

Magellan Financial Group Limited

# Final Results

For the year ended 30 June 2016

Hamish Douglass | CEO & Chief Investment Officer | 11<sup>th</sup> August 2016

# Magellan Financial Group Final Results

[2]

\$ million	30 June 2016	30 June 2015	% change
Management, performance and services fees	314.6	254.3	24%
Other revenue	19.2	30.6	(37%)
<b>Revenue</b>	<b>333.8</b>	<b>284.9</b>	<b>17%</b>
Expenses	(74.1)	(54.6)	36%
<b>Profit before tax expense</b>	<b>259.7</b>	<b>230.3</b>	<b>13%</b>
<b>Profit after tax expense</b>	<b>198.4</b>	<b>174.3</b>	<b>14%</b>
Effective tax rate	23.6%	24.3%	
<b>Key statistics</b>			
Diluted earnings per share (cents per share)	115.5	101.8	13%
Dividends (interim and final) (cents per share, fully franked)	89.3	74.9	19%

# 2016 highlights

[3]

- Deepening penetration of Global Equities and Global Listed Infrastructure strategies with retail investors, advisers and brokers
  - \$2.3 billion in net retail inflows and \$12.0 billion in retail FUM
    - Global Equities: \$2.0 billion of net retail inflows and total retail FUM of \$10.9 billion
    - Infrastructure: \$365 million of net retail inflows and total retail FUM of \$1.15 billion
  - Launch of replica version of the Magellan Infrastructure Fund on the Colonial First State platform in May 2016
  - Strong support for ASX quoted funds and replica funds on the AMP and BT/Westpac platforms
- Continued solid support from institutional clients – net institutional inflows of \$1.8 billion

# Magellan Financial Group Overview

[4]

- Two business activities
  - Magellan Asset Management (Funds Management Business)
  - Principal Investments
- Continuing dividend policy 75%-80% of underlying profit of funds management segment<sup>1</sup>
- Pay dividends promptly – 26 August 2016
- Offshore Banking Unit (OBU)
  - Assessable offshore banking income subject to a concessional tax rate of 10% (under current legislation)
  - Effective tax rate for the 12 months to 30 June 2016 is 23.6% (24.3% for the 12 months to 30 June 2015)

<sup>1</sup>Subject to available franking credits and corporate, legal and regulatory considerations.

# Funds Management Business

[5]

\$ million	30 June 2016	30 June 2015	% change
<b>Revenue</b>			
Management fees	258.4	203.5	27%
Performance fees	48.0	43.4	11%
Services fees	8.2	7.9	5%
Interest/other income	0.6	1.1	(45%)
	<b>315.3</b>	<b>255.9</b>	<b>23%</b>
<b>Expenses</b>			
Employee expense	42.0	31.2	35%
US Marketing/consulting fees <sup>1</sup>	7.2	5.5	31%
Fund administration and operational costs	7.1	5.9	19%
Information technology expense	3.6	2.3	57%
Foreign and withholding taxes	2.1	0.0	nm
Occupancy expense	1.3	0.9	50%
Other expense	8.3	6.8	22%
	<b>71.5</b>	<b>52.6</b>	<b>36%</b>
<b>Profit before tax</b>	<b>243.8</b>	<b>203.3</b>	<b>20%</b>

## Key Statistics

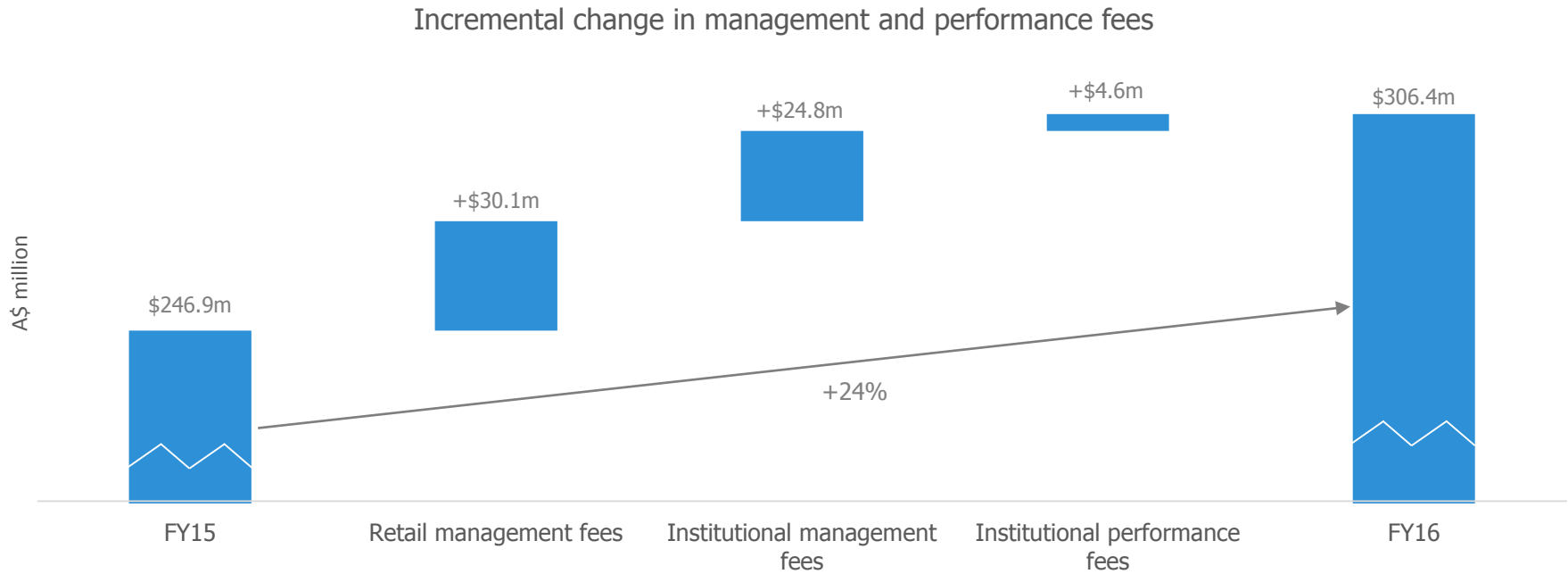
	30 June 2016	30 June 2015	% change
Average Funds Under Management (\$ billion)	39.4	31.0	27%
Average AUD/USD exchange rate <sup>2</sup>	0.7284	0.8368	
Avg. number of employees	96	80	20%
Employee expense/total expense	58.8%	59.4%	
Cost/Income	22.7%	20.6%	
Cost/Income (excl performance fees)	26.7%	24.8%	

<sup>1</sup> Frontier Partners is entitled to receive 25% of net management fees from Frontier MFG Funds and 20% of management fees from all institutional mandate clients in the US and agreed institutional mandate clients in Canada.

<sup>2</sup> Based on daily average of London 4pm exchange rates over the 12 month period.

# Funds Management Business (cont.)

## Management and performance fees

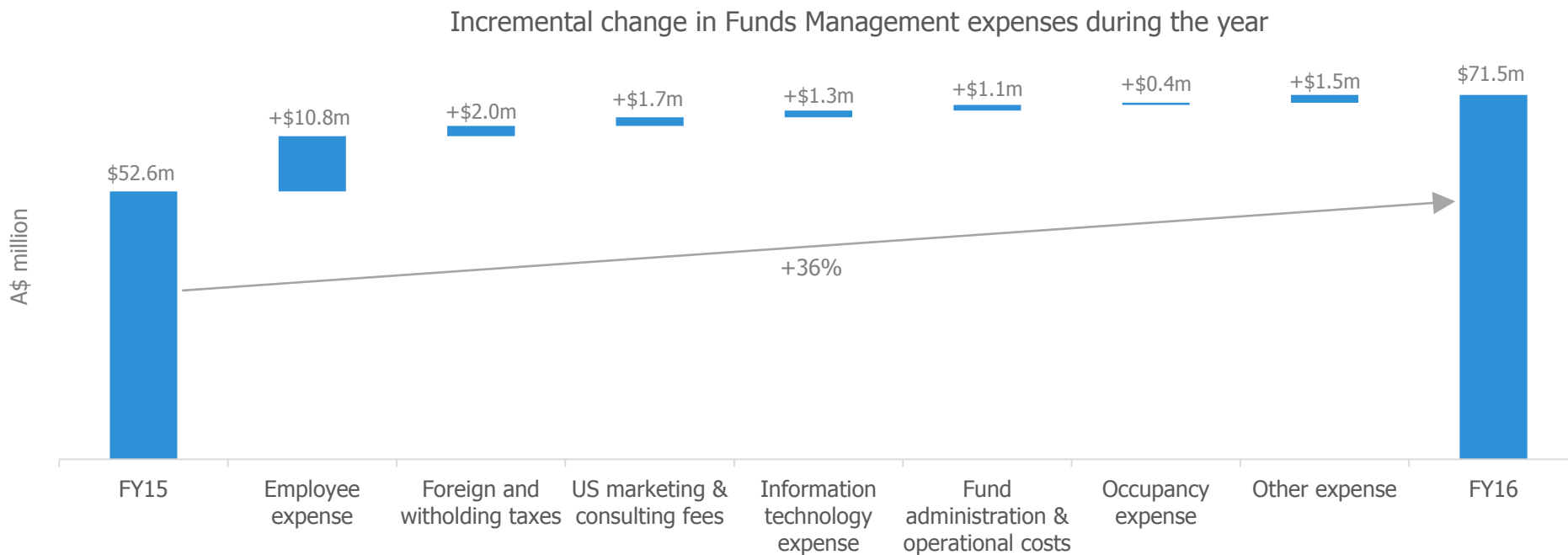


- Increase in management fees driven by 27% increase in average FUM

# Funds Management Business (cont.)

[6]

## Expense summary



- Employee expense increased by 35% in line with guidance
- Foreign and withholding tax includes \$1.3 million provision for prior years
- Expect occupancy expense of approximately \$3.2 million for 2016/17 financial year

# Employee Summary

[8]

Staff	30 June 2016	30 June 2015	30 June 2014
Investment team			
Portfolio Managers/Analysts	33	29	22
Traders	3	3	2
	36	32	24
Governance & Advisory	4	4	1
Distribution <sup>1</sup>	30	21	15
Risk, Compliance & Company Secretarial	4	5	3
Business Support & Control <sup>1</sup>	20	23	18
Administration	7	6	8
<b>Total</b>	<b>101</b>	<b>91</b>	<b>69</b>

- Largely completed build out of Investment Team
- Planning additional hires in other business areas in 2016/17
- Establishing a public policy institute in 2016/17
- Expect Group staff expense to increase approximately 15-18% in 2016/17 financial year

1. Partly reflects divisional transfer of the Performance & Reporting team from Business Support & Control to Distribution in 2H16.



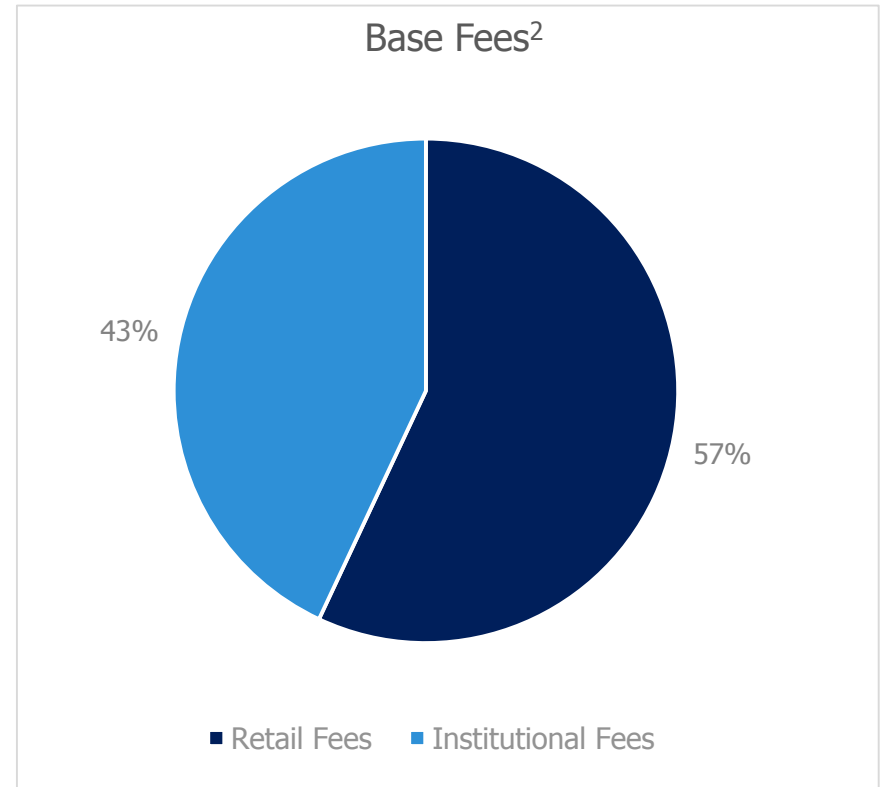
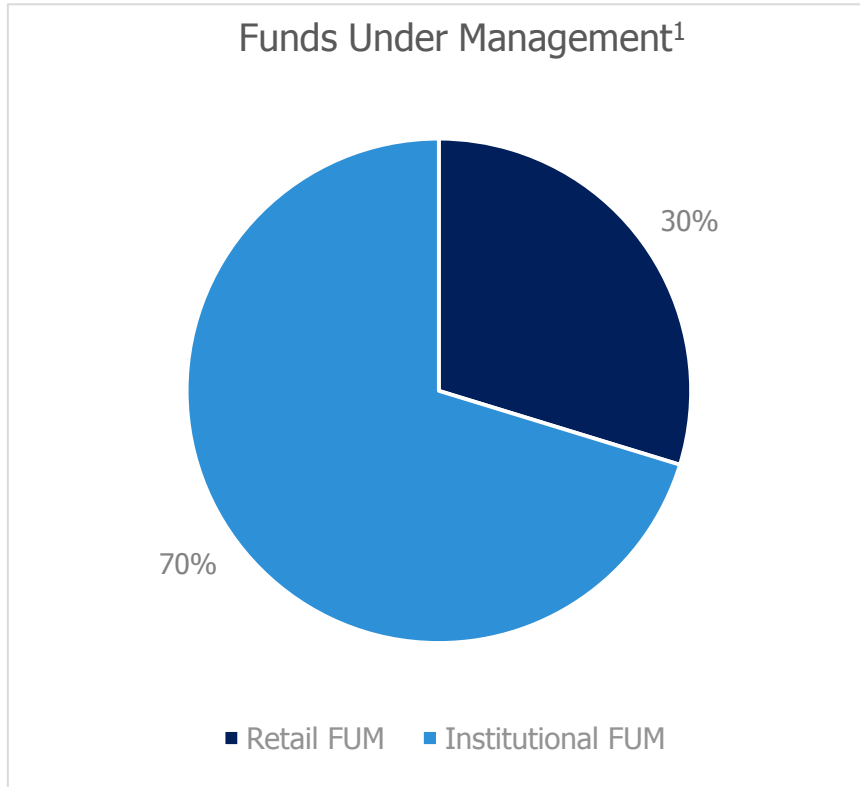
# Funds Under Management Summary

[9]

	30 June 2016	30 June 2015	30 June 2014
<b>\$ million</b>			
Retail	12,041	9,809	6,693
Institutional			
- Australia/NZ	4,415	3,871	2,889
- North America	9,145	8,462	4,690
- Rest of World	14,894	14,239	9,241
	28,454	26,572	16,820
<b>Total FUM</b>	<b>40,495</b>	<b>36,381</b>	<b>23,513</b>
<b>%</b>			
Retail	30%	27%	28%
Institutional			
- Australia/NZ	11%	11%	12%
- North America	23%	23%	20%
- Rest of World	37%	39%	40%
	70%	73%	72%
<b>Total FUM</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Breakdown of Funds Under Management (\$ million)</b>			
- Global Equities	33,723	31,015	19,443
- Global Listed Infrastructure	6,772	5,366	4,070
<b>Average Base Management fee (bps) per annum (excl Perf Fee)</b>	66	66	67
<b>FUM subject to Performance Fees (%)</b>	38%	37%	37%

# Well-balanced business

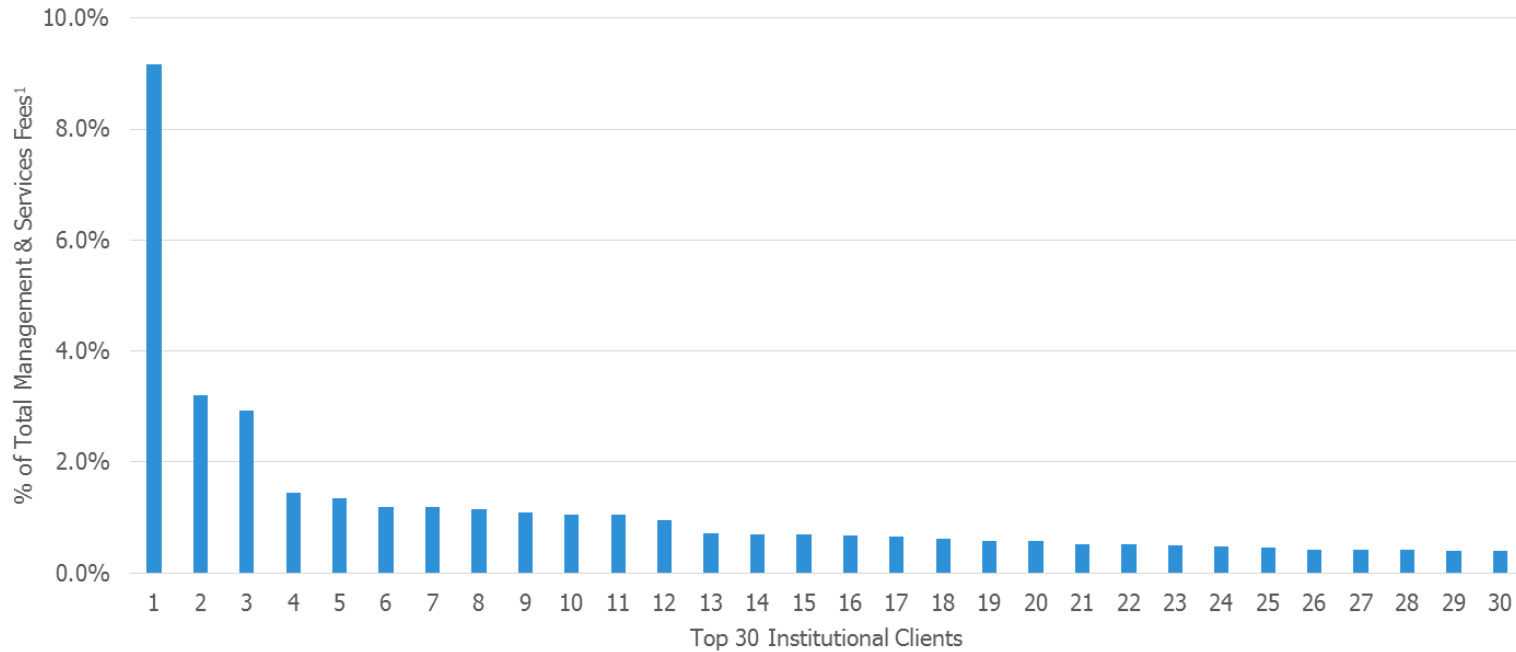
[10]



## Notes

1. FUM split is as at 30 June 2016.
2. Base Fees are Management and Services fees for the 12 months to 30 June 2016 and excludes Performance fees.

# Institutional Client Diversity



Cumulative Total Management and Services Fees<sup>1</sup>

Top Institutional Clients	5	10	20	30
%	18	24	31	36

1. Management and Services fees for the 12 months to 30 June 2016 for separately managed accounts and institutional investors in local and offshore vehicles. Excludes Performance fees.

# Retail Business – well positioned to grow

[12]

Well positioned to benefit from compulsory superannuation trends:

- Independent Financial Advice firms
  - Relationships with over 500 firms<sup>1</sup>
- Bank/AMP aligned advice markets
  - Strong relationships and representation with 4 of the top 6 major firms, with approximately 6,800 aligned advisers
  - Replica versions of the Magellan Global Fund available at Commonwealth Bank, BT/Westpac and AMP (FUM is \$2.0 billion at 30 June 2016)
  - Launch of replica version of the Magellan Infrastructure Fund on the Colonial First State platform in May 2016

<sup>1</sup>Includes dealer groups that have more than \$200,000 funds under management with Magellan.

# Retail Business – well positioned to grow (cont.)

[13]

- ASX quoted funds
  - Magellan Global Equities Fund (MGE) launched in March 2015
  - Magellan Global Equities Fund (Currency Hedged) (MHG) launched in August 2015
  - Magellan Infrastructure Fund (Currency Hedged) (MICH) launched in July 2016
  - Combined:
    - \$637 million in FUM<sup>1</sup>
    - >12,000 unitholders<sup>1</sup>
    - >60% SMSFs<sup>1</sup>
- Strong Adviser Support
  - Total advisers using Magellan’s range of retail funds is over 13,000
- Highly experienced team
  - 11 account managers in Sydney, Melbourne, Brisbane, Perth and Auckland

<sup>1</sup> As at 31 July 2016

# Retail Business

## Funds Under Management and Net Inflows

[14]

- Total Retail FUM is \$12.0 billion at 30 June 2016 (30 June 2015: \$9.8 billion)
- Total Net Retail Inflows for 12 months to 30 June 2016: \$2.3 billion (12 months to 30 June 2015 was \$1.4 billion)
- Average Monthly Retail Net Inflows:

Financial Year Ending	Retail Global Strategy <sup>1</sup> (\$ million)	Retail Global Listed Infrastructure Strategy <sup>2</sup> (\$ million)	Total Retail (\$ million)
2013	140.9	8.2	149.1
2014	163.0	14.5	177.5
2015	103.8	16.4	120.2
2016	164.3	30.5	194.8

<sup>1</sup> The retail component of the Global Equity strategy includes Magellan Global Fund (retail portion), Magellan High Conviction Fund, Magellan Global Fund (Hedged) (retail portion), Magellan Global Equities Fund (quoted fund), Magellan Global Equities Fund (Currency Hedged) (quoted fund) and retail separately managed accounts for the Global Equity strategy

<sup>2</sup> The retail component of the Global Listed Infrastructure strategy includes Magellan Infrastructure Fund (retail portion), Magellan Infrastructure Fund (Unhedged) (retail portion) and retail separately managed accounts for the Global Listed Infrastructure strategy

Note: Historical figures exclude MFF

# Institutional Business

[15]

- Total institutional FUM is \$28.4 billion at 30 June 2016  
(30 June 2015: \$26.6 billion)
  - Global equities \$22.8 billion
  - Global listed infrastructure \$5.6 billion
- More than 110 institutional clients<sup>1</sup> at 30 June 2016
- Total net institutional inflows for 12 months to 30 June 2016: \$1.8 billion  
(12 months to 30 June 2015 was \$3.8 billion)
- Pleased with the quality and depth of our pipeline of potential new business and confident we will see solid institutional interest in our global equities and global listed infrastructure capabilities over time
- Intend to seed then launch 3 new global equities related strategies over the next 12-18 months

<sup>1</sup>The number of clients include separately managed accounts and institutional investors in local and offshore vehicles

# Institutional Business (cont.)

[16]

FUM (\$ billion)	30 June 2016	30 June 2015	% change
Asia-Pacific	5.6	4.5	26%
North America	9.1	8.4	8%
United Kingdom	11.7	11.7	0%
Ireland/ROW <sup>1</sup>	2.0	2.0	0%
<b>Total</b>	<b>28.4</b>	<b>26.6</b>	<b>7%</b>

<sup>1</sup> Includes the Irish UCITS and other Rest of World accounts



# Investment Performance

For the periods to 30 June 2016

[17]

	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.) <sup>1</sup>
<b>Magellan Global Fund (\$A)</b>	<b>(0.1)</b>	<b>13.1</b>	<b>19.0</b>	<b>10.6</b>
MSCI World NTR Index (\$A)	0.4	14.6	14.7	4.0
<b>Magellan Infrastructure Fund (\$A)</b>	<b>17.8</b>	<b>17.3</b>	<b>15.4</b>	<b>8.6</b>
Global Listed Infrastructure Benchmark (\$A) <sup>2</sup>	5.2	12.1	11.1	5.3
<b>Magellan High Conviction Strategy (\$A)</b>	<b>(1.3)</b>	<b>14.8</b>	<b>-</b>	<b>20.9</b>

<sup>1</sup> Inception date for the Magellan Global Fund and Magellan Infrastructure Fund is 1 July 2007 and the Magellan High Conviction Strategy is 1 January 2013. <sup>2</sup> The Global Listed Infrastructure benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure and Utilities NTR Index (AUD Hedged) and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure NTR Index (AUD Hedged). Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Source: MSCI, UBS, S&P, Bloomberg, Magellan Asset Management Limited.

# Principal Investments

- Principal Investments include investments in Magellan Funds, listed shares, a small number of unlisted investments and surplus cash after allowing for the Group's working capital requirements.

Investment (\$ million)	30 June 2016	30 June 2015
Cash	2.3	2.1
Magellan Unlisted Funds <sup>1</sup>	131.3	127.6
Listed shares/funds <sup>2</sup>	74.7	61.8
Other <sup>3</sup>	11.2	12.4
<b>Total</b>	<b>219.5</b>	<b>203.9</b>
Deferred tax liability <sup>4</sup>	(11.3)	(14.5)
<b>Net principal investments</b>	<b>208.2</b>	<b>189.4</b>
Net principal investments per share (cents) <sup>5</sup>	121.1	111.0

<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, the Frontier MFG Funds and Magellan Wholesale Plus Global Fund. <sup>2</sup>Listed shares/funds include MGF Plus Portfolio, Magellan Global Equities Fund and Magellan Global Equities Fund (Currency Hedged) excluding receivables payables (refer to footnote 3). <sup>3</sup>Comprises receivables/payables 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 161,581,205 ordinary shares on issue at 30 June 2016 (including exercised MFG 2016 options) and 10,293,175 ordinary shares being the ordinary shares into which the 10,200,000 Class B Shares would be entitled to convert at 30 June 2016 (30 June 2015, it is based on 160,276,422 ordinary shares and 10,210,057 ordinary shares into which the 10,200,000 Class B Shares would have been entitled to convert at 30 June 2015)

# Principal Investments (cont.)

[19]

- Board has set a pre-tax hurdle 10% p.a. (over business cycle) for the Principal Investments.

## Investment Returns:

Time Period	Return
1 Year to 30 June 2016	1.0%
3 Years to 30 June 2016 p.a.	13.9%
5 Years to 30 June 2016 p.a.	20.5%
1 July 2007 to 30 June 2016 p.a. <sup>1</sup>	14.6%

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

# Important Information

[20]

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