

Half year results

for the six months ended 31 December 2016

Chris Macdonald, Group Chief Executive;
Simon Jackson, Group Finance Director; and
Andrew Shepherd, Group Deputy Chief Executive



BROOKS MACDONALD

Highlights

Financial
Total discretionary FUM up to £9.3bn
Revenue up 17%*
Underlying pre-tax profit up 24% to £8.9m*
Underlying EPS UP to 51.83p*
Pre-tax profit up 49% to £8.16m*
EPS up 50%*
Interim dividend up 25% to 15p
Cash & liquid investments of £21.6m

“A strong first half for the Group in spite of considerable political upheaval and weakness in client sentiment”

* On the corresponding period

Highlights

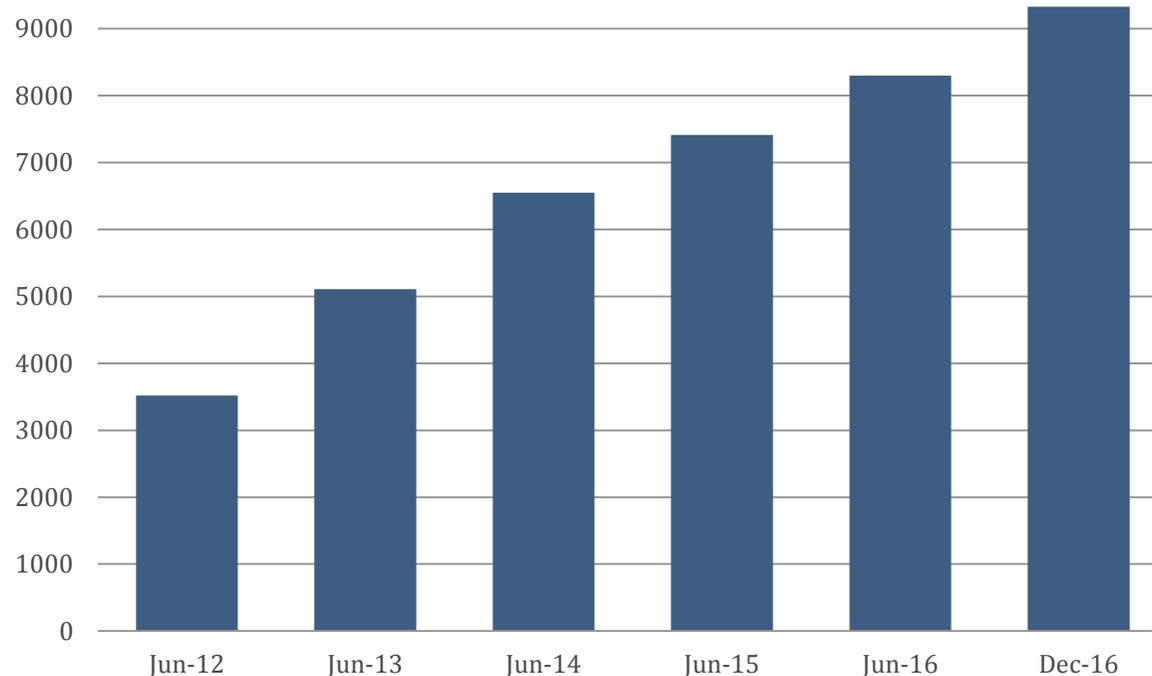
Business
12.4% organic growth in FUM - BMIM, BMI and BMF all grew FUM
Continued investment in infrastructure
Significant growth in distribution
Continued traction in all our core service lines - BPS, MPS and Multi Asset Funds
Renewed focus on Bespoke Portfolio Service
Pensions continue to be a major source of work combined with the growth of ISAs

Asset growth across the Group

Discretionary funds under management	Dec 2016	June 2016	Dec 2015
BMIM	£6.91bn	£6.15bn	£5.83bn
BMI	£1.49bn	£1.35bn	£1.25bn
BMF	£930m	£796m	£739m
Total	£9.33bn	£8.30bn	£7.82bn

Other assets and funds	Dec 2016	June 2016	Dec 2015
Property AUA	£1.21bn	£1.10bn	£1.13bn
Third party AUA	>£310m	>£270m	>£270m

Discretionary funds under management (£m) for last 5 years



	Year to June '12	Year to June '13	Year to June '14	Year to June '15	Year to June '16	Half year to Dec '16
Total BM FUM (£m)	3,520	5,110	6,550	7,413	8,301	9,330
% Increment	18.6	45.0	28.2	13.2	12.0	12.4
% FTSE WMA Balanced (Previously APCIMS Balanced)	(2.0)	9.8	6.2	3.74	4.59	7.8



Analysis of discretionary fund flows H117

£m	6 months to Dec 2016	Year to June 2016	6 months to Dec 2015
Opening discretionary FUM	8,301	7,413	7,413
Net new discretionary business	332	863	394
Acquisitions	0	0	0
Investment growth	697	25	15
Total FUM growth	1,029	888	409
Closing FUM	9,330	8,301	7,822
Organic growth (net of markets)	4.0%	11.6%	5.3%
Total growth	12.4%	12.0%	5.5%
Outstanding new business at year end	766	633	666

Continued growth in distribution

	June 2012	June 2013	June 2014	June 2015	Dec 2015	June 2016	Dec 2016
Number of introducing firms	420	544	670	775	900	960	1,020
Number of strategic alliances	11	12	15	17	17	18	20
Investment managers and trainees	67	90	107	102	102	101	97
Total staff numbers	282	376	457	471	474	482	489

- Two new Strategic Alliances, one onshore, one offshore
- International growth across South Africa, Dubai and Europe
- Telephone Account Management team in place giving more depth to onshore Adviser distribution
- Strong growth in sales of Multi Asset proposition as Advisers look for solutions for mass affluent

Financial highlights

	H117	H116	% Change
Revenue	£45.34m	£38.70m	+17%
Underlying profit before taxation	£8.87m	£7.13m	+24%
Profit before taxation	£8.16m	£5.48m	+49%
Underlying earnings per share	51.83p	42.59p	+22%
Basic earnings per share	48.61p	32.44p	+50%
Interim dividend	15.0p	12.0p	+25%
Cash at bank	£20.54m	£15.43m	+33%

- Underlying profit before taxation excludes acquisition costs, the finance costs of deferred consideration, changes in the fair value of deferred consideration and the amortisation of intangible assets
- H117 profit before taxation includes a gain of £1.3m arising from the reduction in deferred consideration relating to Levitas

Underlying profit before tax

£'000s	H117	H116	% Change
Investment Management fee income	37,898	31,678	+20%
Fees from other advisory services and other income	6,533	5,590	+17%
Commission income	(5)	57	
Pre RDR payments to introducers	910	1,373	
Underlying operating income	45,336	38,698	+17%
Underlying operating expenses	(36,413)	(30,926)	+18%
Net gains / (losses) on investments	(95)	(659)	
Net finance income	43	22	
Underlying profit before tax	8,871	7,135	+24%
Underlying profit margin*	19.6%	18.4%	

* Underlying profit before tax divided by underlying operating income

Reconciliation of underlying profits to statutory

£m	H117	H116	% Change
Underlying profit before tax	8.87	7.13	+24%
<i>Amortisation of intangible assets</i>	(1.87)	(1.36)	
<i>Finance costs of deferred consideration</i>	(0.16)	(0.29)	
<i>Changes in fair value of deferred consideration</i>	1.32	-	
<i>Acquisition related costs</i>	-	-	
Profit before tax	8.16	5.48	+49%
Profit after tax	6.57	4.37	+50%

Underlying segmental results

H117 £'000	Investment management	Financial planning	Funds and property management	International	Group and central costs [†]	Total
Revenue	32,789	2,267	3,754	6,526	-	45,336
Underlying profit before tax	10,899	180	7	628	(2,843)	8,871
Margin	33.2%	7.9%	0.2%	9.6%	-	19.6%
Annualised yield	100bps	-	56bps*	85bps*	-	

- NRC impairment and losses (208)

[†] Increase in Group and central costs reflects new hires, higher profit-related bonuses and a higher irrecoverable VAT charge

H116 £'000	Investment management	Financial planning	Funds and property management	International	Group and central costs	Total
Revenue	27,798	2,039	3,114	5,747	-	38,698
Underlying profit before tax	9,175	(12)	(1,030)	517	(1,515)	7,135
Margin	32.9%	(0.6%)	(33.6%)	9.3%	-	18.4%
Annualised yield	98bps	-	56bps*	89bps*	-	

- NRC impairment and losses (450)

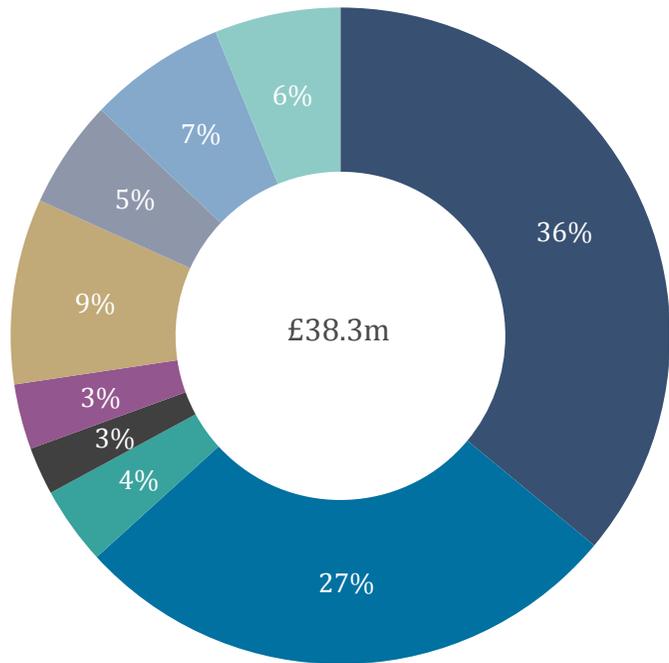
* Total yield calculation includes only discretionary investment management revenues and FUM within each segment

Operating expenses

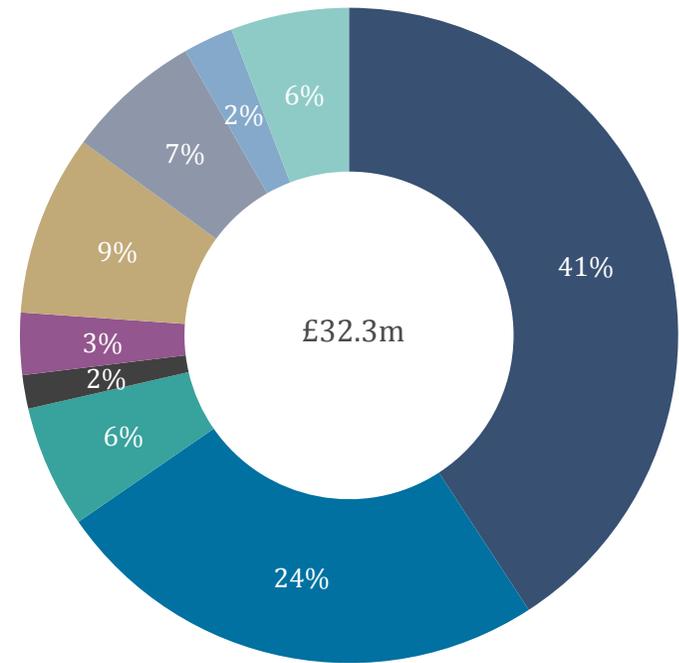
£'000	H117	H116	% Change
Fixed staff costs	13,789	13,174	4.7%
Variable staff costs	10,418	7,931	31.4%
<i>Average number of employees in period</i>	486	480	1.3%
<i>Actual number of employees at period end</i>	489	474	3.2%
Other direct expenses	12,206	9,821	24.3%
Underlying operating expenses	36,413	30,926	17.7%
<i>Amortisation charges in relation to intangible assets</i>	1,869	1,361	37.3%
<i>Finance cost of deferred consideration</i>	159	292	-54.5%
<i>Changes in fair value of deferred consideration</i>	(1,318)	-	
<i>Transaction costs on acquisition</i>	-	-	
<i>Net finance costs</i>	52	637	-91.8%
Total net expenses	37,175	33,216	11.9%

Total administrative costs

H117



H116



- Staff costs - payroll (fixed)
- Staff costs - other (variable)
- Commission & fees
- Investment administration
- Sales & marketing
- ICT
- Property & office
- Professional, regulatory & financial
- Depreciation & amortisation

IT investment

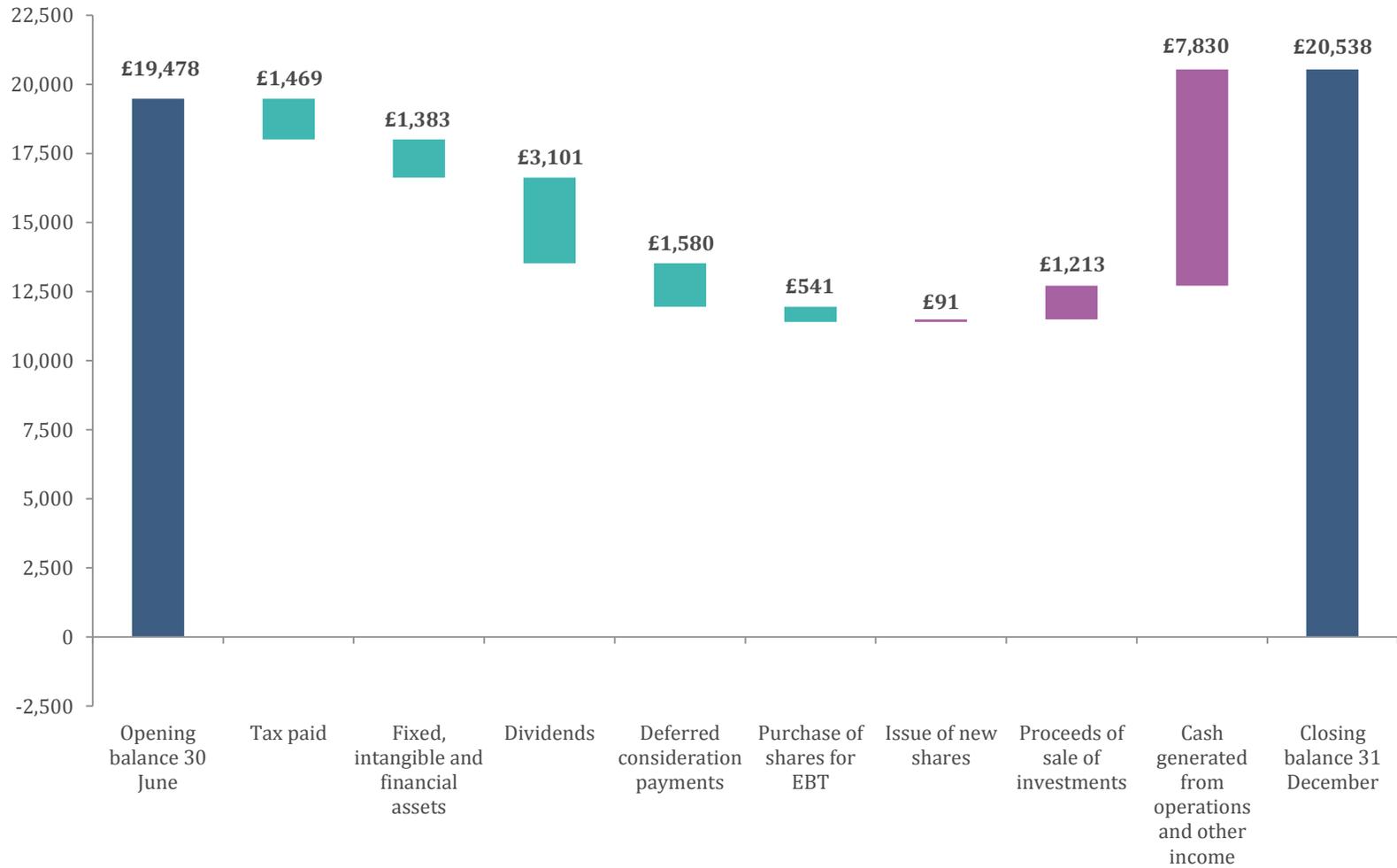
- Investment into a new investment management software system to be used across both offshore and onshore parts of the business
- The system replaces two non-compatible systems in the Channel Islands and will upgrade the existing system currently used onshore
- The project completion date is June 2017 (unchanged)
 - This includes increased scope and to capture changes to FRC rules and the requirements of MiFID II
- The total budgeted cost is at £5.3m (unchanged)
- The cost phasing of the £5.3m is as follows:

	FY15	FY16	FY17	Total
Total expenditure (£m)	1.3	2.5	1.5	5.3
Amount capitalised (£m)	0.5	2.0	Est 1.3	Est 3.8

IT investment - Benefits

- On completion the system will provide:
 - A new client portal for improved client access
 - A new client relationship management system
 - Increased capacity in both the front and back office environments
 - Increased automation and integration of processes reducing operational risk
 - One system across the whole investment management service providing opportunities for further synergies and cost savings
 - The removal of peripheral 'bolt-on' systems created around existing software
 - Opportunities to further develop third party administration services
- The new system when fully operational will provide ongoing annual operational savings of around £0.75m

Cash bridge £'000



Strategies for growth

- To be the investment manager of choice for professional intermediaries and private clients on and offshore
- Focus on consistently strong service, performance and stability
- Regional growth remains strong
 - First regional office through £1bn in Hampshire
 - Intention to open Cardiff office in Summer 2017
- We have a continued belief in Strategic Alliances
- The dynamics behind the growth of the Adviser community are still driving our growth aspirations
 - An increasing number of potential clients and assets requiring management
 - Pension changes are working in our favour
 - Brooks Macdonald Academies in April and May with record acceptances in 11 venues
- We continue to consider potential acquisitions to enhance the core offerings of the Group and to complement our organic growth

Industry background, our positioning and the key drivers for FY17 growth

Industry Background

Continuing consolidation and acquisition opportunities

Continuing trend towards outsourcing investment management

Pricing has stabilised

No slow down in regulatory change

Our Positioning

Taking advantage of growth in professional adviser community, building strong long term relationships with independent firms

Bringing most funds and asset management together as Investment Management

ICT development

Strong management team

Strong regional footprint

Centralised investment process

Key Growth Drivers

Tax efficient savings vehicles and tax complexity positive

BPS, MPS and MAF gaining traction as brand grows

Regional growth

Development of onshore distribution model offshore

Focused on driving growth in funds under management



Group summary

Overview

Discretionary wealth management

FUM of £9.3bn

20 strategic alliances & >1,000
Professional Advisers

Organic growth

Double digit net organic growth

Driven by:

- focus on intermediary channels
- sweet spots of SIPP, ISA, multi asset



Strong cash generation

Balance sheet – cash £20.5m

Dividend cover of 2.5x

Significant investment has been
self funded

Industry challenges

MiFID II, SMR

Political uncertainty

Capital adequacy

Future Opportunities

Wider & deeper with Professional
Advisers

Regional growth

Cost benefits of integrated back office
and system leverage

Scope for acquisitions

Growth of offshore distribution

Outlook & conclusions

- Strong organic growth despite difficult and volatile market conditions
- Distribution base continues to grow in an expanding sector
- Integration of Asset Management and Funds and working closer with Brooks Macdonald International (BMI) leading to further distribution opportunities
- In June we will be combining our two back offices
- Client sentiment fragile but there still remains a considerable 'savings tailwind'
- We remain in a strong position to deliver FUM growth, grow distribution, improve our margins and continue a progressive dividend policy

***“We continue to see encouraging levels of organic growth across all our divisions despite volatile client sentiment in light of the macro environment.
We are therefore on track to meet our expectations for the full year.”***

Appendices



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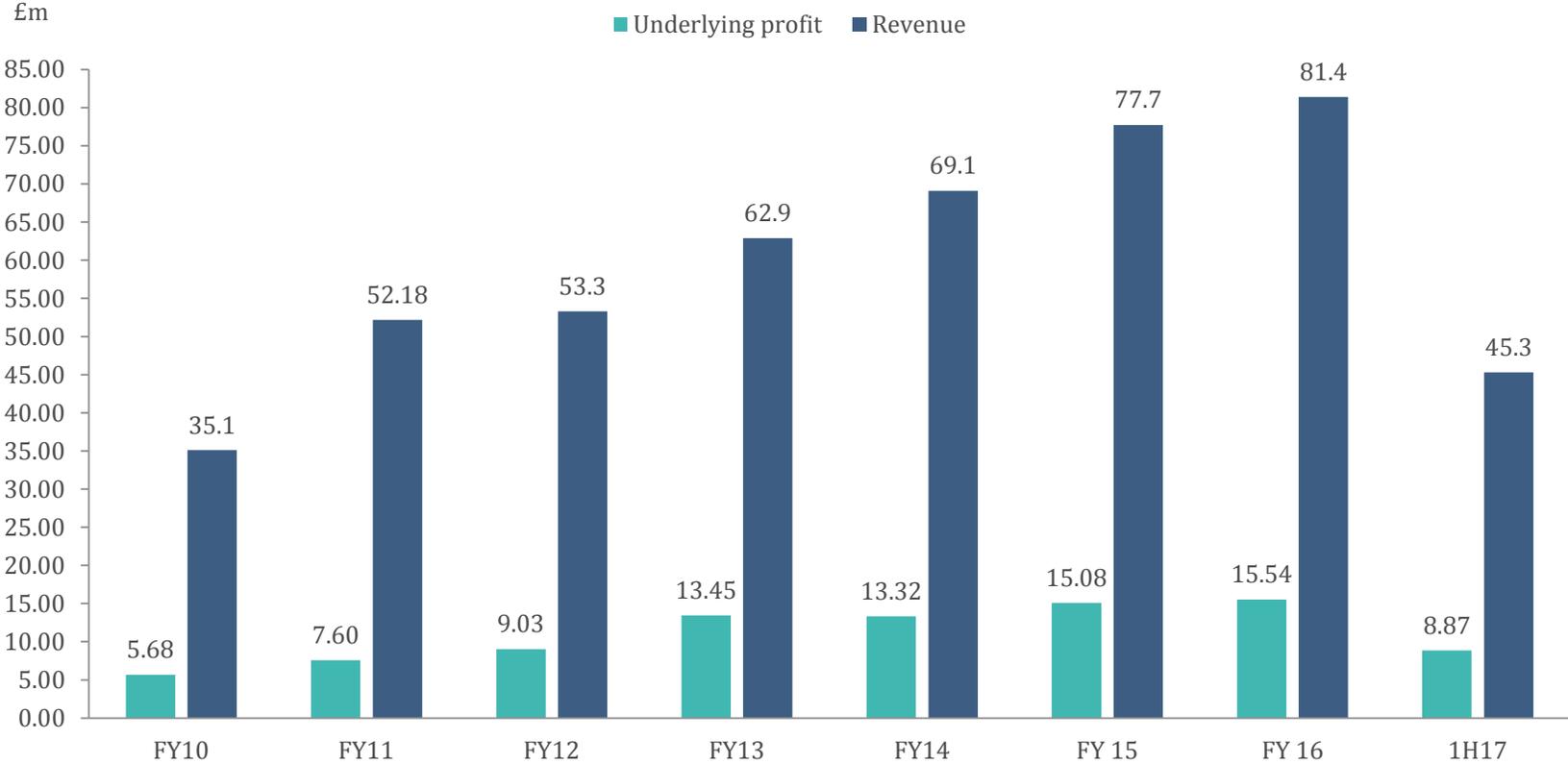
Appendices

- Analysis of the balance sheet
- EPS and dividend growth
- Asset allocation
- Analysis of discretionary FUM
- Employee breakdown
- Industry recognition

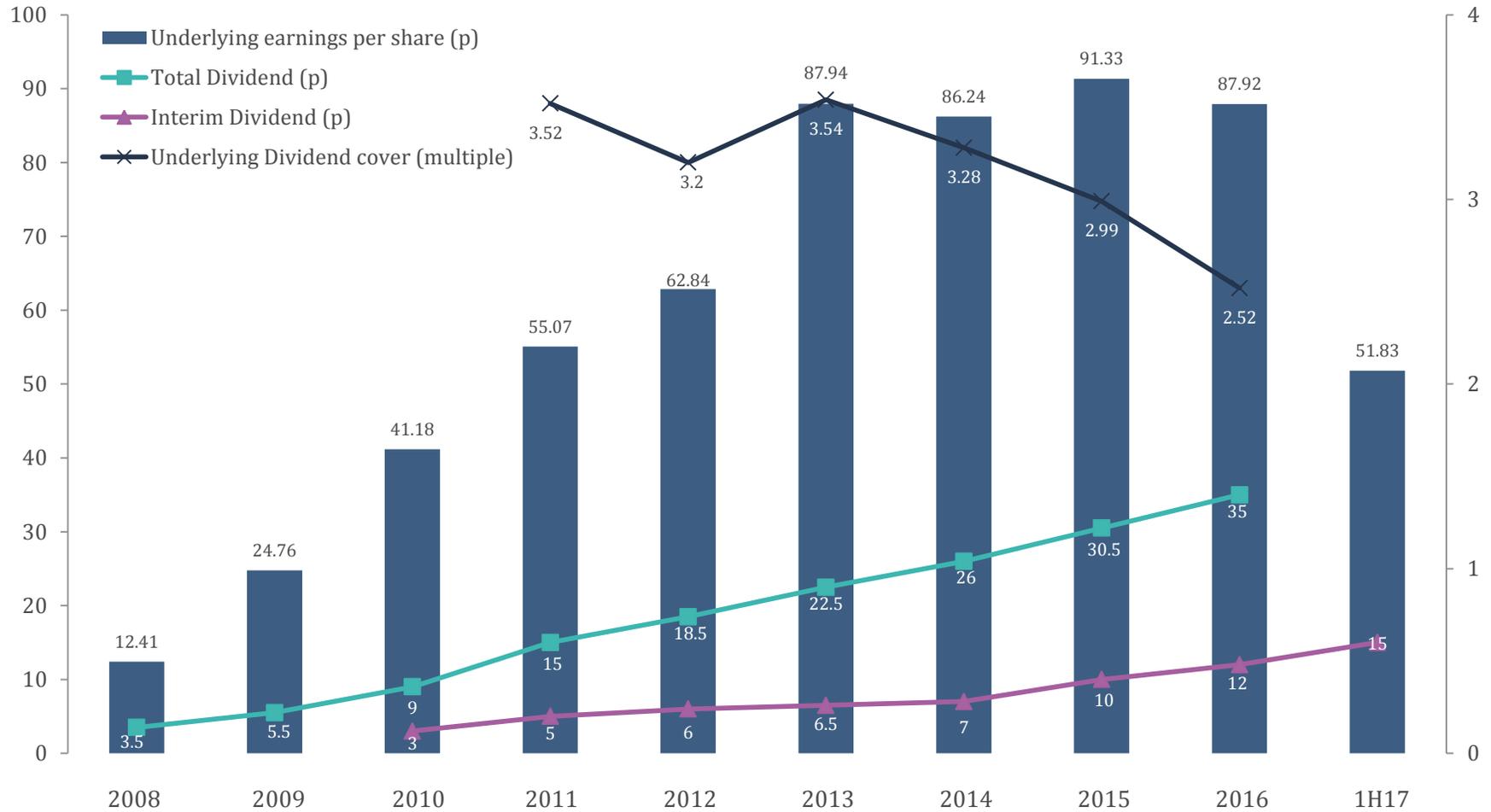
Analysis of the balance sheet

£m	H117	H116
Assets		
Cash & liquid assets	21.65	15.43
Accrued income and other assets	24.41	24.15
Property plant and equipment	3.23	3.56
Intangible assets	64.92	65.5
Total assets	114.21	108.64
Liabilities		
Trade payables and accruals	(16.94)	(15.02)
Current tax liabilities	(2.55)	(1.49)
Deferred consideration on acquisitions	(4.19)	(12.35)
Deferred tax and other liabilities	(3.70)	(4.31)
Total liabilities	27.38	(33.17)
Net assets	86.83	75.47
Total equity	86.83	75.47

Revenue and profits growth



Underlying earnings per share, dividend growth and cover



Asset allocation

Current guidance portfolios – February 2017

The investment managers' tolerance limits:

+/- 3%

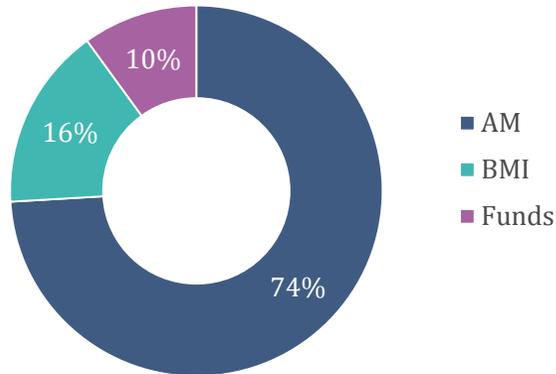
+/- 5%

+/- 7%

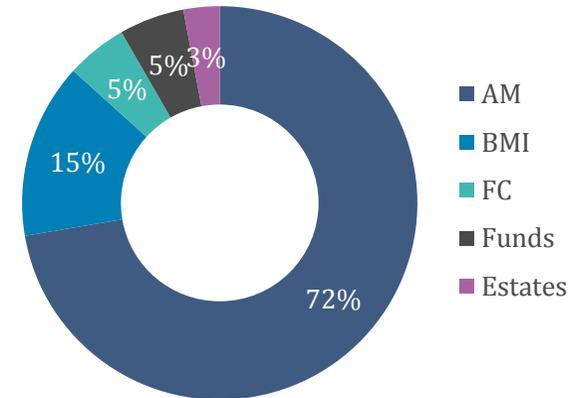
	Low Income	Low Growth, Income & Growth	Low to Med	Medium	Med to High	High
UK FI	25	23	16	11	3	0
INT FI	18	15	9	3	2	0
UK Eq	9	9	16	24	31	34
North American Eq	2	2	8	12	16	19
Euro Eq	0	0	2	3	4	5
Japan, FE & Em Eq	0	0	3	7	11	15
Int & Thematic	10	9	12	15	20	22
Alternatives	9	11	10	7	5	3
Property	6	6	6	4	2	0
Structured Return	14	18	13	10	4	0
Cash	7	7	5	4	2	2
	100	100	100	100	100	100

Analysis of discretionary funds under management H117

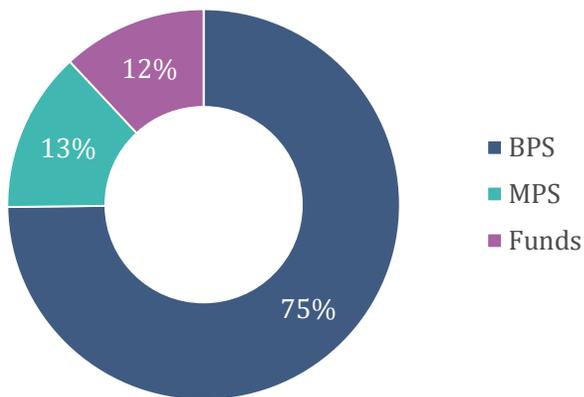
Funds under management



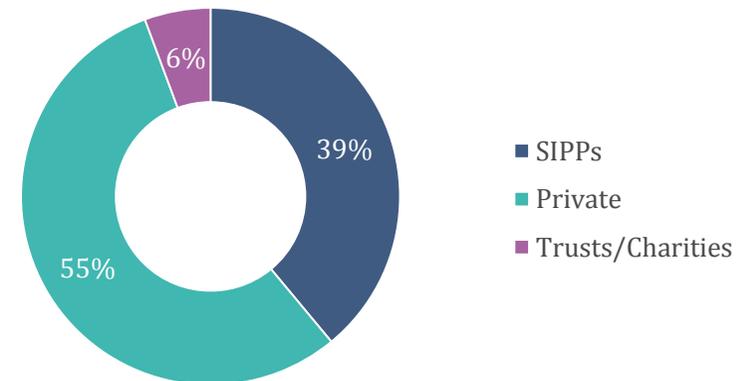
Revenue



Service*



Clients (BMAM)*



*by value

Employee Breakdown

Investment Management

Investment Managers	61
Trainee Investment Managers	10
Executive Support	58
Operations	47
New business development (NBD)	19
NBD Administration	14
Research	7
Internal Support Unit	5
Report Writer	6
	<u>227</u>

Financial Consulting

Consultants	19
Administrators	10
Trainee Consultant	2
	<u>31</u>

BMI

Chief Executive Officer	1
Investment Managers	21
Brokers	3
Trainee Investment Managers	2
Executive Support	10
Operations/IT	14
Compliance	3

Group

Non-Executive Chairman	1
Chief Executive Officer	1
Deputy Chief Executive Officer	1
Non-Executive Directors	3
ICT	40
HR/L&D	8
Marketing	16
Accounts	10
Group Governance	14
Front of House	4
	<u>98</u>

Braemar

Estates	<u>45</u>
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Funds

Funds	<u>15</u>
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Retirement Services	9
Finance	1
PA/Administration	5
Company Secretary	-
NBD	4
	<u>73</u>

TOTAL: 489 (total YE 2016: 482)

Recent awards

- 2017 - 5 star rating for MPS, BPS and MPS platform (Defaqto).
- 2016 – Citywire Wealth Manager Regional Stars – Scotland and Northern Ireland, North, Midlands, London and South East.
- 2016 – 5 star rating for MPS, BPS and MPS platform (Defaqto).
- 2016 – International Fund and Product Awards – Best International DFM
- 2016 – Gold Standard Awards: Awarded the Gold Standard for Portfolio Management (Incisive Media).
- 2015 – Money Marketing Awards (Best Wealth Management Company).
- 2015 – Alternative Investment Awards (Best in Offshore Wealth Management).
- 2015 – Named in top 100 list of the best medium sized companies to work for (The Sunday Times).
- 2015 – Citywire Wealth Manager Regional Stars – Scotland and Northern Ireland, North, Midlands, London and South East.
- 2015 – Finalist Investment Performance Defensive Portfolios and Cautious Growth Portfolios (PAM Awards).
- 2015 – 5 star rating for MPS, BPS and MPS platform (Defaqto).
- 2014 – Named in top 100 list of the companies to work for (The Sunday Times).
- 2014 – Gold Standard Awards: Awarded the Gold Standard for Portfolio Management (Incisive Media).
- 2014 – 5 star service award (FT adviser).
- 2014 – 5 star rating for MPS, BPS, MPS platform & 5 diamond rating for multi-asset funds (Defaqto).



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