Treasury Group Ltd

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CHAIRMAN'S ADDRESS
Treasury Group Limited Annual General Meeting
14 October 2014

Good morning ladies and gentlemen and welcome. It's our pleasure to report to you today on the performance and progress of your company for the 2014 financial year.

Through the 2014 financial year, the level of equity markets globally rose and conditions were favourable for funds management businesses. The low interest rate environment continued through the year with many investors continuing to seek out relatively higher yielding investment opportunities.

Treasury Group saw another year of strong earnings growth, driven by strong momentum at our key boutiques, particularly RARE Infrastructure and Investors Mutual.

After year end, we were delighted to announce the proposed merger with Northern Lights Capital Partners. Whilst the merger has not yet completed, the announcement in August was nonetheless a significant milestone in the history of Treasury Group. Transactions such as that proposed with Northern Lights are complex and difficult to achieve. Management and your Board exerted huge effort this year in reaching the point of being able to announce the proposal. We will have more to say about the proposed Northern Lights merger later during the meeting.

Our agenda this morning is for me to make some further introductory remarks before handing over to our CEO, Andrew McGill who will present an overview of activity during 2014, comments on Northern Lights and outlook for the merged business. We will be happy to take questions from shareholders at the end of Andrew's presentation. After that, we will deal with the formal items of business of the meeting.

Treasury Group's 2014 financial result reflected increased profits at our key boutiques along with the favourable market environment.

Funds under management increased by 48.5% to $25.4bn during the year. Some of this increase was due to completion of our investment into ROC Partners.

Our statutory net profit after tax increased by 26.0% to $13.1m. Underlying profits were $14.0m up by 27.3% from 2013.

The continued improvement in Treasury Group's underlying business fundamentals was reflected in a higher TRG share price and high returns for shareholders through the year. Again this year, total returns for TRG shareholders exceed both the market and the average for our peer group.

2014 was also a year where we realised benefits from restructuring work undertaken by our management team during this and prior years. There have been issues with some boutiques and management has been effective to date in addressing these efficiently and in a manner that optimises outcomes for Treasury Group shareholders.

We were very pleased with the investment performance delivered by our key managers during the year. In particular, RARE Infrastructure delivered strong returns for its investors.

2014 was characterised by a high level of activity across our business. This chart *(slide 4)* summarises some of the actions which took place through the year including events at our boutiques and at Treasury Group.

During the year, we have seen a significant amount of restructuring work including the sale of Treasury Asia Asset Management to Nikko, merger of Evergreen with Freehold Investment Management and the restructure of Orion Asset Management following closure of its funds management operations.

In June, we announced our investment into ROC Partners, an Australian and Asian private equity advisory business formed following a management buyout transaction from Macquarie Bank.

In relation to Octis and Aubrey we have not made the progress we had hoped for with these two businesses. Aubrey is in arguably the most competitive part of the market, international equities. Aubrey's performance has generally been strong due to its high conviction methodology but it has been volatile relative to the market. This volatility has not suited institutional clients and has limited its growth. Octis, on the other hand, has arguably been too conservative, and not provided sufficient alpha to interest the market. We are working with both businesses to refine their products.

The Northern Lights merger was recently announced and work is continuing towards completion of that transaction.

The final dividend for 2014 was 27 cents per share. This brought the total dividend to 50 cents per share for the year which was higher than prior years and remains fully franked. As illustrated here, we have been able to steadily increase the level of dividend to shareholders over recent years as the underlying profitability of our business has improved.

The dividends paid in relation to the 2014 year, imply a payout ratio of 88% which is above the top end of the Board's policy which is for a payout ratio of 60-80%.

During the year, we were pleased with the overall level of funds inflows experienced at RARE Infrastructure and Investors Mutual. These inflows were in contrast to funds outflows which generally prevailed for Australian Equities funds.

Whilst a low interest rate environment was again evident in Australia and the US, changing expectations towards year end and afterwards in relation to the outlook for the US economy and expectations for tapering of the US Federal Reserve's program of Quantitative Easing have started to impact funds flows. The Australian dollar has depreciated materially in recent weeks.

On the subject of currency movements, I note that a weaker Australian dollar delivers earnings upside to Treasury Group from the proposed Northern Lights merger due to an increased exposure to US dollar revenues.

The Resources sector which underpinned Australian economic growth for much of the past decade was weaker this year due to falling commodity prices and concerns about the prospect of significant new supply coming on line as well as the outlook for economic growth in China.

Whilst important economic drivers have changed, the fundamentals of the funds management industry remain attractive.

Before finishing, I would also like to take this opportunity to thank our staff, boutique partners and clients for their support during the year. We look forward to working closely with you again during the upcoming year.