exceptional valuation. Based on the difference between the acquisition price paid by TRG and the underlying fair value of the net assets of Celeste Funds Management on the date of acquisition, TRG recognised this excess through its share of equity accounted profits attributed to Celeste. The additional amount recognised on acquisition was \$550k.

- Marked to market and realised gains / (losses)

Net gains attributed to marked to market movements on investments that are classed as available for sale investments. These investments are in funds that are managed by members of the group. Total marked to market gains (after tax) and realised gains for the six months were \$693k. For the corresponding period last year, the group experienced losses of \$1.47 million.

- Cannae Convertible note

Following the announcement that Cannae Capital Partners (CCP) will enter into a sub advisory agreement with IML, TRG will not exercise the convertible notes held in CCP. In the context of this restructure, the carrying value of the convertible notes (\$129k as at 30 June 2009) have accordingly been written down to nil.

	December 2009 Half year
Net profit after tax	\$6.42 million
Add back	
• Writedown of CCP convertible notes	\$0.13 million
• Restructuring costs in Celeste	\$0.09 million
Less	
• Realised and unrealised gains on investments	\$0.69 million
• Gain on acquisition of Celeste FM	\$0.55 million
NORMALISED NPAT	\$5.40 million

Other financial details

Share of net profit from equity accounted investments

Share of net profit from equity accounted investments increased by 36% due to the increased profitability of the associated fund managers stemming from the overall recovery in global financial markets and FUM inflows. The underlying profits from associates was also affected by marked to market gains of approximately \$263,000 (after tax).

Cash Flow

The cash flows of the group were steady for the six months ended 31 December 2009. Net cash flows from operating activities were down by 24% to \$3.56 million primarily due to the timing of dividend receipts from associated companies. Net cash flows used in investing activities were impacted by the \$2.2 million spent on acquiring stakes in three businesses, the lending of a further \$1.16 million to associated businesses and the redemption of \$2.44 million of investments in the Dublin funds.

Dividend

On 24 February 2010, Treasury Group declared a fully franked dividend of 12 cents per share with a record date of 5 March 2010 and a payment date of 26 March 2010.

Review of Business

Treasury Group Investment Services (TIS) - (100% owned at 31 December 2009)

Treasury Group through TIS provides its managers with a full suite of business support services tailored to the specialist requirements of investment managers. TIS provides oversight of all investment administration and custody functions, risk management and legal and regulatory compliance, all product documentation preparation including Responsible Entity services. TIS also provides access to the European markets via the operation of a Dublin registered UCITS III fund and the US market via ERISA compliant structures. The support services also include human resources requirements, accounting and finance functions, comprehensive business administration, oversight and arrangement of all business IT needs including Business Continuity Plan & Disaster Recovery Planning solutions and these services are provided such that all TRG managers enjoy the benefits derived from group buying power. TIS also acts as investment manager for a listed investment company, Premium Investors Limited (PRV).

Aggregation of Funds Management Businesses

The table below is an aggregation of the profit and loss of each company that is reflected as an associate namely IML, Orion, TAAM, RARE, GVI, Cannae, AR Capital, Aubrey Capital Management and Celeste Funds Management.

This aggregated information is provided to offer further insight into the underlying operations of our business.

\$000	6 months to 31 December		
	2009	2008	% Change
Net management fees	33,838	29,401	15%
Other income	1,739	1,028	69%
Gross profit	35,577	30,429	17%
Staff related expenses	9,217	7,911	17%
Other expenses	6,317	7,438	(15%)
Total expenses	15,534	15,349	1%
Net profit before tax	20,043	15,080	33%
Income tax	5,694	4,397	29%
Net profit after tax ¹	14,349	10,683	34%
TRG's share of after tax profit	7,404	5,431	36%

¹ The net profit before tax line item in the above table includes the results of the trusts controlled by IML. These trusts had a significant turnaround in their results from the prior period comparative to the current year resulting in boost to profit before tax, in addition to increasing the growth of this line item in comparison to the tax expense line.

We would note the following:

- Profitability of our partners improved over the half year as asset markets improved and net funds flow remained strong;
- Staff related expenses increased as variable compensation rose in line with the profitability of the underlying businesses; and
- Expense management remains a focus but our boutiques have also used the market downturn as an opportunity to add outstanding investment talent.

Manager Review



Investors Mutual Limited (IML) - (47.50% owned by TRG at 31 December 2009)

Whilst IML suffered net outflows over the 6 months due to weakness in the retail market, the ratings for IML were recently reviewed and maintained. The merger of the investment team (with Cannae) is on track and the response from clients and researchers has been positive. The injection of senior management talent at IML has addressed succession planning and key man risk. The business has a strong reputation as a genuine value manager and is well positioned in the current market environment.



Orion Asset Management Limited (Orion) - (42% owned by TRG at 31 December 2009)

Orion has had a strong six months of performance and has enjoyed strong net inflows over the six months to December 2009. The distribution alliance with Trilogy Global Advisors, a New York based asset management business has remained an attractive option to investors and has also experienced FUM growth.



Global Value Investors (GVI) - (50.30% owned by TRG at 31 December 2009)

Global Value Investors has seen moderate fund inflow during the half year. The investment team has begun a program of institutional presentations and is currently being reviewed by a number of leading institutional consultants. We believe that GVI has an outstanding investment process and approach.



Treasury Asia Asset Management (TAAM) - (40% owned by TRG at 31 December 2009)

TAAM has had increasing interest and client growth in the offshore market. TAAM has gained representation on a number of the leading retail platforms and is progressing on the institutional front with solid ratings from the major asset consultants. TAAM has increased its focus on growth in the retail market, with outstanding researcher ratings.



RARE Infrastructure (RARE) - (40% owned by TRG at 31 December 2009)

RARE has had a successful six months culminating in winning mandates from large international clients as well as a predominant Australian institutional investor. RARE has also further established itself in the retail market.

RARE offers 2 fund types – a global value infrastructure fund and an emerging markets fund. Client interest remains high for both products and we believe RARE offers the leading solution to listed infrastructure investing.



Celeste Funds Management (Celeste) – (39.13% owned by TRG at 31 December 2009)

The move by the team at Celeste to partner with Treasury Group has gone smoothly with the investment team retaining researcher ratings and receiving positive feedback from both clients and researchers. With the opportunity to drive their own business, the team has developed an outstanding plan to develop future growth while maintaining a tight focus on continuing outstanding investment performance. Celeste is focused on growth in both the retail and institutional market, and working closely with Treasury Group, the team is focused on a series of marketing opportunities in 2010.



Aubrey Capital Management (Aubrey) - (refer to Notes section below for ownership details)

Aubrey has completed a very strong year with investment performance exceeding benchmarks over the year and since inception. With their track record as a boutique reaching the 3 year mark in early January 2010, we believe they have significant scope for future growth. Aubrey has a growth/thematic investment style offering a global and European equity product. In addition they have a small fund of funds group and a private client operation in Edinburgh. The investment team has recently added further resources and begun presenting to Australian institutional and high net worth clients. We are working with Aubrey to develop further platforms for growth.



AR Capital (30% owned by TRG at the 31 December 2009)

AR Capital is one of Australia's leading absolute return investment managers. Through their Ascot Fund, AR has an enviable track record since inception. Based in Melbourne and staffed by 3 senior investment managers with wide industry experience, we believe that AR Capital offers clients world class access to absolute return investing through their Australian equity based fund. We look forward to working with AR Capital on the future growth of their business.

Investor Update

Treasury Group is committed to improving communication with its shareholders and to this end will be holding shareholder information sessions in Melbourne (30 March 2010) and Sydney (31 March 2010). Further details will be sent to shareholders and lodged with ASX in early March.

Notes

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

Investors Mutual Limited	47.50%
Orion Asset Management	42.00%
Treasury Asia Asset Management	40.00%
Global Value Investors ¹	50.30%
RARE Infrastructure	40.00%
Cannae Capital Partners ²	
AR Capital Management	30.00%
Celeste Funds Management	39.13%
Aubrey Capital Management ³	

¹ TRG has a direct interest of 25% and an indirect interest of a further 23.75% following the exercise of options by staff post 31 December 2009.

² TRG will own a 40% of the business upon the completion of the restructuring with IML.

³ TRG owns convertible securities that when converted will result in TRG owning a 20% interest. TRG also has two options to acquire a further 10% upon agreed targets being satisfied. TRG does not currently equity account its interest in Aubrey Capital Management.

For further information

Mr Mark Burgess
Managing Director
+61 28243 0400

Mr Joseph Ferragina
Chief Financial Officer
+61 28243 0400

..