MAGELLAN FINANCIAL GROUP LIMITED

Chairman's Address
to the 2016 Annual General Meeting
Thursday 13 October 2016

Welcome everyone to our new offices and the tenth Annual General Meeting of Magellan Financial Group Limited.

While lots of things have changed over the course of the last decade, some things apparently have not. Our first AGM was held in our offices and ten years later here we are again – albeit in somewhat expanded and upgraded surrounds!

Today I will briefly discuss some aspects of our business before handing over to the Chief Executive Officer, Hamish Douglass, who will discuss our results and the company's prospects in more detail.

The 2016 financial year has been another busy and productive one for Magellan. A 13.5% increase in fully diluted earnings per share to $1.155 and a 19% increase in fully franked dividends per share to $0.893 reflects our team's focus and diligence across the year, in what has proved to be less than straight-forward market conditions.

We have spoken before about the importance of our team's focus on our clients and their advisors, and nothing has changed in this regard. We continually aim to improve everything we do, be it in our overall client service, in our investment processes or in our business operations. Striving to provide excellent service and investment results that are consistent with our objectives is critical to our success.

Our investment objective is to deliver our clients attractive risk-adjusted returns over the medium to long term, while reducing the risk of permanent capital loss. In the past year to 30 June 2016 global equity markets have been flat and our Magellan Global Fund, which returned -0.1%, performed roughly in line with its benchmark. The Magellan Infrastructure Fund delivered very strong returns this year, producing a 17.8% increase, some 12.6% ahead of its benchmark. Both the Global Equity and Infrastructure funds continue to outperform when viewed over a 5 year period producing returns of 19% and 15% per annum respectively.

Our funds under management at 30 June 2016 stood at $40.5 billion, an increase of $4.1 billion over the previous year. Of this increase, approximately $4.1 billion was the result of net inflows, with investment performance increases of $0.8 billion offsetting $0.8 billion of distributions. Very pleasingly, we experienced net retail inflows of $2.3 billion over the year, up from $1.4 billion last year. At 30 September 2016 our funds under management represented $42.3 billion.

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Last year we spoke briefly about some of our thoughts on the future and in particular we looked at our ASX quoted funds which, at that stage, were relatively new. Shortly Hamish will talk further about some of the priorities we have for the future and I would now like to re-visit our quoted funds.

As a quick re-cap, we launched our first ASX quoted actively managed fund – Magellan Global Equites or MGE – back in March 2015. We have since followed this up with our currency hedged version of MGE, called MHG, in August 2015, and recently in July this year we launched the Magellan Infrastructure Fund (Currency Hedged), or MICH.

Collectively these funds have more than 13,500 unit holders and over $700 million of net assets. Slide 1 updates the chart we showed last year illustrating the growth in MGE unitholders, which highlights the steady growth in MGE's investor base.

When we developed MGE we had several objectives in mind, none the least of which was to provide an ASX live-quoted pathway into our managed funds for those investors who were perhaps less familiar or uncomfortable with unlisted funds, and yet comfortable with a portfolio of listed investments.

Despite the very satisfactory growth in MGE, in truth we did not really understand whether our objectives were actually being met and indeed how investors were using and thinking about MGE.

As a result we decided to undertake a detailed survey of the MGE unitholder base to better understand the make-up of our investors and importantly what they expected from their investments and what things we could do better.

The answers to the survey questions were highly instructive and we learnt a great deal, but equally as important was the response to the survey. The survey itself was conducted on-line and was very detailed, requiring around 30 minutes to complete.

We used the services of a third party to help implement the survey and they pointed out that we should expect a response rate of around 8-10% after several follow-up reminders. Furthermore they added, given the survey's length, we should also expect that some portion, say 5%, would understandably get bored and skip through to the end, and that we would see this in the survey statistics.

To say we were humbled by the response is an understatement. Over 22% responded to the survey without any reminder and not a single respondent skipped through to the end, with each spending on average around 30 minutes of their time. The feedback was detailed, insightful and very valuable.

Thank you to all those who participated. Your response has hammered home to us the strong engagement we have with our investors and the trust you have placed in us. As we have remarked before, we understand that the only sustainable trust is deserved trust, and we will continue to work hard to deserve your faith in Magellan.

In terms of the results of the survey we now know that about 3 in 4 investors in MGE have not owned anything Magellan related before, be it MFG, MFF or any of our unlisted funds. Furthermore, the ease of execution and live pricing afforded by the ASX are important considerations in their investments, and that MGE is being used to help diversify portfolios inside self-managed super funds as well as outside super.

There is a strong recognition that portfolios are overweight domestic equities and underweight global equities. The results also showed that trusted active investment management is valued in helping to address this imbalance, as is the advice provided by financial planners and stockbrokers.

Overall we believe our quoted funds are being used to provide access to our investment strategies for a segment of the investor universe that would not otherwise consider our services. Also, most importantly, we received very constructive feedback about what investors expected from us, both in terms of investment performance and communication.

Much of what has come out of this process reinforces our thoughts on client focus, and the fact that it is not just a focus on the attributes of clients that matters, but rather what our clients want to achieve by using our services. In the words of Harvard business Professor Clayton Christensen, what "job" is it that our clients are looking to fulfil by using our services. Indeed, as we often ask ourselves, what are we actually solving for?

The high degree of trust and engagement we are fortunate enough to enjoy also rests on the broad alignment of interests between our clients and their advisors, shareholders and staff. In this regard all businesses face the need to balance the inherent conflicts amongst stakeholders and often this involves the use of incentive structures.

We are very mindful of the power of incentives and the reality that in most cases "you get what you incent for".

There is a story that during British colonial rule of India, the Government was concerned about the number of venomous cobras in Delhi. To fix the problem the Government instituted a reward for every dead snake brought to officials. The Indian citizenry dutifully complied and began breeding venomous snakes to kill and bring in for the reward. Once the scheme was disbanded the snake problem was worse than when it began and in reality the Government got what it incented for – more snakes.

Recent examples of presumably well-meaning sales target incentives perverting the behaviour of mass numbers of bank employees just reinforces how far these problems can go. We remain very mindful of these issues, and particularly second and third order effects which may not be immediately obvious.

Our approach to bonus incentives is to focus on what we expect each member of our team to achieve, with sensible objectives set around outcomes that are within their control. We do not use earnings per share or total shareholder return targets and where there are direct client related outcomes, we aim to ensure our client interests are paramount. We look to have simple and clear arrangements.

Unfortunately no incentive arrangements are foolproof. At the end of the day culture is an extremely important part of promoting appropriate behaviour, and we continue to work hard to maintain and build upon Magellan's great culture. Few things are more important, particularly as we grow.

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I would now like to take a few minutes to discuss our capital management.

Slide 2 summarises our balance sheet as at 30 June 2016. We continue to have no debt and our net assets have grown to $355 million from $303 million last year. We hold approximately $328 million of cash and liquid assets. A portion of that cash represents the funds needed for the final dividend payment, and the investments are by and large in our funds.

Our dividend policy continues to be a payout of between 75%-80% of the net profit after tax of our funds management business, subject to available franking credits and regulatory requirements. In practice we have tended to payout in the middle of that range which leaves around 22.5% of the funds management business earnings being retained for re-investment in that business, if need be, and also in our principal investments.

At 30 June 2016 our principal investments totaled $208 million after allowing for tax on unrealised gains, which equated to $1.21 per fully diluted share (slide 3). The Board has set a pre-tax hurdle return objective on our principal investments of 10% per annum over the business cycle, which despite a flat contribution this year, has been exceeded over 3 and 5 years periods and also since the 1 July 2007 inception date (slide 4).

The Board regularly discusses and reviews these capital management settings and in its deliberations there are a number of factors it takes into account. For example, the value and trade-offs of maintaining a strong balance sheet, the ability to pay fully franked dividends and the interplay with our Offshore Banking Unit (OBU), the amount of excess franking credits, possible share buy-backs, and issues around dilution resulting from employee SPP shares.

Our OBU provides a valuable reduction in our tax rate to 10% for net revenue earned offshore. This combines with our domestically sourced earnings, which are taxed at 30%, to produce our overall tax rate which, for the year ended 30 June 2016, stood at 23.6%, and 24.3% for the year prior.

In thinking about the dividend payout ratio the Board is mindful of the fact that the ability to pay fully franked dividends is limited by the reduced blended tax rate. The current payout ratio is broadly in balance with our current tax rate and as such we carry a relatively small amount of excess franking credits. The amount of franking credits available in the future will depend on the mix of our on-shore and off-shore revenues, as well as taxes paid on realised gains and distributions from our principal investments. The Board reviews this and the level of any excess franking credits on the balance sheet, with the view to keeping them at a workable minimum.

The Board also separately considers the merits of maintaining a strong balance sheet. Firstly, the Board believes there is a significant advantage to maintaining a strong balance sheet in proportion to the scale of our business, such that the business can weather almost any market condition. This is important as regulatory scrutiny increases, and also, understandably, is very important for our clients. We also believe it is in the best long term interests of shareholders.

In addition, a strong balance sheet allows us to co-invest shareholders' funds with our clients across our investment strategies. This is an essential part of the alignment of interests we discussed earlier. Our financial strength also reduces our risk as it provides the capacity to rectify any operating error we may make that would adversely affect any of our clients.

With these considerations in mind the Board has established a conservative base-capital position, and reviews this level to ensure our objectives are being met. In practice, the cash generative nature of our business, combined with the current settings and constraints, has meant that some excess capital above this base level has accrued, and will likely continue to do so over time.

The Board currently considers there is some benefit in holding this excess capital as it provides the company with possible optionality in the future, particularly in times of market stress. In considering these benefits, however, the Board also takes into account the opportunity cost of holding additional capital, the performance and prospects of our principal investments, and the alternatives and constraints to return capital to shareholders in a tax efficient manner.

A shareholder has asked why we do not operate a dividend re-investment plan ("DRP") and/or a shareholder share purchase plan. The Board has considered these plans, but given there is no current need for further capital, issuing shares under these schemes is unlikely to be in the best interests of shareholders. The Board has also reviewed the possibility of operating a DRP effectively as agent for shareholders using shares purchased in the market. Again, given the likely costs and administration burdens this would require, it was also considered unlikely to be in the best interests of all shareholders.

Our employee and director share purchase plan has resulted in a relatively small number of new shares being issued each year. Importantly, these shares are not grants and are purchased by the recipients at the prevailing market prices. While any effects from dilution have not been material, the Board reviews the costs and benefits of alternatively purchasing these shares in the market and will continue do so in the future.

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Before handing over to Hamish I would like to briefly touch upon one more topic – key man risk.

Apart from co-founding Magellan, Hamish occupies both the CEO and Chief Investment Officer roles, and importantly is the lead portfolio manager of our global equity strategy.

The Board fully recognises the inherent risks associated with Hamish's roles given the stage of development of our business.

A business continuity plan is in place and this plan is regularly reviewed. In reality, however, we understand what Mike Tyson so eloquently pointed out: "everyone has a plan, until they get punched in the face."

Absent something transformational, our key man risk will take time to mitigate. The Board's longer term strategic objectives aim to facilitate this and progress has been made.

Significant development of our management team strength and experience has occurred over the past ten years, and we have invested heavily in building our investment team. There are robust systems and processes in place and a strong institutionalised investment philosophy which underpins our investment processes. Our next generation of products is quickly taking shape allowing our next generation of portfolio managers to develop and grow.

The Board and Hamish are motivated to continue to mitigate the risks associated with our business, including key man risk, and we expect further progress to be made in the coming years.

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Finally, in what is our tenth year, I would like to thank all those who have contributed to Magellan over the past decade. Your hard work, belief and focus on building a business we can all be proud of has resulted in a successful and growing funds management business with bright prospects.

Thank you also to our Board who have worked exceptionally well together over the years. Each Board member is engaged, diligent and thoughtfully considers the many issues that arise like true long term owners of the business. In this respect we are extremely fortunate.

Thank you and I will now hand over to Hamish.

Brett Cairns
Executive Chairman

Important Information

Magellan Financial Group Limited

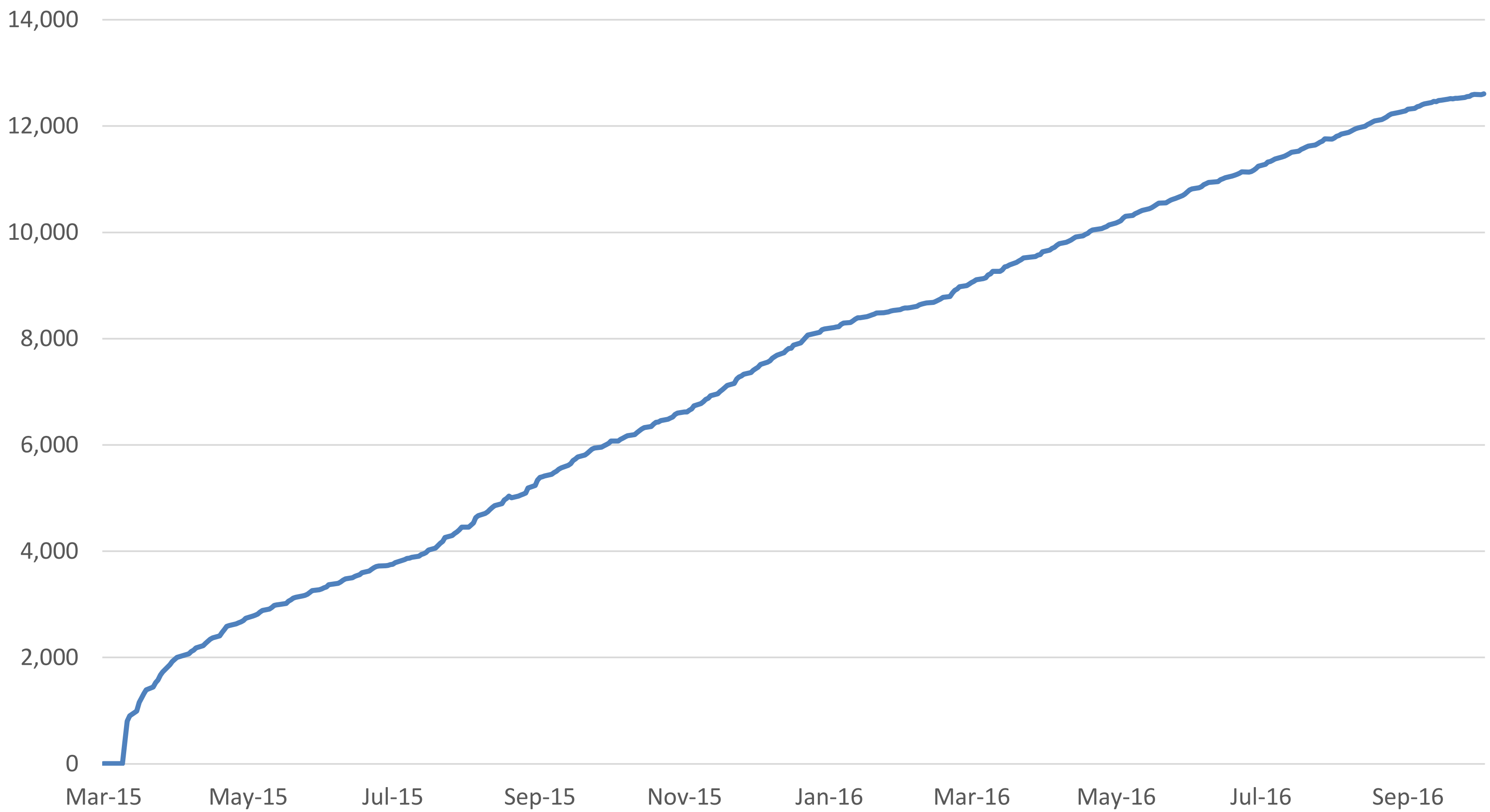
2016 AGM Presentation

Brett Cairns | Executive Chairman | 13 October 2016

MAGELLAN FINANCIAL GROUP

Magellan Global Equities Fund (MGE)

Unitholders to 4 October 2016



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Strong balance sheet

- Cash and liquid assets of $328.1 million[1]
- No debt
- Net assets of $355.4 million

$'000	30 June 2016	30 June 2015	30 June 2014
Cash and cash equivalents	120,362	93,934	82,868
Receivables	53,747	54,850	23,431
Financial assets and Investment in associate	207,940	189,692	125,860
Share purchase plan loans	9,013	7,245	4,054
Other assets	1,317	957	638
Total assets	392,379	346,678	236,851
Payables and provisions	22,721	15,417	12,266
Income tax payable	7,032	16,471	10,538
Deferred tax liabilities	7,257	11,347	7,460
Total liabilities	37,010	43,235	30,264
Net assets	355,369	303,443	206,587

[1] Calculated as cash and cash equivalents, financials assets and investment in associate less $0.175 million of investments in unlisted shares

Source: Extracted from the Consolidated Statement of Financial Position included in Magellan Financial Group's audited financial statements

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Principal Investments

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

[1]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. [2]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). [3]Comprises receivables/payables and unlisted funds and shares. [4]Deferred tax liability arising from changes in the fair value of financial assets and net capital losses carried forward. [5]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)
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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
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.[1]	14.6%

[1] Return excludes investment in Magellan Flagship Fund Ltd.

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