

**Chairman's Address
to the 2017 Annual General Meeting
Thursday 12 October 2017**

Welcome everyone to the eleventh Annual General Meeting of Magellan Financial Group Limited.

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

The 2017 financial year has been an interesting, busy and we believe a very productive one for Magellan. For the year, the company earned \$1.141 per fully diluted share and paid fully franked dividends per share of \$0.856. This compares with the equivalent earnings and dividends per share of \$1.155 and \$0.893 respectively for the last financial year (Slide 1)

In our Annual Report, we discussed the fact that our earnings and dividends over the years will be impacted by the level of performance fees earned in those years, and that these fees can and will bounce around significantly.

The lumpy nature of performance fees does not detract from their value but it can cloud near term comparative analysis, which is the case this year.

When performance fees are excluded and we focus on our underlying business, which is driven by our base fees, we find our funds management earnings before tax increased by 15.5% over the year, broadly in-line with the increase in our average Funds Under Management ("FUM") over the same period.

To give you a sense for how performance fees evolve over time consider the results we have experienced in our Global Fund which has now been running for over 10 years (Slide 2).

You will notice that on average we have earned about 0.25% per annum in additional performance fees over the years, which is a testament to the value added by Hamish and his investment team over that time.

But you will also notice that this average belies periods where we have earned nothing and others where significant outperformance has been achieved.

You should expect to see this in conjunction with the management of a relatively concentrated portfolio of equities and frankly if you don't, you probably should be asking questions.

In reality, a smooth level of outperformance resulting in stable performance fees from one six-month period to the next is very unlikely to occur.

Furthermore, a value based investment approach will also tend to produce lumpy periods of outperformance over time. Making investments at prices that are considered cheap relative to assessed value is clearly attractive, particularly when that analysis is proved correct and those prices eventually adjust to reflect that value.

This adjustment process, however, rarely occurs in a smooth fashion as markets can take time to recognise value and when they do, the adjustment can be relatively swift. Outperformance, therefore, can come in bursts.

Notwithstanding the contribution of additional funds and the staggering of measurement periods will help dampen yearly performance fee volatility over time, the Board has recognised that these fluctuations can cause some concern with shareholders.

Feedback we have received related to the flow-on effect of fluctuations in overall dividends, which in turn could be misinterpreted as a lack of near term stability in the underlying business.

As such, for the sake of clarity, we have decided to split the dividend payment into two amounts – one resulting from our underlying funds management business, and the other from any performance fees from that business.

The underlying business related dividend will be paid as usual – interim and final. The performance fee component will be paid annually alongside the final dividend, which is why you received two dividend payments recently.

In this way, it will be clear in the future how dividends respond to changes in our underlying business and to earnings from performance fees.

The Board has also updated the dividend payout policy around this change.

For the underlying business component, we will continue to pay out between 75-80%, but this payout ratio will now be based off the after-tax profit of the funds management business excluding performance fees.

For the performance fees component, the Board has decided to payout between 0-100% of the after-tax performance fees earned over the year, with the actual amount paid to be decided after considering the capital requirements of the group.

We will discuss our capital management later, and as has previously been the case, the payment of any dividends is also subject to regulatory and legal requirements, and franking credit considerations.

I mentioned at the beginning that last year was both busy and productive, and also interesting. Busy and productive because much has been achieved, and interesting because of some of the opportunities that we have seen and taken.

Our team has achieved a great deal over the year as we continue to invest in our business, people, clients and their advisers.

By way of example, in March this year we held a dinner in Melbourne catering for some 2,000 advisers and their clients. This provided an opportunity for Hamish to share his thoughts on investments and a range of audience led topics.

This was a very large undertaking and our team executed it flawlessly. The feedback we received was extremely positive and as such we plan to hold a similar, probably larger, event in Sydney next year.

Our distribution and marketing team does an extraordinary job thinking about our clients and their needs.

Our investment team likewise has had a productive year of development.

Gerald Stack and his team continue to build our infrastructure business with \$8.6 billion of funds under management as at 30 September 2017. Our infrastructure Active ETF (ASX: MICH) has attracted solid support and is consistently growing having attracted some 2,300 unitholders since being launched a little over a year ago.

The global low carbon fund has also been building a solid track record under the stewardship of Dom Giuliano and a significant amount of work with

consultants and prospective clients has been undertaken. Although it is still early days, funds under management are beginning to grow.

In response to investor interest we also plan to launch this fund as an Active ETF on the ASX in the near future.

Our next generation of portfolio managers have similarly been active in managing a number of recently seeded funds.

These undertakings will take time to mature as track records develop, and of course there is no guarantee of success, but we believe these offerings are differentiated and leverage our investment processes in a very positive way.

Further, our thinking has continued to develop around how we can connect with the large and growing self-directed retail investor base.

As we discussed in the Annual Report, achieving this will take time and involve an investment in the future via a series of new initiatives. As a result, our marketing expenditure will increase materially from a level that is currently extremely modest relative to the scale of our business.

Being prepared to invest today for an appropriately considered prospect of longer-term returns is central to our firm. The recent IPO of the Magellan Global Trust (ASX: MGG) and our partnership with Cricket Australia to sponsor the domestic test series for the next few seasons, are but two examples.

We believe building and growing a broad retail presence is very important for the long-term robustness of our business, and Hamish will discuss this further shortly.

Much of the above points to the fact that our business continues to evolve and grow, and as we have mentioned previously, we believe this is very important.

Evolving and improving what we do is critical. Sitting still is unlikely to get us anywhere, and will almost certainly erode our relevance to our customers over time.

But continually evolving and improving takes deliberate energy and focus to achieve, particularly as success can breed complacency, and increased size brings complexity, which usually requires some form of bureaucracy to help manage.

There is significant value in having well developed systems and processes, especially when it comes to managing risk, and we have worked hard to ensure Magellan's are robust and adaptive.

However, the flip side of a larger overall bureaucracy is that it can choke off thinking and its inertia can become hard to shift. We end up set in our ways and our culture changes.

Maintaining the energy and culture to undertake new initiatives is therefore just as important for our clients and shareholders as it is those for who work with us.

It is important that we do not develop a fear of failure and we accept there is a risk we will make mistakes. However, it is also equally important that we do not just pursue growth for growth's sake, as unless we are serving a need, any new initiative is unlikely to be productive, and indeed could be counterproductive.

We are in the business of managing our clients' money and we are intensely focused on achieving the aims we have set out – to generate attractive investment returns over time whilst reducing the risk of a permanent capital loss.

We are mindful of managing the interplay between capacity and performance for clients and ensuring our retail business has significant room to grow. As such our global equities strategies managed by Hamish will be closed to new institutional investors by year end.

As we look to improve what we do, we also understand we are in the problem-solving business. How can we make things better for our clients? Do things better? Simplify things? Provide positive outcomes for clients that are currently not available?

Our development of the Active ETF was centered around solving the problem of providing efficient access to our funds via the ASX. We are delighted that many investors and their advisers have embraced their use.

We are also pleased that the marketplace for Active ETFs is growing with a number of investment managers launching new products. We have taken many meetings with managers over the past few years and been very open about our development of the Active ETF.

It has always been our opinion that the development of a robust market place for Active ETFs is in everyone's interests, including our own, and we welcome the inevitable new variations and improvements that will evolve over time.

In a similar vein we understand that many investors, particularly those that are self-directed, value an ASX listed closed-ended investment vehicle, and we have sought to think about possible improvements in these structures in the development of MGG.

MGG is a closed-ended investment trust which is to be listed on the ASX on 18 October 2017. MGG will invest in a portfolio of between 15-35 global equity securities and will be managed by Hamish Douglass and Stefan Marcionetti.

We elected to use a trust instead of the more common company structure to help deliver investors a cash distribution yield (targeted at 4%), a feature often missing in global equity portfolios.

Whilst these portfolios can deliver satisfactory total returns over time, they usually come with a relatively small running dividend component and a larger capital gain outcome.

The trust structure allows for better management of distributions in this context, especially during periods when capital gains are being established and are yet to be realised.

We have also recognised that some investors may wish to use MGG as part of an accumulation strategy and may therefore wish to re-invest their cash distributions.

In setting a 5% discount for this re-investment we believe it was also important to ensure that those investors who elected not to re-invest are not disadvantaged due to dilution.

As such Magellan will pay to MGG a cash amount equal to the discount to offset the dilutionary impact. This is in our interests and in the interests of our investors.

Likewise, Magellan will pay directly, in cash, all the establishment and offer costs associated with the IPO of MGG. This will ensure that investors' funds are not discounted due to cost leakage, and that their full investment is put to work from the outset.

We aim to treat all our investors, be they in our funds or our shareholders, as partners and we sought to arrange the MGG offering accordingly.

The structure of the MGG IPO involved a priority offering and a broker firm/general public offer.

The priority offer was made to our existing eligible shareholders and investors in our funds, and carried with it a loyalty bonus of 6.25%, subject to some vesting conditions. This loyalty bonus is to be paid by Magellan, not MGG.

We are extremely pleased with the very significant support MGG has received. The total offering has raised approximately \$1.57 billion, including loyalty units (Slide 3).

Of this about \$590 million was received via the broker firm/general public component, with roughly \$920 million being subscribed through the priority offer. As such, approximately \$60 million worth of loyalty units will also be issued.

Importantly we estimate the MGG register will begin with over 30,000 direct unit holders and probably another 9,000 or so indirect holders via platforms. We welcome each and every one to Magellan.

We are delighted with the very strong support MGG has received and equally pleased many of our investors and supporters have been able to take up their priority offer and its associated loyalty bonus.

It is interesting to consider from which existing holdings the priority subscriptions were received.

Although we do not have perfect visibility, we estimate that roughly 70% of priority applications came from those holding a single Magellan entity with around 30% applying from multiple holdings.

Of those applying from a single holding, broadly 60% came from Global Fund unitholders, 20% came from MFG shareholders, 15% from MGE unitholders, with the remaining 5% spread across our other funds.

We are also extremely gratified with the trust our existing investors and their advisers have shown by contributing new money towards MGG. We estimate that only around 20% of the total funds invested have been switched from our existing open-ended funds.

This effect can be seen in our Active ETF, MGE, unitholder growth – Slide 4. Pleasingly, the relatively small recent fall in unitholders seen around the period of the MGG offer is reversing as investors and their advisers continue to use MGE to diversify their portfolios.

Overall, we are extremely pleased with the results of the MGG offering.

Turning to capital management, Slide 5 summarises our balance sheet at 30 June 2017. At that point, our net assets stood at \$447 million, an increase of some \$92 million over the same time last year. Cash and liquid assets totaled \$411 million with financial assets being by and large investments in our funds.

Since 30 June 2017 there has been a payment of approximately \$82 million for the final dividend, which was funded out of reserved cash, and we have incurred costs associated with the IPO of MGG.

The main IPO costs are those associated with the broker raising and stamping fees paid, plus the cost of the loyalty units, and these total approximately \$84 million pre-tax.

These costs will be funded out of available cash.

Further, these one-off expenses will correspondingly flow through to the profit and loss statement in the 2017-18 financial year.

As part of the MGG process we took the opportunity to establish a relatively small debt facility to aid in overall liquidity management. This facility is to be sized at \$50 million and is currently undrawn.

As we discussed earlier, our dividend policy for the underlying funds management business component is to payout between 75%-80% of the after-tax profit, excluding performance fees.

The Board has decided that in considering dividends for 2017-18, the one-off costs associated with MGG will be excluded from that profit calculation.

As was also mentioned earlier, the Board has established a payout ratio for the annual performance fee dividend component of between 0%-100%. The

actual payout ratio will be determined after capital management requirements are considered.

We discussed our approach to capital management last year, and this remains unchanged. The Board considers there is significant merit for both our clients and shareholders in maintaining a strong capital base in proportion to the scale of our business.

Furthermore, we also noted that the cash generative nature of our business, combined with the current settings and constraints, has meant that some excess capital above this base level has accrued, and will likely continue to do so over time.

We talked about some of the benefits in holding excess capital, particularly as it relates to flexibility and possible optionality in the future. Our investment in MGG highlights this.

If we simply look at the base fee revenue generated by MGG at current market levels, and compare this to the investment in establishing MGG, we are earning about a 25% per annum, post tax return on that investment. This does not include the optionality of performance fees and market growth.

If we adjust for what we estimate to have been switched out of our existing open-ended funds this return becomes roughly 20% per annum post tax. We believe this is satisfactory from an opportunity cost perspective and above the 10% pre-tax through cycle return we have set on our principal investments.

These simple return calculations do not value the qualitative and strategic benefits of establishing MGG, which we believe are also significant.

Last year has indeed been busy and productive. All our team has done an outstanding job working through the myriad of issues that always arise – and we thank them wholeheartedly.

We also continue to learn a great deal.

There were a number of times during the year that upon walking into a meeting my first thought was the Justin Moore song "You Look Like I Need a

Drink”, but we managed to resolve most issues, even if it took a few iterations.

Encountering problems is inevitable and usually out of our control. How we deal with them and learn from them, however, is up to us.

When we look at our business it is clear Marcus Aurelius had some real insight all those years ago when he pointed out that it is “important to learn to be indifferent to things that make no difference”.

Focus is key.

Of course, this is not easy to maintain. In practice we all get served up a daily basket of diversified noise, and remaining clear on the things that matter can be a real challenge.

In this regard, it is important we continue to think clearly about our clients and truly understand the jobs they want our products and services to fulfil. We cannot sit still, we need to be innovative and understand what it is we are solving for, and most of all, we must continue to learn.

The late Berkeley Professor Joseph Tussman summed things up neatly. He said: “The world will do most of the work for you, provided you co-operate with it by identifying how it really works and aligning to those realities. If we do not let the world teach us, it teaches us a lesson.”

This is good advice.

Lastly, thank you to our Board and welcome to John Eales who has recently joined.

Our Board works extremely well together and brings an independence of diversified thought that is extremely valuable. Each Board member is engaged, diligent and thoughtfully considers the many issues that arise like true long-term owners of the business. This had been extremely important over the years and will continue to be so as we evolve and grow.

Thank you and I will now hand over to Hamish.

Brett Cairns
Executive Chairman

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Magellan Financial Group Limited 2017 AGM Presentation

Brett Cairns | Executive Chairman



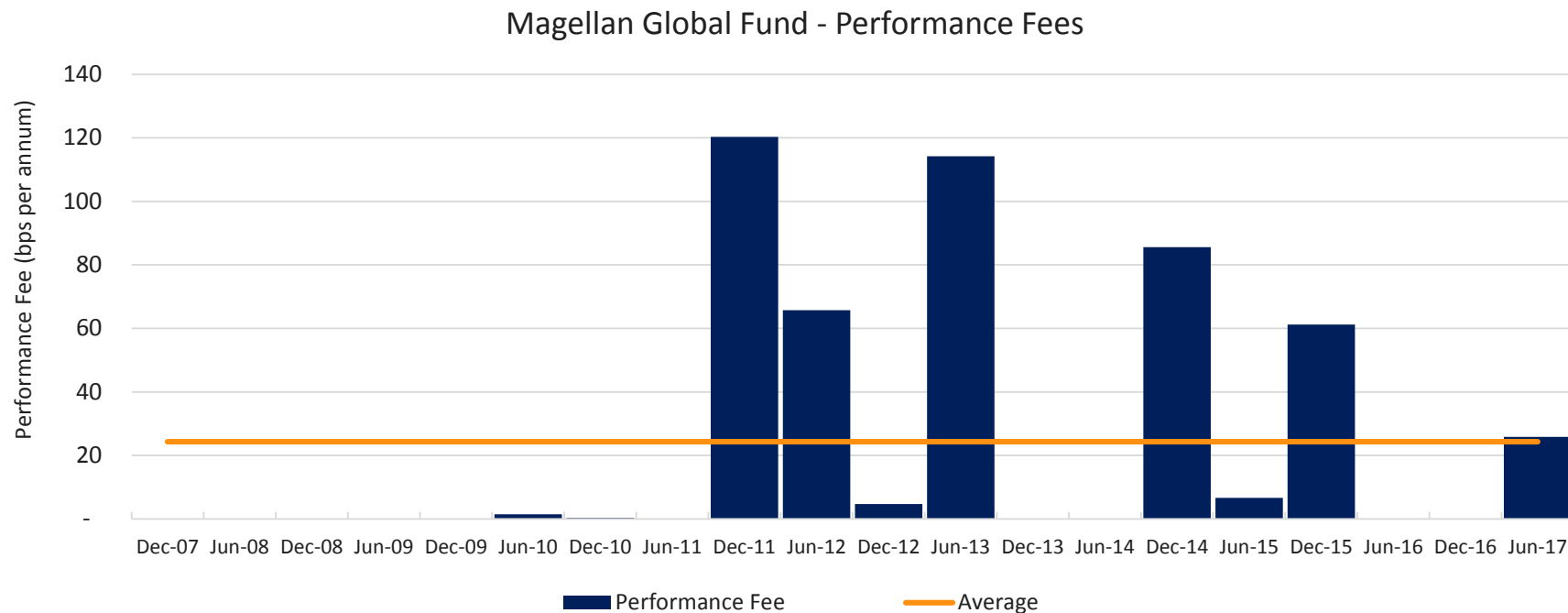
Financial Results

Slide 1

	2017	2016	% change
Diluted Earnings per Share (cents per share)	114.1	115.5	(1.2%)
Total Dividends per Share (cents per share)	85.6	89.3	(4.1%)
Funds Management profit before tax (\$ million)			
Before Performance Fees	226.8	196.4	15.5%
Net Performance Fee contribution	21.5	47.4	(54.6%)
Total	248.3	243.8	1.8%
Dividends (cents per share)			
Before Performance Fees	78.8	72.9	8.1%
Net Performance Fee contribution	6.8	16.4	(58.5%)
Total	85.6	89.3	(4.1%)
Average FUM (\$ billions)	45.67	39.44	15.8%

Performance Fees

Slide 2

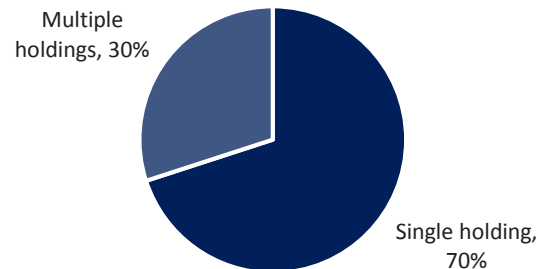


Magellan Global Trust

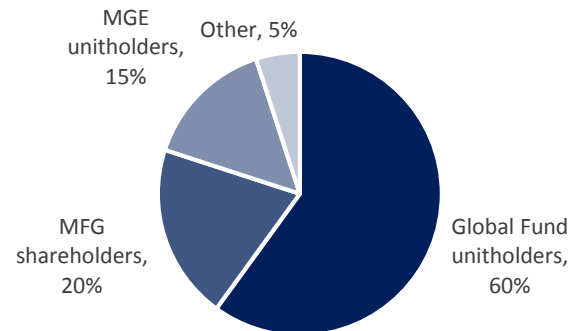
Slide 3

- Raised ~\$1.57 billion
 - Priority Offer: ~\$920 million
 - Broker Firm/General Public Offer: ~\$590 million
 - Loyalty Units: ~\$60 million
- Estimated switching of ~20% of total funds raised

Priority Offer: estimated sources from holdings



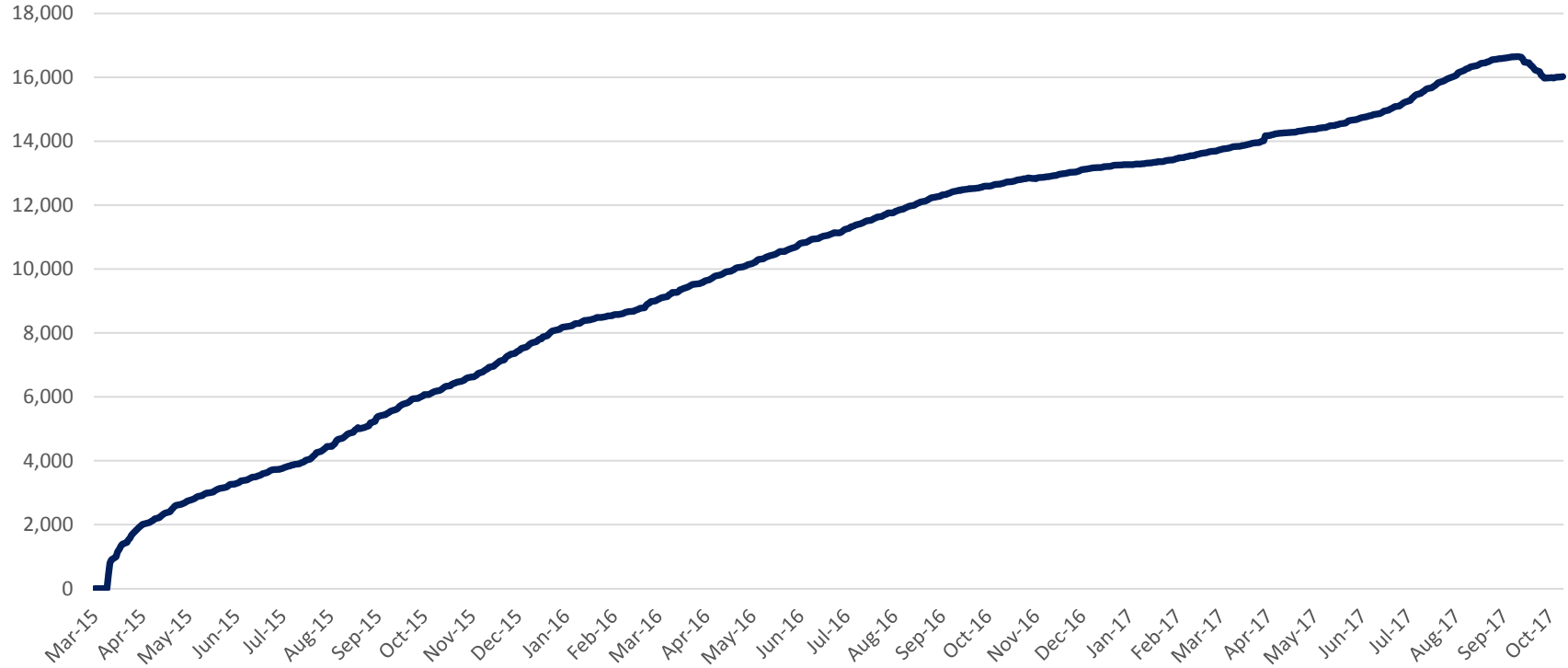
Priority Offer: estimated sources from single holdings



Magellan Global Equities Fund (MGE)

Unitholders to 10 October 2017

Slide 4



Balance Sheet

Slide 5

- Cash and liquid assets of \$411.0 million¹
- No debt - new undrawn debt facility to be sized at \$50 million
- Net assets of \$447.6 million

\$'000	30 June 2017	30 June 2016	30 June 2015
Cash and cash equivalents	146,243	120,362	93,934
Receivables	71,290	53,747	54,850
Financial assets and Investment in associate	264,888	207,940	189,692
Share purchase plan loans	9,757	9,013	7,245
Other assets	1,803	1,317	957
Total assets	493,981	392,379	346,678
Payables and provisions	24,025	22,721	15,417
Income tax payable	4,863	7,032	16,471
Deferred tax liabilities	15,651	7,257	11,347
Deferred lease incentives	1,831	-	-
Total liabilities	46,370	37,010	43,235
Net assets	447,611	355,369	303,443

¹ Calculated as cash and cash equivalents, financials assets and investment in associate less \$0.175 million of investments in unlisted shares
Source: Extracted from the Consolidated Statement of Financial Position included in Magellan Financial Group's audited financial statements