

**Chairman's Address  
to the 2015 Annual General Meeting  
Friday 16 October 2015**

Welcome everyone.

This meeting marks the ninth Annual General Meeting of Magellan Financial Group Limited ("Magellan") and one in which we are pleased to report further solid progress in our business. I will briefly discuss some elements of our business and the events over the past year before handing over to the Chief Executive Officer, Hamish Douglass, who will discuss our results and the company's prospects in more detail.

The 2014/2015 year has been a busy and productive one for Magellan. Our financial results for the year have been very satisfactory, as has been the development of our business.

Strong increases in fully diluted earnings per share (up 108% to 101.8 cents) and fully franked dividends per share (up 96% to 74.9 cents) are the results of a great deal of hard work and focused application by the Magellan team.

Our team's focus on clients and their advisors shows. Providing excellent service and delivering investment results consistent with our objectives will always remain the keys to our success. Only by consistently furnishing these over time will we develop trust with those who wish to interact with us, and it is this trust that in turn will ultimately drive our overall business progress.

In this sense we are very pleased to have delivered continued strong investment performance for our clients. Our objective is to deliver attractive risk-adjusted returns over the medium to long term, while reducing the risk of permanent capital loss. This past year to 30 June 2015 has been another successful step along that path with our Magellan Global Fund and Magellan Infrastructure Fund delivering returns of 29.5% and 12.3% respectively.

Our funds under management at 30 June 2015 stood at \$36.4 billion, an increase of \$12.9 billion over the previous year. Of this increase, approximately \$7.7 billion was the result of investment performance, with the remainder being net inflows. At 30 September 2015 our funds under management represented \$38.7 billion.

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During the year, in our half-year and annual reports, we spoke about the importance of focusing on our customers, rather than just on total shareholder return, and also about the importance of retaining the Magellan culture.

In many ways these two are linked through our aim for all at Magellan to think and act as long term, rational business owners. In our view it would be irrational for a long term owner not to put the customer ahead of their own short term interests. Likewise, it would make no sense for a long term owner not to want to foster a sustainable culture, particularly one centred on trust, integrity and respect.

The path of business growth and development brings many challenges, and keeping sight of the fundamentals along the way is certainly one of them. What can often be forgotten, usually as a result of short term pressures, is that by acting in a rational long term focused way, the short term is actually best served. Irrespective of transient bursts of market enthusiasm or dread, the intrinsic value of a business remains nothing more or less than the capitalisation of that business' long term prospects.

Therefore, there can be no asymmetry amongst our clients, our shareholders and our team if we all continue to think and act as long term rational business owners.

In this regard, we believe it is very important that we continue to invest in our business, both in terms of people and systems. We expanded our team by 22 people over the year which represents a further enhancement of our existing services and processes, and also an investment in our capabilities for the future.

We believe it is very important for our future prospects to remain focused on areas where we can establish competitive advantages that will deliver positive outcomes for our clients, whilst maintaining meaningful development and engagement opportunities for our team.

Furthermore, from a risk perspective, and in terms of generating returns for our shareholders, it is critical we remain attentive to growing in a simple and scalable way.

These are key filters, applicable to both our own organic growth and any partnership or acquisition we may consider. As such, when we consider possible future growth, we believe our criteria are most likely to be found in areas as we "step out from our core".

Our central thoughts about the future, therefore, pivot around our core research processes in which we have invested significantly by expanding our team and our areas of competence. As our new offerings develop from this core we are also mindful of ensuring we engage in scalable market segments, and so we have embarked on a measured expansion of our distribution team in the USA.

It is important we understand, however, that any growth in our funds under management is an outcome, not an objective. Our business growth is directly linked to the value we provide to our clients and the benefits we may provide by offering thoughtful solutions to meet client needs.

There is a concept, often known as Ockham's razor, which states that all things being equal the simplest solution tends to be the best.

Equating simplicity with ease of execution, however, can be a mistake, as perversely it often takes time, effort and focus to simplify. Indeed, the great mathematician Blaise

Pascal summed this up well when he wrote to a colleague “if I had more time I would have written you a shorter letter”.

Simplifying is an important habit of mind which we encourage at Magellan. This is important because we do not want our business to get more complex than necessary, as undue complexity tends to be an antidote to scalability and a friend to increasing risk.

But simplicity is also a valuable mindset to encourage when we consider new products and the interaction with our existing and prospective clients. The development of our ASX quoted version of the Magellan Global Fund (Magellan Global Equities Fund or MGE) underscores this point well, and this has been a key event for Magellan in a number of respects.

At last year’s annual meeting we mentioned we were basically working on MGE, but it was not until March this year we felt sufficiently confident to proceed with its launch.

The time taken to develop MGE was required to solve a number of problems both structural and regulatory related. The time was also used to simplify things and ultimately present an efficient and straightforward product to end users that otherwise did not exist. We are very pleased it has been warmly received, attracting over 6,000 unitholders in little more than six months, a number which continues to grow basically each trading day (slide 1).

We recently launched a currency hedged version of MGE, which has the ASX code MHG, and we are currently working on providing ASX quotation for our global infrastructure offering.

The MGE experience has done more than just provide expanded access to our investment strategies. The process itself has had an important impact on our problem solving belief, and has led to other ideas that could leverage our core competencies and potentially be of benefit to our clients.

In establishing a path to ASX quotation we believe we have also established a mechanism to connect with prospective clients that we would normally not reach. This is an important outcome, the consequences of which we are vigorously exploring.

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Our ability to undertake developments such as MGE is also linked to our capital management.

The Board regularly considers capital management with the aim to strike the right balance between maintaining significant financial strength, ensuring alignment with our clients, generating returns for shareholders, and providing optionality to pursue opportunities as they arise, such as the strategic seeding of MGE with \$50 million.

We believe having a strong balance sheet in proportion to the scale of our business is a significant advantage for Magellan (slide 2). As at 30 June 2015 we held no debt and had net assets of \$303 million, of which almost \$284 million was held in cash and liquid assets. The bulk of these cash and liquid assets are investments in our funds, with the cash component largely used to fund our final dividend and meet regulatory requirements.

Ensuring our business can withstand almost any market condition is very important for our clients, and we believe it is also in the best long term interests of our shareholders. The Board regularly reviews our capital management strategy and has reaffirmed its intention to pay dividends of between 75%-80% of the net profit after tax of our funds management business, subject to available franking credits and regulatory requirements.

We manage our capital closely. We aim to understand our true working capital requirements by regularly providing for dividend and bonus accruals, which allows us to measure accurately what portion of our earnings are retained. We invest those retained earnings in our principal investments business, and monitor when those investment are made in order to assess the return performance over time.

At year end we held principal investments of \$189 million after allowing for tax on unrealised gains. This equates to \$1.11 per share, fully diluted (slide 3), and represents an approximate 57% increase over last year.

The Board has set a pre-tax return hurdle for our principal investments of 10% per annum across the business cycle (slide 4). Our principal investments (excluding Magellan Flagship Fund) have returned approximately 21% per annum over the past 5 years and approximately 10% per annum since 1 July 2007.

The Board will continue to review capital management, along with the principal investments business to ensure there is appropriate long term balance for all stakeholders.

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Before handing over to Hamish, I would like to return to the subject of our culture.

We have a great culture at Magellan, and the challenge for all of us, as we grow, is to keep it that way.

Maintaining an environment which fosters genuine deserved trust and respect will be crucial in this pursuit, but equally important is how we deal with any success, if and hopefully when it is achieved.

There is more than a grain of truth in the notion that success sows the seeds of its own defeat. This largely stems from one of the more important thinking biases we all have to deal with – confirmation bias.

The confirmation that develops in our thinking from achieving some success can have a dramatic impact on our how we view ourselves and how we act. It is important therefore that we always keep in mind that hubris can only lead to no good and that our past successes do not entitle us to future success.

Rather, our future successes will only be achieved as a result of hard work and a dedicated focus on achieving our stated goals for our clients.

Our culture values humility, integrity, respect and trust, and we intend to ensure that it stays that way.

Finally I would like to thank our Board. We have remarked previously how important it is to have Board members that are engaged and think like long term owners. In this respect we are extremely fortunate. Our Board works exceptionally well together, is diligent and thoughtfully considers the business, its risks and prospects. The development of MGE highlights these qualities perfectly as the Board provided very important input and oversight, and indeed was critical to its ultimate success.

We genuinely believe Magellan's journey has only just began and we are excited by the possibilities in the future. We look forward to discussing our progress with you again at next year's meeting.

Thank you and I will now hand over to Hamish.

**Brett Cairns**  
**Executive Chairman**

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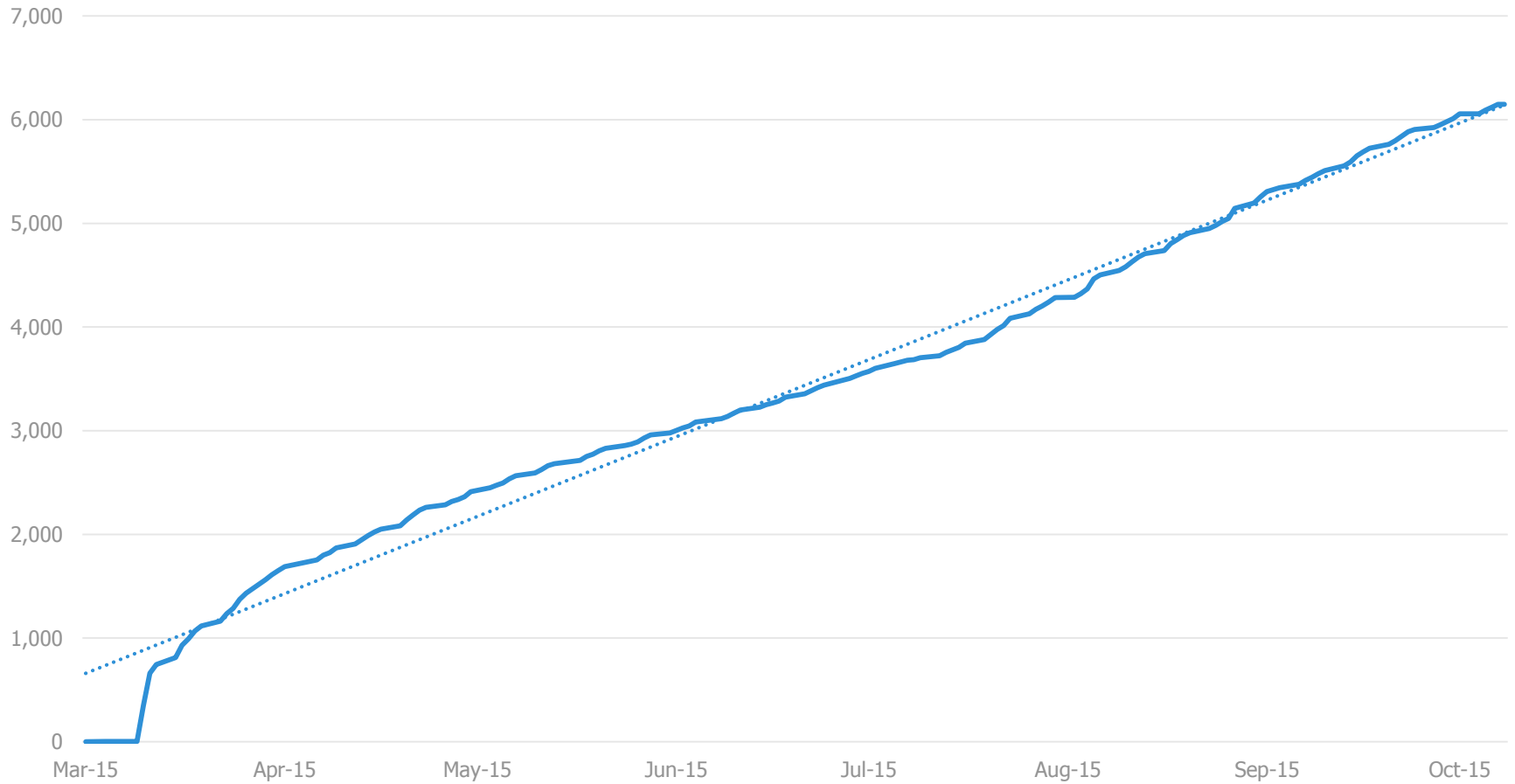
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Magellan Financial Group Limited

# 2015 AGM Presentation

Brett Cairns | Executive Chairman | 16 October 2015

# MGE Unitholders to 9 October 2015



# Strong balance sheet

- Cash and liquid assets of \$283.5 million<sup>1</sup>
- No debt
- Net assets of \$303.4 million

\$'000	30 June 2015	30 June 2014	30 June 2013
Cash and cash equivalents	93,934	82,868	38,096
Receivables	54,850	23,431	35,181
Financial assets and Investment in associate	189,692	125,860	115,173
Share purchase plan loans	7,245	4,054	4,324
Other assets	957	638	667
<b>Total assets</b>	<b>346,678</b>	<b>236,851</b>	<b>193,441</b>
Payables and provisions	15,417	12,266	17,842
Income tax payable	16,471	10,538	16,839
Deferred tax liabilities	11,347	7,460	5,721
<b>Total liabilities</b>	<b>43,235</b>	<b>30,264</b>	<b>40,402</b>
<b>Net assets</b>	<b>303,443</b>	<b>206,587</b>	<b>153,039</b>

<sup>1</sup> Calculated as cash and cash equivalents, financials assets and investment in associate less \$0.175 million of investments in unlisted shares



# Principal Investments

Slide 3

Investment (\$ million)	30 June 2015	30 June 2014
Cash	2.1	0.3
Magellan Unlisted Funds <sup>1</sup>	127.6	115.2
Magellan Global Equities Fund <sup>2</sup>	50.2	-
Listed shares	11.6	10.1
Other <sup>3</sup>	12.4	3.8
<b>Total</b>	<b>203.9</b>	<b>129.4</b>
Deferred tax liability <sup>4</sup>	(14.5)	(9.7)
<b>Net principal investments</b>	<b>189.4</b>	<b>119.7</b>
Net principal investments per share (cents) <sup>5</sup>	111.0	70.9

<sup>1</sup>Magellan Unlisted Funds includes the Magellan Global Fund, Magellan Infrastructure Fund, Magellan Global Fund (Hedged), Magellan Infrastructure Fund (Unhedged), Magellan High Conviction Fund and the Frontier MFG Funds. <sup>2</sup>Based on closing price on ASX at 30 June 2015. <sup>3</sup>Other comprises distributions receivable and unlisted funds and shares. <sup>4</sup>Deferred tax liability arising from changes in the fair value of financial assets and net capital losses carried forward. <sup>5</sup>Based on the aggregate of 160,276,422 ordinary shares on issue at 30 June 2015 and 10,210,057 ordinary shares being the ordinary shares into which the 10,200,000 Class B Shares would be entitled to convert at 30 June 2015 (30 June 2014, it is based on 158,842,157 ordinary shares and 10,119,516 ordinary shares into which the 10,200,000 Class B Shares would have been entitled to convert at 30 June 2014).

# Principal Investments (cont.)

- Principal Investments includes investments in Magellan Funds, listed shares, a small number of unlisted investments and surplus cash after allowing for the Group's working capital requirements
- The Board sets a pre-tax return hurdle of 10% p.a. (over business cycle) for Principal Investments

## Investment Returns:

Time Period	Return (% p.a.)
1 Year to 30 June 2015	29.3%
3 Years to 30 June 2015	26.5%
5 Years to 30 June 2015	20.9%
1 July 2007 to 30 June 2015 <sup>1</sup>	10.2%

<sup>1</sup> Return excludes investment in Magellan Flagship Fund Ltd.

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