GAM | Holding AG

Press Release

GAM Holding AG reports underlying net profit of CHF 210.2 million for 2013

Zurich, 4 March 2014

Strong year-on-year growth of 30% in underlying net profit, driven by broad revenue growth, improved margins, cost discipline and low tax expense

IFRS net profit of CHF 201.4 million, of which CHF 196.8 million attributable to GAM Holding AG shareholders

Improved cost/income ratio of 65.2% (67.2% in 2012), benefitting from cost savings resulting from simpler and flatter functional management structure

Proposed dividend of CHF 0.65 per share, 30% higher than in the previous three years

New three-year share buy-back programme planned, with a maximum limit of up to 10% of shares in issue, to be launched upon expiration of the current programme in April 2014

Investment management:

- **Return on assets increased by 8.5 basis points, to 84.3 basis points**
- **Average assets under management (AuM) up 4% year-on-year, but period-end AuM down 4% due to adverse currency developments and net new money (NNM) outflows of CHF 2.6 billion**
- **On AuM levels, continuing NNM growth in core active and absolute return strategies was not sufficient to overcome the impact of mainly market-driven and low-margin outflows – but did contribute positively in net revenue terms**

Private labelling:

- **Average AuM up 5% year-on-year, period-end AuM up 2%**
- **NNM outflows of CHF 1.1 billion, as new business wins did not yet materialise as expected, but were more than compensated by positive market performance**

2013 Group results in detail[1]

Adjusted for certain non-cash and non-recurring items[1], *underlying net profit* for 2013 amounted to CHF 210.2 million, a rise of 30% year-on-year. *Earnings per share* rose 34% to CHF 1.26 from CHF 0.94 in 2012.

The Group's *operating income* totalled CHF 670.2 million, up 13% from a year earlier. This substantial increase was mainly achieved by a 12% rise in net management fees and commissions to CHF 554.1 million, reflecting the positive effect of improved margins in investment management and an increase in average asset levels. Performance fees on the Group's single manager absolute return products also exceeded those achieved in 2012 (up 23% to CHF 100.7 million). They were strong across the range, with the biggest contributions

[1] The **result for 2013** has been adjusted to exclude the gain from the sale of the Group's investment in Artio of CHF 13.1 million, the amortisation of customer relationships of CHF 11.6 million (now fully amortised), the impairment of investments of CHF 5.8 million and office move expenses of CHF 4.5 million (net of taxes). Including those items, the Group's net profit for 2013 amounted to CHF 201.4 million, as shown in the Consolidated Financial Statements.
The **result for 2012** has been adjusted to exclude the impairment of investments of CHF 56.3 million, the amortisation of customer relationships of CHF 11.7 million and defined benefit pension plan curtailment expenses of CHF 5.6 million (net of taxes). Including those items, the Group's net profit for 2012 amounted to CHF 88.4 million, as shown in the Consolidated Financial Statements.

coming from non-directional equity strategies, unconstrained fixed income and global rates/macro strategies. These positive developments were partly offset by a revenue decline in the much smaller private labelling business.

Other operating income – which includes the impact of foreign exchange gains as well as recurring fund-related fees and service charges – was largely unchanged at CHF 15.4 million (CHF 16.0 million in 2012).

Operating expenses were CHF 437.1 million for 2013, up 9% from the previous year. General expenses rose slightly, by 2%, to CHF 108.7 million. Personnel expenses were CHF 321.3 million, up 13%. The reported increase was inflated by a swing of CHF 18.5 million in accruals for social security costs for the Group's 2009 long-term incentive plan (partially offset by the associated reduction in corporate taxes). These costs fluctuate with movements in GAM Holding AG's share price and resulted in a charge of CHF 10.9 million for 2013, compared to a credit of CHF 7.6 million in 2012. Normalised for this effect, personnel expenses rose 6%. Contractual payments to personnel entitled to receive a formula-based bonus rose in proportion to higher revenues and assets in absolute return products. Other compensation expenses (salary plus discretionary bonus costs) declined in 2013, in line with a 2% reduction in headcount and as a result of the simpler and flatter management structure introduced in April 2013.

The Group's *cost/income ratio* was 65.2%, at the top end of the 60–65% targeted over the medium term. The improvement from the 67.2% reported in 2012 reflects the growth in overall net fee and commission income, combined with strict expense control. Changes made to the Group's organisation in 2013 (flatter functional structure, integration of support functions and joint management of distribution and marketing) have also contributed to the 2013 result.

The *tax rate* for 2013 was exceptionally low, at 9.8%, reflecting tax deductions resulting from tax accruals for the 2009 long-term incentive plan, which in certain jurisdictions fluctuate with the value of options awarded. The 2013 tax rate was further helped by the reversal of tax accruals reflecting the settlement of open tax issues. Excluding these effects, the tax rate would have been around 17% (17.0% in 2012).

Investment management

Return on assets in investment management for 2013 was 84.3 basis points, up from 75.8 basis points a year earlier. While average assets under management were 4% higher, revenues rose by 15%, reflecting the strong growth in the Group's single manager absolute return range. The rebound in performance fees also had a positive impact, albeit to a lesser extent than net management fees and commissions.

Assets under management in investment management as at 31 December 2013 were at CHF 69.8 billion, compared with CHF 72.6 billion a year earlier. The weakness of the US dollar against the Group's Swiss franc reporting currency in the second half of the year compounded the effect of net new money outflows and led to a decline in period-end assets under management. Overall, foreign exchange movements had a negative impact of CHF 0.7 billion. Market performance had a positive effect of CHF 0.5 billion, with the rebound in financial markets in the second half more than offsetting the adverse impact recorded in the first six months.

Net new money outflows in investment management for 2013 totalled CHF 2.6 billion, compared with net outflows of CHF 0.1 billion in 2012. This result reflects substantial redemptions from lower-margin products – such as the physical gold fund and money market funds – and from emerging market and traditional fixed income products, which were all inevitably affected by a market-wide sell-off of those asset classes. It also includes the loss of a historical, one-off sub-advisory equity mandate managed by GAM, recorded in the first quarter of the year.

These negative developments were mitigated – and from a profitability standpoint more than offset – by strong net inflows into higher-margin products in the Group's absolute return single manager range, primarily in the first half of the year. The non-directional, long/short equity strategies acquired with the Lugano-based boutique Arkos Capital SA in 2012 were important net new money contributors. The assets managed by the team have tripled since it joined GAM.

Net flows into the Group's largest flagship absolute return/unconstrained fixed income strategy were positive for the year, but not consistent across client segments. While institutional demand held up well throughout the year, the fund's flat performance for 2013 led to outflows from the more volatile wholesale intermediary channel in the second half. Launched in 2004, the strategy was one of the first unconstrained global bond offerings in the market. With its consistent track record of capital protection across market cycles and superior long-term returns, it remains one of the most successful and largest in this field.

Inflows into equity funds strengthened, particularly towards the end of the year. They were driven by demand and net inflows into a broad range of strongly performing strategies, such as the Julius Baer Luxury Brands and Japan funds, as well as GAM's Technology, China, Continental Europe and North American strategies.

Over the medium-term, the Group remains confident in its ability to grow net new money in its investment management business at an annualised rate of 5–10% of assets under management, as stated in August 2013 at the presentation of its half-year results.

Private labelling

The private labelling business, which represents around 6% of Group revenues and provides outsourcing solutions to third-parties, saw a decline in *return on assets* by 1.9 basis points to 8.7 basis points in 2013. Average assets under management grew by 5% but net management fees and commissions fell by 13%, reflecting the loss of mandates and lower margins in newly acquired business.

Assets under management at year-end 2013 were at CHF 44.6 billion, up CHF 1.0 billion from a year earlier, driven by a positive effect from market performance of CHF 2.2 billion. The impact of foreign exchange movements was only slightly negative, at CHF 0.1 billion, as the majority of private labelling assets is denominated in the Group's Swiss franc reporting currency.

For 2013, the private labelling business reports *net new money* outflows of CHF 1.1 billion, compared with net inflows of CHF 2.5 billion in 2012. Closures and redemptions of both offshore and Swiss-domiciled funds were partly offset by a number of new mandates for private label funds, including two asset allocation products for a mid-sized Swiss bank, a Luxembourg-registered alternative credit fund and a money market fund. Overall, business growth in 2013 was lower than expected, as European regulation of onshore funds – an important driver of the client proposition – is still evolving. This uncertainty continues to dampen client demand for outsourcing and management company services for the Group's Luxembourg business. Therefore, the medium-term growth target for net new money in private labelling is being reduced to 5% of assets under management, from the previous range of

5–10%. Private labelling services remain an effective way to leverage the Group's infrastructure and a reliable contributor to its bottom-line profitability.

Group balance sheet – cash and tangible equity

The Group's *net cash* position as at 31 December 2013 increased to CHF 592.6 million, up from CHF 504.0 million a year earlier, as strong operating cash flows were complemented by the one-off cash proceeds of CHF 42.4 million from the sale of its minority participation in Artio Global Investors Inc. to Aberdeen Asset Management PLC in the second quarter 2013. (The transaction resulted in a gain of CHF 13.1 million, which is excluded from the underlying net profit of CHF 210.2 million.)

Total equity as at 31 December 2013 amounted to CHF 1,919.7 million. Excluding non-controlling interests, goodwill and other intangible assets, *tangible equity* stood at CHF 551.4 million, compared with CHF 528.0 million at year-end 2012.

The increases in cash and tangible equity reflect the strong underlying operating cash flow and net profit for the period, partly offset by the dividend payment for 2012 (CHF 81.8 million paid in second quarter 2013) and the Group's share buy-back activity (6.6 million of own shares repurchased at an average price of CHF 16.63, totalling CHF 109.3 million).

As in the previous year, the Group has no financial debt.

Dividend and share buy-backs

The Group has a highly liquid balance sheet and a solid capital base. Combined with a business model that generates strong cash flows through its operating activities and consumes low levels of capital, this enables the Group to continue to make substantial cash and capital distributions to its shareholders.

At the upcoming Annual General Meeting (AGM) on 15 April 2014, the Board of Directors will propose a dividend payment of CHF 0.65 per share for the 2013 financial year. This is an increase of 30% on the CHF 0.50 paid in each of the three previous financial years.

Subject to shareholder approval, the dividend payment will total approximately CHF 106 million. The proposal underscores the Group's commitment to return excess cash and capital to shareholders – primarily in the form of reliable, predictable and sustainable dividends, complemented with share buy-backs.

This approach provides the Group with flexibility and allows it to return the maximum amount of capital to shareholders – without compromising on its prudent capital management strategy nor jeopardising the sustainability of its dividend payments.

The current programme, launched in 2011, will run as scheduled until 17 April 2014. Including the shares bought back in 2014, the volume repurchased under this programme totals 30.4 million shares so far, 74% of the predefined limit of 41.3 million shares. With this repurchase, the Group has successfully reduced the excess capital retained after the separation of the former Julius Baer Group in 2009. It has also achieved an efficient yet comfortable degree of capitalisation, allowing it to pursue its strategy of organic growth and accretive acquisitions when such opportunities arise.

After the current share buy-back scheme has expired, the Group plans to launch a new programme, allowing up to 10% of shares in issue at inception (approx. 17 million) to be repurchased for future cancellation, over a maximum period of three years. As with previous programmes, repurchases will be carried out over a second trading line at the SIX Swiss Exchange, where GAM Holding AG will act as the only buyer of its own shares.

Outlook

David M. Solo, Group CEO said: "Despite some near-term headwinds, our Group is extremely well-positioned to grow in the years to come. We have the broad range of exceptional equity, absolute return and non-traditional fixed income products that clients demand in today's challenging marketplace. Shorter term, emerging market strategies are likely to continue to see outflows until market sentiment there improves. Looking more broadly at the product range, demand for attractive equity and absolute return strategies continues to grow. In particular, flows into our absolute return bond strategy appear to be stabilising as performance resumes its normal trajectory."

The presentation for media, analysts and investors on the results of GAM Holding AG for 2013 will be webcast on 4 March 2014 at 9:30am (CET). Materials relating to the results (presentation slides, Annual Report 2013 and press release) are available on www.gamholding.com.

Forthcoming events:

15 Apr 2014	Interim management statement Q1 2014 and Annual General Meeting
17 Apr 2014	Ex-dividend date
23 Apr 2014	Dividend record date
24 Apr 2014	Dividend payment date
12 Aug 2014	Half-year results 2014
21 Oct 2014	Interim management statement Q3 2014

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Notes to editors

About GAM Holding AG

GAM Holding AG is an independent, pure-play asset management group with a focus on active investing. With global distribution networks and investment teams based in five investment centres in Europe, the US and Asia, it delivers investment solutions to institutions, intermediaries and private clients through two leading brands – Julius Baer Funds (distributed by Swiss & Global Asset Management) and GAM. The Group's investment management business is complemented by a private labelling unit (operated by Swiss & Global), which provides outsourcing solutions for third parties.

Headquartered in Zurich, GAM Holding AG 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 114.4 billion (as at 31 December 2013) and employs over 1,000 staff in 10 countries.

Key Figures 2013

Group income statement[1]	2013 CHF m	2012 CHF m	Change in %
Net management fees and commissions	554.1	496.8	12
Net performance fees	100.7	82.1	23
Net fee and commission income	**654.8**	**578.9**	**13**
Other operating income	15.4	16.0	-4
Operating income	**670.2**	**594.9**	**13**
Personnel expenses	321.3	285.6	13
General expenses	108.7	106.9	2
Depreciation and amortisation	7.1	7.2	-1
Operating expenses	**437.1**	**399.7**	**9**
Underlying profit before taxes	**233.1**	**195.2**	**19**
Underlying income taxes	22.9	33.2	-31
Underlying net profit	**210.2**	**162.0**	**30**
Cost/income ratio	*65.2%*	*67.2%*	-
IFRS net profit	201.4	88.4	128

Client assets - investment management	2013 CHF bn	2012 CHF bn	Change in %
Assets under management at the end of the year	69.8	72.6	-4
Average assets under management[2]	73.1	70.4	4
Net new money	-2.6	-0.1	-
Return on assets (bps)	84.3	75.8	11

Client assets - private labelling	2013 CHF bn	2012 CHF bn	Change in %
Assets under management at the end of the year	44.6	43.6	2
Average assets under management[2]	44.5	42.2	5
Net new money	-1.1	2.5	-144
Return on assets (bps)	8.7	10.6	-18

Personnel	31.12.2013	31.12.2012	Change in %
Number of full-time equivalents	1'072	1'098	-2
in Switzerland	340	343	-1
in the United Kingdom	371	396	-6
in the rest of Europe	250	238	5
in the rest of the world	111	121	-8

[1] The result for 2013 has been adjusted to exclude the gain from the sale of our investment in Artio of CHF 13.1 million, the amortisation of customer relationships of CHF 11.6 million, the impairment of investments of CHF 5.8 million and office move expenses of CHF 4.5 million (net of taxes). Including those items, the Group's net profit for 2013 amounted to CHF 201.4 million, as shown in the Consolidated Financial Statements.
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[2] Average calculated with 13 month-end values (December to December).

Group balance sheet	31.12.2013 CHF m	31.12.2012 CHF m	Change in %
Net cash	592.6	504.0	18
Assets	2'329.7	2'305.7	1
Equity	1'919.7	1'902.8	1
Tangible equity[3]	551.4	528.0	4
Return on tangible equity[4]	37.3%	30.4%	-

Share information	2013	2012	Change in %
Number of registered shares at the end of the year	173'229'660	183'355'000	-6
Share capital at the end of the year (CHF m)	8.7	9.2	-5
Basic EPS (CHF)[5]	1.26	0.94	34
Closing price (CHF)	17.35	12.35	40

3 Equity excluding non-controlling interests, goodwill and other intangible assets.

4 Underlying net profit excluding non-controlling interests / tangible equity at the end of the year.

5 Underlying net profit excluding non-controlling interests / weighted average number of shares outstanding, excluding treasury shares.