

16 February 2017

ASX Limited
ASX Market Announcements Office
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

**INTERIM REPORT AND FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2016**

Magellan Financial Group Limited (**MFG**) hereby lodges:

1. Appendix 4D Statement for the half year ended 31 December 2016; and
2. Interim Report for the half year ended 31 December 2016, incorporating the Chief Executive Officer's Interim Letter and interim financial statements.

Yours faithfully,



Geoffrey Stirton
Company Secretary

Appendix 4D

Half Year Report

For the half year ended 31 December 2016

Name of entity

Magellan Financial Group Limited

ACN	Reporting period	Previous corresponding period
108 437 592	1 July 2016 to 31 December 2016	1 July 2015 to 31 December 2015

Results for announcement to the market

	Change from the corresponding period	31 Dec 2016 \$'000
Total revenue ("revenue from ordinary activities")	Down by 16% to	\$153,520
Net operating profit for the half year ("profit from ordinary activities after tax attributable to members")	Down by 20% to	\$87,048
Total comprehensive income ("net profit for the period attributable to members")	Down by 14% to	\$98,281

Commentary on results

Refer to the attached Interim Report and Financial Statements including the Chief Executive Officer's Interim Letter. Additional Appendix 4D disclosure requirements can be found in the notes to these financial statements.

Interim dividend

	Amount per security	Franked Amount per security
Interim Dividend (to be paid on 2 March 2017)	38.4 cents	38.4 cents
Previous comparative period	51.3 cents	51.3 cents

Interim dividend dates:

Ex-dividend date: Tuesday 21 February 2017
 Record date: Wednesday 22 February 2017
 Payment date: Thursday 2 March 2017

There is no dividend reinvestment plan in operation in respect to this dividend.

Net tangible assets per share

31/12/2016	\$2.30 (no options or Class B shares were on issue at 31 December 2016)
30/6/2016	\$2.07 (diluted for the conversion of the Class B Shares)
31/12/2015	\$2.12 (diluted for the conversion of the Class B Shares and MFG 2016 Options)

Earnings per share

	31 Dec 2016	31 Dec 2015
Basic earnings per share	53.1 cents	68.1 cents
Diluted earnings per share ^(A)	50.6 cents	63.7 cents

^(A) For the half year ended 31 December 2016, the Class B Shares were considered to be potential ordinary shares for the purposes of the diluted earnings per share calculation and have been included in the determination of diluted earnings per share to the extent they are dilutive. For the half year ended 31 December 2015 both the Class B shares and MFG 2016 options on issue were considered dilutive (there were no MFG 2016 options on issue during the half year ended 31 December 2016).

Details of entities over which control has been gained during the half year

None during the half year ended 31 December 2016.

Financial report

This report is based on the 31 December 2016 Interim Report (which includes the consolidated financial statements) and has been reviewed by Ernst & Young.



MAGELLAN
FINANCIAL GROUP

Interim Financial Report

for the half year ended 31 December 2016

MAGELLAN FINANCIAL GROUP LIMITED: ABN 59 108 437 592

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The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, the report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Magellan Financial Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

MAGELLAN FINANCIAL GROUP LIMITED

Chairman's Report for the half year ended 31 December 2016

Dear Shareholders,

We are pleased to provide this report for the first half of the 2016-17 financial year. Over this period our business has continued to develop and perform well.

Diluted earnings and fully franked dividends per share for the period were 50.6 cents and 38.4 cents respectively. This compares with the corresponding period last year where earnings and fully franked dividends per share were 63.7 cents and 51.3 cents respectively.

It is important to note that our results for each period are affected by any performance fees that we may earn in those periods. Performance fees by their very nature fluctuate from period to period, and may vary materially over shorter timeframes, given our longer term, underlying value investment approach. This has been the case in the 6 months ended 31 December 2016, where if performance fees were excluded, underlying profitability grew by 9%, broadly in line with the 10% increase in average funds under management over the corresponding period last year.

Our Chief Investment and Chief Executive Officer, Hamish Douglass, has written a detailed report which follows. We encourage you to read this and the financial statements that accompany it, as they contain important information about our business.

Additionally, we would also encourage you to read our Fund Reports and Investor Letters which provide valuable insight into our investment strategies and portfolio managers' thoughts. These can be found on our web-site: www.magellangroup.com.au.

Last year we noted: "we are focussed on ensuring Magellan evolves in such a way that provides the best chance of establishing competitive advantages that will deliver positive outcomes for our clients, and meaningful engagement and development prospects for our team."

We continue to make progress in this regard.

During this half we seeded two of three related global equity products, which have been under development for some time, and we anticipate the third will be launched by the end of this calendar year. These investment strategies leverage our existing intellectual capital, investment processes and proven strengths, and provide our team and portfolio managers with clear prospects for enhanced engagement and development.

Importantly, we believe these strategies – Global Low Carbon, US Low Carbon and International (non US) Low Carbon – are highly differentiated and seek to solve a growing problem for institutional investors and asset consultants world-wide, as they look to maintain investment returns in the context of mounting sustainability and environmental concerns.

We are focussed on helping our clients and therefore solving the problems they may face. In thinking about product development we believe it is important to keep firmly in mind that clients are effectively looking to hire our products to do a job. That job is to help overcome the obstacles, many of which are subtle and nuanced, that get in the way of making progress towards what they are trying to achieve.

It is also clear that the pull of a new product for a client and its ability to satisfy the job requirement has to be much greater than the sum of the natural anxieties associated with trying something new and the inertia of remaining with the old. The old may be other competing product offerings, but importantly it is also clients electing to do nothing. We should never lose sight of the fact that we are also competing against clients not investing in anything at all.

In this sense, it is critical that we truly understand the client's job and thus what we are actually solving for, as if we do not, then any product development starts to become random in nature and so has much lower chance of succeeding.

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During the half we also launched our third actively managed ASX quoted fund, the Magellan Infrastructure Fund (Currency Hedged), under the ASX code MICH. This fund, together with the Magellan Global Equities funds (ASX codes MGE and MHG) have attracted around \$800 million in funds under management and over 14,500 unit holders. MICH alone has attracted over 1,000 unit holders since its launch in July last year.

We are very pleased that these funds are helping our clients and fulfilling their job requirements.

We look forward to reporting to you again in our annual report which is scheduled to be released on Thursday 10 August 2017.



Brett Cairns
Executive Chairman

16 February 2017

MAGELLAN FINANCIAL GROUP LIMITED

Chief Executive Officer's Interim Letter for the half year ended 31 December 2016

Dear Shareholder,

I am delighted to write to you as a shareholder in Magellan Financial Group Limited ("the Group") for the half year ended 31 December 2016.

OVERVIEW OF RESULTS

The Group had a successful first half which was characterised by:

- growth in funds under management (which increased by 15% to \$46.5 billion during the six months to 31 December 2016);
- solid growth in management and services fees (which increased by 10% over the previous corresponding period to \$146.1 million for the six months to 31 December 2016); and
- the seeding of two of the three new institutional investment strategies which represent the next generation of global equity products for the Group.

The Group earned materially lower performance fees of \$3.6 million for the six months to 31 December 2016 compared to \$42.8 million for the six months to 31 December 2015. The material decline in performance fees resulted in a corresponding decrease in earnings and interim dividend. Excluding performance fees, underlying profitability grew by around 9%. Performance fees fluctuate materially from period to period.

For the half year ended 31 December 2016:

- average funds under management increased by 10% to \$42.9 billion (\$38.8 billion for the six months to 31 December 2015);
- the Group's net operating profit after tax was \$87.0 million (\$109.3 million for the six months to 31 December 2015); and
- fully diluted earnings per share was 50.6 cents (63.7 cents for the six months to 31 December 2015).

The Directors have declared a fully franked interim dividend of 38.4 cents per ordinary share in respect of the half year ended 31 December 2016 (51.3 cents for the half year ended 31 December 2015). MFG Class B shares converted to ordinary shares on 22 November 2016 which also contributed to the decrease in dividend per ordinary share as the number of shares outstanding increased. The interim dividend will be paid on 2 March 2017. The Directors have confirmed the policy of paying a dividend of 75% to 80% of the net profit after tax (NPAT) of the Group's funds management business, with the calculation to include any crystallised performance fees. Performance fees fluctuate materially from period to period. The payment of dividends by the Group will be subject to available franking credits and corporate, legal and regulatory considerations.

The following table summarises the Group's profitability over the past two December half year periods:

	31 Dec 2016 \$'000	31 Dec 2015 \$'000	Change %
Management and services fees	146,117	132,652	10%
Performance fees	3,592	42,815	(92%)
Other revenue	3,811	6,696	(43%)
Revenue	153,520	182,163	(16%)
Expenses	(40,405)	(39,197)	3%
Profit before tax expense	113,115	142,966	(21%)
Tax expense	(26,067)	(33,631)	(22%)
Profit after tax expense	87,048	109,335	(20%)
Effective tax rate	23.0%	23.5%	
Key Statistics			
Profit before tax expense and before performance fees (\$ millions) ⁽¹⁾	109.5	100.7	9%
Earnings per share (cents per share)	53.1	68.1	(22%)
Diluted earnings per share (cents per share)	50.6	63.7	(21%)
Interim dividend (cents per share, fully franked)	38.4	51.3	(25%)

(1) Adjusts for the current period performance fee impact on revenue and expenses for the 6 month period.

MAGELLAN FINANCIAL GROUP LIMITED

As at 31 December 2016, the Group is in a strong financial position:

- the Group had investment assets (cash and cash equivalents, financial assets and investment in associate) of \$362.4 million (30 June 2016: \$328.3 million) and shareholders' funds of \$396.3 million (30 June 2016: \$355.4 million); and
- the Group's NTA per share was \$2.30 (30 June 2016: \$2.07 diluted for the conversion of the MFG Class B shares).

Funds Management Business

For the half year ended 31 December 2016, the Group's funds management business generated revenues of \$150.2 million (\$176.3 million for the six months to 31 December 2015) and had expenses of \$39.7 million (\$37.2 million for the six months to 31 December 2015), which resulted in a profit before tax of \$110.4 million (\$139.1 million for the six months to 31 December 2015). Revenue included performance fees of \$3.6 million (\$42.8 million for the six months to 31 December 2015). Profit before tax and before performance fees⁽²⁾ grew by 10% to \$106.8 million (\$96.9 million for the six months to 31 December 2015).

The highlights for our funds management business include:

- deepening penetration of the Global Equities and Global Listed Infrastructure strategies with retail Australian investors, advisers and brokers. As at 31 December 2016, total retail funds under management was \$13.6 billion (\$12.0 billion at 30 June 2016) and retail inflows over the six months were \$1.2 billion (\$1.3 billion for the six months to 31 December 2015);
- continued solid support from institutional clients with \$1.8 billion of net institutional inflows over the period (\$0.8 billion to 31 December 2015). Total institutional funds under management was \$32.9 billion from more than 120 clients⁽³⁾ (\$28.5 billion at 30 June 2016);
- the seeding of two of three new institutional investment strategies which represent the next generation of global equities products for the Group.

The following table summarises the profitability of the funds management business over the past two first half periods:

	31 Dec 2016 \$'000	31 Dec 2015 \$'000	Change %
Revenue			
Management fees	141,817	128,295	11%
Performance fees	3,592	42,815	(92%)
Services fees	4,300	4,357	(1%)
Interest and other income	462	833	(45%)
	<u>150,171</u>	<u>176,300</u>	(15%)
Expenses			
Employee expense	23,471	21,542	9%
US marketing and consulting fees ⁽⁴⁾	3,756	3,681	2%
Fund administration and operational costs	3,964	3,548	12%
Information technology expense	1,888	1,862	1%
Foreign and withholding taxes	132	2,106	(94%)
Occupancy expense	1,585	486	226%
Other expense	4,944	3,930	26%
	<u>39,740</u>	<u>37,155</u>	7%
Profit before tax expense	<u>110,431</u>	<u>139,145</u>	(21%)
Profit before tax and before performance fees⁽²⁾	106,839	96,920	10%
Key Statistics			
Average funds under management (\$ million)	42,909	38,836	10%
Average AUD/USD exchange rate ⁽⁵⁾	0.7534	0.7231	4%
Average number of employees	104	96	8%
Employee expenses / total expenses	59.1%	58.0%	
Cost / income	26.5%	21.1%	
Cost / income, excl. performance fees ⁽²⁾	27.1%	27.4%	

(2) Adjusts for the current period performance fee impact on revenue and expenses for the 6 month period.

(3) The number of clients includes separately managed accounts and institutional investors in local and offshore vehicles.

(4) 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.

(5) Based on daily average of London 4pm exchange rates over the 6 month period.

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Revenues decreased by 15% to \$150.2 million driven by an 11% increase in management fees, offset by a \$39.2 million (92%) decrease in performance fee revenues. The growth in management fees is a result of a 10% increase in average funds under management over the period due to strong net inflows and investment performance. Overall the funds management business operated efficiently with a cost to income ratio (excluding performance fees) of 27.1% compared with 27.4% for the six months to 31 December 2015.

Expenses increased by 7% to \$39.7 million. The increase in expenses included:

- a 9% increase in employee expense over the prior corresponding period to \$23.5 million;
- a 12% increase in fund administration and operational costs to \$4.0 million, which compares with a 10% increase in average funds under management over the period;
- a 94% decrease in foreign and withholding taxes to \$0.1 million; and
- an increase in occupancy costs of 226% to \$1.6 million due to the relocation of the Group's Sydney head office. We are budgeting for occupancy costs of approximately \$3.2 million in 2016/17.

Nerida Campbell, Magellan's Chief Operating Officer, left the firm at the end of her sabbatical in January 2017. Nerida joined Magellan in 2006 as one of the Group's first employees and has been instrumental in the development and success of Magellan over the past decade. We will miss Nerida and wish her all the best in her next chapter.

During the period, we continued to make investments in people and capability. We expect Group employee expenses to increase by approximately 9-12% in the 2016/17 financial year which is a reduction from the 15-18% increase forecast at the start of the financial year. The slower rate in the growth of employee expenses reflects a management restructure and simplification.

The following table sets out total employee numbers⁽⁶⁾:

	31 Dec 2016	30 June 2016	31 Dec 2015
Investment			
- Portfolio Managers/Analysts	35	32	34
- Dealers	3	3	3
	38	35	37
Governance & Advisory	5	4	4
Distribution	34	30	28
Risk, Compliance, Legal & Company Secretarial	8	7	7
Business Support & Control	16	17	17
Administration	7	7	7
Total	108	100	100
Average number of employees	104	96	96

(6) Historical figures have been restated to reflect business division transfers (Legal team from Business Support & Control to Risk, Compliance, Legal & Company Secretarial and Performance and Reporting team from Business Support & Control to Distribution)

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Funds Under Management (FUM)

At 31 December 2016, the Group had funds under management of \$46.5 billion (equating to approximately US\$33.7 billion), split between Global Equities (85%) and Global Listed Infrastructure Equities (15%). This compares with funds under management of \$40.5 billion at 30 June 2016. The increase in funds under management was driven by net inflows of approximately \$3.0 billion, investment performance of approximately \$3.6 billion less cash distributions (net of reinvestment) of approximately \$0.6 billion.

The following table sets out the composition of funds under management:

\$million	31 Dec 2016	30 June 2016	31 Dec 2015
Retail	13,650	12,041	11,429
Institutional			
- Australia/New Zealand	4,617	4,415	3,495
- North America	10,117	9,145	9,507
- Rest of World	18,131	14,894	15,222
	<u>32,865</u>	<u>28,454</u>	<u>28,224</u>
Total FUM	46,515	40,495	39,653
Percentage			
Retail	29%	30%	29%
Institutional			
- Australia/New Zealand	10%	11%	9%
- North America	22%	23%	24%
- Rest of World	39%	37%	38%
	<u>71%</u>	<u>70%</u>	<u>71%</u>
Total FUM	100%	100%	100%
FUM subject to Performance Fees (%)	38%	38%	37%
Institutional FUM (%)			
- Active	87%	85%	85%
- Enhanced Beta	13%	15%	15%
Breakdown of FUM (A\$ million)			
- Global Equities	39,511	33,723	33,769
- Global Listed Infrastructure	7,004	6,772	5,884
Average Base Management fee (bps) per annum excluding Performance Fees ⁽⁷⁾	66	66	66

It should be noted that our retail business has higher fees than our institutional business and our infrastructure enhanced beta product has lower fees than other institutional mandates.

We consider that the theoretical capacity of our existing Global Equities and Global Listed Infrastructure strategies is approximately US\$55 billion in total, an increase of US\$5 billion due to a revision related to the Core Infrastructure strategy. We carefully take into account the investment universe, the market capitalisation established for the strategy and liquidity requirements in ascertaining the theoretical capacity of each of our strategies. This theoretical capacity is not static and should be approximately indexed to changes in the values of world equity markets over time, subject to the impact of price movements on our investment universe.

We have been actively working on three new related global equity products. We have now seeded two of these strategies and have launched the Global Low Carbon strategy to institutional investors globally. A UCITS Global Low Carbon Fund was launched in January 2017 and a US mutual Global Low Carbon fund will be launched in the next few months. It is anticipated that a US Low Carbon strategy and International (non US) Low Carbon strategy will be launched by the end of this calendar year. These strategies will leverage Magellan's existing intellectual capital and investment processes and will be constructed in line with Magellan's proven strengths. Importantly, these strategies will incorporate a low carbon overlay. We believe that managing carbon risk is becoming increasingly important to many institutional investors and asset consultants globally. In our view, our products will be highly differentiated to the vast majority of competing products in this emerging space. It will take time for each of these products to build investment performance track records and it is unlikely that any of these products will attract meaningful funds under management for at least 3 to 5 years. We consider the theoretical capacity of our Low Carbon Strategies is approximately US\$30 billion and will be incremental to the theoretical capacity of the Group's existing products.

Investment portfolio decisions in respect of the Low Carbon equities strategies will be managed independently of the existing Global Equities strategy with portfolio managers for these strategies promoted from within the Investment team.

It should be noted that the above capacity numbers are purely theoretical and should in no way be taken as a forecast or indication as to the level of funds under management the Group may have in the future.

(7) Calculated using management fees (excluding services and performance fees) for the relevant period divided by the average of month end FUM over the same period.

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Retail Funds Under Management

At 31 December 2016, the Group had total retail funds under management of \$13.6 billion. We experienced total net retail inflows of \$1.2 billion for the six months to 31 December 2016, compared with \$1.3 billion for the previous corresponding period. The Group experienced average monthly retail net inflows of approximately \$207 million over the six months to 31 December 2016, compared with \$214 million over the previous corresponding period.

We are pleased with the continued strength in retail net inflows, reflective of:

- continued support from our arrangements with AMP and BT/Westpac in addition to our longstanding relationship with Colonial First State (operated by Commonwealth Bank). As at 31 December 2016 funds under management in our replica versions of the Magellan Global Fund and Magellan Infrastructure Fund available at Colonial First State and the replica versions of the Magellan Global Fund available at AMP and BT/Westpac was \$2.4 billion (\$2.0 billion at 30 June 2016);
- our ASX quoted funds, the Magellan Global Equities Fund, Magellan Global Equities Fund (Currency Hedged) and Magellan Infrastructure Fund (Currency Hedged), combined had strong net inflows of \$169 million over the six months to 31 December 2016 and average monthly net inflows of approximately \$28 million. The combined funds under management from these three funds was \$797 million as at 31 January 2017 and the combined number of unitholders was over 14,500; and
- an increase in retail inflows into our Global Listed Infrastructure strategy. The total net retail inflows into our Infrastructure strategy were \$393 million over the six months to 31 December 2016 (\$116 million to 31 December 2015).

We believe we are developing a robust retail business in Australia and New Zealand focused on global equities and global listed infrastructure that should benefit from the secular trends of compulsory superannuation over the years ahead. We have:

- relationships with over 500 independent financial advice firms⁽⁸⁾;
- strong relationships and extensive representation with 4 of the top 6 major institutionally aligned advice firms (Commonwealth Bank, BT/Westpac, AMP and IOOF). Collectively, these firms have approximately 6,800 aligned advisers;
- an ASX quoted version and unlisted version of the Magellan Global Fund. The funds are available as currency hedged and currency unhedged;
- an ASX quoted version of the Magellan Infrastructure Fund, the Magellan Infrastructure Fund (Currency Hedged);
- separate versions of the Magellan Global Fund available at Commonwealth Bank, BT/Westpac and AMP. Each of these funds will have strong model portfolio representation across these groups;
- a replica version of the Magellan Infrastructure Fund and a currency hedged version of the Magellan Global Fund available at Colonial First State;
- developed strong relationships with each of the key research firms and have strong ratings from Zenith, Lonsec and Morningstar for both our Global Equity and Global Listed Infrastructure strategies; and
- a highly experienced Australian and New Zealand relationship focussed Distribution team with 11 account managers and offices in Sydney, Melbourne, Brisbane, Perth, Adelaide and Auckland.

The following table sets out the investment performances of the Magellan Global Fund, the Magellan Infrastructure Fund and the Magellan High Conviction strategy:

Investment Performance for the period to 31 December 2016 ⁽⁹⁾	1 Year	3 Years	5 Years	Since Inception ⁽¹⁰⁾
	%	% p.a.	% p.a.	% p.a.
Magellan Global Fund	3.7	11.0	19.2	11.0
MSCI World NTR Index (\$A)	8.0	11.4	18.4	4.8
Magellan Infrastructure Fund	6.7	13.1	14.4	7.8
Global Listed Infrastructure Benchmark (\$A) ⁽¹¹⁾	14.1	9.9	11.4	5.1
Magellan High Conviction Strategy	3.5	12.1	-	20.9

(8) Includes Dealer Groups that have more than \$200,000 funds under management with the Group.

(9) 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). Annualised performance is denoted with "p.a." for the relevant period.

(10) Inception date for the Magellan Global Fund and Magellan Infrastructure Fund is 1 July 2007 and the inception date for Magellan High Conviction Strategy is 1 January 2013.

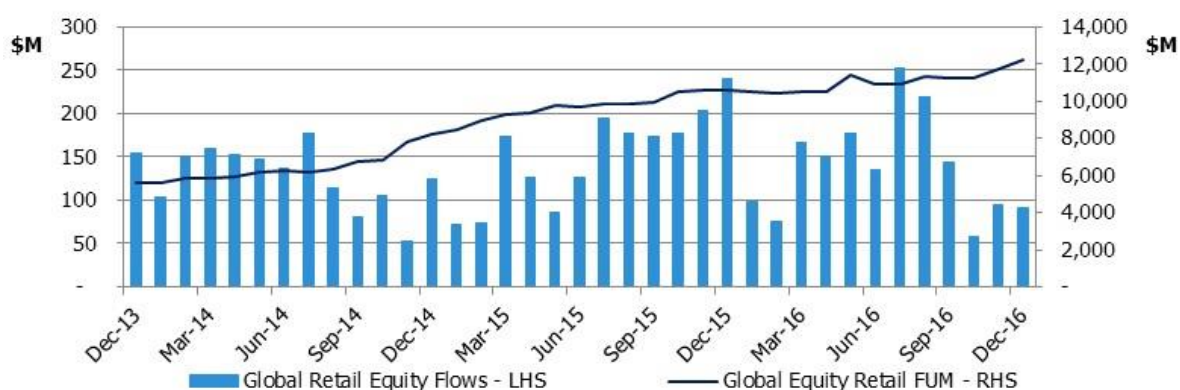
(11) The Global Listed Infrastructure benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure and Utilities NTR Index (AUD Hedged) and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure NTR Index (AUD Hedged).

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We are pleased with the results to date particularly given the volatility experienced in global stock markets in response to the dramatic fall in US long term bond yields earlier in the year, the backdrop of the Brexit referendum and the outcome of the US election. Given our medium to long term focus, however, it is not unreasonable to expect some periods when the funds will not outperform or will lag their benchmarks. Further, given our focus on high-quality/low volatility investments in our Global Equity strategy and our tight definition of what constitutes infrastructure, it can also reasonably be expected that returns may underperform broader based benchmarks in strongly rising markets due to the cap on volatility and our definition of infrastructure. Over the cycle, however, we believe the strategies will produce an appropriate risk adjusted performance while maintaining our focus on capital preservation, particularly in adverse market conditions. These are key tenets of the Group's approach that we believe are well understood by the adviser community and our clients.

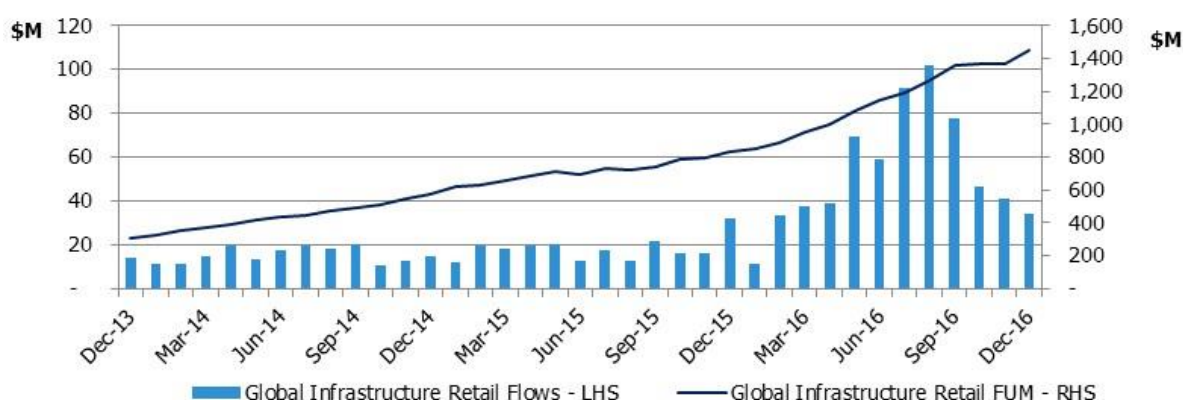
The retail component of the Global Equity strategy⁽¹²⁾ had funds under management of approximately \$12.2 billion at 31 December 2016. The retail Global Equity strategy experienced total retail net inflows of \$851 million and average monthly retail net inflows of approximately \$142 million over the six months to 31 December 2016. This compares with the retail Global Equity strategy's total net inflows of \$1.2 billion and the average monthly retail net inflows of \$194 million over the six months to 31 December 2015. We consider the reduction in average monthly retail net inflows over the past six months primarily reflects cautiousness by investors and advisers due to the increased uncertainty created by the world events such as Brexit and the election of President Trump. The following chart sets out the monthly retail net inflows into the Global Equity strategy over the past three years:

Retail Global Equity Strategy FUM & Net Inflows⁽¹²⁾



The retail component of the Global Listed Infrastructure strategy⁽¹³⁾ had funds under management of approximately \$1.45 billion at 31 December 2016. The retail Global Listed Infrastructure strategy experienced total retail net inflows of \$393 million and average monthly retail net inflows of approximately \$65 million over the six months to 31 December 2016. This compares with the retail Global Listed Infrastructure strategy's total net inflows of \$116 million and the average monthly retail net inflows of \$19 million over the six months to 31 December 2015. We consider the increase in retail infrastructure flows is reflective of strong investment performance and increasing adviser penetration. The following chart sets out the monthly retail net inflows into the Global Listed Infrastructure strategy over the past three years:

Retail Global Listed Infrastructure Strategy FUM & Net Inflows⁽¹³⁾



Retail inflows have generally been seasonal (January and June tend to be the weakest months) and can be lumpy, due to events such as winning a new dealer group that transitions funds to the Group.

(12) 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.

(13) The retail component of the Global Listed Infrastructure strategy includes Magellan Infrastructure Fund (retail portion), Magellan Infrastructure Fund (Unhedged) (retail portion), Magellan Infrastructure Fund (Currency Hedged) (quoted fund) and retail separately managed accounts for the Global Listed Infrastructure strategy.

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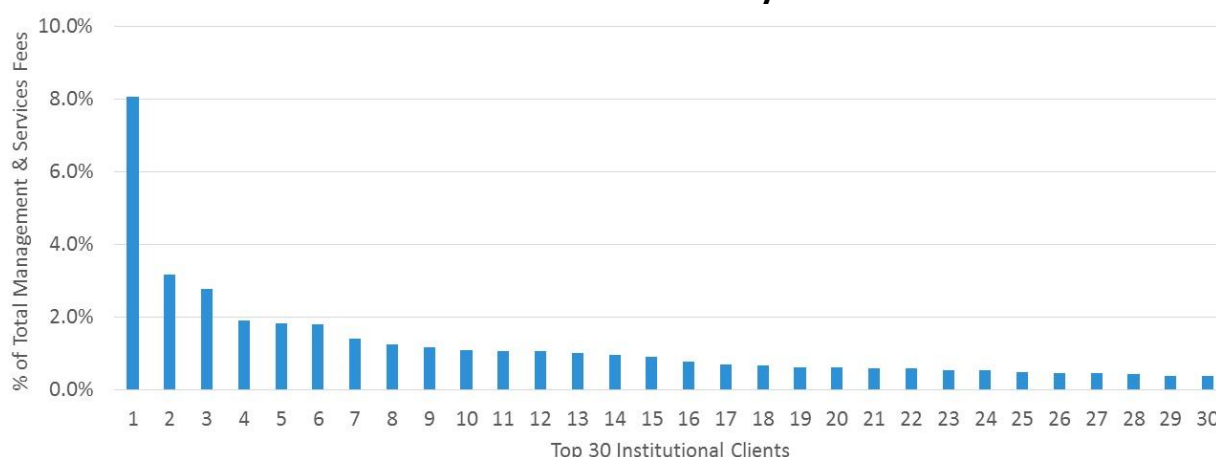
Institutional Funds Under Management

At 31 December 2016, the Group had total institutional funds under management of \$32.9 billion from more than 120 clients⁽¹⁴⁾. We experienced institutional net inflows of \$1.8 billion for the six months to 31 December 2016, which compares with net inflows of \$0.8 billion for the six months to 31 December 2015. It has been an exciting period for the business in extending the breadth and depth of our client relationships with the additions of some marquee names to our list of clients.

We are confident that we will continue to see solid institutional interest in our global equities and global listed infrastructure capabilities over time.

The following table and chart sets out the percentage of management and services fee revenue generated by the top 30 institutional clients. The table highlights that our business is highly diversified by client with only three clients representing more than 2% of total management and services fee revenue.

Institutional Client Diversity⁽¹⁵⁾



Cumulative Total Management and Services Fees

Top Institutional Clients	5	10	20	30
%	18	25	33	38

The development of the Group's institutional funds management business is progressing well.

At 31 December 2016, the Group managed funds from clients in North America of approximately \$10.1 billion (\$9.1 billion at 30 June 2016).

Our Australian/NZ business remains steady. As at 31 December 2016 the Group had total funds under management of approximately \$4.6 billion from clients in Australia/NZ (\$4.4 billion as at 30 June 2016).

We are also making strong progress with clients outside Australia/NZ and North America, managing funds for Rest of World clients of \$18.1 billion as at 31 December 2016 (\$14.9 billion as at 30 June 2016). We remain focused on specific target markets, primarily the UK and Singapore. Our UK business remains strong. At 31 December 2016, the Group had total funds under management of approximately \$15.0 billion from clients in the UK⁽¹⁶⁾ (\$12.4 billion at 30 June 2016). At 31 December 2016 our important relationship with St. James's Place has total funds under management of \$6.5 billion (\$6.0 billion at 30 June 2016). The UK infrastructure fund that replicates our Core Infrastructure (Enhanced Beta) strategy has funds under management of approximately \$3.0 billion at 31 December 2016 (\$3.1 billion at 30 June 2016). During the period we launched a UCITS vehicle for our Select Infrastructure strategy.

(14) The number of clients includes separately managed accounts and institutional investors in local and offshore vehicles.

(15) Management & Services fees for the 6 months to 31 December 2016 for separately managed accounts and institutional investors in local and offshore vehicles. Excludes Performance fees.

(16) Including UK clients invested in the Group's MFG Global Fund (Irish UCITS fund offered to institutional clients in our target markets, outside Australia and the United States).

MAGELLAN FINANCIAL GROUP LIMITED

Investments in Magellan's Funds and Principal Investments

At 31 December 2016, the Group had total net Principal Investments of \$229.0 million (net of tax liabilities, settlement receivables/payables and accruals), compared with net Principal Investments of approximately \$208.2 million at 30 June 2016.

The Group's Principal Investments include investments in Magellan Unlisted Funds, the ASX quoted Magellan Global Equities Fund, Magellan Global Equities Fund (Currency Hedged), Magellan Infrastructure Fund (Currency Hedged), listed shares, a number of small unlisted investments and surplus cash after allowing for the Group's working capital requirements. We intend to allocate any surplus cash generated by the Group, after allowing for dividends of 75% to 80% of the net profit after tax from the Funds Management business, to Principal Investments.

Over time we aim to earn satisfactory returns for shareholders through the sensible deployment of the Group's capital, while maintaining capital strength to underpin the business. The Board has established a pre-tax return hurdle of 10% per annum over the business cycle for the Principal Investments. We intend for the Group to maintain a very strong balance sheet including a high level of liquidity to ensure our business will withstand almost any market condition or unforeseen event.

The Group's Principal Investments portfolio has returned pre-tax 3.9%, 11.5% and 21.1% per annum over the last 1, 3 and 5 years respectively. Excluding the effect of the Group's investment in MFF Capital Investments, which was disposed of by way of in-specie distribution to shareholders in February 2013, the portfolio returned pre-tax 10.3% per annum over the period 1 July 2007 to 31 December 2016. The inception date of 1 July 2007 has been chosen to reflect the first purchase date of the investments in the Magellan Global Fund and Magellan Infrastructure Fund.

The following table sets out a summary of the Group's Principal Investments as at 31 December 2016:

MFG Group's Principal Investments

\$million	31 Dec 2016	30 June 2016
Cash	2.6	2.3
Magellan Unlisted Funds ⁽¹⁷⁾	147.0	131.3
Listed shares/funds ⁽¹⁸⁾	95.2	74.7
Other ⁽¹⁹⁾	0.3	11.2
Total	245.1	219.5
Deferred tax liability ⁽²⁰⁾	(16.1)	(11.3)
Net Principal Investments	229.0	208.2
Net Principal Investments per share (cents)⁽²¹⁾	133.1	121.1

I would like to thank all my colleagues at Magellan for the outstanding job they have done over the years. It is a privilege to work with such an incredibly focussed and talented team of people.

Thank you for your ongoing interest and support of Magellan Financial Group Limited.

Yours faithfully,



Hamish M Douglass

CEO and Chief Investment Officer

16 February 2017

(17) 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.

(18) Listed shares/funds include MGF Plus Portfolio, Global Low Carbon Portfolio, US Low Carbon Portfolio, Magellan Global Equities Fund and Magellan Global Equities Fund (Currency Hedged) and Magellan Infrastructure Fund (Currency Hedged) excluding receivables/payables (refer to footnote 19)

(19) Other comprises receivable/payables and unlisted funds and shares.

(20) Deferred tax liability arising from changes in the fair value of financial assets and net capital losses carried forward.

(21) Based on the aggregate of 172,076,468 ordinary shares on issue at 31 December 2016 (30 June 2016, it is based on 161,581,205 ordinary shares and 10,293,175 ordinary shares into which the 10,200,000 Class B Shares would have been entitled to convert at 30 June 2016).

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the half year ended 31 December 2016

The Directors of Magellan Financial Group Limited (the "Company" or "MFG") present their financial report for the Company and its controlled entities which together form the consolidated entity (the "Group") in respect of the half year ended 31 December 2016.

1.1 Directors

The following persons were Directors of the Company during the half year and up to the date of this report:

Name	Directorship	Appointed
Brett Cairns	Executive Chairman	22 Jan 2007
Hamish Douglass	CEO and Chief Investment Officer	21 Nov 2006
Robert Fraser	Non-executive Director and Senior Independent Director	23 Apr 2014
Paul Lewis	Non-executive Director	20 Dec 2006
Hamish McLennan	Non-executive Director	1 Mar 2016
Karen Phin	Non-executive Director	23 Apr 2014

1.2 Review of Operations

The Group's net operating profit after tax for the half year ended 31 December 2016 was \$87,048,000 (December 2015: \$109,335,000).

The Group is in a strong financial position and at 31 December 2016 reported:

- investment assets (cash and cash equivalents, financial assets and investment in associate) of approximately \$362,442,000 (June 2016: \$328,302,000) and shareholders' funds of approximately \$396,288,000 (June 2016: \$355,369,000); and
- NTA per share of \$2.30 (\$2.07 at 30 June 2016 diluted for the conversion of Class B shares).

Please refer to the Chief Executive Officer's Interim Letter for further information on the Group's operations, including details on the Group's strategy and future outlook.

1.3 Dividends

The Directors have declared a fully franked interim dividend of 38.4 cents per ordinary share in respect of the half year ended 31 December 2016 (December 2015: 51.3 cents per share). The amount of the dividend expected to be paid on 2 March 2017, but not recognised as a liability as at 31 December 2016, is approximately \$66,077,000 (December 2015: \$82,418,000).

The Directors have affirmed the policy of paying a dividend of 75% to 80% of the net profit after tax (NPAT) of the Group's funds management business, with the NPAT calculation to include any crystallised performance fees, which may fluctuate materially from period to period. The payment of dividends by the Group will be subject to available franking credits and corporate, legal and regulatory considerations.

1.4 Significant Changes in the State of Affairs

No significant changes in the state of affairs of the Group occurred during the half year ended 31 December 2016, other than those matters stated in this report.

1.5 Events Subsequent to the End of the Reporting Date

On 6 February 2017, the Group announced to the ASX its funds under management were \$45.6 billion as at 31 January 2017.

Other than the above and the interim dividend in respect of the half year ended 31 December 2016 discussed at section 1.3, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this financial report that has significantly or may significantly affect the operations of the Group, the result of those operations or the state of affairs of the Group in subsequent financial periods.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the half year ended 31 December 2016

1.6 Rounding of Amounts

The Company is of a kind referred to in the *Australian Securities & Investments Commission's Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and amounts in the Directors' Report have been rounded to the nearest thousand dollars in accordance with that Legislative Instrument, or in certain cases, the nearest dollar.

1.7 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 14.

This report is made in accordance with a resolution of the Directors.



Brett Cairns
Executive Chairman

Sydney
16 February 2017

AUDITOR'S INDEPENDENCE DECLARATION



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Sydney NSW 2000 Australia
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Auditor's Independence Declaration to the Directors of Magellan Financial Group Limited

As lead auditor for the review of Magellan Financial Group Limited for the half-year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Magellan Financial Group Limited and the entities it controlled during the financial period.

Ernst & Young

Rita Da Silva
Partner
16 February 2017

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS for the half year ended 31 December 2016

		Consolidated Entity	
		31 Dec	31 Dec
		2016	2015
		\$'000	\$'000
Revenue			
Management fees	6(a)	141,817	128,295
Performance fees	6(b)	3,592	42,815
Services fees	6(c)	4,300	4,357
Interest income		951	1,022
Dividend and distribution income		280	339
Net gain on sale of available-for-sale financial assets		2,262	644
Net foreign exchange gain		318	730
Group's share of profit for the period MGE was an associate	9(b)	-	3,961
Total revenue		153,520	182,163
Expenses			
Employee expenses		23,501	21,567
Non-Executive Director fees		169	128
Fund administration and operational costs		4,036	3,590
US marketing/consulting fee expense		3,756	3,681
Information technology expense		1,888	1,862
Occupancy expense		1,585	486
Marketing expense		1,519	1,318
Travel and entertainment expense		809	468
Legal and professional fees		740	965
Foreign and withholding taxes		132	2,106
Auditor's remuneration		360	358
Depreciation and amortisation expense		196	170
Net loss on deemed disposal of interest in associate - MGE, transferred from the Consolidated Statement of Other Comprehensive Income	9(b)	-	1,296
Other		1,714	1,202
Total expenses		40,405	39,197
Operating profit before income tax expense		113,115	142,966
Income tax expense	5	(26,067)	(33,631)
Net operating profit for the half year		87,048	109,335
Basic earnings per share	3	53.1 cents	68.1 cents
Diluted earnings per share	3	50.6 cents	63.7 cents

The Consolidated Statement of Profit or Loss is to be read in conjunction with the accompanying notes to the Financial Statements.

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME for the half year ended 31 December 2016

	Note	Consolidated Entity	
		31 Dec 2016 \$'000	31 Dec 2015 \$'000
Net operating profit for the half year		87,048	109,335
Other comprehensive income			
<i>Items that may or have been reclassified to profit or loss in future years, net of tax</i>			
Net changes in the fair value of available-for-sale financial assets		18,324	6,645
Net (gain)/loss on sale of available-for-sale financial assets		(2,262)	(644)
Net loss on deemed disposal of interest in associate - MGE	9(b)	-	1,296
Income tax benefit/(expense) on the above items		(4,843)	(2,741)
Exchange differences on translation of foreign operation		14	-
Other comprehensive income for the half year, net of tax		11,233	4,556
Total comprehensive income for the half year		98,281	113,891

The Consolidated Statement of Other Comprehensive Income is to be read in conjunction with the accompanying notes to the Financial Statements.

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

		Consolidated Entity	
		31 Dec	30 June
		2016	2016
		\$'000	\$'000
	Note		
Assets			
Current assets			
Cash and cash equivalents		119,664	120,362
Financial assets	7	308	1,719
Receivables		52,257	53,747
Loans - share purchase plan		1,666	1,531
Income tax receivable		19	-
Prepayments		799	403
Total current assets		174,713	177,762
Non-current assets			
Financial assets	7	242,470	206,221
Loans - share purchase plan		8,557	7,482
Property, plant and equipment		1,078	914
Total non-current assets		252,105	214,617
Total assets		426,818	392,379
Liabilities			
Current liabilities			
Payables		14,218	21,161
Provisions		104	218
Income tax payable		-	7,032
Total current liabilities		14,322	28,411
Non-current liabilities			
Deferred tax liabilities		13,200	7,257
Deferred lease incentives		1,349	-
Provisions		1,659	1,342
Total non-current liabilities		16,208	8,599
Total liabilities		30,530	37,010
Net assets		396,288	355,369
Equity			
Contributed equity	10 (a)	115,112	111,073
Available-for-sale reserve		32,578	21,359
Foreign currency translation reserve		(38)	(52)
Retained profits		248,636	222,989
Total attributable to members of the Group		396,288	355,369
Total equity		396,288	355,369

The Consolidated Statement of Financial Position is to be read in conjunction with the accompanying notes to the Financial Statements.

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year ended 31 December 2016

Attributable to Equity Holders of the Consolidated Entity					
	Contributed Equity	Foreign currency translation reserve	Available-for- sale reserve	Retained Profits	Total
2016	\$'000	\$'000	\$'000	\$'000	\$'000
Equity - 1 July 2016	111,073	(52)	21,359	222,989	355,369
Net profit for the half year	-	-	-	87,048	87,048
Other comprehensive income	-	14	11,219	-	11,233
Total comprehensive income for the half year	-	14	11,219	87,048	98,281
Transactions with owners in their capacity as owners:					
Issue of securities:					
- under share purchase plan (SPP)	4,004	-	-	-	4,004
- transaction costs arising on share issue	(110)	-	-	-	(110)
Dividends paid	-	-	-	(61,401)	(61,401)
SPP expense for the half year	145	-	-	-	145
Total transactions with equity holders in their capacity as equity owners	4,039	-	-	(61,401)	(57,362)
Equity - 31 December 2016	115,112	(38)	32,578	248,636	396,288
2015					
Equity - 1 July 2015	103,477	-	32,332	167,634	303,443
Net profit for the half year	-	-	-	109,335	109,335
Other comprehensive income	-	-	4,556	-	4,556
Total comprehensive income for the half year	-	-	4,556	109,335	113,891
Transactions with owners in their capacity as owners:					
Issue of securities:					
- under share purchase plan (SPP)	4,631	-	-	-	4,631
- on exercise of MFG 2016 Options	310	-	-	-	310
- transaction costs arising on share issue	(10)	-	-	-	(10)
Dividends paid	-	-	-	(60,584)	(60,584)
SPP expense for the half year	104	-	-	-	104
Total transactions with equity holders in their capacity as equity owners	5,035	-	-	(60,584)	(55,549)
Equity - 31 December 2015	108,512	-	36,888	216,385	361,785

The Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes to the Financial Statements.

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS for the half year ended 31 December 2016

	Note	Consolidated Entity	
		31 Dec	31 Dec
		2016	2015
		\$'000	\$'000
Cash flows from operating activities			
Management and services fees received		136,534	124,387
Performance fees received		2,330	16,351
Interest received		726	757
Dividends and distributions received		394	160
Tax paid		(31,320)	(39,509)
Payments to suppliers and employees (inclusive of GST)		(46,207)	(38,318)
Net cash inflows/(outflows) from operating activities		62,457	63,828
Cash flows from investing activities			
Proceeds from sale of available-for-sale financial assets		8,003	1,841
Purchase of available-for-sale financial assets		(15,188)	(16,958)
Net matured term deposits classified as loans and receivables		1,419	-
Net cash flows from foreign exchange transactions		4	86
Payments for property, plant and equipment		(341)	(123)
Net cash inflows/(outflows) from investing activities		(6,103)	(15,154)
Cash flows from financing activities			
Proceeds from issue of securities		1,978	1,283
Proceeds from repayment of share purchase plan loans		1,676	832
Dividends paid	4 (a)	(61,030)	(60,159)
Net cash inflows/(outflows) from financing activities		(57,376)	(58,044)
Net increase / (decrease) in cash and cash equivalents		(1,022)	(9,370)
Effects of exchange rate movements on cash and cash equivalents		324	632
Cash and cash equivalents at the beginning of the half year		120,362	93,934
Cash and cash equivalents at the end of the half year		119,664	85,196

The Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes to the Financial Statements.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2016

1. Summary of Significant Accounting Policies

This condensed interim financial report is for Magellan Financial Group Limited (the "Company") and its controlled entities (the "Group") for the six months ended 31 December 2016.

The Company is a for-profit entity limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded.

a) Basis of Preparation

The condensed interim report for the six months ended 31 December 2016 is a general purpose financial report and has been prepared in accordance with AASB 134: *Interim Financial Reporting*, the *Corporations Act 2001* and other mandatory professional reporting requirements. It is presented in Australian dollars (\$) and was approved by the Board of Directors on 16 February 2017. The Directors have the power to amend and reissue the financial report.

This condensed interim financial report does not include all the information and disclosures normally included in the annual financial report. Accordingly, this report should be read in conjunction with the 30 June 2016 Annual Report and any public announcements made in respect of the Group during the half year ended 31 December 2016 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

b) Changes in Accounting Policy, Accounting Standards and Interpretations

i) New and Amended Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. None of the standards and amendments which became mandatory for the first time in the interim reporting period commencing 1 July 2016 resulted in any adjustments to the amounts recognised in the financial statements or disclosures.

ii) Accounting Standards and Interpretations Issued But Not Yet Effective

The Australian and International Accounting Standards issued but not yet mandatory for the 31 December 2016 interim reporting period have not been adopted by the Group in the preparation of this interim financial report. An assessment of the impact of the new standards and interpretations which may have a material impact on the Group is set out below:

- **AASB 9: Financial Instruments (AASB 9) (effective 1 July 2018)**

AASB 9 contains new requirements for the classification, measurement and de-recognition of financial assets and liabilities, replacing the recognition and measurement requirements in AASB 139 *Financial Instruments: Recognition and Measurement*. Under the new requirements the four current categories of financial assets will be replaced with two measurement categories: fair value and amortised cost, and financial assets will only be measured at amortised cost where very specific conditions are met. Equity securities are measured at fair value through profit or loss unless an election is made at initial recognition, to present fair value changes in other comprehensive income. This option is irrevocable and applies only to equity instruments which are not held for trading. Gains and losses in other comprehensive income are not recycled on disposal of the securities, however the cumulative gain or loss may be transferred within equity.

AASB 9 was revised in December 2014 to include new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. It also introduced a new expected-loss impairment model that requires credit losses to be recognised when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

At 31 December 2016, the Group continues to evaluate the classification, measurement and disclosure requirements of this standard, the financial and disclosure impacts of which are yet to be determined. Further information will be provided in future financial reports as management finalises its assessment. The adoption of the standard is however expected to result in a change in the presentation of fair value movements within the Consolidated Statement of Profit or Loss and Consolidated Statement of Other Comprehensive Income and may also impact the required disclosure in the notes to the financial statements.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2016

1. Summary of Significant Accounting Policies (continued)

b) Changes in Accounting Policy, Accounting Standards and Interpretations (continued)

ii) Accounting Standards and Interpretations Issued But Not Yet Effective (continued)

• AASB 15: Revenue from Contracts with Customers (effective 1 July 2018) (AASB 15)

AASB 15 supercedes the revenue recognition guidance in AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related interpretations. Although AASB 15 is principles-based, it is a significant change from the current revenue requirements and will involve more judgements and estimates. The core principle in AASB 15 is that an entity recognises revenue at an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange for selling goods or services to customers. AASB 15 has also introduced specific criteria for determining whether to capitalise certain costs, distinguishing between those costs associated with obtaining a contract (eg sales commissions) and those costs associated with fulfilling a contract.

At 31 December 2016, the Group does not anticipate there will be any material change to the timing or manner of recognition for management, services or performance fees as these fees are currently recognised as revenue when it is highly probable that a significant reversal in the amount would not occur and the revenue recognition for interest income is unaffected as it is excluded from AASB 15. However the recognition basis relating to the US marketing/consulting fee expense may change as it may be required to be capitalised and amortised over the life of the relevant investment management agreements. Capitalisation is only permitted when the costs are expected to be recovered. As a result, the Group continues to analyse the treatment of the marketing/consulting fee expense and the extent of information required to meet the additional disclosures required under AASB 15, so as to understand the extent of impact on the Group's systems, processes and controls. Further information will be provided in future financial reports as management finalises its assessment.

• AASB 16: Leases (effective 1 July 2019) (AASB 16)

AASB 16 supercedes the lease accounting guidance in AASB 117 *Leases* and related interpretations. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. The definition is based on the premise of control, where a lease is identified when a customer has the right to (1) obtain substantially all of the economic benefits from the use of the identified asset; and (2) direct the use of the identified asset.

AASB 16 will provide a single model for accounting for leases by lessees. Leases other than low value and short-term leases must be recognised on the balance sheet of lessees. The lessee will recognise an asset, reflecting its right to use the underlying asset, and a liability, in respect of its obligation to make lease payments. Expenses in respect of leases will include amortisation of the right-of-use asset and interest expense in respect of the lease liability.

At 31 December 2016, the Group continues to evaluate the recognition and disclosure requirements of this standard, the financial and disclosure impacts of which are yet to be determined with the choice of transition yet to be decided. Further information will be provided in future financial reports as management finalises its assessment.

c) Rounding of Amounts

The Group is of a kind referred to in the *Australian Securities & Investments Commission's Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that Legislative Instrument, or in certain cases, the nearest dollar.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the half year ended 31 December 2016

1. Summary of Significant Accounting Policies (continued)

d) Critical Accounting Estimates and Judgements

The preparation of the financial statements requires the Directors to make judgements, estimates and assumptions that affect the amounts reported in the interim financial statements. The Directors base their judgements and estimates on historical experience and various other factors they believe to be reasonable under the circumstances, but which are inherently uncertain and unpredictable, the result of which forms the basis of the carrying values of assets and liabilities. As such, actual results could differ from estimates.

The main areas where a higher degree of judgement or complexity arises or where assumptions and estimates are significant to the Group's financial statements are:

- those set out in note 1(y) of the Group's financial statements for the year ended 30 June 2016 in relation to the valuation of unlisted investments. The valuation techniques used, which involve estimates, are discussed in detail at note 8 of this report and 19(h) of the 30 June 2016 Annual Report. Apart from the above and as the Company's cash and cash equivalents are provided by highly rated financial institutions, none of the other assets or liabilities are subject to significant judgement or complexity; and
- income tax expense and related balances - Offshore Banking Unit: Magellan Asset Management Limited is an Offshore Banking Unit (OBU) which is subject to a concessional tax rate of 10% on certain income and expenses. For further details on the OBU refer to note 1(h) in the Group's financial statements for the year ended 30 June 2016.

In the Group's interim financial statements, the income tax expense and related balances have been estimated using the Group's composition of assessable OB income over adjusted total assessable income for the half year ended 31 December 2016. This composition may however change and therefore only the Group's actual assessable OB income over adjusted total assessable income for the full financial year ended 30 June can be used to determine the Group's effective income tax rate. Any change in the composition of assessable income will result in either a higher or lower general OB deduction for the full financial year ending 30 June 2017 and therefore change the Group's reported effective tax rate at 31 December 2016 (refer note 5).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the half year ended 31 December 2016

2. Segment Information

The Group's business activities are organised into the following reportable operating segments for internal management purposes:

Funds Management

The funds management activities of the Group are undertaken by the controlled entities Magellan Asset Management Limited (MAM) and MFG Services LLC (MFGS). For further details on these entities refer to note 9 (a).

The funds management activities undertaken by MAM, comprise acting as:

- Responsible Entity and Investment Manager for the following managed investment schemes offered primarily to Australian and New Zealand investors (collectively, the Unlisted Magellan Funds):
 - Magellan Global Fund
 - Magellan Global Fund (Hedged)
 - Magellan Infrastructure Fund
 - Magellan Infrastructure Fund (Unhedged); and
 - Magellan High Conviction Fund;
- Responsible Entity and Investment Manager for Magellan Global Equities Fund (MGE), Magellan Global Equities Fund (Currency Hedged) (MHG) and Magellan Infrastructure Fund (Currency Hedged) (MICH) which are registered managed investment schemes quoted on the Australian Securities Exchange (ASX) under the AQUA rules, and offered primarily to Australian investors (collectively, the ASX Quoted Funds);
- Trustee and Investment Manager for the Magellan Core Infrastructure Fund (MCIF), which is an unregistered managed investment scheme offered to Australian wholesale investors;
- Investment Manager for the MFG Global Fund and MFG Select Infrastructure Fund, funds authorised under the European Communities (Undertakings for Collective Investment in Transferable Securities (UCITS)) and offered to global institutional clients;
- Sub-adviser to the Frontier MFG Global Equity Fund, Frontier MFG Global Plus Fund and the Frontier MFG Core Infrastructure Fund, which are offered to wholesale investors in the United States (collectively, the Frontier MFG Funds);
- Investment research and administrative services provider to MFF Capital Investments Limited (MFF), and investment research provider to a mandate; and
- Investment Manager or Sub-adviser to other external wholesale client mandates.

MFGS acts as a service company providing MAM with services of investment analysts and distribution personnel based in the United States of America. MFGS employs US based personnel and is the lessee of US premises.

Current tax liabilities and deferred tax assets/liabilities that arise from the operations of the Funds Management business are based on the relevant tax rate and included within the Corporate segment. Non-Executive Director fees relating to the MAM Board are included in the Funds Management segment.

Principal Investments

The principal investment portfolio is comprised of the Company's investments in the ASX Quoted Funds, the Unlisted Magellan Funds, the Frontier MFG Funds, a select portfolio comprising Australian and international listed companies, cash, other investments and net deferred tax assets/liabilities arising from changes in fair value of these investments. Investments in ASX Quoted Funds and Unlisted Magellan Funds may comprise a controlled fund or associate, usually arising where the Group has initially provided seed capital for the fund.

Corporate

The corporate segment includes interest income on the Company's Share Purchase Plan (SPP) loans and cash (including term deposits), corporate costs including Non-Executive Director fees relating to the MFG Board and Committees, all current tax liabilities and deferred tax assets/liabilities excluding those arising from changes in the fair value of financial assets which are shown in Principal Investments.

No operating segments have been aggregated to form the above reportable operating segments and inter-segment revenues and expenses (where applicable) have been eliminated on consolidation.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2016

2. Segment Information (continued)

(a) Segment financial results

The operating results of the Group's operating segments, excluding income tax expense, are as follows:

	Consolidated Entity			
	Funds Management (A)	Principal Investments	Corporate	Total
	\$'000	\$'000	\$'000	\$'000
31 December 2016				
Revenue				
Management fees	141,817	-	-	141,817
Performance fees	3,592	-	-	3,592
Services fees	4,300	-	-	4,300
Interest income	212	25	714	951
Dividend and distribution income	-	280	-	280
Net gain/(loss) on sale of available-for-sale financial assets	-	2,262	-	2,262
Net foreign exchange gain/(loss)	250	68	-	318
Total revenue	150,171	2,635	714	153,520
Expenses				
Employee expense	23,348	-	8	23,356
Employee expense - SPP	123	-	22	145
Non-Executive Director fees	100	-	69	169
Other expenses	16,169	72	494	16,735
Total expenses	39,740	72	593	40,405
Operating profit before income tax expense	110,431	2,563	121	113,115
Other comprehensive income				
Net changes in fair value of available-for-sale financial assets	-	18,324	-	18,324
Net (gain)/loss on sale of available-for-sale financial assets	-	(2,262)	-	(2,262)
Exchange differences on translation of foreign operations	14	-	-	14
Other comprehensive income for the half year, before tax	14	16,062	-	16,076
Total comprehensive income for the half year, before tax	110,445	18,625	121	129,191
	Funds Management	Principal Investments	Corporate	Consolidated Entity
	\$'000	\$'000	\$'000	\$'000
31 December 2015				
Revenue				
Management fees	128,295	-	-	128,295
Performance fees	42,815	-	-	42,815
Services fees	4,357	-	-	4,357
Interest income	211	21	790	1,022
Dividend and distribution income	-	339	-	339
Net gain/(loss) on sale of available-for-sale financial assets	-	644	-	644
Net foreign exchange gain/(loss)	622	108	-	730
Group's share of MGE's net profit while MGE was an associate	-	3,961	-	3,961
Total revenue	176,300	5,073	790	182,163
Expenses				
Employee expense	21,457	-	6	21,463
Employee expense - SPP	85	-	19	104
Non-Executive Director fees	75	-	53	128
Other expenses	15,538	42	626	16,206
Net loss on deemed disposal of interest in associate - MGE, transferred from the Consolidated Statement of Other Comprehensive Income	-	1,296	-	1,296
Total expenses	37,155	1,338	704	39,197
Operating profit before income tax expense	139,145	3,735	86	142,966
Other comprehensive income				
Net changes in fair value of available-for-sale financial assets	-	6,645	-	6,645
Net (gain)/loss on sale of available-for-sale financial assets	-	(644)	-	(644)
Net loss on deemed disposal of interest in associate - MGE	-	1,296	-	1,296
Other comprehensive income for the half year, before tax	-	7,297	-	7,297
Total comprehensive income for the half year, before tax	139,145	11,032	86	150,263

(A) Includes elimination of \$2,864,000 income and \$2,864,000 expense under the transfer pricing agreement between MAM and MFGS within the Funds Management segment.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2016

2. Segment Information (continued)

(b) Segment assets and liabilities

The assets and liabilities of the Group's segments are as follows:

	Consolidated Entity			
	Funds Management (A)	Principal Investments	Corporate	Total
	\$'000	\$'000	\$'000	\$'000
31 December 2016				
Cash and cash equivalents ^(A)	27,209	2,601	89,854	119,664
Financial assets	308	242,470	-	242,778
Receivables and other assets	53,889	50	214	54,153
Loans - SPP	-	-	10,223	10,223
Total assets	81,406	245,121	100,291	426,818
Payables & provisions	17,199	5	126	17,330
Tax liabilities	-	16,084	(2,884)	13,200
Total liabilities	17,199	16,089	(2,758)	30,530
Net assets	64,207	229,032	103,049	396,288
30 June 2016				
Cash and cash equivalents	33,224	2,265	84,873	120,362
Financial assets	1,719	206,221	-	207,940
Receivables and other assets	42,984	10,957	1,123	55,064
Loans - SPP	-	-	9,013	9,013
Total assets	77,927	219,443	95,009	392,379
Payables and provisions	22,607	7	107	22,721
Tax liabilities	-	11,268	3,021	14,289
Total liabilities	22,607	11,275	3,128	37,010
Net assets	55,320	208,168	91,881	355,369

^(A) The Funds Management segment maintains a minimum of \$20,000,000 in liquid assets (including cash and cash equivalents to meet regulatory and operating requirements) (June 2016: \$20,000,000).

At 31 December 2016, MFG's net investment in the funds management business activities was \$13,204,000 (June 2016: \$13,204,000), with \$12,500,000 capital invested in Magellan Asset Management Limited and \$704,000 capital invested in MFG Services LLC. Both entities are controlled by MFG. Refer to note 9(a) for further details.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2016

3. Earnings Per Share (EPS)

	Consolidated Entity	
	31 Dec 2016	31 Dec 2015
Basic EPS		
Net profit attributable to shareholders (\$'000)	87,048	109,335
Weighted average number of shares for basic EPS ('000)	163,839	160,488
Basic EPS (cents)	53.1	68.1
Diluted EPS		
Net profit attributable to shareholders (\$'000)	87,048	109,335
Weighted average number of shares for diluted EPS ('000)	171,904	171,644
Diluted EPS (cents)	50.6	63.7
Reconciliation of earnings used in calculating EPS		
Net profit after income tax expense used in the calculation of basic and diluted EPS (\$'000)	87,048	109,335

Weighted average number of securities

The reconciliation of the weighted average number of shares on a fully diluted basis used to calculate diluted EPS is below:

Weighted average number of ordinary shares on issue used in calculating basic EPS ('000)	163,839	160,488
Add adjustments:		
- equivalent number of unexercised MFG 2016 Options ^(A)	-	869
- equivalent number of MFG Class B Shares ^(B)	8,065	10,287
Weighted average number of shares used in calculating diluted EPS ('000)	171,904	171,644

^(A) For the prior comparative half year ended 31 December 2015, the MFG share price was above the MFG 2016 Options exercise price. The MFG 2016 Options were considered to be potential ordinary shares for the purposes of the diluted EPS calculation and have been included in the determination of diluted EPS to the extent they are dilutive. There were no unexercised options during the half year ended 31 December 2016.

^(B) The MFG Class B Shares are considered to be potential ordinary shares for the purposes of the diluted EPS calculation and have been included in the determination of diluted EPS to the extent they were dilutive. Refer to Note 10 for further information in respect to the MFG Class B shares. The equivalent number of MFG Class B Shares for the purposes of calculating the diluted EPS has been determined as the weighted average number of ordinary shares into which the MFG Class B Shares would convert, applying a conversion factor of 0.0637028, and assuming for the prior half year ended 31 December 2015 932,725 MFG 2016 Options had been exercised at 1 January 2016.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2016

4. Dividends

(a) Dividends declared and paid during the half year

	Consolidated Entity	
	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Fully franked final dividend for the year ended 30 June 2016: - 38.0 cents per ordinary share: paid 26 August 2016	61,401	-
Fully franked final dividend for the year ended 30 June 2015: - 37.8 cents per ordinary share: paid 26 August 2015	-	60,584
Total dividends declared and paid during the half year	61,401	60,584

The final dividend of \$61,401,000 paid on 26 August 2016 (December 2015: \$60,584,000 paid on 26 August 2015) included an amount of \$371,000 (December 2015: \$425,000) relating to the dividend entitlement of share purchase plan (SPP) holders. This amount was not paid in cash but rather applied directly against the holders' SPP loan balances.

(b) Dividend proposed

On 16 February 2017, the Directors declared a fully franked interim dividend of 38.4 cents per share in respect of the half year ended 31 December 2016 (December 2015: 51.3 cents per share). The amount of the interim dividend expected to be paid on 2 March 2017, but not recognised as a liability, is approximately \$66,077,000 (December 2015: interim dividend of \$82,418,000).

(c) Imputation credits

The balance of the imputation credit account at 31 December 2016 is as follows:

	Consolidated Entity	
	31 Dec 2016 \$'000	30 June 2016 \$'000
Imputation credits		
Imputation credits at reporting date	39,674	35,099
Imputation credits that will arise from payment of income tax payable	5,712	4,925
Total imputation credits available for subsequent reporting periods based on a tax rate of 30% (June 2016: 30%)	45,386	40,024

The payment of the interim dividend declared by the Directors on 16 February 2017 will reduce the imputation credit account balance shown above by approximately \$28,319,000.

5. Income Tax

The Group's estimated effective tax rate was 23.0%, which includes taxes paid net of tax credits in foreign jurisdictions, for the half year ended 31 December 2016 (31 December 2015: 23.5%). This is below the Australian company tax rate of 30% primarily as a result of the qualifying offshore banking (OB) income, net of costs, of Magellan Asset Management Limited (MAM) attracting a concessional tax rate of 10% given its OBU status, and any foreign income tax offsets. For the six months to 31 December 2016, the effect of the concessional tax rate of 10% was \$7,008,000 (December 2015: \$8,609,000) which was the primary reason the Group's income tax expense for the half year ended 31 December 2016 being reduced to \$26,067,000 (December 2015: \$33,631,000).

The effective tax rate for the full financial year ending 30 June 2017 may change as it depends upon the composition of qualifying OB income of the OBU. Refer to note 1(d) for further detail on the factors that may affect the Group's effective tax rate.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2016

6. Revenue

(a) Management fees

The management fees received/receivable during the half year were:

	Consolidated Entity	
	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Magellan Global Fund	53,941	52,085
Magellan Global Equities Fund	4,357	2,193
Magellan Global Fund (Hedged)	2,244	1,304
Magellan Global Equities Fund (Currency Hedged)	253	91
Magellan Infrastructure Fund	4,818	3,824
Magellan Infrastructure Fund (Unhedged)	2,646	1,277
Magellan Infrastructure Fund (Currency Hedged) ^(A)	149	-
Magellan High Conviction Fund	2,171	2,028
Magellan Core Infrastructure Fund	477	444
MFG Global Fund	7,576	7,004
Frontier MFG Funds	4,812	4,981
Other mandates	58,373	53,064
Total management fees for the half year	141,817	128,295

(b) Performance fees

During the half year ended 31 December 2016, performance fees were also earned on the following funds and mandates as the total shareholder return, market index and/or relative hurdles were met:

	Consolidated Entity	
	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Magellan Global Fund	35	23,354
Magellan Global Equities Fund	1	794
Magellan Global Fund (Hedged)	22	5
Magellan Infrastructure Fund	-	3,566
Magellan Infrastructure Fund (Unhedged)	-	1,687
Magellan High Conviction Fund	1,361	16
Other funds and mandates	2,173	13,393
Total performance fees for the half year	3,592	42,815

(c) Services fees

Services fees arise from providing investment research and administrative services to MFF Capital Investors Limited and research services under a mandate.

(A) This fund was registered on 31 May 2016 and commenced trading on the ASX on 22 July 2016.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2016

6. Revenue (continued)

(d) Management, services and performance fees by geographic location

The geographical breakdown of the management, services and performance fees is as follows:

	Consolidated Entity	
	31 Dec	31 Dec
	2016	2015
	\$'000	\$'000
Australia	96,180	117,911
United Kingdom & Ireland	27,089	30,026
United States	20,795	20,394
Canada	2,634	2,989
Asia	3,011	4,147
Total management, services and performance fees	149,709	175,467

(e) Management, services and performance fees by investor type

The breakdown of the management, services and performance fees by type of investor across the global equities and global listed infrastructure strategies is as follows:

	Consolidated Entity	
	31 Dec	31 Dec
	2016	2015
	\$'000	\$'000
Management and services fees		
- Retail	83,523	72,430
- Institutional	62,594	60,222
Performance fees		
- Retail	3,420	32,982
- Institutional	172	9,833
Total management, services and performance fees	149,709	175,467
Total Retail	86,943	105,412
Total Institutional	62,766	70,055
Total management, services and performance fees	149,709	175,467

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2016

7. Financial Assets

	Consolidated Entity	
	31 Dec 2016 \$'000	30 June 2016 \$'000
Current		
(i) Financial assets classified as loans and receivables		
Term deposits ^(A)	308	1,719
Total current financial assets	308	1,719
Non-Current		
(ii) Available-for-sale financial assets		
Investments in listed shares (by domicile of primary stock exchange)		
- United States	13,149	9,471
- United Kingdom	484	764
- Australia	96	300
- France	487	437
- Switzerland	1,071	634
- Netherlands	17	-
- Germany	20	-
Investments in ASX Quoted funds		
- Magellan Global Equities Fund ^(B)	54,785	49,273
- Magellan Global Equities Fund (Currency Hedged) ^(C)	15,434	13,800
- Magellan Infrastructure Fund (Currency Hedged) ^(D)	9,680	-
Total listed/quoted investments	95,223	74,679
Investments in unlisted funds		
- Magellan Global Fund	100,073	84,210
- Magellan Global Fund (Hedged)	678	620
- Magellan Infrastructure Fund	-	2,932
- Magellan Infrastructure Fund (Unhedged)	-	2,472
- Magellan High Conviction Fund	27,755	23,440
- Magellan Wholesale Plus Global Fund	6,078	5,531
- Frontier MFG Core Infrastructure Fund	5,343	5,615
- Frontier MFG Global Plus Fund	7,064	6,466
- Other	81	81
Investments in unlisted shares		
- Other	175	175
Total unlisted investments	147,247	131,542
Total non-current financial assets	242,470	206,221

(A) Comprises term deposits of \$308,000 (June 2016: \$1,719,000) which are held with major Australian and US banks pledged against bank guarantees in respect of the Group's future lease obligations. In the event that the Group does not meet its lease payments, the banks have the right to apply the deposits in settlement of the amount paid by the banks under the guarantees.

(B) MFG seeded the fund on 2 March 2015 with a \$50,000,000 investment. This fund commenced trading on the ASX on 5 March 2015. The investment is accounted for as an available-for-sale asset. Refer to note 9(c) for further details.

(C) MFG seeded the fund on 4 August 2015 with a \$15,000,000 investment. This fund commenced trading on the ASX on 10 August 2015. The investment is accounted for as an available-for-sale asset. Refer to note 9(b) and note 9(c) for further details.

(D) MFG seeded the fund on 19 July 2016 with a \$10,000,000 investment. This fund commenced trading on the ASX on 22 July 2016. The investment is accounted for as an available-for-sale asset. Refer to note 9(c) for further details.

(E) At 31 December 2016 the Group held the following investments: Magellan Global Fund 1.2% (June 2016: 1.2%), Magellan Global Fund (Hedged) 0.2% (June 2016: 0.2%), Magellan Infrastructure Fund nil (June 2016: 0.3%), Magellan Infrastructure Fund (Unhedged) nil (June 2016: 0.6%), Magellan High Conviction Fund 9.3% (June 2016: 9.1%), Magellan Wholesale Plus Global Fund 1.3% (June 2016: 4.2%), Frontier MFG Core Infrastructure Fund 2.2% (June 2016: 2.0%), Frontier MFG Global Plus Fund 6.0% (June 2016: 14.9%).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2016

7. Financial Assets (continued)

Reconciliation

The movement in the carrying value of Group's financial assets is as follows:

	Consolidated Entity	
	31 Dec 2016 \$'000	30 June 2016 \$'000
Current		
Opening balance at 1 July	1,719	349
Cash placed on term deposit	173	1,584
Matured term deposits	(1,584)	(214)
Closing balance	308	1,719
Non-current		
Opening balance at 1 July	206,221	139,498
Acquisitions ^(A)	25,919	84,885
Disposals	(5,732)	(2,382)
Net changes in fair values of investments	16,062	(15,780)
Closing balance	242,470	206,221

(A) The 30 June 2016 balance includes a reclassification to financial assets of the holding in MGE at Fair Value (\$54,106,000) from Investment in Associate upon loss of significant influence on 12 August 2015.

8. Fair Value Measurements

The Group classifies the fair value measurements of financial assets and financial liabilities using the three level fair value hierarchy set out below, to reflect the source of valuation inputs used when determining the fair value:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. The fair value of these investments is based on the closing bid price for the security as quoted on the relevant exchange.
- Level 2: valuation techniques using market observable inputs either directly or indirectly. The Group invests in unlisted funds which in turn invest in liquid securities quoted on major stock exchanges. The fair value is estimated using the redemption price provided by the unlisted fund.
- Level 3: valuation techniques using non-market observable inputs. The Group invests in unlisted funds which typically invest in unlisted entities, and has an investment in an unlisted company. The fair value is based on a Directors' valuation.

The table below presents the fair value measurement hierarchy of the Group's financial assets:

	Note	Consolidated Entity	
		31 Dec 2016 \$'000	30 June 2016 \$'000
Assets measured at fair value			
Available-for-sale financial assets			
- Level 1: listed shares and ASX Quoted units		95,223	74,679
- Level 2: unlisted funds - Magellan and Frontier MFG Funds	(i)	146,991	131,286
- Level 3: unlisted funds - other	(ii)	81	81
- Level 3: unlisted shares - other	(iii)	175	175
Total financial assets		242,470	206,221

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2016

8. Fair Value Measurements (continued)

(i) Unlisted funds – Magellan and Frontier MFG Funds

The fair value of investments in the Magellan Unlisted Funds operated by the Group and the Frontier MFG Funds is determined with reference to the redemption price at reporting date. They are categorised as Level 2 in the fair value hierarchy on the basis that the inputs into the redemption unit price are directly observable from published price quotations.

(ii) Unlisted funds – Other

Investments in Unlisted funds – Other comprise an investment in a single private equity fund. As there is no active market for these units, the fair value is a Directors' valuation that is determined with reference to the unit price of the fund. A discount is applied to the fund's redemption unit price, as determined by the fund's investment manager, to reflect the illiquidity of the units. The Directors believe the estimated fair value, based on other unlisted fund's valuation undertaken by that fund's investment manager and the discount assumptions applied, is reasonable and appropriate.

(iii) Unlisted shares - Other

Investments in Unlisted shares – Other comprises a shareholding in an unlisted funds management business. As there is no active market for the shares, the Directors have valued this investment at cost after giving consideration to that company's most current unaudited net asset position.

There were no transfers between any of the three levels in the hierarchy during the half year ended 31 December and full year ended 30 June, and the Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of each reporting period.

The reconciliation of the fair value movements within level 3 is shown below:

	Consolidated Entity	
	31 Dec 2016 \$'000	30 June 2016 \$'000
Opening balance - 1 July	256	340
Net changes in fair value	-	(84)
Closing balance	256	256

The fair values of all other financial assets and liabilities approximate their carrying values in the Consolidated Statement of Financial Position.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2016

9. Controlled Entities and Interests in Other Entities

(a) Controlled Entities

The Group's controlled entities are set out below:

Name of entity	Country of incorporation and principal place of business	Ownership interest	
		31 Dec 2016	30 June 2016
Magellan Asset Management Limited	Australia	100%	100%
Magellan Capital Partners Pty Limited	Australia	100%	100%
MFG Services LLC	United States of America	100%	100%

Magellan Asset Management Limited (MAM) and Magellan Capital Partners Pty Limited have share capital consisting solely of ordinary shares that are held directly by Magellan Financial Group Limited (MFG), and the proportion of ownership interests held equals the voting right held by MFG. The country of incorporation is also the principal place of business.

MFG Services LLC (MFGS), a Delaware limited liability company, was formed on 3 August 2015. MFGS is a service company operating in the United States of America and provides MAM with investment research and distribution services. MFGS has share capital consisting solely of one common interest that is held directly by MFG, and its proportion of ownership of MFGS equals the voting right held by MFG.

Transactions between MFGS and MAM are subject to transfer pricing arrangements. Transfer pricing is determined on a cost plus basis.

(b) Investment in Associate

At 30 June 2015, the Group had a 24.3% interest in Magellan Global Equities Fund (MGE), which is a fund quoted on the ASX under the AQUA Rules, and was accounted for as an associate in the consolidated financial statements.

The Group's investment in MGE was classified as an associate until 12 August 2015. On 12 August 2015, the Group no longer had significant influence over MGE at which point the investment ceased being accounted for as an associate and was classified as an available-for-sale asset. At 31 December 2016, the Group had a 7.6% (30 June 2016: 8.9%) interest in MGE (refer to Note 7 for further details).

During the period of 1 July 2015 to 12 August 2015, when MGE was classified as an associate, the Group recognised a gain of \$3,961,000 in the Consolidated Statement of Profit or Loss representing the Group's share of the associate's net profit for that period. Due to the deemed disposal of the interest in MGE as an associate on 12 August 2015, the Group transferred a loss of \$1,296,000 to the Consolidated Statement of Profit or Loss from the Consolidated Statement of Other Comprehensive Income relating to the prior financial year. This loss of significant influence has been accounted for in accordance with note 1 (b) iv) in the Group's 30 June 2016 Annual Report.

(c) Interests in Other Entities

The Group's investments in other entities are set out in note 7.

During the half year ended 31 December 2016, Magellan Infrastructure Fund (Currency Hedged) was seeded by the Group with \$10,000,000 on 19 July 2016. This fund commenced trading on the ASX on 22 July 2016. At 31 December 2016, the Group had a 20.7% (30 June 2016: nil) interest in MICH.

During the prior half year ended 31 December 2015, Magellan Global Equities Fund (Currency Hedged) was seeded by the Group with \$15,000,000 on 4 August 2015. This fund commenced trading on the ASX on 10 August 2015. At 31 December 2016, the Group had a 33.7% (30 June 2016: 48.1%) interest in MHG.

The Group has classified these investments as an available-for-sale asset. Refer to Note 7 for details of these investments as at 31 December 2016.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2016

10. Contributed Equity

		Consolidated Entity	
		31 Dec	30 June
		2016	2016
		\$'000	\$'000
	Note		
Ordinary Shares	(a)	115,112	111,073
MFG 2016 Options	(b)	-	-
MFG Class B Shares	(c)	-	-
Total contributed equity		115,112	111,073

Consolidated Entity				
	31 Dec	30 June	31 Dec	30 June
	2016	2016	2016	2016
	Number	Number	\$'000	\$'000
	'000	'000		
(a) Ordinary Shares				
Opening balance	161,189	160,276	111,073	103,477
Shares issued on exercise of MFG 2016 Options ^(A)	391	648	-	2,745
Shares issued on conversion of MFG Class B Shares	10,305	-	-	-
Shares issued under SPP	191	265	4,004	4,631
SPP expense for the period	-	-	145	230
less: transaction costs arising on share issue	-	-	(110)	(10)
Closing balance - Ordinary Shares	172,076	161,189	115,112	111,073
(b) MFG 2016 Options				
Opening balance	-	1,050	-	-
Shares issued on exercise of MFG 2016 Options ^(A)	-	(1,039)	-	-
Expiry of MFG 2016 Options - 30 June 2016	-	(11)	-	-
Closing balance - MFG 2016 Options	-	-	-	-
(c) MFG Class B Shares				
Opening balance	10,200	10,200	-	-
MFG Class B shares converted to MFG ordinary shares	(10,200)	-	-	-
Closing balance - MFG Class B Shares	-	10,200	-	-

(A) 1,039,340 MFG 2016 Options were exercised during the 30 June 2016 year with 647,987 ordinary shares issued by 30 June 2016 and 391,353 shares relating to MFG 2016 Options exercised by 30 June 2016 and issued on 4 July 2016.

Terms and conditions

(i) Ordinary shares

Fully paid ordinary shares entitle the holder to receive dividends declared and proceeds on winding up the Company in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person, or by proxy, at a meeting of the Company.

(ii) MFG 2016 Options

The MFG 2016 Options ('Options') expired on 30 June 2016 and 10,683 Options expired unexercised. Prior to this date the Options were able to be exercised during any two month period commencing two business days following the announcement of the Group's full and half year results in each year prior to the expiry date, except for the final exercise period which commenced on the date that was two business days after the release of the results for the half year to 31 December 2015 and ended on 30 June 2016. Upon exercise of each Option, the Option holder was issued one new ordinary share in the Company.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2016

10. Contributed Equity (continued)

Terms and conditions (continued)

(ii) MFG 2016 Options (continued)

Options were not entitled to dividends or distributions. Ordinary shares issued on exercise of the Options ranked equally with all other ordinary shares from the date of issue. An ordinary share issued on exercise of an Option was only entitled to receive a dividend or distribution where the Option was exercised and the ordinary share was issued on or before the record date for that distribution. Ordinary shares issued pursuant to the exercise of an Option were not issued until after the record date for any dividend or distribution payable in respect of the half year period immediately prior to the exercise period during which that option was exercised. The holder of an Option could only participate in new issues of the Company if the holder exercised that option and became the holder of ordinary shares on or prior to the record date for the new issue of ordinary shares.

(iii) MFG Class B shares

10,200,000 MFG Class B shares held by Mr Douglass were converted to 10,305,277 MFG Ordinary shares on 22 November 2016. There were no MFG Class B shares on issue as at 31 December 2016 (30 June 2016: 10,200,000).

The MFG Class B Shares were issued to Mr Hamish Douglass with certain service conditions having been satisfied on 1 July 2012. Incorporating the effect of the in-specie distribution made to the Company's shareholders on 19 February 2013, the MFG Class B Shares converted into the number of ordinary shares equal to 0.0637028 times the number of ordinary shares of the Company on issue on 21 November 2016 (up to a maximum of 170,000,000 ordinary shares). The conversion of the MFG Class B Shares occurred on the first business day after 21 November 2016, namely 22 November 2016. The maximum number of ordinary shares that could have been issued on conversion of all MFG Class B Shares was 10,829,476. Prior to the in-specie distribution, the conversion factor was 0.06 times and the maximum number of ordinary shares that would have been issued on conversion was 10,200,000.

Based on the Company's ordinary shares on issue, the 10,200,000 MFG Class B Shares converted to 10,305,277 ordinary shares being equal to 0.0637028 times 161,771,191 securities on 22 November 2016 (comprising 161,771,191 ordinary shares on issue and nil Options). The MFG Class B Shares had no entitlement to receive dividends and until the MFG Class B Shares were converted into ordinary shares they conferred no rights to participate in any bonus issue or subscribe for new securities in the Company unless the Directors determine otherwise in accordance with the Terms of Issue of the MFG Class B Shares.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2016

11. Contingent Assets, Contingent Liabilities and Commitments

(a) Commitments

Operating lease commitments

The Group has entered into non-cancellable operating leases for its office premises in Australia (Sydney, Melbourne, Brisbane and Perth), the United States (New York and Newport Beach) and New Zealand (Auckland) and for office equipment.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	Consolidated Entity	
	31 Dec 2016 \$'000	30 June 2016 \$'000
Within one year	3,221	3,309
Later than one year but no later than five years	11,560	11,611
More than five years	13,775	15,292
Total commitments	28,556	30,212

(b) Contingent assets and contingent liabilities

At 31 December 2016, the Group has a contingent liability of \$50,000 (June 2016: \$100,000) in relation to the investment restriction contract entered into with Mr Hamish Douglass on 1 July 2012. Assuming the conditions of the contract are complied with, which requires Mr Douglass to remain in employment until 1 July 2017, the Group is required to pay Mr Douglass \$500,000 on or before 15 July 2017. At 31 December 2016, \$450,000 has been provided for in the Group's Consolidated Statement of Financial Position (June 2016: \$400,000) and as a result, the Group has a contingent liability of \$50,000 (June 2016: \$100,000).

(c) Guaranty entered into by MFG

A guaranty has been provided by MFG to the landlord of MFGS's New York office premises guaranteeing the payment and performance of MFGS's obligations under the lease (\$1,655,000 of lease commitments as at 31 December 2016, 30 June 2016: \$1,873,000).

The Group has no material contingent assets as at 31 December 2016 (June 2016: nil).

12. Events Subsequent to Reporting Date

On 16 February 2017, the Directors declared a fully franked interim dividend of 38.4 cents per share in respect of the half year ended 31 December 2016 (refer to note 4(b) for further details).

On 6 February 2017, the Group reported on the ASX its funds under management were \$45.6 billion as at 31 January 2017.

Other than the above, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this financial report that has significantly or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future years.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' DECLARATION

In the Directors' opinion,

- a) the financial statements and notes set out on pages 15 to 36 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
 - (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving declarations from the Chief Executive Officer and Chief Financial Officer which mirror section 295A of the *Corporations Act 2001* and are recommended by the ASX Corporate Governance Principles and Recommendations.

This declaration is made in accordance with a resolution of the Directors.



Brett Cairns
Executive Chairman

Sydney, 16 February 2017



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To the members of Magellan Financial Group Limited

Report on the Interim Financial Report

We have reviewed the accompanying interim financial report of Magellan Financial Group Limited, which comprises the statement of financial position as at 31 December 2016, the statement of profit or loss, the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end.

Directors' Responsibility for the Interim Financial Report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Magellan Financial Group Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is attached to the Directors' Report.

INDEPENDENT REVIEW REPORT



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Magellan Financial Group Limited is not in accordance with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for half-year ended on that date; and
- b. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Rita Da Silva'.

Rita Da Silva
Partner
Sydney
16 February 2017

MAGELLAN FINANCIAL GROUP LIMITED

CORPORATE INFORMATION

Directors

Brett Cairns – Executive Chairman
Hamish Douglass – CEO and Chief Investment Officer
Robert Fraser
Paul Lewis
Hamish McLennan
Karen Phin

Company Secretary

Geoffrey Stirton

Registered Office

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Auditors & Taxation Advisors

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Sydney NSW 2000

Share Registrar

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Securities Exchange Listing

Australian Securities Exchange
ASX code (ordinary shares): MFG

Website

<http://www.magellangroup.com.au>

Corporate Governance Statement

The Corporate Governance Statement for MFG can be found at the Corporate Governance tab at <http://www.magellangroup.com.au>