

Magellan Financial Group Limited Final Results

For the year ended 30 June 2018

Hamish Douglass | CEO & Chief Investment Officer



Magellan Financial Group Full Year Results

\$ million	30 June 2018	30 June 2017	% change
Management and services fees	385.8	307.2	26%
Performance fees	39.8	21.7	83%
Other revenue	27.0	9.4	188%
Revenue	452.6	338.3	34%
Expenses before MGG net offer costs ¹ and amortisation	(101.0)	(82.1)	23%
Profit before tax before MGG net offer costs and amortisation	351.6	256.1	37%
Profit after tax before MGG net offer costs and amortisation	268.9	196.2	37%
MGG net offer costs and amortisation (after tax) ²	(57.1)	n/a	n/a
Profit after tax after MGG net offer costs and amortisation	211.8	196.2	8%
Key statistics			
Diluted EPS (cents per share)	122.0	114.1	7%
Diluted EPS before MGG net offer costs and amortisation (cents per share)	154.9	114.1	36%
Interim and Final Dividends (cents per share, fully franked)	119.6	79.9	50%
Annual Performance Fee Dividend (cents per share, fully franked)	14.9	5.7	161%
Total Dividends (cents per share, fully franked)	134.5	85.6	57%

1. MGG net offer costs are net of the distribution declared for the half year ended 31 December 2017 on the loyalty units; 2. Offer costs, after tax, for the MGG initial public offering (inclusive of the costs of loyalty units) of \$55.7 million. These offer costs are net of the distribution paid in respect of the half year ended 31 December 2017 on the loyalty units. These one-off net offer costs have been funded out of available cash and are not included in the Funds Management segment and, as such, do not affect the profitability of the Funds Management business.

Financial Year Highlights

- Strong growth in funds under management and management and services fees:
 - Average funds under management up 29% to \$59.0 billion¹
 - Management and services fee revenue up 26% to \$385.8 million¹
 - Profit before tax and performance fees of the Funds Management business up 29% to \$291.8 million¹
- Completion of Magellan Global Trust (ASX: MGG) IPO, raising \$1.57 billion
 - One-off MGG net offer costs after tax of \$55.7 million
 - Strategically important and value accretive for shareholders (21% post-tax return on investment)
- Acquisitions of Airlie Funds Management and Frontier Group²
- Group profit after tax, excluding the MGG net offer costs and amortisation, grew by 37% to \$268.9 million

1. Percentage change relative to the 12 month period ended 30 June 2017. The MGG one-off expenses are not included in the Funds Management segment.
2. Frontier Group comprises Frontier Partners Inc (acquired 5 February 2018), Frontier Strategies LLC (acquired 2 April 2018) and Frontegra Asset Management Inc (subject to completion).

Ongoing Capital Requirements

- Magellan has built up significant capital over the past 12 years (net tangible assets as at 30 June 2018: \$515 million)
- The Board has undertaken a review of the ongoing capital requirements of the Group and has concluded:
 - Magellan has a very strong balance sheet
 - Our business is capital light and requires limited capital to support its business and to grow organically
 - There are numerous organic growth opportunities and Magellan has sufficient capital to support these initiatives
 - Magellan can recycle capital from its Principal Investments to seed new funds and strategies
 - Excess capital materially above what is needed to support and grow the business is unlikely to be valued by the market
 - The Board has revised the dividend policy to increase the payout ratio

Revised Dividend Policy

- Increased payout ratio to 90-95% of profit after tax from funds management segment
 - Interim and Final Dividends based on 90-95% of profit after tax of funds management segment (excluding performance fees)
 - Annual Performance Fee Dividend of 90-95% of net crystallised performance fees after tax
 - Subject to corporate, legal and regulatory considerations
- The revised policy will increase the total cash dividend payout by approximately 20% per annum compared with the previous dividend policy
- Final dividend of 90.0 cents per share comprising:
 - Dividend of 75.1 cents per share (fully franked) relating to the funds management business
 - Includes a top up amount of 8.4 cents per share to align the Interim Dividend to the new payout
 - Performance Fee Dividend of 14.9 cents per share (fully franked)
- Total dividends for the 2018 financial year up 57% to 134.5 cents per share (85.6 cents per share for 2017)
- Pay dividends promptly – 27 August 2018
- Future dividends will likely be partially franked

Stakeholder value creation

	Value creation since 2006
Magellan Financial Group ¹ – shareholders	\$4.3 billion
Global Equities ² – clients	\$26.4 billion
Infrastructure Equities ² – clients	\$4.1 billion
Total	\$34.8 billion

~\$35 billion of value created for stakeholders since the business began

As at 30 June 2018

1. Value created calculated as current market capitalisation less equity raised, plus dividends paid over time.

2. Value created calculated as current FUM less net inflows over time, plus distributions over time, plus the value of closed separate accounts over time less net inflows.

2019 Expense Guidance

- Total Group expenses (ex non-cash amortisation) to be approximately \$105 million in the 2019 financial year (\$101 million for FY2018)
- Non-cash amortisation is expected to be approximately \$4.2 million in the 2019 financial year¹
- Dividend payout excludes non-cash amortisation

1. Subject to the finalisation of acquisition accounting for the pending acquisition of Frontegra Asset Management Inc.



Funds Management

Funds Management Business

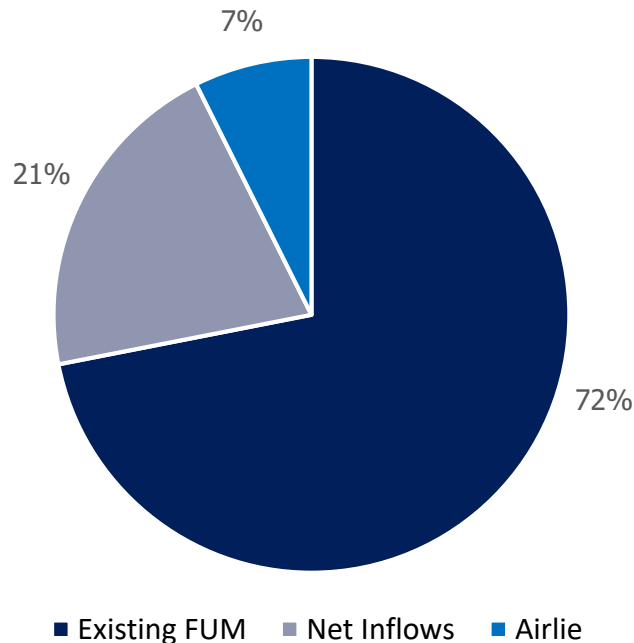
\$ million	30 June 2018	30 June 2017	% change
Revenue			
Management fees	381.1	300.5	27%
Performance fees	39.8	21.7	83%
Services fees	4.7	6.7	-29%
Interest/other income	3.2	0.3	909%
	428.7	329.2	30%
Expenses			
Employee expense	51.9	47.3	10%
Marketing expense	11.1	3.0	266%
Other expense	34.3	30.6	12%
	97.3	80.9	20%
Profit before tax	331.4	248.3	33%
Profit before tax and before performance fees¹	291.8	226.8	29%

Key Statistics

	30 June 2018	30 June 2017	% change
Average Funds Under Management (\$ billion)	59.0	45.7	29%
Average AUD/USD exchange rate	0.7752	0.7538	3%
Avg. number of employees	116	104	12%
Employee expense/total expense	53.4%	58.5%	
Cost/Income	22.7%	24.6%	
Cost/Income (excl performance fees) ¹	25.0%	26.3%	

1. Adjusts for the current period performance fee impact on revenue and expenses for the 12 month period.

Revenue Growth Drivers



- Magellan reported 29% growth in management, services and performance fees in 2018
 - 72% was contributed from Existing FUM
 - 21% was contributed from Net Inflows during the year
 - 7% was contributed from the acquisition of Airlie
- Excluding the Airlie acquisition, 78% of the revenue growth was driven by Existing FUM

Investment performance for existing clients is the primary driver of revenue growth

2018 FUM Flows

- By channel, for the 12 months ended 30 June 2018:
 - Retail net inflows totalled \$1.9 billion
 - Institutional net inflows totalled \$2.5 billion
- By strategy, for the 12 months ended 30 June 2018
 - Global equities net inflows totalled \$2.8 billion
 - Infrastructure net inflows totalled \$1.6 billion
 - Airlie net inflows totalled \$20 million

**Total net inflows for
the year ended
30 June 2018:
\$4.4 billion**



Global Equities Performance Review

Magellan Global Equities – investment objectives

Achieve attractive risk adjusted returns
over the medium to long-term
(9% p.a. net of fees long term target)

Minimise the risk of permanent capital loss
(Downside protection)

Delivering returns to investors

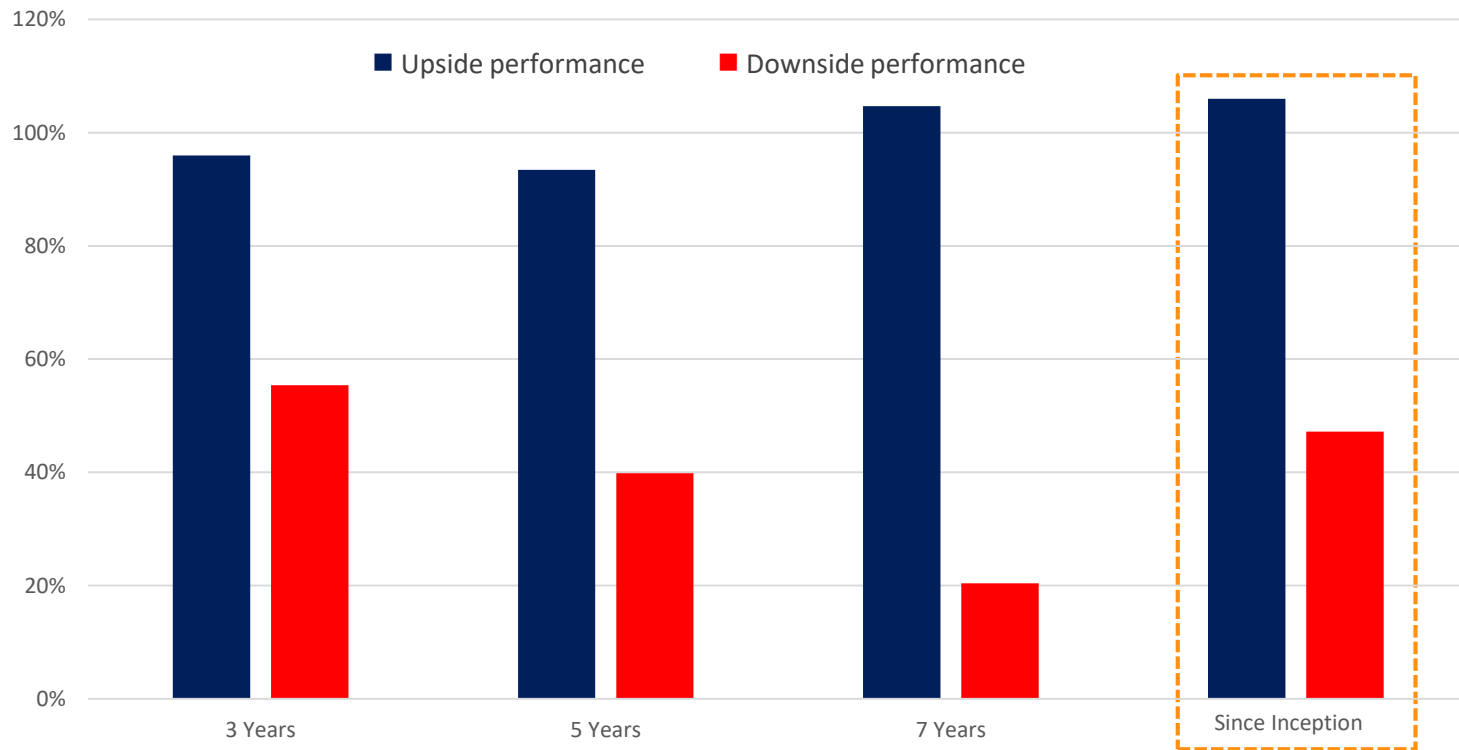
Net Returns as at 30 June 2018

	Magellan Global Fund	Performance objective 9% p.a.
1 year	16.9%	✓
2 years (% p.a.)	16.1%	✓
3 years (% p.a.)	10.4%	✓
4 years (% p.a.)	14.9%	✓
5 years (% p.a.)	14.3%	✓
6 years (% p.a.)	18.2%	✓
7 years (% p.a.)	18.2%	✓
8 years (% p.a.)	16.1%	✓
9 years (% p.a.)	15.9%	✓
10 years (% p.a.)	14.9%	✓
Since Inception (% p.a.)	11.6%	✓

Source: Magellan Asset Management Limited. Net returns as at 30 June 2018.

Downside protection

Magellan Global Fund performance in rising and falling markets



Since Inception the strategy has captured approx. 100% of the upside and fallen less than 50% of the market's decline

Source: Magellan Asset Management. Magellan Global Equity Composite, which represents the investment strategy, gross in USD relative to the MSCI World Net TR Index as at 30 June 2018 using rolling 3 month returns. The inception date is 1 July 2007. Downside performance shows if a fund has outperformed a benchmark during periods of market weakness, and if so, by how much. Upside performance shows if a fund has outperformed a benchmark during periods of market strength, and if so, by how much.

Consistent outperformance since inception

(Institutional View)

Rolling 3 year returns	Magellan Global Equities
Total number of observations	97
Number outperformed MSCI World	96
<i>Outperformance consistency</i>	99%
Average excess return over MSCI World (% p.a.)	6.0%

There was one observation, in June of 2016, where the strategy (net of fees) underperformed the MSCI World index by -0.54%

Source: Morningstar Direct & Magellan Asset Management Limited. Returns are for Global Equity Composite which represents the investment strategy and denoted in USD. Performance would vary if returns were denominated in a currency other than USD. Returns are from 1 July 2007 to 30 June 2018. Composite (Net) returns are net of fees charged to clients and have been reduced by the amount of the highest fee charged to any institutional client employing that strategy during the period under consideration. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size.

Consistency in outperformance over time

(Retail View)

Rolling 3 year returns	Magellan Global Fund
Total number of observations	97
Number of months outperformed MSCI World Index	88
<i>Outperformance consistency</i>	91%
Average excess return over MSCI World (% p.a.)	4.9%

Of the 9 observations of underperformance:

- Average underperformance of MGF relative to the MSCI World (% p.a.) -0.4%
- Maximum underperformance of MGF relative to the MSCI World (% p.a.) -1.5%

*“Magellan Global has an excellent long-term track record. Measured over all rolling three-year periods since its inception in June 2007 to 31 Jan 2018 **the strategy has achieved top-quartile returns 94% of the time.***

Superior downside protection during 2008 and 2011 saw this fund stand well apart from peers, but the strategy has also delivered excess returns over many years with a high degree of consistency.”

Morningstar, 2018

Top Quartile in outperformance consistency

(Retail View)

Outperformance Consistency Net of fees Vs MSCI World	Magellan consistency	Median consistency	Top Quartile
1 Year	92%	25%	✓
3 Years	75%	28%	✓
5 Years	85%	23%	✓
7 years	89%	36%	✓
Since Inception	91%	37%	✓

Outperformance consistency versus MSCI

Since 1 July 2007 (Retail peer group)

	Rolling 3 Year returns
	Outperformance Consistency
MFS® Global Equity Trust	94%
Magellan Global	91%
Arrowstreet Global Equity	91%
IFP Global Franchise	86%
Schroder Global Core	79%
iShares International Equity Index	74%
Pendal Core Global Share	71%
PM Capital Global Companies	65%
Vanguard International Shares Index	65%
Fidelity Global Equities	61%
BlackRock Scientific Intl Equity Fund	53%
Walter Scott Global Equity	45%
Peters MacGregor Global	43%
Dimensional Global Core Equity Trust	38%
C WorldWide Global Equity Trust	37%
Aberdeen Actively Hedged Intl Equities	36%
T. Rowe Price Global Equity	33%
Templeton Global Trust Fund	33%
Platinum International Fund	32%
UBS International Share Fund	31%
Capital Group Global Equity (AU)	27%
Perpetual Wholesale International Share	20%
Zurich Investments Gbl Thematic Shr	19%
AMP Capital W Global Equity Growth	14%

Source: Morningstar Direct & Magellan Asset Management Limited. Returns are net of fees from 1 July 2007 to 30 June 2018.

Average excess returns

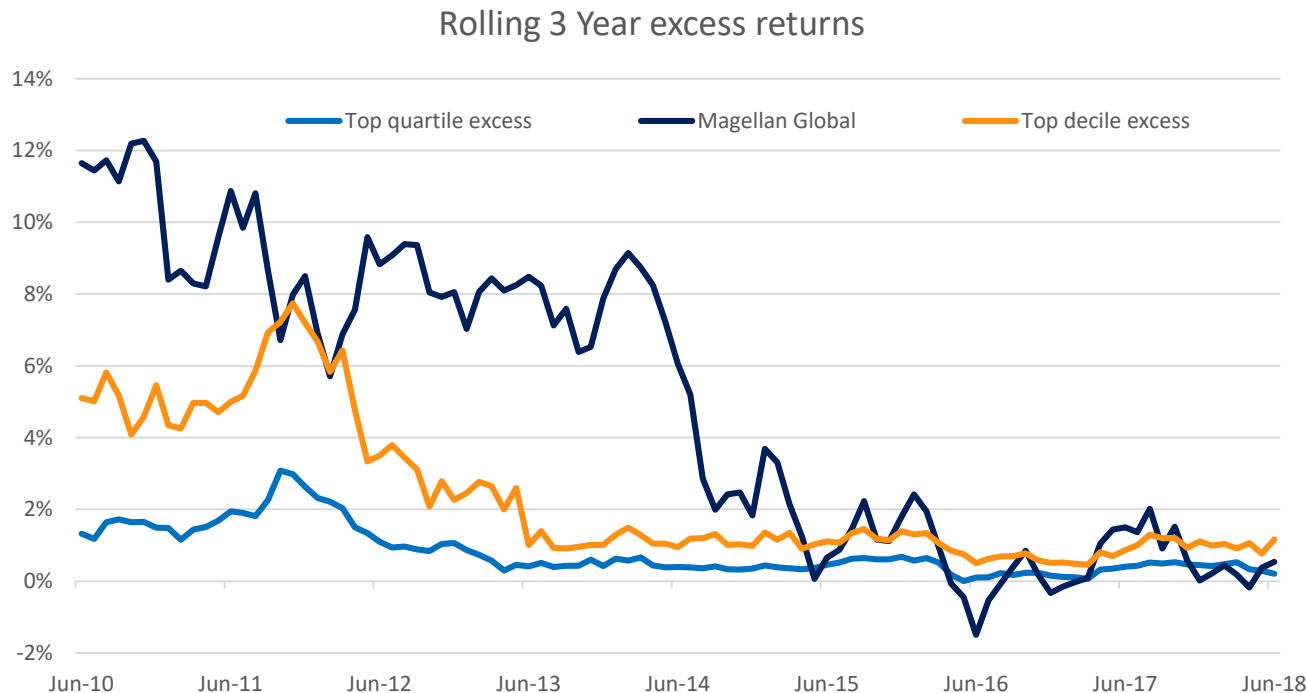
Since 1 July 2007 (Retail peer group)

	Rolling 3 Year returns
	Average Excess return (% p.a.)
Magellan Global	4.9%
IFP Global Franchise	4.3%
Arrowstreet Global Equity	2.2%
MFS® Global Equity Trust	2.1%
PM Capital Global Companies	1.9%
Peters MacGregor Global	1.8%
Fidelity Global Equities	0.8%
Schroder Global Core	0.6%
Pendal Core Global Share	0.6%
iShares International Equity Index	0.2%
Vanguard International Shares Index	0.2%
Walter Scott Global Equity	0.2%
Platinum International Fund	0.2%
BlackRock Scientific Intl Equity Fund	0.1%
Dimensional Global Core Equity Trust	-0.2%
Capital Group Global Equity (AU)	-0.5%
C WorldWide Global Equity Trust	-0.6%
UBS International Share Fund	-0.6%
T. Rowe Price Global Equity	-0.9%
Templeton Global Trust Fund	-1.4%
Perpetual Wholesale International Share	-1.4%
Zurich Investments Gbl Thematic Shr	-2.0%
Aberdeen Actively Hedged Intl Equities	-2.4%
AMP Capital W Global Equity Growth	-3.1%

Source: Morningstar Direct & Magellan Asset Management Limited. Returns are net of fees from 1 July 2007 to 30 June 2018.

Magellan's excess returns remain top quartile

(Retail peer group)



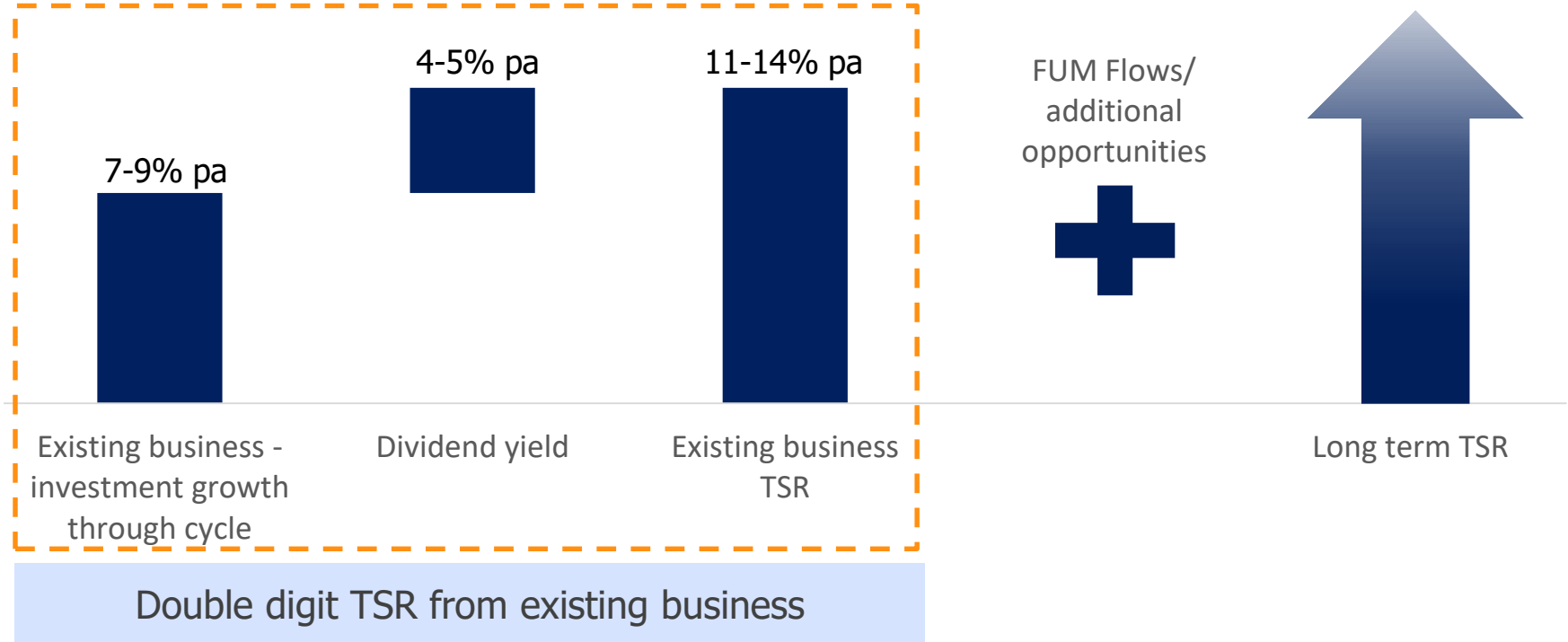
Average excess returns have fallen for top performing managers as markets have risen

Source: Morningstar Direct & Magellan Asset Management Limited. Returns are net of fees from 1 July 2007 to 30 June 2018. Peer universe is the Morningstar Australian Funds Equity World Large Blend category – 63 Funds in universe.

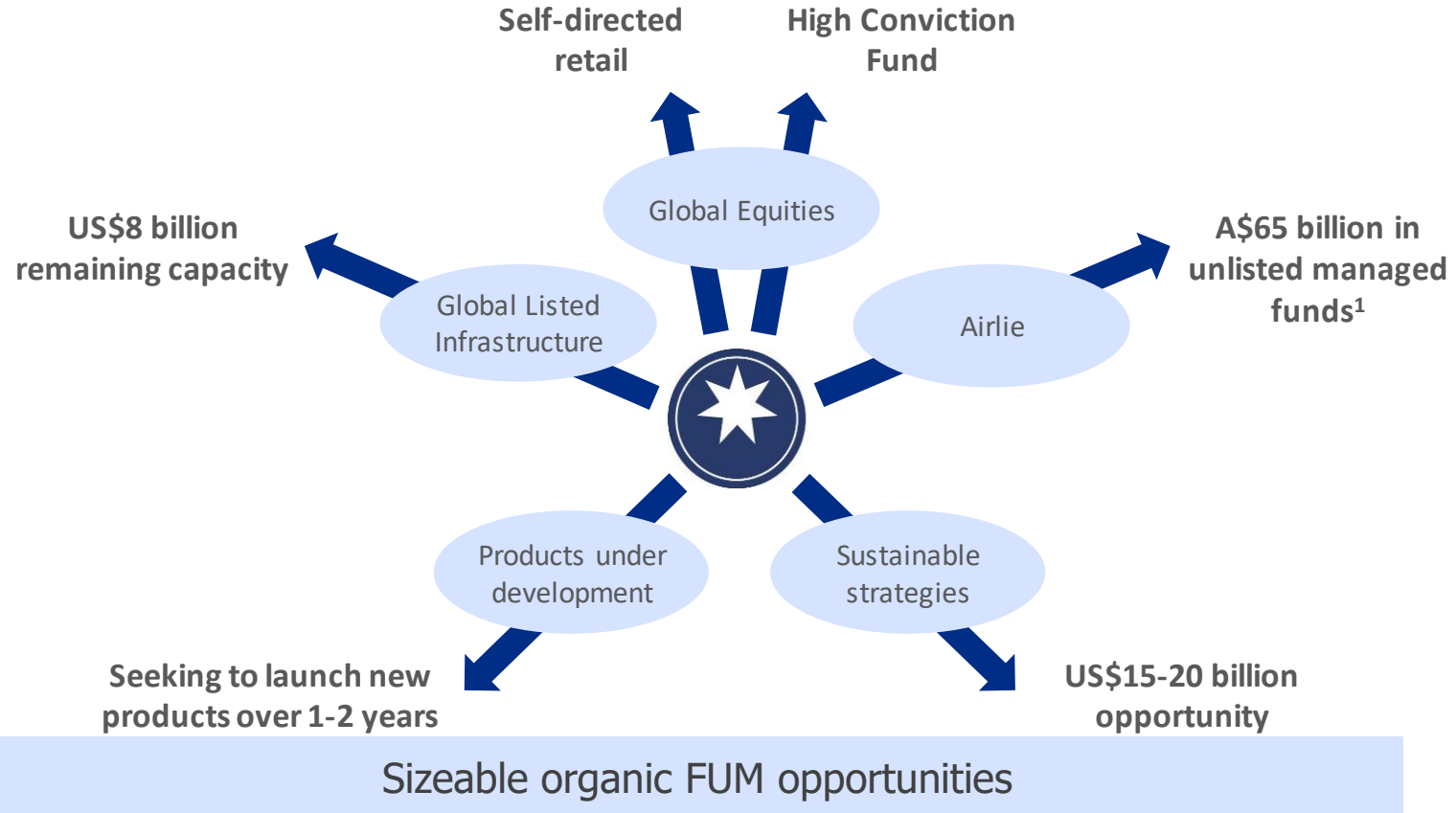


Drivers of shareholder value

A model for long term Total Shareholder Return (TSR)



New FUM opportunities



1. Morningstar Direct, July 2018 for active, large-cap Australian equities managed funds

Self-directed retail channel

Market opportunity

- Estimated self-directed investable assets of ~\$500bn¹
 - Estimated global equities opportunity in self-directed of \$50-75bn²
 - Magellan currently at ~\$1.3bn
- Australian self-directed investors are materially underweight global equities

Access Points

- Two innovative access points on ASX:
 - Open-ended Active ETFs (MGE, MHG, MICH)³
 - Closed-ended Magellan Global Trust (ASX: MGG)

Marketing strategy

- Improved brand awareness 30% from prior year
- Moving to more heavily targeted, data-led, customer acquisition approach

1. Rice Warner Personal Investments Market Projections Report 2014 and Magellan estimates.

2. Assumes 50% allocation to equities and 20-30% equities allocation into global equities.

3. Magellan Global Equities Fund (Managed Fund) (ASX: MGE), Magellan Global Equities Fund (Currency Hedged) (Managed Fund) (ASX: MHG), Magellan Infrastructure Fund (Currency Hedged) (Managed Fund) (ASX: MICH).

High Conviction Fund

- Current FUM of \$544 million
- Concentrated portfolio which represents our best investment ideas
- Developed outstanding 5 year investment track record
- Launched wholesale unit class and marketing to advisers

	Magellan High Conviction Fund
1 year	19.0%
3 years (% p.a.)	12.4%
5 years (% p.a.)/ Since Inception (% p.a.)	16.8%

Airlie retail opportunity

- Launched the Airlie Australian Share Fund in June 2018
- Providing retail investors with access to one of the pre-eminent investment teams in Australian equities
- Adviser fund launch roadshow across Australia and New Zealand 17-27 July 2018 – ~600 attendees
- Fund research in place with Lonsec and Zenith - “Recommended” rating
- A\$65 billion market opportunity in active unlisted managed funds
 - 5-10% market share = \$3.25-\$6.5 billion
- Potential to enter listed space



About the Airlie Australian Share Fund

The Airlie Australian Share Fund ('the Fund') offers investors the opportunity to invest in a specialised and focused Australian equities fund. The Fund has a range of compelling benefits, including:



Airlie's Best Ideas

Airlie's conservative and robust investment process, proven over the long-term, rations the energies of the experienced investment team into finding the best investment opportunities.



Concentrated Portfolio

The Fund is a concentrated, active portfolio of typically 25 hand-picked Australian listed equities.



Magellan Partnership

The partnership between Airlie and Magellan Asset Management provides retail investors with access to Airlie's unrivalled investment expertise for the first time, through the Airlie Australian Share Fund.

Global Listed Infrastructure

- Listed infrastructure is gaining acceptance globally as an asset class
- Magellan is well positioned to grow in this area given:
 - Our unique approach to defining “infrastructure”
 - Consistency of investment returns and long term outperformance
- Solid institutional pipeline
- Launched Select Infrastructure mutual fund on the Frontier platform in July 2018 based on client demand
- Consistent retail inflows in 2018
- Retail continues to represent a large opportunity and the Magellan Infrastructure Fund (Currency Hedged) (ASX: MICH) provides access to the self-directed retail market
- Substantial headroom in theoretical capacity – ~US\$8 billion

Delivering returns to investors

AUD Returns as at 30 June 2018

	Magellan Infrastructure Fund	Performance objective (At least CPI + 5% through the cycle)
1 year	6.9%	✗
2 years (% p.a.)	7.8%	✓
3 years (% p.a.)	11.0%	✓
4 years (% p.a.)	11.3%	✓
5 years (% p.a.)	13.4%	✓
6 years (% p.a.)	14.1%	✓
7 years (% p.a.)	13.2%	✓
8 years (% p.a.)	15.5%	✓
9 years (% p.a.)	15.4%	✓
10 years (% p.a.)	11.3%	✓
Since Inception (% p.a.)	8.4%	✓

Source: Magellan Asset Management Limited and ABS. Net returns as at 30 June 2018. Data for Magellan Infrastructure Fund

Infrastructure excess returns & consistency

Outperformance consistency	Rolling 3 Year returns
	Outperformance Consistency
Lazard Global Listed Infrastructure	100%
CFS FC W Inv-CFS W GIBL Listed Infra Sec	100%
Magellan Infrastructure	98%
Macquarie International Infra Ses	67%
Cohen & Steers Global Infrastructure A	57%
RARE Infrastructure Value Hedged	52%

Average excess return	Rolling 3 Year returns
	Average Excess return (% p.a.)
Lazard Global Listed Infrastructure	5.8%
Magellan Infrastructure	3.9%
CFS FC W Inv-CFS W GIBL Listed Infra Sec	3.3%
RARE Infrastructure Value Hedged	1.1%
Macquarie International Infra Ses	0.7%
Cohen & Steers Global Infrastructure A	-0.1%

Sustainable/Low Carbon Strategies

- Leverages Magellan's existing intellectual capital and investment processes and Low Carbon/Sustainable overlay is targeting a real client need
- Requires meaningful track record – typically minimum 3 years
 - Global and US strategies have been running for ~22 months and ~19 months respectively and are exceeding return objectives
- First client taken into Global Sustainable UCITS sub-fund in July 2018
- US\$15-20 billion theoretical capacity

Driving shareholder value

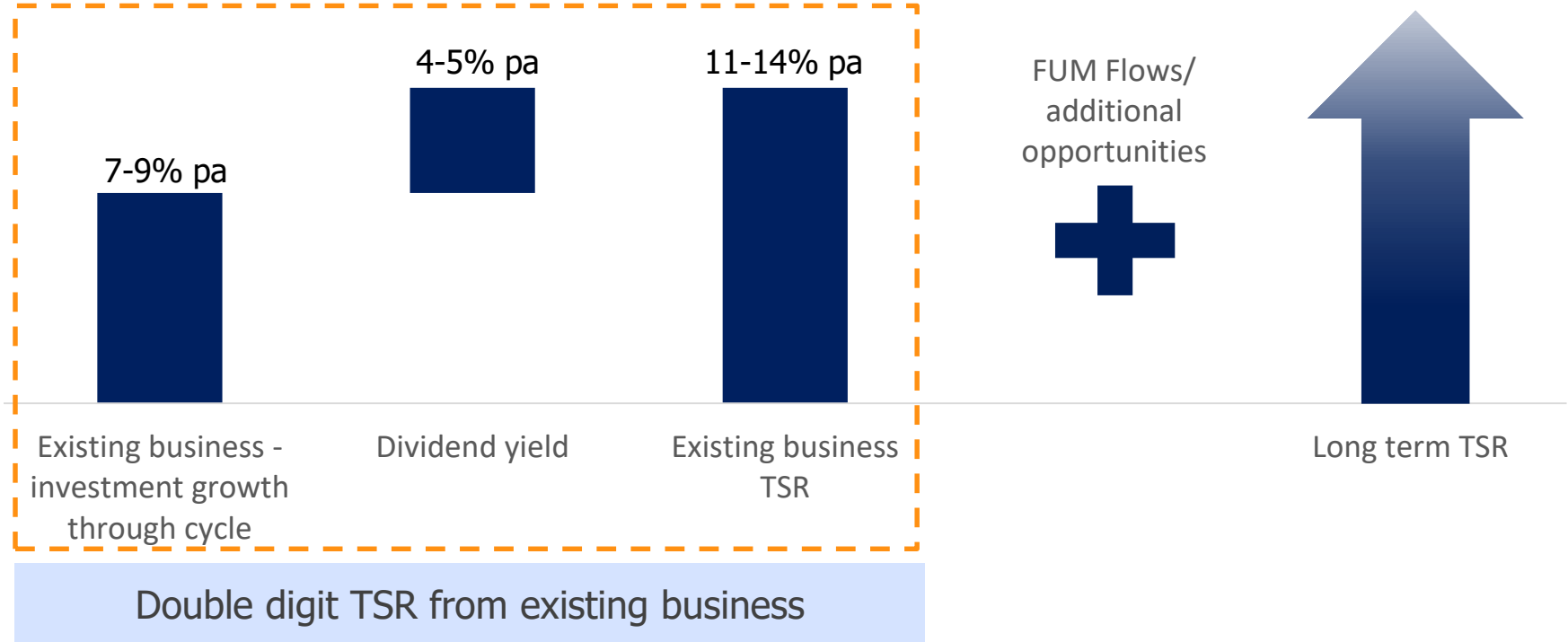
Outstanding existing client business
(FUM \$70.0 billion)¹

Increased cash dividends to shareholders
(payout 90-95% of funds management profit after tax²)

Numerous additional FUM opportunities

1. As at 31 July 2018; 2. Excluding amortisation, subject to corporate, legal and regulatory considerations.

A model for long term Total Shareholder Return (TSR)



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