

# Magellan Financial Group Limited

Interim Results Investor Presentation  
Half year ended 31 December 2022

David George | CEO & Chief Investment Officer  
Kirsten Morton | CFO & Chief Operating Officer



# Agenda

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# 1H23 Overview - Summary

- ★ Magellan at next phase of its evolution following **accelerated change in 2022**
- ★ Strategy announced in October 2022 to facilitate transition to a more **diversified business delivering sustainable growth**
- ★ **Good progress in executing our five-year strategy** and building upon Magellan's strengths
- ★ **Active changes made to the business** – simplification and rationalisation of teams and processes
- ★ Funds management business continues to operate within **\$125-\$130 million expense range** for FY23
- ★ Funds under Management (“FUM”) as at 31 January 2023 was **\$46.2 billion**
- ★ **Interim dividend of 46.9 cps** declared, 85% franked, payable on 8 March 2023

# Market conditions

- ★ **Significant shift in economic environment** and market conditions over past 12 months
- ★ **Re-emergence of inflation**, from many sources
- ★ Central banks globally **raising interest rates** to manage inflation and slow demand
- ★ **Cyclical headwinds** for allocations to equities
- ★ Deteriorating conditions and higher discount rates **reflected in equity market returns:**
  - MSCI World NTR Index (\$A) **down 12.2%** in 12 months ended 31 December 2022
  - S&P/ASX 200 Accumulated Index **down 1.1%** in 12 months ended 31 December 2022

# Performance to 31 December 2022

	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.) <sup>1</sup>
<b>Magellan Global Fund</b>	(15.7)	0.2	7.2	<b>10.0</b>
MSCI World NTR Index (\$A)	(12.2)	6.2	9.2	6.7
<b>Magellan Infrastructure Fund</b>	(5.9)	(1.4)	3.6	<b>7.0</b>
Global Listed Infrastructure Benchmark (\$A) <sup>2</sup>	1.3	0.5	3.5	5.2
<b>Airlie Australian Share Fund</b>	(5.2)	9.7	-	<b>9.9</b>
S&P/ASX 200 Accum. Index	(1.1)	5.5	-	7.6

## ALL 3 FUNDS HAVE OUTPERFORMED THEIR BENCHMARKS SINCE INCEPTION

### GLOBAL EQUITIES STRATEGY

- Deliberate changes made to address performance including:
  - Position adjustments and refined risk parameters to manage concentration risks
  - Investment team changes to enhance collaboration in process and decision making and best leverage deep research
- Initiatives are delivering improvements, but will take time to show in performance figures

### INFRASTRUCTURE STRATEGY

- Continues to deliver solid long-term performance
- Strict definition of infrastructure excludes businesses with sensitivity to commodity price movements
- Near term has lagged benchmark due to period of strong energy-related commodity returns

### AIRLIE AUSTRALIAN SHARE FUND

- Maintains exceptional 3 year and long-term track record

A long history of safeguarding and growing wealth for clients

<sup>1</sup> Inception date for the Magellan Global Fund and Magellan Infrastructure Fund is 1 July 2007 and the inception date for Airlie Australian Share Fund is 1 June 2018.

<sup>2</sup> The Global Listed Infrastructure benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure and Utilities NTR Index (AUD Hedged) and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure NTR Index (AUD Hedged).

Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Source: MSCI, UBS, S&P, Bloomberg, Magellan Asset Management Limited.

# Financial performance

- ★ Average FUM for 1H23: \$53.8 billion (down 52%)
- ★ FUM as at 31 January 2023 \$46.2 billion (vs \$45.3bn as at 31 December 2022)
- ★ 1H23 Management fee revenue down 49%, broadly in line with average FUM
- ★ 1H23 Group Adjusted net profit after tax (NPAT) of \$98.3 million<sup>1</sup> (1H22: \$248.5 million)
- ★ 1H23 Group Statutory NPAT: \$83.8 million (1H22: \$251.6 million)
- ★ 1H23 Funds Management business profit before tax and performance fees: \$119.9 million (1H22: \$293.7 million)
- ★ Interim dividend of 46.9 cps, 85% franked (1H22: 110.1 cps, 75% franked)

1H23 financial results reflect market conditions and the business transition

<sup>1</sup> NPAT adjusted for non cash amortisation expense of \$2.3 million; net unrealised capital losses from the Fund Investments segment of \$9.9 million (net of tax: \$6.9 million); net non-cash remeasurement of share purchase agreement loans of \$0.9 million; net non-cash employee share option expense of \$2.0 million and net non-cash expenses related to strategic initiatives of \$3.4 million (net of tax: \$2.4 million).

# Financial strength



**\$837.3 million**

Net Tangible Assets  
(\$4.61 per share)

**\$882.4 million**

Cash, financial assets &  
investments in associates

**No debt**

Total liabilities of \$195.7 million, predominantly relating to the Group's commitments to fund the MGF Options discount



**\$90.1 million**

Net cash flow from operating activities during the half year







**53.6 cps**

Adjusted diluted earnings per share (EPS)




**46.9 cps Interim Dividend**

Strong cash flows allowing dividend payout of 90-95% of Funds Management profit

# Magellan's strong foundations

Investment Capability	<b>Research Engine</b>	Intensive fundamental company analysis, industry research, and macro insights	
	<b>Investment Expertise</b>	Rigorous portfolio construction and risk discipline by experienced leadership team	
Platform Strength	<b>Operations Excellence</b>	Established legal, ops, risk and compliance expertise and scalable operating platform	
	<b>People &amp; Culture</b>	Passionate team with immense pride in the shared success of Magellan and our clients	
Client Focus	<b>Distribution &amp; Marketing</b>	Market leading team with outstanding multi-channel connectivity and relationships	
	<b>Product Innovation</b>	Proven innovation capability to deliver products aligned to client needs	

**FUM \$46.2bn<sup>1</sup>**

<b>Global</b>  <b>\$20.8 bn</b>	<b>Infrastructure</b>  <b>\$16.4 bn</b>	<b>Airline</b>  <b>\$9.0 bn</b>
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**Significant scale and long-established capabilities**

- FUM balanced across:
  - Retail (42%) and
  - Institutional (58%) client base
- Global reach into major markets - offices in Australia, New Zealand & USA
- ~9,000 financial planner & stockbroking relationships, +500,000 direct & indirect investors<sup>2</sup>
- Institutional clients globally

<sup>1</sup> As at 31 January 2023. <sup>2</sup> As at 30 September 2022.





## Group Financial Results

Kirsten Morton  
CFO and Chief Operating Officer

# Reported earnings

\$ million	31 Dec 2022	31 Dec 2021	% change
Management and services fees	181.1	352.3	(49%)
Performance fees	0.1	11.5	(99%)
Other revenue and income	27.6	20.0	38%
<b>Adjusted revenue and other income</b>	<b>208.8</b>	<b>383.8</b>	<b>(46%)</b>
Adjusted expenses	(64.8)	(64.6)	0%
<b>Adjusted net profit before tax</b>	<b>144.0</b>	<b>319.2</b>	<b>(55%)</b>
Adjusted tax expense	(37.6)	(73.7)	(49%)
Share of after tax profit/(loss) of associates	(8.1)	3.0	nm
<b>Adjusted net profit after tax</b>	<b>98.3</b>	<b>248.5</b>	<b>(60%)</b>
Net (expenses)/benefits related to strategic initiatives (after tax)	(2.4)	(6.1)	nm
Amortisation expense of intangible assets	(2.3)	(2.3)	nm
Net non-cash remeasurement of SPA loans	(0.9)	(0.4)	nm
Non-cash employee share option expense <sup>1</sup>	(2.0)	-	nm
Net unrealised change in fair value of financial assets and liabilities (after tax)	(6.9)	11.9	nm
<b>Statutory net profit after tax</b>	<b>83.8</b>	<b>251.6</b>	<b>(67%)</b>
<b>Key statistics</b>			
Diluted EPS (cents per share)	45.6	136.3	(67%)
Adjusted diluted EPS (cents per share)	53.6	134.6	(60%)
Interim dividend (cents per share)	46.9	110.1	(57%)
Franking	85%	75%	

1. Relates to the stock options issued to employees in April 2022 as part of a broad retention program.

Adjusted financial measures are adjusted for strategic, non-recurring, non-cash or unrealised items (refer to section 3.1 of the Directors' Report and note 2 in the financial statements for the breakdown of these items).

- Management and services fees decreased by 49%, reflecting the 52% reduction in average FUM
- Performance fees in 1H23 not material, reflecting relative underperformance. Performance fees can, and very often, vary significantly from period to period
- Other revenue and income driven by distribution income of \$17.4 million and realised capital gains of \$4.5 million
- Adjusted net profit after tax down 60% to \$98.3 million
- Adjusted diluted EPS of 53.6cps down 60%, in line with decrease in adjusted net profit after tax
- Effective tax rate of 28.4%
- Interim dividend of 46.9cps, 85% franked

# Funds Management segment

\$ million	31 Dec 2022	31 Dec 2021	% change
<b>Revenue</b>			
Management fees	179.1	350.3	(49%)
Performance fees	0.1	11.5	(99%)
Services fees	2.0	2.0	(2%)
Other revenue and income	1.3	2.8	(55%)
	<b>182.5</b>	<b>366.6</b>	<b>(50%)</b>
<b>Expenses</b>			
Employee expenses	45.5	41.6	9%
Other expenses	16.9	20.1	(16%)
	<b>62.4</b>	<b>61.7</b>	<b>1%</b>
<b>Profit before tax</b>	<b>120.0</b>	<b>304.9</b>	<b>(61%)</b>
<b>Profit before tax and before performance fees<sup>1</sup></b>	<b>119.9</b>	<b>293.7</b>	<b>(59%)</b>

## KEY STATISTICS

	31 Dec 2022	31 Dec 2021	% change
Average FUM (\$ billion)	53.8	112.7	(52%)
Average base management fee (bps)	66	62	6%
Average AUD/USD exchange rate	0.6706	0.7319	(8%)
Average number of employees	128	139	(8%)
Employee expense/total expense	72.9%	67.5%	
Cost/Income	34.2%	16.8%	
Cost/Income (excl performance fees) <sup>1</sup>	34.2%	17.3%	

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

- Funds Management segment represents the core business that drives profits and dividends
- Profit before tax and performance fees down 59%, driven by 52% decrease in average FUM and material decline in performance fees
- FUM business mix shift to retail (58% Institutional; 42% Retail) with base fees 30% Institutional and 70% Retail
- Increase in average base management fee to 66bps driven by FUM composition
- Magellan's people are fundamental to delivering value for clients. Employee expenses (up 9% in the half) reflect:
  - Expense for staff cash retention payments announced in March 2022
  - Costs associated with the organisational realignment announced in October 2022
  - Excludes \$2.0 million non-cash expense associated with the staff option plan issued in April 2022
- Other expenses down 16% mainly reflect disciplined cost management in the half

# Expenses

- ★ Cost to income ratio (excluding performance fees) of 34.2% during the period
- ★ Funds Management business operating expenses in the range of \$125-\$130 million remain appropriate for the 2023 financial year
  - Includes \$15.2 million expense for staff cash retention payments and costs associated with the organisational realignment announced in March and October 2022 respectively
- ★ We continue to pay close attention to our costs and have a cost-conscious culture
- ★ Significant headroom to support client-focused outcomes and growth

# Fund Investments

Magellan has set a pre-tax hurdle of 10% p.a. (over the business cycle)  
for the Fund Investments portfolio

FUND INVESTMENTS PORTFOLIO		
Investment (\$ million)	31 December 2022	30 June 2022
Cash	0.3	0.3
Investments in:		
Magellan Funds <sup>1</sup>	369.8	373.2
Net seed portfolios	5.7	5.5
Other <sup>2</sup>	0.2	0.3
<b>Total</b>	<b>376.0</b>	<b>379.3</b>
Net deferred tax <sup>3</sup>	(16.7)	(20.9)
<b>Net Fund Investments</b>	<b>359.3</b>	<b>358.4</b>
Net Fund Investments per share (cents) <sup>4</sup>	198.0	193.6

INVESTMENT RETURNS	
Time Period	Return
1 Year to 31 December 2022	(16.5%)
3 Years to 31 December 2022 p.a.	(0.3%)
5 Years to 31 December 2022 p.a.	6.5%
Since Inception to 31 December 2022 p.a. <sup>5</sup>	9.6%

1. Investments are set out in note 6 of the financial statements; 2. Comprises receivables and payables; 3. Arises from changes in the fair value of financial assets offset by the deferred tax asset relating to unused tax losses; 4. Based on 181,509,883 ordinary shares on issue at 31 December 2022 (30 June 2022: 185,088,872 ordinary shares). 5. Return excludes previous investment in MFF Capital Investments Limited. Inception date of 1 July 2007.

# Associate investments

## ★ As at 31 December 2022, Magellan held two investments in associates:

- 36% economic interest (5% voting interest) in Barrenjoey Capital Partners
- 16% interest in FinClear Holdings Limited<sup>1</sup>

## ★ 1H23 associate investments delivered post-tax loss of \$8.1 million:

- Barrenjoey continues to strengthen and diversify revenues, despite weaker market conditions
  - Initial build out will largely be complete in FY23 and is now focused on growth
  - Establishment costs contributed to after-tax loss for the period
- FinClear's public equity markets business impacted by weaker market conditions
  - Continues to invest in attractive growth opportunities

## ★ Continue to be a supportive shareholder

- Any further investment in these businesses would depend on the opportunity at the time, with the focus on maximising shareholder value

1. Excluding the impact of any potential dilution arising from unexercised issued options.



# Strategy Progress Update

David George, CEO & Chief Investment Officer

# Strategy progress update – Magellan in five years



Fund manager of scale with >\$100bn in funds under management

Diversified product mix

Attractively positioned in growing segments with growing client demand

Partner of choice within the Australian wealth industry

Strengthened global institutional relationships

Attractive returns for shareholders



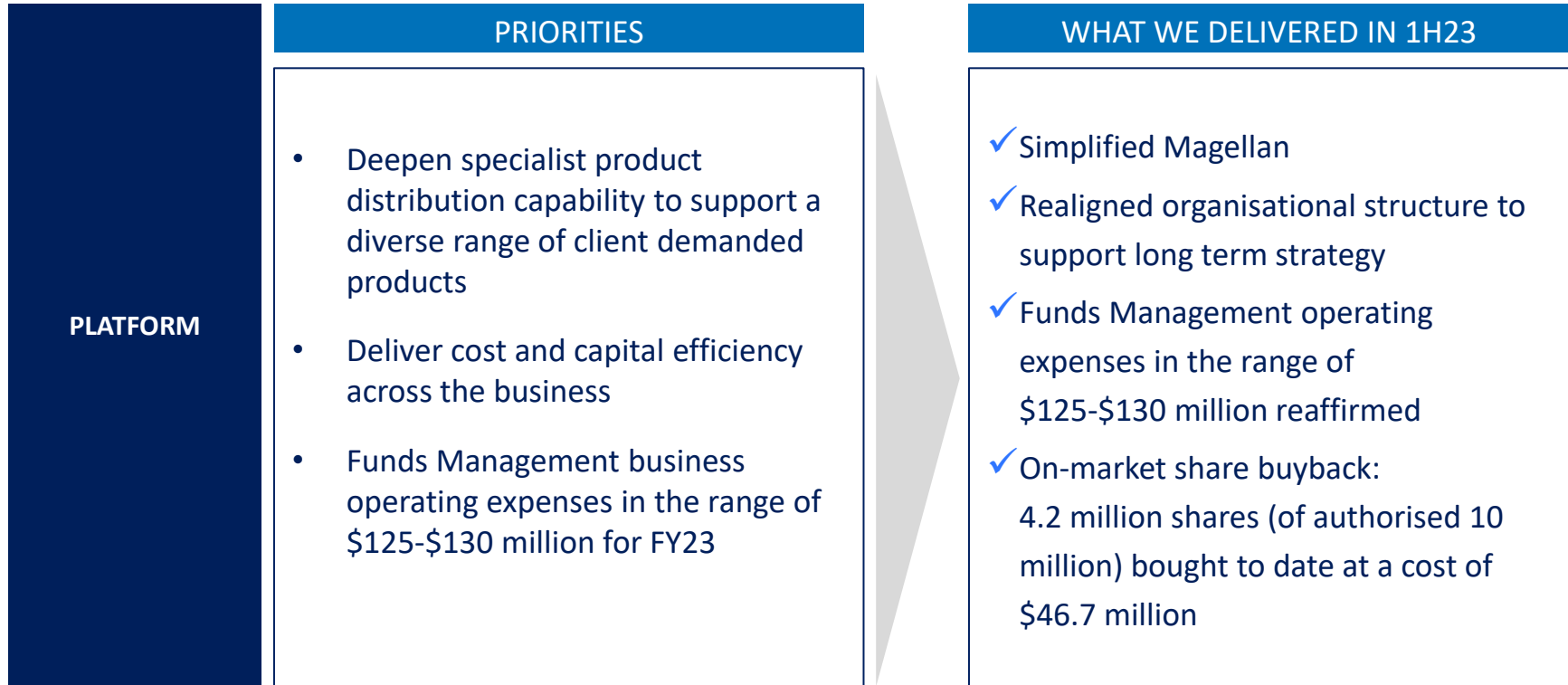
# Strategy progress update – Our plan to get there



Our strategy will leverage and build upon Magellan’s continued scale and strength

1. As at 31 December 2022

# Strategy progress update – Platform



# Strategy progress update - Product

## PRODUCT

### PRIORITIES

- Improve performance
- Embed existing ESG capabilities deeper across client solutions and the organisation
- Launch Energy Transition strategy
- Relaunch Core Series

### WHAT WE DELIVERED IN 1H23

- ✓ Steps to improve performance:
  - ✓ Organisational realignment – consolidated portfolio management group
  - ✓ Enhanced analyst engagement with portfolio managers
  - ✓ Improved collaboration and information flow
- ✓ Continue to embed **ESG knowledge** across all client solutions. New dedicated ESG specialist added to the team
- ✓ **Energy Transition Investment Strategy** readied for launch to institutional clients from February 2023
- ✓ **Magellan Core Series** reconfirmed and simplified portfolio construction process
- ✓ Well progressed on **Airlie Small Companies Fund**

# Strategy progress update – People

## PEOPLE

### PRIORITIES

- Implement new Accountability & Alignment model
- Review long-term incentives to align staff to strategic objectives, performance and shareholder outcomes
- Enhance career development and progression paths to enrich employee experience

### WHAT WE DELIVERED IN 1H23

- ✓ Investment team changes including greater focus on improving and clarifying development opportunities
- ✓ Work commenced to refresh and reaffirm culture and values
- ✓ Staff retention program announced in March 2022 accelerated – cash payments brought forward by one year from Sept 2024 & Sept 2025 to Sept 2023 & Sept 2024
- ✓ Work commenced on establishing a long-term incentive strategy to ensure staff are aligned to strategic objectives, performance and shareholder outcomes

# Outlook

- ★ Challenging market conditions and volatility expected to continue
- ★ Higher interest rate environment and inflationary pressures will create challenges for many companies, resulting in dispersed performance and earnings outcomes
- ★ These market and economic conditions provide opportunities for active fund managers to differentiate between companies and to capitalise on value as it emerges
- ★ Thoughtful long-term and deeply researched investing will be rewarded
- ★ Magellan has the capabilities and is well positioned to deliver in this environment
- ★ Airlie and Infrastructure well positioned for growth with strong performance track records

Challenging market conditions provide investment opportunities for active fund managers

# Conclusion

- ★ Significant work completed to rationalise the business
- ★ Improving performance still a key priority
- ★ Substantial progress on near term organic product development
- ★ Inorganic growth expected to form part of the longer term growth strategy

Strong foundations and balance sheet to support future growth and diversification



Q&A

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