

Magellan Financial Group Limited

Interim Results

For the half year ended 31 December 2017

Hamish Douglass | CEO & Chief Investment Officer



Magellan Financial Group Interim Results

\$ million	31 Dec 2017	31 Dec 2016	% change
Management and services fees	178.9	146.1	22%
Performance fees	9.6	3.6	167%
Other revenue	7.3	3.8	90%
Revenue	195.8	153.5	28%
Expenses before MGG net offer costs ¹	(53.0)	(40.4)	31%
Profit before tax before MGG net offer costs	142.7	113.1	26%
Profit after tax before MGG net offer costs	109.2	87.0	25%
MGG net offer costs (after tax) ²	(55.7)	n/a	
Profit after tax after MGG net offer costs	53.5	87.0	(39%)
Key statistics			
Diluted earnings per share (cents per share)	31.0	50.6	(39%)
Diluted earnings per share before MGG net offer costs (cents per share)	63.4	50.6	25%
Dividend (interim) (cents per share, fully franked) ³	44.5	38.4	16%

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 declared for the half year ended 31 December 2017 on the loyalty units. These one-off expenses 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; 3. Prior half year's dividend includes performance fee component. Excluding the performance fee component, the interim dividend for the half year ended 31 December 2017 increased 20% over the prior corresponding period.

Interim Highlights

- Strong growth in funds under management and management and services fees:
 - Average funds under management up 25% to \$53.6 billion¹
 - Management and services fee revenue up 22% to \$178.9 million¹
 - Profit before tax and performance fees of the Funds Management business up 21% to \$129.0 million¹
- Completion of Magellan Global Trust (“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)
- Underlying Group profit after tax, excluding the MGG net offer costs, grew by 25% to \$109.2 million

1. Percentage change relative to six month period ended 31 December 2016. The MGG one-off expenses 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

Strategic Acquisitions

Expect these transactions to be modestly EPS accretive and provide an attractive return on capital

Acquisition of Frontier Partners

- Important step to strengthen our distribution efforts in North America
- Bill Forsyth, Frontier's founder and principal, to become Executive Chairman of Magellan's North American business
- Post completion, no longer pay US marketing and consulting fees and enjoy improved economics on mutual funds

Acquisition of Airlie Funds Management

- Partnership with first class fund manager with proven track record in Australian equities
- Funded via issuance of MFG shares
- Airlie will become a wholly owned subsidiary of Magellan and continue to operate under the Airlie brand
- Launch of Airlie Industrial Share Fund Active ETF in coming months

Total consideration in respect of both acquisitions: US\$15 million in cash and approximately 4.5 million MFG shares

Tax and Dividends

- Underlying effective tax rate for the 6 months to 31 December 2017 is 23.5% (23.0% for 6 months to 31 December 2016) (Offshore Banking Unit)
 - Excludes the impact of deductible MGG offer costs
- Dividends:
 - Interim dividend up 16% to 44.5 cents per share (fully franked)
 - Up 20 % excluding the performance fee component on prior half year's dividend
 - Pay dividends promptly – 20 February 2018 (Interim Dividend)
 - Dividend policy:
 - Interim and Final dividends based on 75%-80% of profit of funds management segment (excluding crystallised performance fees)¹
 - Annual Performance Fee Dividend of 0%-100% of net performance fees after tax²

1. Subject to available franking credits and corporate, legal and regulatory considerations.

2. Also subject to the capital needs of the Group.

Funds Management Business

\$ million	31 Dec 2017	31 Dec 2016	% change
Revenue			
Management fees	176.6	141.8	25%
Performance fees	9.6	3.6	167%
Services fees	2.4	4.3	(45%)
Interest/other income	0.5	0.5	13%
	189.0	150.2	26%
Expenses			
Employee expense	25.4	23.5	8%
Marketing expense	6.7	1.5	342%
Fund administration and operational costs	5.4	4.0	35%
US marketing/consulting fees ¹	4.4	3.8	16%
Occupancy expense	2.7	1.6	67%
Information technology expense	2.1	1.9	9%
Other expense	4.0	3.6	12%
	50.5	39.7	27%
Profit before tax	138.5	110.4	25%
Profit before tax and before performance fees²	129.0	106.8	21%

Key Statistics

	31 Dec 2017	31 Dec 2016	% change
Average Funds Under Management (\$ billion)	53.6	42.9	25%
Average AUD/USD exchange rate ³	0.7791	0.7534	3%
Avg. number of employees	106	104	2%
Employee expense/total expense	50.2%	59.1%	
Cost/Income	26.7%	26.5%	
Cost/Income (excl performance fees) ²	28.1%	27.1%	

1. Pursuant to the agreement, 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 2. Adjusts for the current period performance fee impact on revenue and expenses for the 6 month period; 3. Based on daily average of London 4pm exchange rates of the 6 month period.

Employee Summary

Staff	31 Dec 2017	30 June 2017
Investment team		
Portfolio Managers/Analysts	29	33
Traders	3	3
	32	36
Governance & Advisory	6	5
Distribution	34	35
Risk, Compliance, Legal & Company Secretarial	8	8
Business Support & Control	17	17
Administration	7	7
Total	104	108

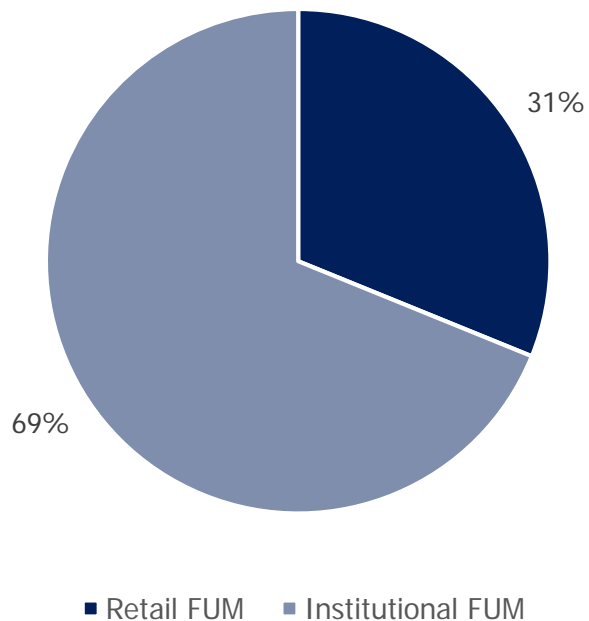
- Expect Group staff expense to increase at the lower end of the 5-8% guidance in FY18
 - Excludes impact of additional employee expenses relating to acquisition of Frontier and Airlie
 - We welcome 25 employees as a result of the transactions. Estimated impact for 6 months to 30 June 2018 of approximately \$4.6 million

Funds Under Management Summary

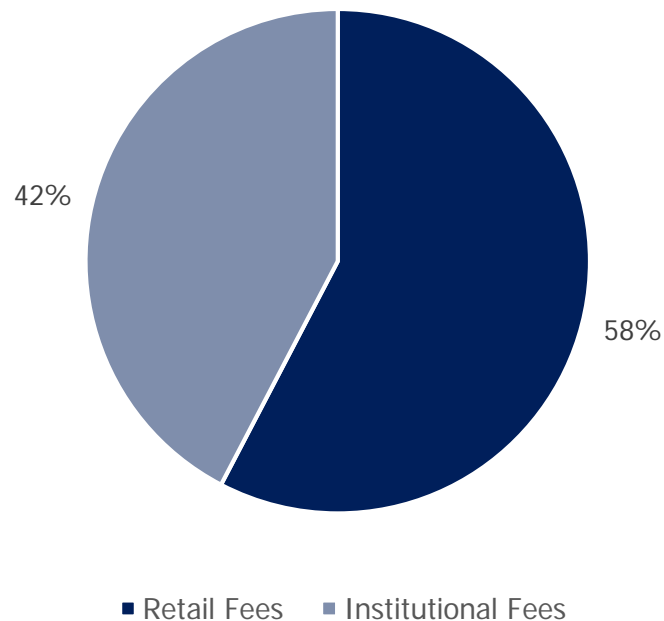
	31 Dec 2017	30 June 2017	31 Dec 2016
\$ million			
Retail	18,026	15,159	13,650
Institutional			
- Australia/NZ	5,054	4,939	4,617
- North America	12,560	10,919	10,117
- UK	18,312	16,231	15,024
- Rest of World	3,918	3,349	3,107
	39,844	35,438	32,865
Total FUM	57,870	50,597	46,515
%			
Retail	31%	30%	29%
Institutional			
- Australia/NZ	9%	10%	10%
- North America	22%	21%	22%
- UK	31%	32%	32%
- Rest of World	7%	7%	7%
	69%	70%	71%
Total FUM	100%	100%	100%
Breakdown of Funds Under Management (\$ million)			
- Global Equities	48,195	42,316	39,511
- Global Listed Infrastructure	9,675	8,281	7,004
Average Base Management fee (bps) per annum (excl Perf Fee)	66	66	66
FUM subject to Performance Fees (%)	39%	38%	38%

Well-balanced Business

Funds Under Management¹



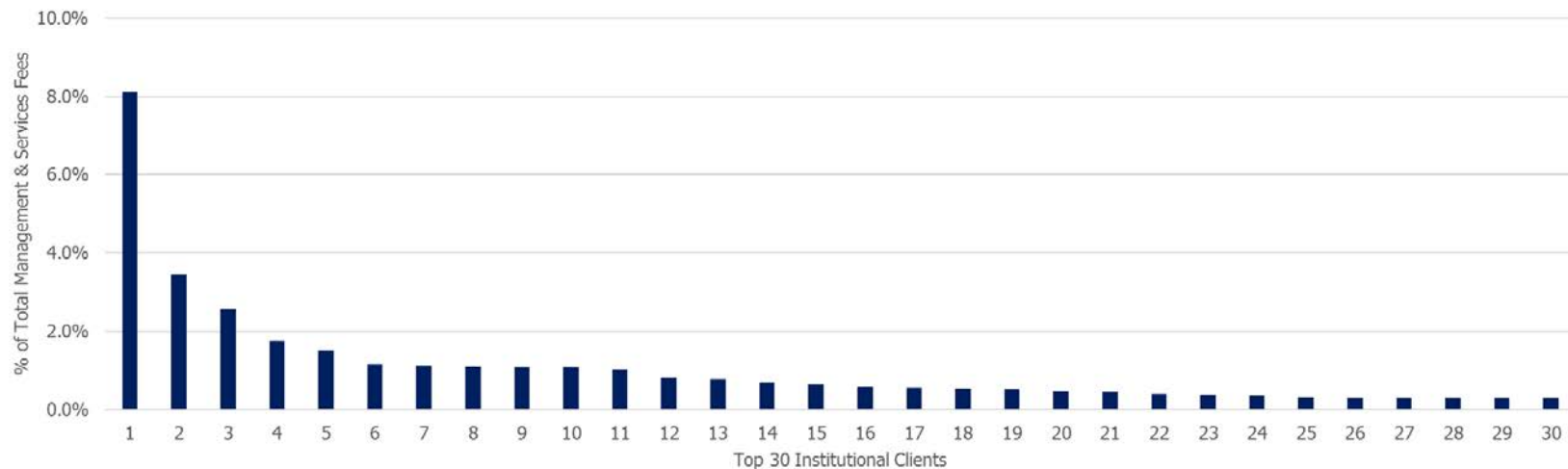
Base Fees²



1. FUM split is as at 31 December 2017.

2. Base Fees are Management and Services fees for the six months to 31 December 2017 and exclude Performance fees.

Institutional Client Diversity



Cumulative Total Management and Services Fees¹

Top Institutional Clients	5	10	20	30
%	17	23	29	33

1. Management and Services fees for the six months to 31 December 2017 for separately managed accounts and institutional investors in local and offshore vehicles. Excludes Performance fees.

Retail Business – Three Channels to Market



¹. Includes dealer groups that have more than \$200,000 funds under management with Magellan.

Update on brand awareness program

- Cricket Australia domestic test series sponsorship provides a highly scalable platform with very appealing demographics
- Supported with television advertising campaign to grow awareness in global equities and our brand
- Pleased with engagement received during the 2017/2018 Ashes series
 - >14 million TV viewers of the Ashes series
 - >866,000 attendees
 - >15 million average daily views on the Cricket.com.au website and Cricket Live App combined



Retail Business

Funds Under Management and Net Inflows

- Retail FUM of \$18.0 billion at 31 December 2017 (30 June 2017: \$15.2 billion)
- Net Retail Inflows for 6 months to 31 December 2017: \$1.9 billion
(6 months to 31 December 2016 was \$1.2 billion)
 - Includes the MGG \$1.57 billion raising
- Average Monthly Retail Net Inflows (excluding MGG raising):
 - 6 months to 31 December 2017 impacted by MGG raising as anticipated

Financial Year Ended	Retail Global Strategy ¹ (\$ million)	Retail Global Listed Infrastructure Strategy ² (\$ million)	Total Retail (\$ million)
2013	140.9	8.2	149.1
2014	163.0	14.5	177.5
2015	103.8	16.4	120.2
2016	164.3	30.5	194.8
2017	100.7	45.9	146.6
6 months to 31 Dec 2017	9.8	45.3	55.1

1. 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.

2. 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.

Institutional Business

- Institutional FUM of \$39.8 billion at 31 December 2017 (30 June 2017: \$35.4 billion)
 - Global equities \$32.2 billion
 - Global listed infrastructure \$7.6 billion
- More than 120 institutional clients¹ at 31 December 2017
- Total net institutional inflows for 6 months to 31 December 2017: \$1.6 billion (6 months to 31 December 2016 was \$1.8 billion)
- Closed global equities strategies managed by Hamish Douglass to new institutional investors on 31 December 2017². Certain clients have reserved capacity to be funded over the next 24 months³
- Recently decided to discontinue the international (non-US) low carbon strategy to focus on the global and US low carbon strategies

1. The number of clients include separately managed accounts and institutional investors in local and offshore vehicles.

2. U.S. mutual fund will remain open with some allocated capacity.

3. St James's Place has reserved capacity that can be funded over a longer period.

Institutional Business (cont.)

FUM (\$ billion)	31 Dec 2017	30 June 2017	% change
Australia/NZ	5.1	4.9	2%
North America	12.6	10.9	15%
UK	18.3	16.2	13%
Rest of World	3.9	3.4	17%
Total	39.8	35.4	12%

Investment Performance

For the periods to 31 December 2017

	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.) ¹
Magellan Global Fund (\$A)	14.2	10.9	18.4	11.3
MSCI World NTR Index (\$A)	13.3	10.9	18.1	5.6
MSCI World Minimum Volatility NTR Index (A\$)	8.6	11.5	18.4	7.0
Magellan Infrastructure Fund (\$A)	17.4	11.5	14.9	8.7
Global Listed Infrastructure Benchmark (\$A) ²	14.4	7.3	12.4	6.0
Magellan High Conviction Strategy (\$A)	23.3	13.2	21.3	21.3

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

2. 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.

Principal Investments

- Principal Investments include investments in Magellan Funds, listed shares, a small number of unlisted investments and surplus cash after allowing for the Group's working capital requirements

Investment (\$ million)	31 December 2017	30 June 2017
Cash	0.3	3.4
Magellan Unlisted Funds ¹	173.5	160.0
Listed shares/funds ²	94.9	102.9
Other ³	0.4	5.0
Total	269.1	271.3
Net deferred tax liability ⁴	(25.6)	(20.3)
Net principal investments	243.5	251.0
Net principal investments per share (cents) ⁵	141.3	145.8

1. Magellan Unlisted Funds includes the Magellan Global Fund, Magellan Global Fund (Hedged), Magellan High Conviction Fund, Magellan High Conviction Fund Class B, the Frontier MFG Funds, Magellan Wholesale Plus Global Fund, Magellan Wholesale Plus Infrastructure Fund and the MFG Infrastructure Fund – Service Class; 2. Listed shares/funds include Global Low Carbon Portfolio, Low Carbon (US) Portfolio, Magellan Global Equities Fund, Magellan Global Equities Fund (Currency Hedged) and Magellan Infrastructure Fund (Currency Hedged) excluding receivables/payables (refer to footnote 3); 3. Other comprises receivable/payables and unlisted funds and shares; 4. Net deferred tax liability arising from changes in the fair value of financial assets and net capital losses carried forward; 5. Based on the aggregate of 172,332,358 ordinary shares on issue at 31 December 2017 (30 June 2017, it is based on 172,076,468 ordinary shares).

Principal Investments (cont.)

- Board has set a pre-tax hurdle 10% p.a. (over business cycle) for the Principal Investments
- Investment in MGG highlights philosophy on capital management:
 - Flexibility to deploy capital which now earns an estimated post tax return of 21% per annum

Investment Returns:

Time Period	Return
1 Year to 31 December 2017	16.0%
3 Years to 31 December 2017 p.a.	11.5%
5 Years to 31 December 2017 p.a.	18.8%
Since Inception to 31 December 2017 p.a. ¹	11.1%

1. Return excludes investment in MFF Capital Investments Limited.

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