Treasury Group Ltd

Wednesday 22 August 2012

TREASURY GROUP LIMITED

FULL YEAR RESULTS - 30 JUNE 2012

Overview

Treasury Group (ASX:TRG) today announced a consolidated profit after tax of $6.75 million for the year ended 30 June 2012, down by 32.5% from $10.05 million reported the previous year.

Underlying net profit after tax was $8.08 million, a decrease of 17.0% over the year.

The Company continues to maintain 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 reflects the diversification not only through various business ownership interests but also asset classes as highlighted in previous presentations.

Treasury Group has declared a fully franked final dividend of 20 cents per share to be paid on 26 September 2012. This brings the total dividend paid for the year to 34 cents per share.

Treasury Group Chairman, Mike Fitzpatrick said:

> ***"The past 12 months brought significant change to the Group. Andrew McGill commenced as CEO in July 2011 and initiated a review of the Group. Since then we have seen the acquisition of interests in two new businesses in Evergreen Capital and Octis Asset Management, cost control and efficiency initiatives have been undertaken in the TRG business and there have been restructuring initiatives undertaken in underperforming boutiques. As discussed at our half year result, the 30 June 2012 result includes $1,323,511 of expenses largely relating to the action taken to restructure underperforming boutiques and redundancies.***
>
> ***The funds management industry continued to experience difficult conditions in the last year. However given the outstanding financial results from RARE Infrastructure and the recent institutional funds flow and performance successes by Investors Mutual, your Board has decided to maintain the dividend even though the result was down from the previous year."***

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

	12 months to 30 June		
$000's	**2012**	**2011**	**% Change**
Total Revenue	3,954	4,493	(12.2)
Equity Share of Associates	11,485	14,015	(17.9)
Expenses	8,902	8,680	2.6
Net Profit After Tax	**6,752**	**10,005**	**(32.5)**
UNDERLYING NET PROFIT	**8,076**	**9,727**	**(17.0)**
Basic Earnings Per Share	29.3	43.4	(32.5)
Dividend Per Share (cents)	34.00	34.00	-

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

The result reflects continued diversification across the different businesses. Investors Mutual Limited (IML) Orion Asset Management (Orion) and RARE Infrastructure (RARE) are all significant contributors to the overall result. RARE has continued to win fund inflows both locally and internationally. The investment performance of all IML's funds during the year was strong resulting in

IML winning major institutional mandates which funded in June 2012 with further potential institutional inflows expected in the next financial year.

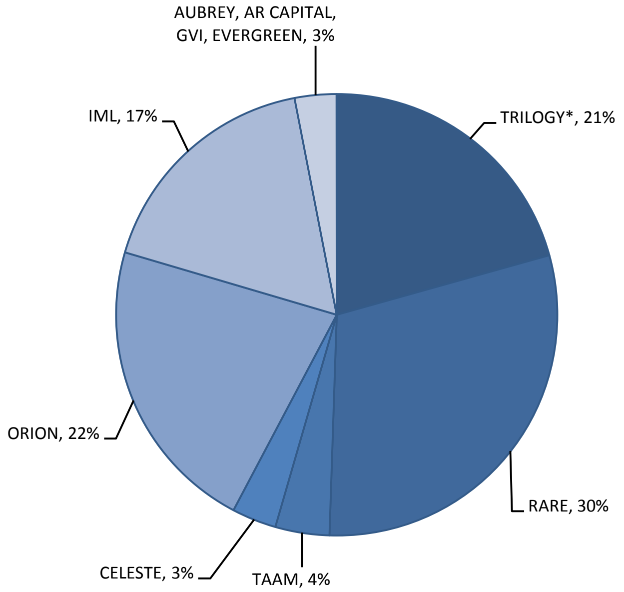
Celeste Funds Management continues to show positive inflows from both retail and institutional investors and achieved outstanding investment performance during the 2012 year.

Revenues at Treasury Group were down due to a reduction in service fees earned and a reduction of interest income earned as loans to businesses have been progressively repaid. Revenues from services provided to fund managers fell as management focused on profit margins at TRG resulting in rationalisation of some services and in some cases, transfer of services to individual boutiques.

Funds Under Management

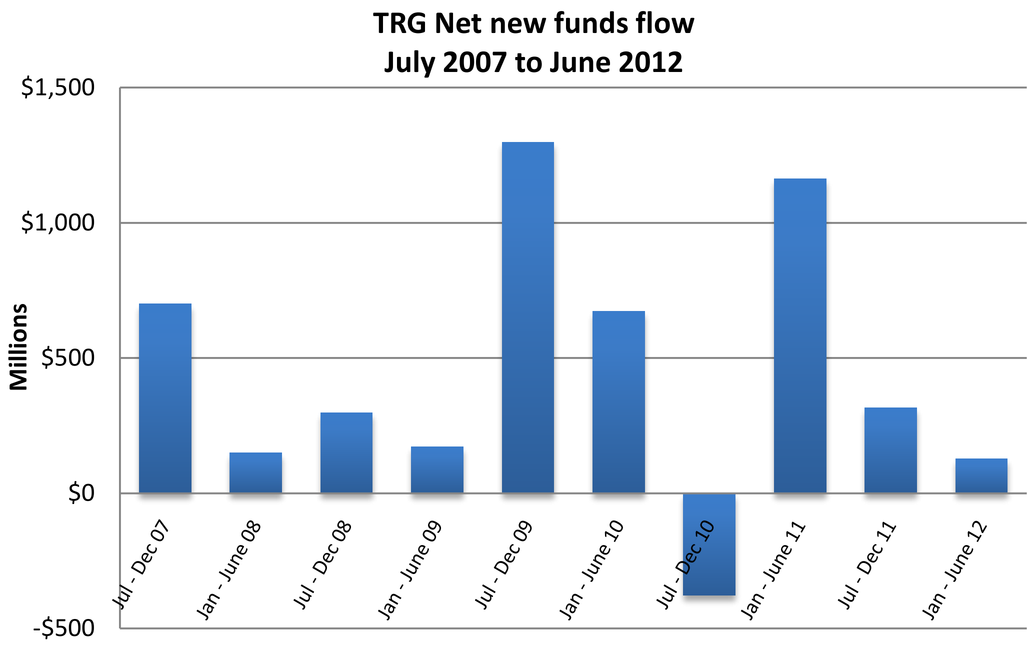
Total Funds Under Management (FUM) at 30 June 2012 amounted to $16.38 billion, a decrease of $0.38 billion on the previous year or 2.25%. Excluding FUM decreases at Global Value Investors (GVI) and AR Capital Management, FUM across the rest of the Group was flat compared to the prior year. The attribution of FUM across the Group boutiques is shown below:

Composition of FUM by Boutique as at 30 June 2012

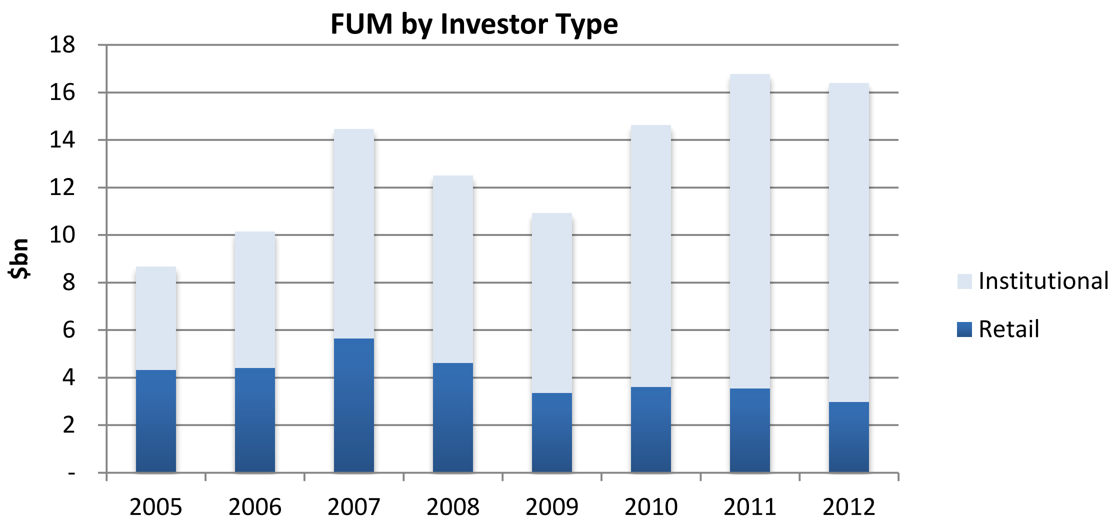


* Trilogy Global Advisors is a New York based asset management business with whom Orion has a strategic alliance. TRG benefits from the distribution and administration fees paid to Orion on these funds. Unlike all other FUM, no fund management fees are earned on these funds.

Fund flows were positive overall for the year. The first half saw net out flows at IML, Orion and GVI while RARE and Trilogy were the main sources of net inflows. The second half showed positive inflows, primarily at IML and RARE which were mostly offset by outflows at Orion:



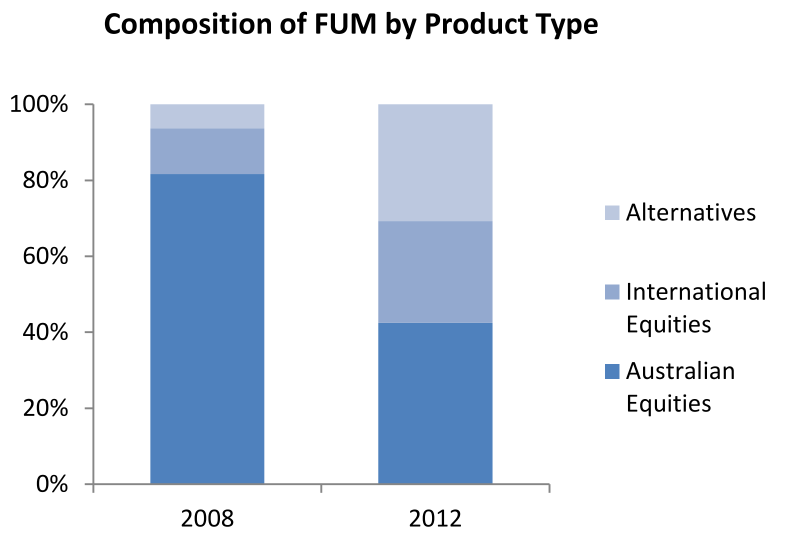
The margin (revenue relative to FUM) from institutional clients is lower than for retail. As such, the increasing proportion of institutional FUM over time is an adverse trend putting pressure on margins. The graph below illustrates the relative rate of growth between retail and institutional clients:



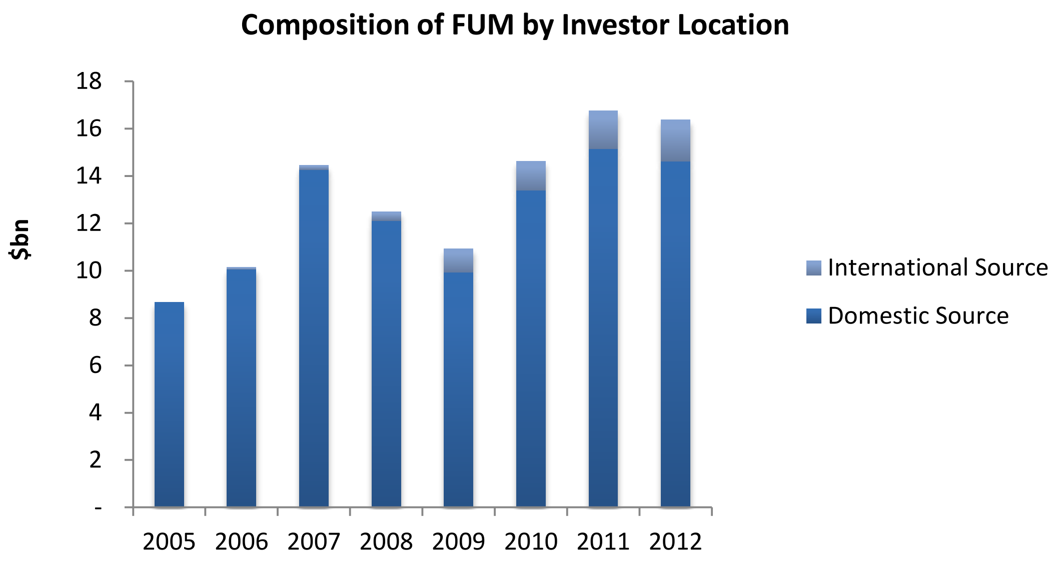
The growth in institutional FUM is due to a number of factors including:

- New boutiques tend to attract FUM from institutional clients more easily whilst retail penetration takes significant time;
- Institutional flows are large relative to retail;
- Retail investors have become increasingly cautious in recent years particularly in relation to equities and riskier asset classes;

The composition of Treasury Group FUM by product has also changed over time. There has been a shift towards Alternatives away from Domestic Equities as is illustrated in the chart below:



Another feature of Treasury Group's FUM over the last few years has been the increased volume sourced from International investors. This is an area that we see as strategically important and requiring sustained focus to mitigate potential business risks from increased consolidation among Australia's superannuation funds and the financial services industry generally. The chart below illustrates the increased amount of FUM from International investors:



Market Conditions and Outlook

There has been an increased level of caution among retail investors. Businesses including IML and GVI which have a predominantly retail clientele, suffered net outflows as a result of this continued uncertainty and flight to perceived lower risk asset classes. Benefitting from this flight to lower risk assets is RARE which has been able to attract retail flows due to the defensiveness of its asset class.

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 on-going interest and support.

Earlier in the year, CEO Andrew McGill led a comprehensive review of Treasury Group's business and strategy. In some ways, 2012 was a year of consolidation and change with actions taken during the year to address various issues and opportunities:

- Global Value Investors was restructured with responsibility for investment management outsourced to Aubrey Capital management and Global Value Investors became a wholly owned subsidiary;
- Key man events at AR Capital were addressed with the appointment of Evergreen Capital Partners to assume responsibility for management of the Ascot Fund. Treasury Group subsequently acquired an equity stake;
- We initiated discussions with Premium Investors to restructure that company including variation of the investment mandate to facilitate seed funding for Treasury Group boutique partners;
- A review of Treasury Group's Dublin-based UCITs platform is underway to reconfirm the optimal method of facilitating access for our partner boutiques to European investors;
- Invested in Treasury Group's Distribution capability with an additional 2 executives recruited during the year;
- Treasury Group's portfolio of boutiques was expanded with the acquisition of minority equity stakes in Evergreen Capital Partners and Octis Asset Management;
- We pursued greater efficiency within our own business. Headcount was reduced by a net 6 (24%) which will reduce ongoing employment related costs by $1.3m per annum.

Treasury Group has finished 2012 as a leaner and more focussed business as a result of these and other decisions taken by management and the Board during the year. We expect coming years to be exciting and prosperous times for Treasury Group as we benefit from the restructuring work and investment decisions taken this year.

We look forward to meeting our shareholders at the Annual General Meeting in November where we will provide further information on the business including Treasury Group's strategy and outlook.

The CEO and Board of Treasury Group extend their thanks to all our dedicated staff at Treasury Group and our boutique partners for their hard work and efforts during the year.

For further information

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Detailed Financial Analysis

Underlying Earnings

The underlying performance of Treasury Group's business can only be understood after consideration of earnings adjusting for items not considering as forming part of the underlying profit. The Company's results in 2012 were impacted by two restructures of businesses in November and December. 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. The table below shows the relative like for like net profit position.

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 outsourced to Evergreen Capital, a specialist alternatives manager. As a result of the change, there were net outflows from the Ascot fund impacting on the carrying value of the business.

Underlying NPAT for the year to 30 June 2012 was $8.08 million or 17.0% lower relative to 2011 underlying NPAT which was $9.72 million. This is calculated as follows:

2012 NPAT		**$6.752 million**
GVI restructuring (direct and indirect)	$0.771 million	
Impairment charge – AR Capital	$0.361 million	
TRG redundancy costs	$0.107 million	
Loss on disposal of assets (GVI funds)	$0.085 million	$1.217 million
Underlying NPAT		**$8.076 million**

Share of Net Profit from Equity Accounted Investments

Share of net profit from equity accounted investments was down from $14.0m to $11.5m. On a normalised basis the share of net profits from associates, was $12.5 million. The remaining reduction was due to falls in FUM in key boutiques such as IML and Orion. 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 and performance fees earned in the case of the Celeste. The restructuring costs at 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 $6.7 million. A strength of the Group's business model is an ability to generate strong cash flows relative to capital investment. During the year Treasury Group invested $2.4 million in various investment funds managed by Group boutiques, acquired $1.4m of investments in boutique asset management companies and received $1.7 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 30 June 2012 was $8.2 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 $4.0 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 $29.1 million represents the historical entry price as well as Treasury Group's share of undistributed profits. 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 $29.1m amount is supported by cash and other net assets at the boutique level.

Dividend

On 22 August 2012, the Treasury Group board declared a 20 cents per share (cps) fully franked dividend.

The final dividend will be paid on 26 September 2012. The record date is 5 September 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, Evergreen and AR Capital.

	12 months to 30 June		
$000s	**2012**	**2011**	**% Change**
Net Management Fees	70,957	74,901	-5.3
Other Income	2,894	4,587	-36.9
Gross Profit	**73,851**	**79,488**	**-7.1**
Expenses			
Staff Related Expenses	20,679	19,510	6.0
Other Expenses	13,839	14,776	-6.3
Total Expenses[1]	**34,518**	**34,286**	**0.7**
Net Profit Before Tax	39,334	45,202	-13.0
Income Tax	7,808	10,851	-28.0
Net Profit After Tax	31,525	34,351	-8.2
Add back: One-off items relating to restructuring	2,882	-	-
Underlying Net Profit After Tax	34,407	34,351	**0.2**
TRG's Share of After Tax Profit	11,485	14,015	-18.1
Underlying TRG's Share of After Tax Profit	**12,515**	**14,015**	**-10.7**
Average FUM ($bn)	**16.5**	**15.8**	**12.9**
Average Net Margin (%)	**0.42**	**0.47**	**-10.8**

[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 an underlying aggregated profit.

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 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.

	12 months to 30 June		
$000s	**2012**	**2011**	**% Change**
Revenue	**3,945**	**4,493**	**-12.2**
Gains/(Losses) on Investments	(70)	62	-212.9
Employee Expenses	(5,202)	(5,741)	-9.4
Fund Management and Admin Exp	(42)	-	-
Other Expenses [1]	(3,699)	(2,939)	25.9
Equity Share of Associates Profit	11,485	14,015	-18.1
Profit Before Tax	**6,416**	**9,889**	**-35.1**
Tax Benefit	338	115	193.9
Non-Controlling Interest	2	-	**-**
Net Profit After Tax	**6,752**	**10,005**	**-32.5**
UNDERLYING NET PROFIT	**8,076**	**9,727**	**-17.0**
Diluted Earnings Per Share (cents)	29.3	43.4	-32.5
Basic Earnings Per Share (cents)	**29.3**	**43.4**	**-32.5**
Dividend Per Share (fully franked)	**34**	**34**	**-**

Notes:

1. Includes $0.6m of costs that relate to the restructuring of GVI and AR Capital and the inclusion of expenses from these two companies in the TRG consolidated results. The changes to resourcing made late in the 2012 financial year in TRG/TIS business has resulted in a lower employment cost run rate which will reduce these running costs through the 2013 financial year.

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	2012	%	2011	%
Australian Equities	6,956,401,283	42.46	8,180,996,267	48.81
International Equities	4,385,778,604	26.77	4,269,658,640	25.47
Alternatives	5,041,821,648	30.77	4,310,833,197	25.72
TOTAL	**16,384,001,534**		**16,761,488,104**	

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 international sourced FUM has increased relative to domestic clients as shown below:

Investor Origin	2012	%	2011	%
Domestic	14,626,217,682	89.28	15,143,624,090	90.35
International	1,757,783,852	10.72	1,617,864,014	9.65
Total	**16,384,001,534**		**16,761,488,104**	

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

Investor type	2012	%	2011	%
Institutional	13,407,191,117	81.83	13,224,858,113	78.90
Retail	2,976,810,417	18.17	3,536,629,991	21.10
Total	**16,384,001,534**		**16,761,488,104**	

Treasury Group Limited

Results Presentation
20 June 2012

Treasury Group Ltd

Agenda

1. Overview
2. FUM & Performance
3. Financial Results
4. Strategy
5. Summary

Treasury Group Ltd

1. Overview - re-focused strategy, tough decisions taken

- Actions taken following the strategic review earlier in the year:
  - Restructuring of GVI and AR Capital
  - PRV to be restructured delivering strategic benefits for TRG (details p.17)
  - Acquisition of interests in Evergreen Capital and Octis Asset Management
  - Focus on efficiency and costs at Treasury Group. Headcount down 24% during year, ongoing employment costs reduced by $1.3m per annum

- Prioritise TRG service delivery on boutique partners in development phase

- Acquisition of interests in Evergreen Capital and Octis Asset Management

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1. Overview – underlying earnings down in a falling market

- Mixed performance from boutiques in falling equities markets

  - FUM down 2.3%

  - Strong performance from IML, RARE and Celeste

  - Average margin from TRG boutiques marginally higher (reversing prior 6 year trend)

- TRG financial result down, dividend maintained

  - Underlying NPAT 17.0% down to $8.1m

  - $1.3m one-off restructuring costs incurred at Treasury Group

  - Full year dividend 34 cents, fully franked (7.7% yield)

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1. Overview – underlying profit at top of recently announced range

	$	% Change
Year end FUM ($bn)	16.4	-2.3
Aggregate Boutique Mgmt Fees ($m)	71.0	-5.2
Reported NPAT ($m)	6.8	-32.5
Underlying NPAT ($m)	**8.1**	**-17.0**
Final Dividend (cps)	20	-
Full year Dividend (cps)	**34**	**-**

- Funds inflows of $445m offset by market value declines
- TRG Underlying NPAT down due primarily to lower TRG share of boutique earnings (mix effect)
- Increased Payout Ratio maintains dividend level

Treasury Group Ltd

1. Overview – drivers of financial performance were mixed

Drivers of Treasury Group NPAT	2012 Impact
Primary	
FUM	↑
Investor/Product/TRG Ownership mix	↓
Average margin for TRG Boutiques	↔
Secondary	
Costs*	↑
TRG Revenue	↓

- Funds flows credible in a difficult market
  - Institutional flows positive at RARE, IML and Celeste
  - Retail investor confidence remains weak
- Average FUM higher than prior year despite lower year end FUM
- Employment and other costs at Treasury Group lower excluding one off and restructuring costs

* Excludes one off costs related to restructuring incurred during the year

↑ = positive impact on TRG result
↓ = negative
↔ = neutral

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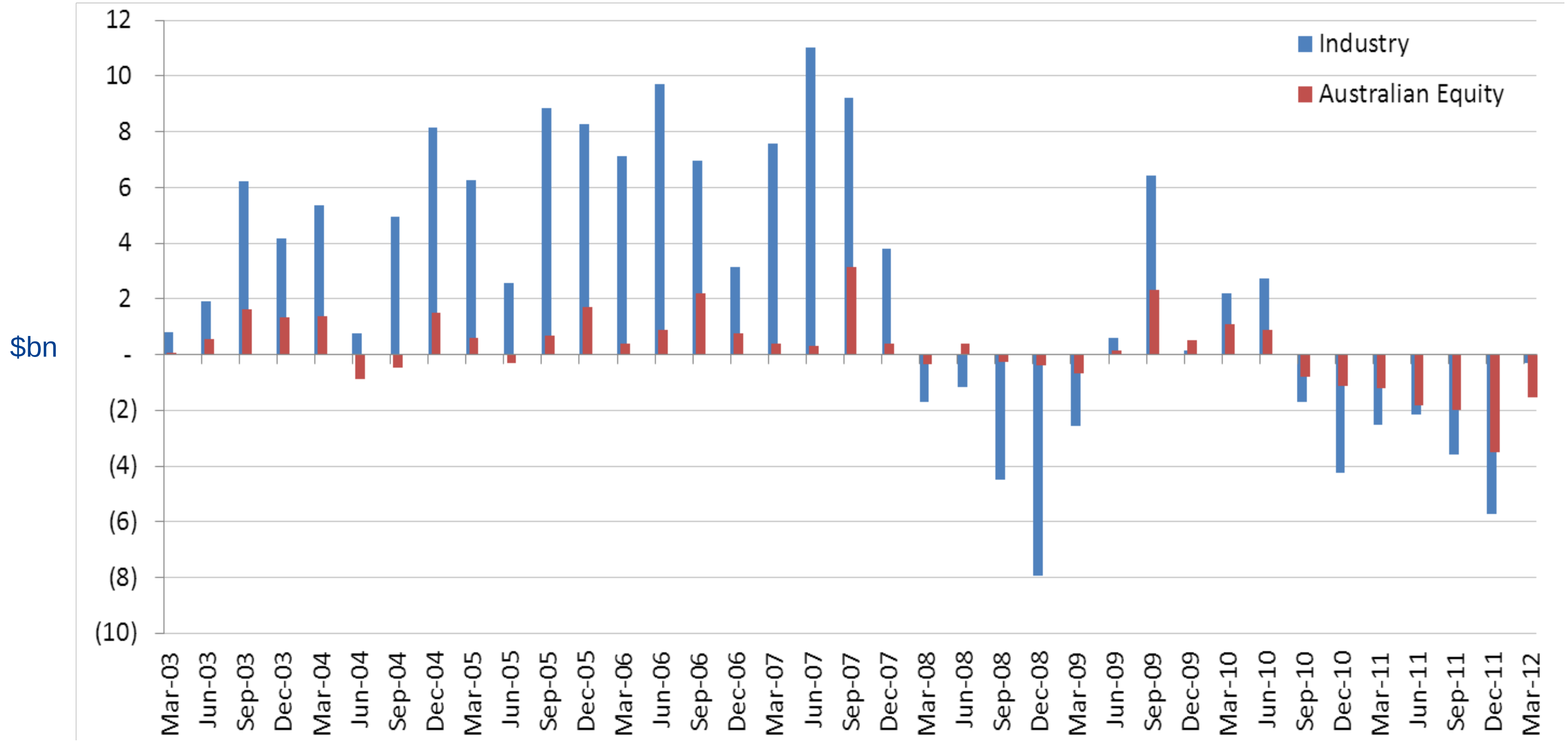
2. FUM and Performance – the Australian funds management industry experienced outflows during FY12



Source: Morningstar

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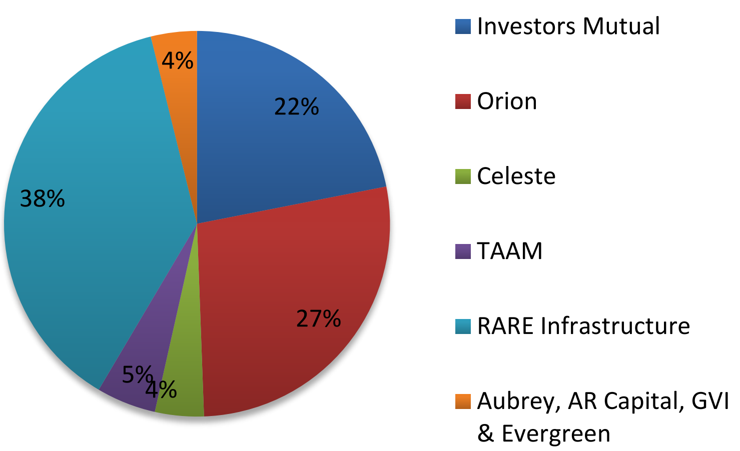
2. FUM & Performance – investors continuing to prefer defensive asset classes

- TRG continues to diversify assets across managers
- Net fund outflows over the year of $244m for TRG boutiques (net fund inflows of $445m including Trilogy)
- Flow primarily to institutional. Retail remains weak.

FUM for TRG Boutiques
as at 30 June 2012



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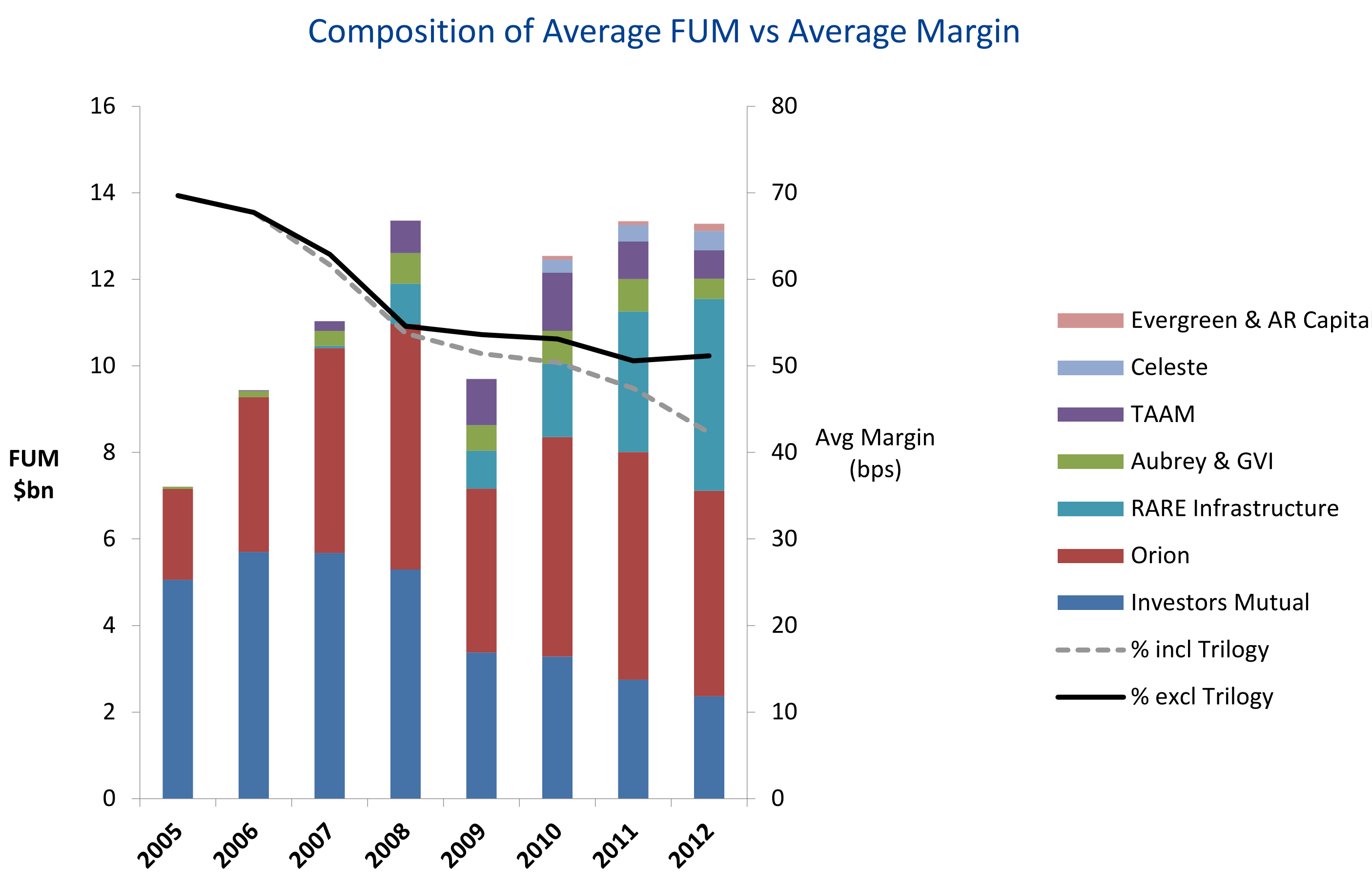
2. FUM & Performance – average margin for TRG boutiques marginally higher



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2. FUM Performance – continued diversification away from Australian Equities, toward International investors and toward Institutional investors

FUM by Asset Class	2012	2011	2010	2009	2008
Australian Equities	42%	49%	56%	64%	74%
International Equities	27%	25%	26%	27%	20%
Alternatives	31%	26%	18%	9%	6%
TOTAL	100%	100%	100%	100%	100%

FUM by Investor Location	2012	2011	2010	2009	2008
Domestic	89%	90%	92%	91%	97%
International	11%	10%	8%	9%	3%
TOTAL	100%	100%	100%	100%	100%

FUM by Investor Type	2012	2011	2010	2009	2008
Institutional	82%	79%	77%	69%	63%
Retail	18%	21%	23%	31%	37%
TOTAL	100%	100%	100%	100%	100%

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2. FUM & Performance – superior long term performance

Performance Relative to Comparative Indices (%pa) – Net of Fees to end June 2012

	1 Year Excess Returns	3 Year Excess Returns	5 Year Excess Returns	Since Inception	Inception Date	Sample Ratings
Aubrey Global Conviction(GBP)	-6.6	2.1	--	0.7	Jan 2007	Zenith- rating underway
Celeste Australian Small Companies	12.6	12.1	8.5	11.4	May 1998	Lonsec – Highly Recommended
Evergreen AERF		--	--	15.7	May 2010	Zenith- Recommended
Investors Mutual - Australian Share	8.3	4.0	3.2	2.8	Jun 1998	Lonsec – Recommended
OCTIS	1.8	--	--	4.6	Oct 2007	Zenith- Recommended
Orion Australian Share(Gross)				0.9	Jun 2003	Morningstar- Neutral
RARE Infrastructure Value (AUD Hedged)	-3.5	2.6	3.8	3.5	Aug 2006	Lonsec-Highly Recommended
TAAM New Asia	-1.6	-4.5	-3.6	-0.8	Nov 2005	Zenith- Recommended

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3. Financial Results – net margin steady, costs controlled

Aggregate P&L of TRG Boutiques ($m)	2012	2011	% Change
Year end FUM ($bn)	16.4	16.7	-2.3
Management Fees	71.0	74.9	-5.2
Other Income	2.9	4.6	-36.7
Average Net Margin (%)	0.51%	0.51%	-
Total Expenses*	34.3	34.3	-
NPBT	39.3	45.2	-13.1
Income Tax	7.8	10.9	-28.4
NPAT	31.5	34.4	-6.6
TRG's Share of NPAT	11.5	14.0	-18.1

* 2012 expenses include $2.9m of restructuring costs incurred during the year
** Table excludes Trilogy

- Management fees lower due to lower performance fees
- Other income lower due to prior year gains on sale of investment assets at IML
- Expenses controlled and 8.5% lower excluding one off restructuring costs of $2.9m.
- TRG share of NPAT lower primarily due to lower participation in performance fee income at Celeste

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3. Financial Results – normalised net profit was lower due primarily to lower Equity Share of Associates NPAT

Treasury Group P&L ($m)	2012	2011	% Change
Revenue	3.945	4.493	-12.2
Expenses	8.902	8.680	+2.6
Equity Share of Associates NPAT	11.485	14.015	-18.1
Net Profit After Tax	6.752	10.005	-32.5
Normalised NPAT	**8.076**	**9.727**	**-17.0**
Basic Earnings Per Share (cents)	29.3	43.4	-32.5

- TRG Revenues lower due to lower interest income and reduction in service fee income
- Headcount reduction at TRG will reduce ongoing employment expenses by $0.7m per annum. Associated redundancy costs were $0.1m

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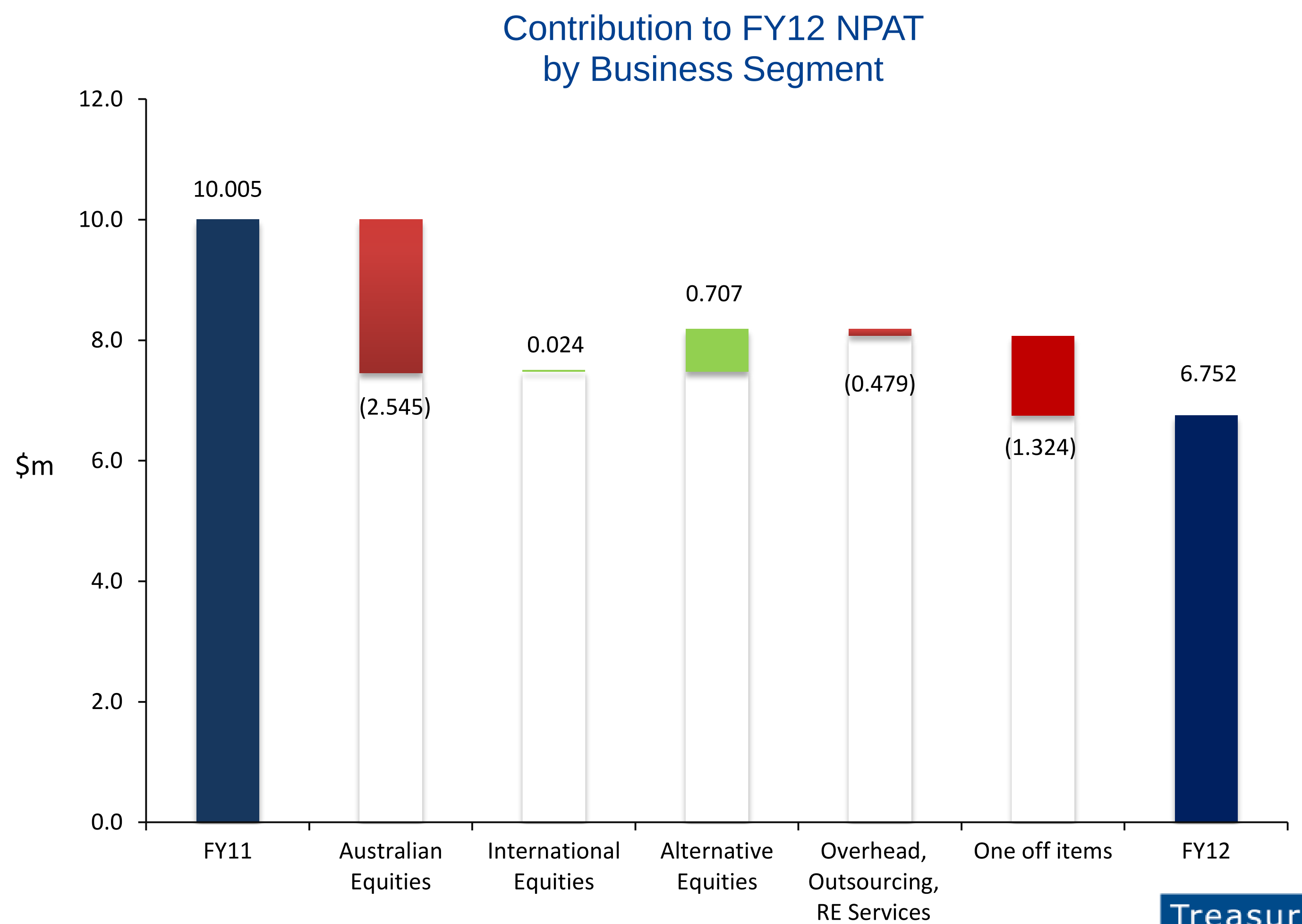
3. Financial Results – alternatives (incl.RARE) delivered increased earnings during the year whilst Australian Equities (incl. Orion) was lower



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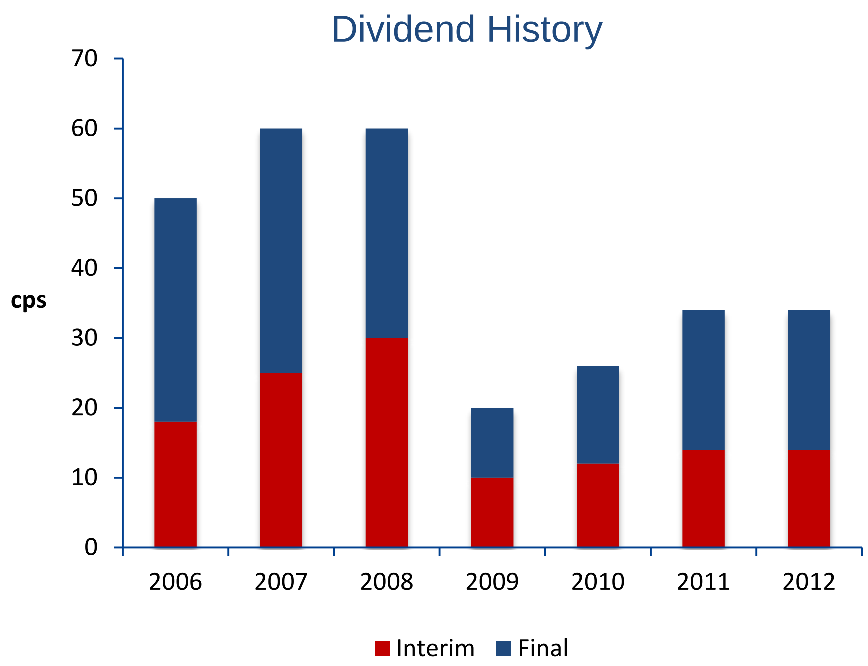
3. Financial Results – an increased payout ratio this year maintains a strong dividend yield



- Final fully franked dividend of 20 cps
- Full year dividends of 34 cps fully franked
- Dividend yield of 7.8% fully franked (based on 20/8/12 share price)
- 2012 Payout ratio at approx 100% of normalised NPAT
- Payout ratio in future years will depend on capital requirements for growth opportunities

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4. Strategy – how did we perform verses opportunities nominated last year?

• **Expand and diversify** portfolio of boutiques	✓
• Invest in **Distribution and Marketing capability**	✓
• Pursue **efficiency and returns from Support Services**	✓
• **Optimise investment structures** where possible (operational, tax)	✗
• Improve **capital management**	✗
• Consider broad range of investment opportunities	**Ongoing**

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4. Strategy – proposed restructure of PRV

- Restructure initiated by TRG and developed together with PRV board

- Off market buyback of up to 75% at price of NTA less costs (est. 78.9cents), subject to approval of PRV shareholders

- Various issues with existing PRV model:
  - trades consistently at significant discount to NTA
  - carry forward losses (from 2008 buy-back and restructure) = inability to pass through dividend income in declining Equities markets
  - overly restrictive investment mandate frustrates TRG's seed funding goals

- Possible TRG outcomes from restructure:
  - revised investment mandate including focus on seeding
  - ongoing services and investment management contracts post restructure
  - lower ongoing management fees from lower FUM post buy-back
  - upfront compensation and fees
  - increased level of control

4. Strategy– address opportunities

- **Expand and diversify** portfolio of boutiques
- Invest in **Distribution and Marketing capabilities**
- **Optimise investment structures** where possible
- Improve capacity to **provide seed funding**
- **Pursue M&A opportunities** at corporate level
- Seek limited number of **third party clients** for Distribution and Investment Support services

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5. Summary

- Investor confidence remains fragile
    - Low risk asset classes favoured by investors
    - Cyclical swing away from Growth style towards Value and Alternatives
    - Retail investors remain very cautious globally – net outflows
- Long term fundamentals for funds management are positive
- Year of consolidation for Treasury Group
    - Hard decisions taken at portfolio and Treasury Group levels
- Underlying financial performance reflective of market conditions
- TRG positioned for growth, both organic and via mergers and acquisitions

Treasury Group Ltd

Partnering with outstanding investment professionals to deliver superior investment performance to clients

Superior **alignment of investment team incentives** to client outcomes

Equity ownership delivers **greater team stability**

Treasury Group value add:

- Distribution and marketing capability
- Efficient provisions of support services
- Provision of working capital and seed funding