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9 August 2018

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

**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

Magellan Financial Group Limited hereby lodges:

1. Appendix 4E for the year ended 30 June 2018; and
2. Annual Report and Financial Statements for the year ended 30 June 2018, incorporating the Chief Executive Officer's Annual Letter.

Yours faithfully,

**Geoffrey Stirton  
Company Secretary**

# Appendix 4E

## Annual Financial Report

### For the year ended 30 June 2018

Name of entity

**Magellan Financial Group Limited**

ACN

108 437 592

Reporting period

1 July 2017 to 30 June 2018

Previous corresponding period

1 July 2016 to 30 June 2017

#### Results for announcement to the market

		<b>30 June 2018 \$'000</b>
<b>Total revenue</b> ("revenue from ordinary activities")	Up by 34% to	\$452,598
<b>Net operating profit for the year</b> ("profit from ordinary activities after tax attributable to members")	Up by 8% to	\$211,791
<b>Total comprehensive income</b> ("net profit for the period attributable to members")	Up by 5% to	\$227,104

#### Commentary on results

Refer to the attached Annual Report (which includes the financial statements and Chief Executive Officer's Annual Letter). Additional Appendix 4E disclosure requirements can be found in the notes to the financial statements.

#### Dividends

	<b>Amount per security</b>	<b>Franked Amount per security</b>
<b>Interim Dividend (paid 20 February 2018)</b>	44.5 cents	44.5 cents
<b>Final Dividend (to be paid 27 August 2018)<sup>(A)</sup></b>	90.0 cents	90.0 cents
<b>Total Dividends</b>	134.5 cents	134.5 cents

<sup>(A)</sup> comprises a Final Dividend of 75.1 cents per share and a Performance Fee Dividend of 14.9 cents per share.

#### Final dividend dates:

Ex-dividend date: Tuesday 14 August 2018  
 Record date: Wednesday 15 August 2018  
 Payment date: Monday 27 August 2018

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

#### Net tangible assets per share

30/6/2018	\$2.92
30/6/2017	\$2.60

**Earnings per share**

	<b>30 June 2018</b>	<b>30 June 2017</b>
Basic earnings per share	122.0 cents	116.9 cents
Diluted earnings per share <sup>(A)</sup>	122.0 cents	114.1 cents

<sup>(A)</sup> There were no potential ordinary shares on issue in the year ended 30 June 2018. In the prior year ended 30 June 2017, the Class B Shares were considered to be potential ordinary shares up until conversion on 22 November 2016 and were included in the determination of diluted earnings per share to the extent they were dilutive.

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

Material operating entities over which the Group has gained control during the year ended 30 June 2018 are:

<b>Date acquired</b>	
5 February 2018	Acquired 100% of Frontier Partners Inc, a registered investment adviser that distributes investment strategies to institutional clients in North America.
2 April 2018	Acquired 100% of Frontegra Strategies LLC, a registered broker-dealer.  These entities are companies in the Frontier Group, a group that assists specialised fund managers penetrate the North American institutional marketplace. The Frontier Group has been Magellan's distribution partner in North America since 2011.
1 March 2018	Acquired 100% of Airlie Funds Management Pty Limited, a specialist Australian equities fund manager with over A\$6 billion of funds under management.

Refer to note 16 and note 18 of the Annual Financial Report for further details.

**Financial Report**

This report is based on the 30 June 2018 Annual Report (which includes the consolidated financial statements) and has been audited by Ernst & Young.



# Annual Report

for the year ended 30 June 2018

MAGELLAN FINANCIAL GROUP LIMITED: ABN 59 108 437 592

# Five year summary<sup>(1)</sup>

		30 June 2018	30 June 2017	30 June 2016	30 June 2015	30 June 2014
<b>Group Results</b>						
Total Revenue	\$'000	452,598	338,268	333,805	284,912	148,109
Total Expenses	\$'000	181,988	82,141	74,104	54,603	37,630
Net Profit Before Tax	\$'000	270,610	256,127	259,701	230,309	110,479
Net Profit After Tax	\$'000	211,791	196,225	198,357	174,295	82,939
Net Profit After Tax before MGG net offer costs and amortisation <sup>(2)</sup>	\$'000	268,897	196,225	198,357	174,295	82,939
Effective Tax Rate	%	21.7	23.4	23.6	24.3	24.9
<b>Funds Under Management<sup>(3)</sup></b>						
Average Funds Under Management	\$m	59,034	45,667	39,437	30,966	19,923
Total Funds Under Management	\$m	69,509	50,597	40,495	36,381	23,513
Funds Under Management comprises:						
- Retail	\$m	19,182	15,159	12,041	9,809	6,693
- Institutional	\$m	50,327	35,438	28,454	26,572	16,820
Average Base Management Fee (per annum) <sup>(4)</sup>	bps	65	66	66	66	67
<b>Funds Management Business<sup>(2)</sup></b>						
Total Revenue	\$'000	428,705	329,188	315,268	255,889	139,135
Total Expenses	\$'000	97,275	80,908	71,483	52,589	36,616
Net Profit Before Tax	\$'000	331,430	248,280	243,785	203,300	102,519
Net Profit Before Tax and before performance fees <sup>(5)</sup>	\$'000	291,841	226,774	196,425	160,401	100,533
Employee Expenses/ Total Expenses	%	53.4	58.5	58.8	59.4	64.4
Cost to Income Ratio (expense/revenue)	%	22.7	24.6	22.7	20.6	26.3
Cost to Income Ratio (excluding performance fees)	%	25.0	26.3	26.5	24.8	26.7
<b>Assets</b>						
Total Assets	\$'000	674,943	493,981	392,379	346,678	236,851
Net Assets	\$'000	620,433	447,611	355,369	303,443	206,587
Net Tangible Assets Per Share	\$	2.92	2.60	2.07	1.78	1.24
<b>Shareholder Value</b>						
Basic Earnings Per Share	cents	122.0	116.9	123.5	109.2	53.3
Diluted Earnings Per Share	cents	122.0	114.1	115.5	101.8	48.9
Diluted Earnings Per Share before MGG net offer costs and amortisation <sup>(2)</sup>	cents	154.9	114.1	115.5	101.8	48.9
Dividends Per Share	cents	134.5	85.6	89.3	74.9	38.3
<b>Other Information</b>						
Number of Employees		124	108	100	91	69
Average Number of Employees		116	104	96	80	64

- (1) Where accounting classifications have changed, or where changes in accounting policy are adopted retrospectively, comparatives have been revised and may differ from results previously reported. The above Consolidated Statement of Profit or Loss and Consolidated Statement of Financial Position extracts are derived from the published financial statements.
- (2) Excludes net offer costs relating to the Magellan Global Trust IPO and non-cash amortisation.
- (3) As reported in the Group's funds under management (FUM) announcements published on the Australian Securities Exchange.
- (4) Calculated using management fees (excluding services and performance fees) for the relevant year divided by the average of month end FUM over the same year.
- (5) Excludes for the current year performance fee impact on revenue and expenses for the 12 month period, net offer costs relating to Magellan Global Trust IPO and amortisation arising from the acquisitions of Airle and Frontier Group.

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# MAGELLAN FINANCIAL GROUP LIMITED

## Chairman's Report for the year ended 30 June 2018

Dear Shareholders,

We are pleased to present the Annual Report for Magellan Financial Group ("Magellan") for the financial year ended 30 June 2018.

As in previous years, this report contains a detailed letter from our Chief Executive Officer, Hamish Douglass, together with the Group's financial statements, both of which we would encourage you to read carefully.

For the financial year, our fully diluted earnings per share is \$1.220. This figure includes the one-off costs associated with the Magellan Global Trust (ASX: MGG) offering, and non-cash amortisation expenses relating to intangibles arising from the recent Airlie and Frontier acquisitions. Excluding these items, fully diluted earnings per share is \$1.549. This compares with fully diluted earnings per share of \$1.141 last year.

Following a review of the Group's capital requirements the Board considers the Group now has sufficient capital to ensure both the maintenance of a very strong balance sheet in proportion to the scale of our business, and to provide the necessary flexibility for further product development and seeding of new initiatives.

As such, the Board has decided to increase the dividend payout ratio to 90-95% of the net profit after tax of the funds management business, excluding performance fees and amortisation. Previously this range was 75-80%. This revised policy will also apply to any after tax crystallised performance fees earned during the year which will be paid alongside the final dividend. This new policy will increase total cash dividends by approximately 20% compared with the old policy.

A final dividend of \$0.900 per share (100% franked) was declared and will be paid on 27 August 2018. This brings total fully franked dividends per share to \$1.345 for the year, which compares with \$0.856 last year.

The final dividend comprises \$0.751 per share relating to the base funds management business (this includes a top up amount of \$0.084 per share to effectively align the interim dividend which was paid under the old policy) and, \$0.149 per share relating to crystallised performance fees earned during the year.

Payment of dividends will be subject to corporate, legal and regulatory considerations. Furthermore, the combination of the new higher payout ratio and our current average tax rate of approximately 22% (due to the OBU) will mean that future dividends are likely to be partly franked.

Average funds under management for the year stood at \$59.0 billion, a 29% increase over last year's figure of \$45.7 billion. Net inflows for the year were \$4.4 billion, of which \$1.6 billion is attributable to the MGG offering. Investment performance contributed \$8.5 billion to the increase and the acquisition of Airlie Funds Management added \$6.3 billion.

As at 31 July 2018 funds under management stood at \$70.0 billion.

This past year has been a busy one, particularly with the acquisitions of Airlie and Frontier. We are extremely pleased with both – the people are first rate and, as we have remarked before, it is clear they love what they do. Both these business complement Magellan and, importantly, are a wonderful cultural fit.

The year has also been characterised by a couple of high profile events, notably the launch and issuance of the \$1.6 billion Magellan Global Trust, and our involvement with the sponsorship of Cricket Australia ("CA").

MGG has now been trading since October 2017 and currently has over 34,000 direct unitholders. We are pleased our clients and their advisers are using MGG, and feedback we have received indicates they appreciate this differentiated, scale ASX listed point of access to help manage their global equities investments.

Our involvement with CA, unfortunately, lasted only a brief period and traversed some highs and a serious low.

As we noted in our half year report, we were delighted with the sponsorship across the summer Ashes test series. Magellan's brand awareness and other important measures increased markedly as a result.

However, our brand and the way we wish to conduct business came into jarring conflict with CA following the ball tampering incident in South Africa.

This was a challenging time as we are naturally led to a position of loyalty and support but, given the severity and nature of this incident, we believe we were left with no choice but to terminate the partnership.

Our initial attraction to CA can perhaps be best summed up by the simple phrase "it's just not cricket", which historically has needed no explanation to convey ethical behaviour, sportsmanship, and a sense of always doing the right thing.

It is arguable that this phrase has been hollowed out and although we are extremely disappointed to have had to end our association, we wish CA well as it looks to re-build and restore that iconic notion to its rightful place.

Events such as these, and others more recently relating directly to financial services, underpin the need to stay extremely focused on our culture. We are somewhat fortunate in that our number of employees is not vast, but we nevertheless work to ensure our cultural values are well understood and agreed. For example, I make sure to spend one-on-one time with every new member that joins our group to discuss our history, our values and what we want Magellan to stand for.

We are a collegiate group whose actions are based on fairness and respect. We understand mistakes can and will happen and we encourage openness and learning. We aim to organise our incentives to deliver fair and transparent outcomes and are very mindful of second order effects that may have not have been immediately apparent. We keep watch.

We look to protect our culture and are not afraid to take decisive, difficult steps if we believe there are problems. We understand it is much better to deal with issues honestly and quickly than not.

Nothing can guarantee against poor outcomes, but to be in a position of sustained trust, such as making investment decisions with someone else's savings, means that we must always strive to ensure our actions deserve that trust. It is fundamental to what we do.

As such, it is important for shareholders to understand that we put our clients before them. In our view there is no perversity in the belief that we will always do best for our shareholders over time if they are not our top priority. Our clients and those advising them must rank first.

This is true across all facets of our business, and especially so in executing the trust our clients have shown by giving us their money to manage.

Although much time, effort and thought goes into our investment processes, our objective is straightforward: to produce satisfactory returns over time whilst reducing the risk of permanent capital loss.

Whereas it is perhaps easy to see how returns have tracked relative to relevant measurement yardsticks, it is less apparent how investment portfolios are positioned in relation to downside risk, particularly in times when uncertainty is rife.

Adam Smith's great mentor David Hume wrote that "uncertainty has the same influence as opposition. The agitation of thought; the quick turns it makes from one view to another; the variety of passions, which succeed each other, according to different views: All these produce an agitation in the mind..."

Despite all the current uncertainty in markets and across political landscapes, Hamish and his investment team have remained focused, clear and free from "the agitation of thought". They continue to produce excellent results at the same time as paying very close attention to the management of downside risk. Outperforming whilst being conservatively positioned, including significant allocations to negligible yielding cash, is a credit to all involved.

Similarly, our infrastructure team, led by Gerald Stack, are clear in their objective and their strict definition of what infrastructure constitutes acceptable investment. The nature of the returns generated over the past decade or so speaks volumes to this disciplined approach, and this has developed a strong following amongst investors and advisers, with funds under management recently surpassing \$10 billion.

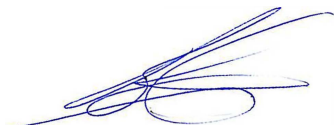
Likewise, our new colleagues at Airlie are extremely client focused, and continue to produce impressive investment results. We have recently launched the Airlie Australian Share Fund and are very pleased with the early interest shown by investors and the adviser community.



Airlie, like Magellan, are in for the long-haul and are excited by the prospect of continuing to do better for their existing and new clients as their business grows over the coming years.

Magellan will also continue to grow and evolve in the years to come, and we look forward to the opportunities, and indeed challenges, that are ahead.

Our Annual General Meeting this year will be held on Thursday 4 October 2018 and as usual we welcome any and all discussion. We hope to see you there.



**Brett Cairns**  
Executive Chairman

9 August 2018

# MAGELLAN FINANCIAL GROUP LIMITED

## Chief Executive Officer's Annual Letter

### for the year ended 30 June 2018

Dear Shareholder,

I am delighted to write to you as a shareholder in Magellan Financial Group Limited ("the Group") for the year ended 30 June 2018.

#### OVERVIEW OF RESULTS

The Group had a successful year which was characterised by solid growth in:

- average funds under management (which increased by 29% from \$45.7 billion to \$59.0 billion for the 12 months to 30 June 2018);
- profit before tax and performance fees of the Funds Management business increased by 29% to \$291.8 million; and
- total dividends up 57% to 134.5 cents per share.

The Group's net profit after tax (excluding the one-off Magellan Global Trust ("MGG") net offer costs<sup>(1)</sup> and non-cash amortisation) increased by 37% to \$268.9 million for the 2018 financial year (\$196.2 million for 2017). The Group's statutory profit after tax grew by approximately 8% to \$211.8 million.

The Board of Directors has undertaken a review of the ongoing capital requirements of the Group and has revised the dividend policy to increase the payout ratio. The Directors believe the Group has a very strong balance sheet and has sufficient capital to support the business and to grow organically. The Company's revised dividend policy is to pay Interim and Final Dividends of 90% to 95% of the net profit after tax of the Group's Funds Management business (excluding performance fees). In addition to the Interim and Final Dividends, the Group will pay an annual Performance Fee Dividend of 90% to 95% of the net crystallised performance fees after tax. The payment of dividends by the Group will be subject to corporate, legal and regulatory considerations.

The Directors have declared total dividends of 134.5 cents per share for the year ended 30 June 2018. This is an increase of 57% over the 2017 financial year.

In respect of the six months to June 2018 the Directors have declared a fully franked total dividend of 90.0 cents per share (47.2 cents in 2017). The dividend payment comprises:

- a Final Dividend of 75.1 cents per share (inclusive of a top amount of 8.4 cents per share to align the previously paid Interim Dividend to the new dividend policy); and
- a Performance Fee Dividend of 14.9 cents per share.

The Final Dividend and Performance Fee Dividend will both be paid on 27 August 2018. It should be noted that, as a result of the revised dividend policy, future dividends may be partially franked.

The following table summarises the Group's profitability over the past two financial years:

	30 June 2018 \$'000	30 June 2017 \$'000	Change %
Management and services fees	385,775	307,179	26%
Performance fees	39,772	21,696	83%
Other revenue	27,051	9,393	188%
<b>Revenue</b>	<b>452,598</b>	<b>338,268</b>	<b>34%</b>
Expenses before MGG net offer costs <sup>(2)</sup> and amortisation	(101,010)	(82,141)	23%
<b>Profit before tax, MGG net offer costs and amortisation</b>	<b>351,588</b>	<b>256,127</b>	<b>37%</b>
Tax expense before MGG net offer costs and amortisation	(82,691)	(59,902)	38%
<b>Profit after tax before MGG net offer costs and amortisation</b>	<b>268,897</b>	<b>196,225</b>	<b>37%</b>
Amortisation	(1,404)	n/a	
MGG net offer costs (after tax)	(55,702)	n/a	
<b>Profit after tax</b>	<b>211,791</b>	<b>196,225</b>	<b>8%</b>
<b>Key Statistics</b>			
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%
<b>Dividends</b>			
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%
<b>Total Dividends (cents per share, fully franked)</b>	<b>134.5</b>	<b>85.6</b>	<b>57%</b>

(1) 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.

(2) MGG net offer costs are net of the distribution declared for the half year ended 31 December 2017 on the loyalty units.

As at 30 June 2018, the Group is in a very strong financial position:

- the Group had investment assets (cash and cash equivalents and financial assets) of \$445.6 million (30 June 2017: \$411.1 million) and shareholders' funds of \$620.4 million (30 June 2017: \$447.6 million); and
- the Group's NTA per share was \$2.92 (30 June 2017: \$2.60).

### Funds Management Segment

For the year ended 30 June 2018, the Group's funds management business profit before tax increased by 33% to \$331.4 million (\$248.3 million for 2017). Profit before tax and before performance fees<sup>(3)</sup> grew by 29% to \$291.8 million (\$226.8 million for 2017).

The highlights for our funds management business include:

- Strong investment performance of both our core global equities and infrastructure strategies;
- Total net inflows of \$4.4 billion for the 12 months to 30 June 2018 (\$4.0 billion for 2017);
- Completion of the \$1.57 billion initial public offering of MGG, the largest closed end fund raising in Australian history;
- Acquisition of the Frontier Group<sup>(4)</sup>, our North American distribution partner; and
- Acquisition of Airlie Funds Management Pty Limited ("Airlie") and the launch of the Airlie Australian Share Fund.

The following table summarises the profitability of the funds management business<sup>(5)</sup> over the past two financial years:

	30 June 2018 \$'000	30 June 2017 \$'000	Change %
<b>Revenue</b>			
Management fees	381,074	300,529	27%
Performance fees	39,772	21,696	83%
Services fees	4,701	6,650	-29%
Interest and other income	3,158	313	909%
	<b>428,705</b>	<b>329,188</b>	<b>30%</b>
<b>Expenses</b>			
Employee expense	51,935	47,312	10%
Fund administration and operational costs	14,665	10,311	42%
Marketing expense	11,102	3,037	266%
Information technology expense	4,588	3,758	22%
Occupancy expense	4,276	3,155	36%
US marketing and consulting fees	4,206	7,895	-47%
Other expense	6,503	5,440	20%
	<b>97,275</b>	<b>80,908</b>	<b>20%</b>
<b>Profit before tax expense</b>	<b>331,430</b>	<b>248,280</b>	<b>33%</b>
<b>Profit before tax and before performance fees<sup>(3)</sup></b>	<b>291,841</b>	<b>226,774</b>	<b>29%</b>
<b>Key Statistics</b>			
Average funds under management (\$ million)	59,034	45,667	29%
Average AUD/USD exchange rate	0.7752	0.7538	3%
Average number of employees	116	104	12%
Employee expenses / total expenses	53.4%	58.5%	
Cost / income	22.7%	24.6%	
Cost / income, excl. performance fees	25.0%	26.3%	

Revenues for the year ended 30 June 2018 increased by 30% to \$428.7 million. This was driven by a 27% increase in total management fees revenue as a result of a 29% increase in average funds under management over the period attributable to strong investment performance, net inflows and the acquisition of Airlie in March 2018. Overall, the funds management business operated efficiently with a cost to income ratio (excluding performance fees) of 25.0% in 2018 compared with 26.3% in 2017.

Expenses increased by 20% to \$97.3 million. The increase in expenses included:

- a 10% increase in employee expense over the prior corresponding period to \$51.9 million, below guidance including the employees we welcomed as a result of the acquisitions of Airlie and the Frontier Group;
- an increase in marketing costs to \$11.1 million in line with guidance of \$11.0-\$11.5 million; and
- a 42% increase in administration and operational costs reflecting the increase in funds under management and a number of new product launches.

The increase in costs was partially offset by a decrease in US marketing fees of \$3.7 million. The reduction in US fees related to the termination of this arrangement with Frontier Group effective from 1 January 2018.

(3) Adjusts for the current period performance fee impact on revenue and expenses for the 12 month period.

(4) 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).

(5) The MGG 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. Also excludes non-cash amortisation.

As flagged last year, the increased marketing spend was to support our strategy to increase our penetration with self-directed investors and included a sponsorship with Cricket Australia. On 29 March 2018, we announced our withdrawal from the partnership with Cricket Australia. The Group remains focused on developing its retail business and executing its self-directed investor strategy and is implementing an alternative marketing strategy to reach this group of investors. The Group expects a substantial reduction in marketing costs in the 2019 financial year.

The following table sets out total employee numbers:

	30 June 2018	30 June 2017
<b>Investment</b>		
- Portfolio Managers/Analysts	26	33
- Dealers	3	3
	29	36
<b>Governance &amp; Advisory</b>	6	5
<b>Distribution &amp; Marketing</b>	33	35
<b>Risk, Compliance, Legal &amp; Company Secretarial</b>	8	8
<b>Business Support &amp; Control</b>	17	17
<b>Administration</b>	7	7
<b>Frontier Group</b>	11	-
<b>Airlie</b>	13	-
<b>Total</b>	<b>124</b>	<b>108</b>
Average number of employees	116	104

We expect total Group expenses (excluding non-cash amortisation) to be approximately \$105 million in the 2019 financial year. This compares to total group expenses (excluding MGG net offer costs and non-cash amortisation) of \$101.0 million this year.

Subject to the finalisation of the acquisition accounting of Frontegra Asset Management Inc., we expect that non-cash amortisation charges will be approximately \$4.2 million in the 2019 financial year. This non-cash expense is not included in the Fund Management business segment and will not impact dividends moving forward.

### Funds Under Management (FUM)

At 30 June 2018, the Group had FUM of \$69.5 billion, split between global equities (76%), infrastructure equities (15%) and Australian equities (9%). This compares with FUM of \$50.6 billion at 30 June 2017. The increase in FUM was driven by investment performance of approximately \$8.5 billion less cash distributions (net of reinvestment) of approximately \$0.3 billion, net inflows of \$4.4 billion and the acquisition of Airlie in March 2018 (\$6.3 billion).

The following table sets out the composition of FUM:

\$million	30 June 2018	30 June 2017	30 June 2016
Retail	19,182	15,159	12,041
Institutional			
- Australia/New Zealand	11,680	4,939	4,415
- North America	13,596	10,919	9,145
- UK	20,804	16,231	12,382
- Rest of World	4,247	3,349	2,512
	50,327	35,438	28,454
<b>Total FUM</b>	<b>69,509</b>	<b>50,597</b>	<b>40,495</b>
<b>Percentage</b>			
Retail	28%	30%	30%
Institutional			
- Australia/New Zealand	17%	10%	11%
- North America	20%	21%	23%
- UK	30%	32%	31%
- Rest of World	6%	7%	6%
	72%	70%	70%
<b>Total FUM</b>	100%	100%	100%
FUM subject to Performance Fees (%)	34%	38%	38%
Institutional FUM (%)			
- Active	89%	87%	85%
- Enhanced Beta	11%	13%	15%
Breakdown of FUM (A\$ million)			
- Global Equities	52,655	42,316	33,723
- Global Listed Infrastructure	10,320	8,281	6,772
- Australian Equities	6,534	-	-
Average Base Management fee (bps) per annum excluding performance fees <sup>(6)</sup>	65	66	66

(6) 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.

## Retail FUM

At 30 June 2018, the Group had total retail FUM of \$19.2 billion. We experienced total net retail inflows of \$1.9 billion for the 12 months to 30 June 2018, compared with \$1.7 billion for the previous financial year. The total net retail inflows include proceeds from the MGG IPO of \$1.57 billion. The Group experienced average monthly retail net inflows (excluding the proceeds of the MGG IPO) of approximately \$23 million over the 12 months to 30 June 2018, compared with \$147 million over the previous corresponding period. We believe average flows over the 12 months to 30 June 2018 were partially impacted by the MGG raising which is likely to have brought forward inflows we otherwise might have expected during the year.

## Institutional FUM

At 30 June 2018, the Group had total institutional FUM of \$50.3 billion from more than 140 clients<sup>(7)</sup>. We experienced institutional net inflows of \$2.5 billion for the 12 months to 30 June 2018, which compares with net inflows of \$2.3 billion for the 12 months to 30 June 2017.

At 30 June 2018, the Group managed funds from clients in:

- North America of approximately \$13.6 billion (\$10.9 billion at 30 June 2017);
- The UK<sup>(8)</sup> of approximately \$20.8 billion (\$16.2 billion at 30 June 2017);
- Australia/NZ of approximately \$11.7 billion, which now includes institutional clients of Airlie (\$4.9 billion as at 30 June 2017); and
- Rest of world of approximately \$4.2 billion (\$3.3 billion at 30 June 2017).

## Global Equities

As at 30 June 2018, our core global equities strategies had \$52.7 billion of FUM. We closed our core global equities strategies to new institutional investors on 31 December 2017<sup>(9)</sup>. We have agreed reserved capacity with institutional clients into our global equities strategies which is available to be used over the next 12-18 months<sup>(10)</sup>.

Whilst our global equities strategy is closed for new institutional investors and we are deeply penetrated in the financial advice market in global equities, we feel we have two exciting channels to continue to develop our global equities business in Australia/NZ. We are comfortable that we have sufficient capacity and flexibility for our retail global equities business over time through these two channels:

- we see significant opportunity in the self-directed retail channel where we believe Australian self-directed investors are materially underweight global equities. Importantly, we have two innovative access points into our global equities strategies on the ASX, through our open-ended Active ETFs and MGG, our closed ended listed investment trust; and
- we see an opportunity to market the Magellan High Conviction Fund, which now has an outstanding five year track record, to advisers that are interested in a satellite, higher returning strategy representing our best investment ideas.

We believe we have built an outstanding global equities business with a world class investment track record and a deep, relationship-oriented client base. Our investment objectives are clear. We seek to delivery satisfactory investment returns (a target average return of above 9% per annum after fees) over the medium to long term while minimising the risk of permanent capital loss. We are happy to be judged on absolute returns over time and our record at minimising the risk of permanent capital loss.

Given our medium to long term focus, it is not unreasonable to expect some periods when the strategy will not outperform or will lag market benchmarks. Further, given our focus on absolute performance and high-quality/low volatility approach of our global equity strategy it can also reasonably be expected that returns may underperform broader based benchmarks in strongly rising markets due to the cap on volatility. If you look at our returns after fees over three years on a rolling monthly basis, which we think is the minimum time frame you should consider when assessing whether or not a manager is adding value over time, our global equity strategy has outperformed the MSCI World Index consistently since inception; in fact, more than 90% of the time. This places Magellan right at the top of its peer group of global equity managers on the basis of consistency of outperformance.

However, we feel strongly that people cannot retire on 'relative investment returns'. Only by generating investment returns that exceed the rate of inflation by a reasonable margin will investors meaningfully increase their wealth over time. We are satisfied with the investment returns delivered to date.

<sup>(7)</sup> The number of clients includes separately managed accounts and institutional investors in local and offshore vehicles.

<sup>(8)</sup> 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).

<sup>(9)</sup> U.S. mutual fund will remain open with some allocated capacity.

<sup>(10)</sup> Excluding St James's Place which has reserved capacity which can be funded over a longer period.

The following table sets out the compounded annual investment returns net of fees of the Magellan Global Fund compared with its 9% per annum long term objective since inception on 1 July 2007, as at 30 June 2018.

	Magellan Global Fund <sup>(11)</sup>	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%	✓

We are also pleased with our record of minimising permanent capital loss. Since inception, the Magellan Global Fund has captured approximately 100% of the upside in rising markets and in falling markets, has fallen less than 50% of the market fall.

We are also pleased with the development of our next generation of global equities strategies, the sustainable strategies, which have been renamed from low carbon strategies. We believe that this leverages our competitive strengths and enables our investment team to remain focused on our core research and continue to deliver excellent results for clients. Whilst it will take time to generate a track record for the sustainable strategies and deliver meaningful FUM we remain pleased with the early client interest and welcomed our first client into the Global Sustainable UCITS sub-fund in July 2018. During the year, we decided to discontinue the international (non-US) strategy and focus on the global and US sustainable strategies. The theoretical capacity of the sustainable strategies is approximately US\$15-20 billion.

#### Global Listed Infrastructure

As at 30 June 2018, our global listed infrastructure strategies had \$10.3 billion of FUM. We are very pleased with the level of interest we are seeing in our global listed infrastructure strategies and expect this to grow over time. We believe Magellan is well positioned to grow in this space given our unique approach to defining infrastructure and the consistency of investment returns and long-term outperformance the team has achieved.

The following table sets out the compounded annual investment returns net of fees of the Magellan Infrastructure Fund compared with its investment objective of delivering a return of 5% above inflation through the cycle. Given our medium to long term focus and our definition of infrastructure, which excludes companies where Magellan has assessed their earnings to have material direct exposure to commodity prices, competitive pressure or sovereign risk, it is not unreasonable to expect some periods where the returns may underperform the broader based market index. However, over the cycle we believe the strategy will produce attractive risk-adjusted returns for investors. We are pleased with the returns delivered to date.

	Magellan Infrastructure Fund <sup>(12)</sup>	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%	✓

The theoretical capacity of our global listed infrastructure strategies is approximately US\$15 billion. At 30 June 2018 the Group's FUM in our infrastructure strategies were US\$7.6 billion.

(11) 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). Fund Inception 1 July 2007. Returns denoted in AUD.

(12) 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). Fund Inception 1 July 2007. Returns denoted in AUD.

## Airlie Funds Management

During the year, we acquired Airlie and we are delighted that Airlie has chosen to partner with Magellan for the long term. Airlie was founded in 2012 by John Sevier, one of Australia's most foremost investors and David Cooper, formerly CEO of Treasury Group. We are also delighted to welcome on board Matt Williams (former Head of Equities and portfolio manager of Perpetual Funds Management) who joined Airlie in 2016 and Emma Goodsell who also joined Airlie in 2016. John, Matt and David have already built an outstanding business with over \$6 billion of funds under management for institutional and wholesale investors. Through our partnership, we have an opportunity to develop further the Airlie business into the retail market.

We were delighted to launch the Airlie Australian Share Fund in June 2018 which is being managed by Matt and Emma. Although it is early days, we are pleased to be able to provide retail investors and their advisers with the opportunity to invest with one of the most experienced teams in Australian funds management.

## **Driving shareholder value**

There are some commentators who consider that Magellan is ex-growth and believe it is unlikely that Magellan will generate material new net FUM inflows over time due to the size and maturity of our global equities business. We believe the focus on new FUM inflows materially misses the key drivers of creating shareholder value over time. In our view, the most important factors of ongoing value creation for Magellan are:

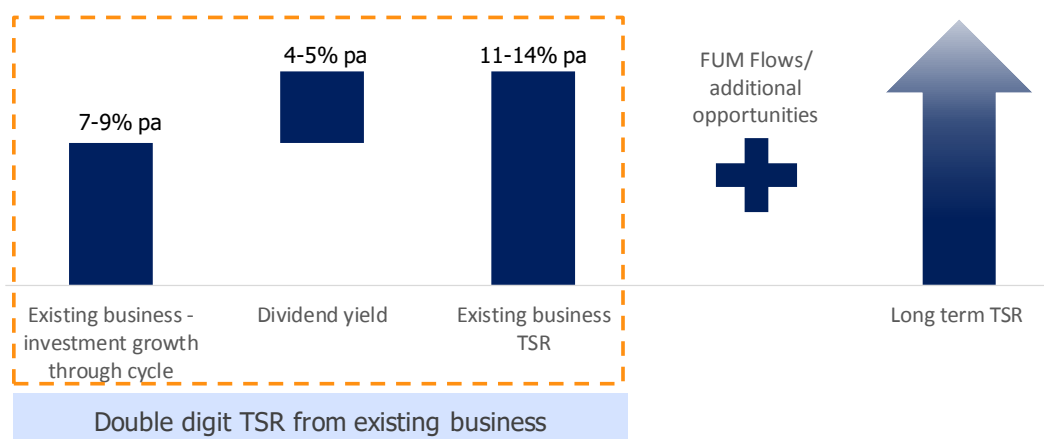
- looking after our current clients;
- investment performance on the FUM that we already manage. Based on our investment objectives for each of our strategies, we would aim to generate revenue growth of 7-9% on average over the medium term from the existing base of FUM. Of course, annual revenue growth will vary substantially from this due to variations in equity markets. We note that we launched each of our global equities and infrastructure strategies on 1 July 2007, which was shortly before the last major peak in equity markets, and from peak-to-peak the strategies have delivered returns of 11.6% per annum and 8.4% per annum, respectively; and
- the dividend yield we deliver to shareholders each year. The recognition of the importance of dividends, after capital needs are met, to total shareholder returns is a key reason why the Board decided to increase the total dividend payout by approximately 20% per annum.

Growth in earnings and dividends are the key drivers of total shareholder returns over time. Excluding the benefit from any additional net inflows or the launch of new strategies, we would aspire to deliver a low-to-mid teen total shareholder returns (earnings growth plus dividends) over the medium term.

The icing on the cake is additional earnings growth via net new client business either via flows into existing products or via the launch of new products. This would drive higher shareholder value creation over time. We are optimistic that we can continue to achieve this objective over time via:

- the development of the self-directed market in Australia, particularly for global equities;
- marketing of the Magellan High Conviction Fund to advisers in Australia and New Zealand;
- marketing the recently launched Airlie Australian Share Fund to advisers in Australia and New Zealand;
- continued marketing of our outstanding infrastructure capability to institutional investors around the world and to advisers in Australia and New Zealand;
- marketing of our recently launched sustainability strategies (formerly called low carbon) primarily to institutional investors around the world; and
- the launch of new innovative strategies over the next few years that we are developing, the nature of which is confidential for commercial reasons.

The chart below graphically sets out our model for long term total shareholder return ("TSR"):



## Investments in Magellan's Funds and Principal Investments

At 30 June 2018, the Group had total Principal Investments of \$289.8 million, compared with Principal Investments of approximately \$271.3 million at 30 June 2017.

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), Magellan Global Trust, listed shares, a number of small unlisted investments and surplus cash after allowing for the Group's working capital requirements.

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. The investment in MGG highlights our philosophy on the utilisation of capital on value-adding projects.

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 16.0%, 10.7% and 14.7% per annum over the last 1, 3 and 5 years respectively. Excluding the effect of the Group's investment in MFF Capital Investments Limited, which was disposed of by way of in-specie distribution to shareholders in February 2013, the portfolio returned pre-tax 11.3% per annum since inception from 1 July 2007. 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 30 June 2018:

### MFG Group's Principal Investments

\$million	30 June 2018	30 June 2017
Cash	0.4	3.4
Magellan Unlisted Funds <sup>(13)</sup>	173.4	160.0
Listed shares/funds <sup>(14)</sup>	100.9	102.9
Other <sup>(15)</sup>	15.1	5.0
<b>Total</b>	<b>289.8</b>	<b>271.3</b>
Deferred tax liability <sup>(16)</sup>	(26.6)	(20.3)
<b>Net Principal Investments</b>	<b>263.2</b>	<b>251.0</b>
<b>Net Principal Investments per share (cents)<sup>(17)</sup></b>	<b>149.4</b>	<b>145.8</b>

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

9 August 2018

(13) 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 and Magellan Wholesale Plus Infrastructure Fund.

(14) Listed shares/funds include Global Sustainable Portfolio, Sustainable (US) Portfolio, Magellan Global Equities Fund, Magellan Global Equities Fund (Currency Hedged), Magellan Infrastructure Fund (Currency Hedged) and Magellan Global Trust excluding receivables/payables (refer to footnote 15).

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

(16) Net deferred tax liability arising from changes in the fair value of financial assets.

(17) Based on the aggregate of 176,211,167 ordinary shares on issue at 30 June 2018 (30 June 2017, it is based on 172,076,468 ordinary shares).



# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT for the year ended 30 June 2018

The Directors of Magellan Financial Group Limited (the "Company" or "MFG") submit their financial report for the Company and its controlled entities which together form the consolidated entity (the "Group") in respect of the year ended 30 June 2018.

### 1. Operations and Activities

#### 1.1 Company Overview

The Company is a listed public company and incorporated in Australia. The Group's main operating company is Magellan Asset Management Limited ("MAM"). The shares of the Company are publicly traded on the Australian Securities Exchange under ASX Code: MFG.

The Company's principal place of business is Level 36, 19 Martin Place, Sydney, New South Wales, 2000.

#### 1.2 Principal Activity

The principal activity of the Group is funds management with the objective of offering international investment funds to high net worth and retail investors in Australia and New Zealand, and institutional investors globally.

#### 1.3 Dividends

During the year ended 30 June 2018, dividends amounting to \$157,909,000 were paid representing 91.7 cents per share (June 2017: \$127,478,000 representing 76.4 cents per share).

The Board of Directors has undertaken a review of the ongoing capital requirements of the Group and has revised the dividend policy by increasing the payout ratio from 75% to 80% of net profit after tax of the Group's Funds Management business (excluding performance fees and amortisation) to between 90% to 95%. The Directors believe the Group has an extremely strong balance sheet and has sufficient capital to support the business and to grow organically.

In addition to the Interim and Final Dividends, the Group will pay an annual Performance Fee Dividend of between 90% to 95% of the net crystallised performance fees after tax. The payment of dividends by the Group will be subject to corporate, legal and regulatory considerations.

On 9 August 2018, the Directors declared a total fully franked dividend of 90.0 cents per share in respect of the six months to 30 June 2018 (June 2017: 47.2 cents per share). The dividend payments comprise a Final Dividend of 75.1 cents per share and a Performance Fee Dividend of 14.9 cents per share (June 2017: Final Dividend of 41.5 cents per share and a Performance Fee Dividend of 5.7 cents per share). The Final Dividend includes a top up amount of 8.4 cents per share to align the previously paid Interim Dividend for the six months to 31 December 2017 to the new dividend policy.

#### 1.4 Review of Financial Results and Operations

The Group's statutory net profit after tax for the year ended 30 June 2018 was \$211,791,000 compared with net profit after tax of \$196,225,000 for the prior year. Excluding the net offer costs relating to the Magellan Global Trust ("MGG") IPO and the amortisation of intangible assets relating to the 2018 acquisitions of Airlie Funds Management and Frontier Group, the Group's adjusted net profit after tax for the year ended 30 June 2018 was \$268,897,000. Total operating expenses, of \$99,818,000 (excluding the net offer costs relating to the MGG IPO and amortisation of intangible assets) compared with total operating expenses of \$82,141,000 for the previous corresponding year.

The Group is in a strong financial position with an extremely strong balance sheet and at 30 June 2018 reported:

- investment assets (including cash and cash equivalents and financial assets) of \$445,634,000 (June 2017: \$411,131,000) and shareholders' funds of \$620,433,000 (June 2017: \$447,611,000); and
- NTA per share of \$2.92 (June 2017: \$2.60).

Refer to the Chief Executive Officer's Annual Letter on page 6 for further information, including details on the Group's results, strategy and future outlook.

#### 1.5 Likely Developments and Expected Result of Operations

The Group will continue to pursue its financial objectives which are to increase the profitability of the Group over time by increasing the value and performance of funds under management and seeking to grow the value of the Group's investment portfolio. Additional comments on expected results of operations of the Group are included in this report in the Chief Executive Officer's Annual Letter.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT

for the year ended 30 June 2018

### 1.6 Significant changes in the State of Affairs

There were no significant changes in the state of affairs of the Group that occurred during the year not otherwise disclosed in this report or the financial statements.

### 1.7 Events Subsequent to the end of the Financial Year

On 6 August 2018, the Group reported to the ASX that its funds under management were \$70.0 billion as at 31 July 2018.

Other than the above and the dividends in respect of the six months ended 30 June 2018 discussed at section 1.3, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this report that has significantly affected 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.

## 2. Directors and Officers

### 2.1 Directors

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

Name	Directorship	Appointed
Brett Cairns	Executive Chairman	22 January 2007
Hamish Douglass	CEO and Chief Investment Officer	21 November 2006
John Eales	Non-Executive Director	1 July 2017
Robert Fraser	Non-Executive Director and Senior Independent Director	23 April 2014
Paul Lewis	Non-Executive Director	20 December 2006
Hamish McLennan	Non-Executive Director	1 March 2016
Karen Phin	Non-Executive Director	23 April 2014

### 2.2 Secretary

Geoffrey Stirton was the Company Secretary of the Company during the year and up to the date of this report. There are no other officers of the Company.

### 2.3 Information on Directors and Officers

#### Brett Cairns

Executive Chairman

Brett was formerly co-head of the Capital Markets Group within Structured Finance at Babcock & Brown, which he joined in 2002. Brett was a former Managing Director and Head of Debt Capital Markets for Merrill Lynch in Australia where he worked from 1994 to 2002. Prior to joining Merrill Lynch, Brett spent 3 years with Credit Suisse Financial Products, the then derivatives bank of the Credit Suisse group. Brett has a BE (Hons), Master of Business Administration and a Doctorate of Philosophy from the University of Sydney.

#### Hamish Douglass

CEO and Chief Investment Officer

Hamish is the co-founder of the Company. He is a former member of the Australian Government's Foreign Investment Review Board (FIRB), the Australian Government's Financial Literacy Board, former Acting President of the Australian Government's Takeovers Panel and former Co-Head of Global Banking at Deutsche Bank, Australasia. Hamish is a Director of the Victor Chang Cardiac Research Institute. He holds a BCom from the University of NSW.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT for the year ended 30 June 2018

### 2.3 Information on Directors and Officers (continued)

#### **John Eales AM**

Non-Executive Director and member of the Audit & Risk Committee and the Remuneration & Nominations Committee

John Eales AM graduated from the University of Queensland in 1991 before taking to the international rugby stage. He debuted for the Wallabies in 1991 and captained the side from 1996 until the end of his Test career in 2001.

He has served in executive or advisory positions with a number of organisations. John cofounded the Mettle Group in 2003 – a corporate consultancy which was acquired by Chandler Macleod in 2007 – and currently sits on the boards of Flight Centre Travel Group and Fuji Xerox – Document Management Solutions. He is a columnist with The Australian newspaper writing on both business and sport, an occasional lecturer at the University of Notre Dame in Sydney, and has served as a consultant to major Australian companies, including Westpac. John is the author of two books, Learning from Legends Sport and Learning from Legends Business.

He was made a Member of the Order of Australia in 1999 for services to the community and rugby.

#### **Robert Fraser**

Non-Executive Director – Senior Independent Director, Chairman of the Audit & Risk Committee and member of the Remuneration & Nominations Committee

Robert is a company director and corporate adviser with over 29 years of investment banking experience, specialising in mergers and takeovers, corporate and financial analysis, capital management and equity capital markets. He is presently the Managing Director of TC Corporate Pty Limited, the corporate advisory division of Taylor Collison Limited stockbrokers of which he is a Director and principal. Robert has a Bachelor of Economics and Bachelor of Laws (Hons) degrees from the University of Sydney and is also qualified as a licensed business broker and licensed real estate agent. Robert currently serves on the Boards of ARB Corporation Limited (since February 2004) and F.F.I. Holdings Limited (since October 2011). He was previously a Director of Gowing Bros Limited (April 2012 – December 2016).

#### **Paul Lewis MBE**

Non-Executive Director, Chairman of the Remuneration & Nominations Committee and member of the Audit & Risk Committee

Paul was Managing Partner and Chief Executive – Asia for PA Consulting Group, based in Hong Kong from 1992 – 2004, at the conclusion of which PA had offices in Hong Kong, Beijing, Tokyo, Bangalore, Singapore, Kuala Lumpur and Jakarta. Paul led major assignments in financial services – retail banking, life insurance and stock exchanges, energy, manufacturing, telecommunications, rail, air, container shipping and government. Paul also served on senior advisory panels with ministerial representation in Hong Kong, Malaysia and Indonesia, and from 2003 to 2009 was a member of British Telecom's Global Advisory Board. Paul is currently Deputy National Chairman of the Australian British Chamber of Commerce, Chair of IPScope Limited, Chair of GWS Giants Foundation, and a board member of Volt Bank and Optal Limited. He was previously Chair of the NAB Private Advisory Board, NAB Business Advisory Board and British Telecom Global Advisory Board. Paul is a Fellow of the Australian Institute of Company Directors.

#### **Hamish McLennan**

Non-Executive Director and member of the Audit & Risk Committee and the Remuneration & Nominations Committee

Hamish McLennan has over 30 years' experience in the media industry. He is currently Chairman of REA Group Limited (appointed 21 February 2012 and Chairman since 10 April 2012), a global online real estate advertising company. He was previously Executive Vice President, Office of the Chairman, News Corporation, and Global Chairman & CEO of Young & Rubicam (Y&R) in New York, part of WPP, the world's largest communications services group. Mr McLennan joined Young & Rubicam in 2002 as Chairman and CEO of Y&R Brands Australia/New Zealand, one of the largest marketing services groups in Australasia, and led the firm's global business operations from 2006 to 2011. He was also previously Executive Chairman and Chief Executive Officer (March 2014 to July 2015) and Chief Executive Officer and Managing Director (February 2013 to March 2014) of Australian media company Ten Network Holdings Limited. He has previously served on the Boards of Directors for the United Negro College Fund (UNCF) and the US Ad Council.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT for the year ended 30 June 2018

### 2.3 Information on Directors and Officers (continued)

#### Karen Phin

Non-Executive Director and member of the Audit & Risk Committee and the Remuneration & Nominations Committee

Karen has over 20 years' capital markets experience advising a range of top Australian companies on their capital management and funding strategies. Until 2014, Karen was Managing Director and Head of Capital Management Advisory at Citigroup in Australia and New Zealand. From 1996 – 2009, she worked at UBS where she was also a Managing Director and established and led the Capital Management Group. Prior to joining Citigroup, Karen spent 12 months at ASIC as a Senior Specialist in the Corporations group. Karen is currently a Non-Executive Director of IMF Bentham Ltd and is a member of the Takeovers Panel and the Ascham School Council of Governors. Karen has a Bachelor of Arts/Law (Honours) from the University of Sydney and is a graduate of the AICD.

#### Geoffrey Stirton

Company Secretary

Geoffrey has over 30 years experience in financial services in various company secretarial, finance and management roles and has held Group Company Secretary roles at The Trust Company, Investa Property Group and MLC Limited. Geoffrey holds a Bachelor of Commerce degree from the University of NSW, is a Chartered Accountant, a Fellow of the Governance Institute of Australia and a Fellow of the Australian Institute of Company Directors.

### 2.4 Directors' Meetings

The number of meetings of the Board and Board Committees, held during the year ended 30 June 2018 and the number of those meetings attended by each Director are set out below:

	Board		Audit & Risk Committee		Remuneration & Nominations Committee	
	Held while a Director	Attended	Held while a member	Attended	Held while a member	Attended
B Cairns	8	8	-	-	-	-
H Douglass	8	8	-	-	-	-
J Eales	8	8	7	7	3	3
R Fraser	8	8	7	7	3	3
P Lewis	8	8	7	7	3	3
H McLennan	8	8	7	7	3	3
K Phin	8	8	7	7	3	3

### 2.5 Directors' Interests

On 9 August 2017, MAM appointed Taylor Collison Limited ("Taylor Collison") as Lead Arranger and a Joint Lead Manager in respect of the Broker Firm and General Public Offer for the IPO of Magellan Global Trust ("MGG"). Clients of Taylor Collison subscribed for broker firm units in the MGG IPO of \$78,132,231. Taylor Collison received a Joint Lead Manager fee and a selling fee on its broker firm subscriptions on the same terms as all other Joint Lead Managers. Mr Fraser is a director of Taylor Collison and has a non-material shareholding in that company. For the year ended 30 June 2018, Taylor Collison received a net amount of \$1,885,761 for its services as Lead Arranger and a Joint Lead Manager and for selling fees on broker firm subscriptions (net of amounts paid to clients) in relation to the MGG IPO.

During the 2018 year, MAM paid International Quarterback Pty Limited (IQ) for consulting services. Mr Eales has a non-material shareholding in IQ and was formerly a director of IQ.

Both transactions were conducted as part of a normal supplier relationship on arm's length terms. Apart from the above, no Director has or has had any interest in a contract entered into up to the date of this Directors' Report with the Company or any related entity other than as disclosed in this report.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT

### for the year ended 30 June 2018

### 3. 2018 Remuneration Report (Audited)

This Remuneration Report outlines the remuneration arrangements of the Group for the year ended 30 June 2018.

The report details the remuneration arrangements for the Key Management Personnel ("KMP") of the Group. KMP are defined as those persons and corporate entities having authority and responsibility for planning, directing and controlling activities of the Group, directly or indirectly.

In the 2018 financial year, the KMP for the Group included the Executive Chairman, the Chief Executive Officer ("CEO") and Chief Investment Officer, the Non-Executive Directors and the Group Executives as set out below.

Name	Position	Term as KMP
<b>Non-Executive Directors</b>		
John Eales	Director	Full Year
Robert Fraser	Director	Full Year
Paul Lewis	Director	Full Year
Hamish McLennan	Director	Full Year
Karen Phin	Director	Full Year
<b>Executive Directors</b>		
Brett Cairns	Executive Chairman	Full Year
Hamish Douglass	CEO & Chief Investment Officer	Full Year
<b>Group Executives (Other KMP)</b>		
Frank Casarotti	General Manager - Distribution	Full Year
Kirsten Morton	Chief Financial Officer	Full Year
Gerald Stack	Head of Investments	Full Year
Marcia Venegas	Head of Risk, Compliance and Legal	Full Year
Craig Wright	Head of Governance & Advisory	Full Year

The Remuneration Report has been prepared and audited against the disclosure requirements of the *Corporations Act 2001*.

#### 3.1 Remuneration Philosophy and Principles

The Group's remuneration philosophy is centred on fair compensation for performance and contribution that achieves business outcomes. It aims to balance short term and long term incentives appropriately, including encouraging broad based employee ownership in the Group. Importantly, incentives motivate each employee to achieve agreed business objectives which align to long term business outcomes.

The key drivers of the Group's remuneration philosophy and principles are:

- Promoting staff behaviour that is in the best interest of clients;
- Attracting and retaining outstanding staff;
- Building a culture that rewards performance while maintaining the Group's reputation and mitigating risk; and
- Encouraging staff to think like long term owners of the Group.

Broadly the Group's remuneration arrangements for employees comprise the following components:

- A fixed remuneration amount (inclusive of superannuation);
- A variable incentive which is determined annually and is subject to some level of deferred payment; and
- An offer of voluntary participation in the Group's Share Purchase Plan ("SPP"), to encourage long term ownership in the Group.

The remuneration policy is designed to attract and retain appropriately experienced, skilled and qualified personnel in order to achieve the Group's objectives.

#### Variable remuneration

The Board believes incentives should be aimed at areas where employees have a direct influence over the outcomes that are aligned to the best interests of the business and its clients. If these objectives are met, the interests of shareholders will be satisfied. The Board does not believe it is appropriate to use measures such as earnings per share or the share price performance of the Group in determining annual variable remuneration. Such arrangements could misalign the interests of the employee with those of the Group's clients and ultimately be detrimental to the long-term interests of shareholders.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT

for the year ended 30 June 2018

### 3. 2018 Remuneration Report (Audited) (continued)

With the exception of the CEO, Head of Investments and certain portfolio managers, the variable incentive amount is discretionary and is determined by reference to an employee's individual performance and contribution, and the overall performance of the Group. Variable remuneration is not determined on a formulaic basis but is an outcome of an overall performance appraisal process. Variable remuneration may be in the range of 0-100% of the fixed remuneration amount or higher in exceptional circumstances.

The CEO's variable incentive is capped at 100% of his fixed remuneration and is dependent upon the performance of the investment strategies, measured over three years, for which he has primary responsibility. The Board believes that aligning the basis of the CEO's variable incentive to investment performance provides an important calibration with the Group's clients and is in the best long term interest of shareholders.

The Head of Investments who is also the Portfolio Manager for the Group's Global Listed Infrastructure strategy has a variable remuneration arrangement that is directly tied to the net revenues, less certain allocated costs, of the Group's Global Listed Infrastructure business and the performance of the investment strategies for which he has primary responsibility. The Board considers that this arrangement appropriately rewards and aligns his interests with those of the Group's clients and shareholders.

Certain portfolio managers have variable remuneration arrangements that incorporate two components:

- A discretionary component in the range of 0-100% of fixed remuneration or higher in certain circumstances; and
- A performance component in the range of 0-200% of fixed remuneration dependent upon the performance of the investment strategies for which they are responsible.

Variable incentives are paid partly as a current year cash bonus and partly as a conditional deferred cash bonus amount over periods up to three years.

#### Share Purchase Plan (SPP)

The Group does not operate a specific long term incentive plan. However, the Group offers voluntary participation in the SPP as a means to align employees with shareholders, encourage employees to think and act like business owners and to create value over the longer term. The Group does not offer share grants to employees as the Board does not believe that grants create alignment with shareholders through true ownership, as the employees are not required to pay for shares through these instruments. The Group does not grant share options to Directors or employees given the asymmetric payoff structure of options which creates a lack of alignment between employees and shareholders.

The Group's SPP is a subscription for shares by SPP participants at the prevailing market price. The Group provides financial assistance to the SPP participants for up to either 75% or 100% of the subscription value, via a full recourse, interest-free loan, and thus the SPP participant bears the full risks and benefits of being a shareholder. The Board believes the Group is best placed to offer stable financing arrangements to establish and support meaningful ownership as it would be counterproductive to a true long term ownership position if short term share price movements were to impact an employee's own financing of this loan. The full recourse loan is compulsorily repaid via dividends paid on associated shares plus 25% of the relevant employees' after tax variable incentive. As the loan is full recourse, participants are liable to repay the loan irrespective of the performance of the Group's shares.

The SPP provides participants with the opportunity to acquire a meaningful ownership in the Group and, unlike many option and performance share plans, participants are required to pay for the shares over time. The interest-free component of the full recourse loan provides real value to SPP participants and is expensed by the Group through the Group's Consolidated Statement of Profit or Loss.

The Board believes promoting meaningful broad based ownership should start at Board level and therefore the Group also offers SPP participation to Non-Executive Directors. The Board does not require any minimum share ownership thresholds, however the SPP structure delivers a shareholding often many multiples of the value of their Non-Executive Director's fees. Importantly, this also allows Non-Executive Directors to be appropriately invested in the Group at the beginning of their tenure rather than waiting many years to accumulate a meaningful ownership position. The Board believes that providing full recourse financial assistance to Non-Executive Directors under the SPP does not hinder their independence from management and that establishing a meaningful ownership stake promotes independent thought and engagement that will be in the long-term interests of the Group's shareholders. The Group's shareholders must approve the provision of financing to the Non-Executive Directors by way of a vote at the Annual General Meeting.

Further details of the SPP are set out in note 14 to the financial statements.



# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT

### for the year ended 30 June 2018

### 3. 2018 Remuneration Report (Audited) (continued)

#### 3.2 Remuneration of Non-Executive Directors

The Board periodically reviews and determines the remuneration of the Non-Executive Directors and may utilise the services of external advisors. The remuneration of the Non-Executive Directors is not linked to the performance or earnings of the Group.

Remuneration and other terms of employment for the Non-Executive Directors are formalised in service agreements with the Group. Non-Executive Directors are appointed for a term of three years unless the Non-Executive Director is not re-elected by shareholders of the Company.

The Board believes that Non-Executive Director fees should be modest and that when combined with a meaningful ownership stake, Non-Executive Directors' interests are better aligned with the shareholders when considering important strategic issues such as executive compensation, acquisitions, dividend policy, capital management, corporate transactions, development of corporate culture and ethical business practices.

On that basis, remuneration comprises Directors' fees (inclusive of superannuation) and the non-cash expense to the Group of providing the full recourse, interest-free loans under the SPP described in section 3.1. Together, these form part of the Non-Executive Director Remuneration Cap set out in clause 50(a) of the Constitution, which currently stands at \$750,000.

The following table outlines the Non-Executive Directors' fees (inclusive of superannuation) for the Board and Committees of both the Group and Magellan Asset Management Limited for the year ended 30 June 2018:

	Position	Fees (\$)
<b>Board (Group)</b>	Non-Executive Director	70,000
<b>Audit &amp; Risk Committee</b>	Chairman	25,000
	Member	10,000
<b>Remuneration &amp; Nominations Committee</b>	Chairman	-
	Member	-

The Group has reimbursed or borne expenses incurred by the Non-Executive Directors in the discharge of their duties of \$1,221 (June 2017: \$1,286).

No retirement benefits (other than superannuation) are provided to Non-Executive Directors.

#### 3.3 Remuneration of Executive Directors and Other KMP

The below table provides a summary of the Executive Directors and Other KMP remuneration structures for the 2018 financial year.

	Fixed remuneration (incl. of superannuation)	Variable remuneration	SPP participation
Brett Cairns	\$1,250,000	Not entitled to receive variable incentive payments	Ability to participate in SPP
Hamish Douglass	1.5% of the average annual operating profit before income tax expense of the Funds Management business for the three immediately preceding financial years	Up to 100% of fixed compensation based on the performance of the Group's Global Equity strategy over a three year period	Not entitled to participate in SPP as he owns 21.8 million shares which provide a material alignment with shareholders
Gerald Stack	5% of the prior financial year's net infrastructure revenues	5% of net infrastructure revenues for the current financial year plus up to 100% of fixed remuneration based on the performance of the Group's Select Infrastructure strategy over a three year period	Ability to participate in SPP
Other KMP	Market-based base salary	Generally up to 100% of fixed remuneration based on individual performance / contribution and the overall performance of the Group	Ability to participate in SPP

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT

for the year ended 30 June 2018

### 3. 2018 Remuneration Report (Audited) (continued)

#### *Mr Douglass' remuneration structure*

Mr Douglass' remuneration is a fixed amount equal to 1.5% of the average annual operating profit before income tax expense for the Group's Funds Management business for the three immediately preceding financial years, subject to any adjustments agreed between the Board and Mr Douglass. Mr Douglass' fixed remuneration (inclusive of superannuation) for the year ended 30 June 2018 was \$3,476,832 (2017: \$2,748,023). The Board viewed this remuneration arrangement to be appropriate as it focuses Mr Douglass on delivering positive medium to long term outcomes for both clients and shareholders and not on actions simply to maximise short term profitability. In addition, Mr Douglass' substantial shareholding in the Group, along with his personal investments in the Group's investment strategies, creates strong alignment with clients and shareholders.

On an annual basis, Mr Douglass is eligible to receive variable compensation being a maximum amount of up to but not exceeding 100% of his fixed compensation for that financial year. Mr Douglass' annual variable incentive is determined in relation to the performance of the investment strategies under his control over a three year period. Importantly, the three year performance period emphasises the Group's medium to long term focus for its investment strategies and the needs of clients. Achieving superior investment returns for clients over the medium to long term will ultimately be in shareholders' interests. Mr Douglass does not receive any of his variable incentive up front. Instead payment is deferred over the subsequent three financial years which is consistent with the medium term focus of Mr Douglass' variable remuneration arrangements.

The Board, in consultation with Mr Douglass, determined the performance metrics and underlying quantitative measures that apply for the relevant period. For the year ended 30 June 2018, the metrics were:

Performance Metrics	Weighting	Percentage Paid/Performance Measures	2018 outcome						
Ranking of the Global Equity Strategy in Peer Group <sup>(A)</sup> (rolling 3 years as at 30 June each year)	25%	<div>The percentage paid is in the range of 0% to 100% dependent on the ranking quartile band achieved as per the below table:</div> <table><tr><td>100%</td><td>1st Quartile</td></tr><tr><td>50% to 100% (sliding scale)</td><td>Bottom of 2nd Quartile to top of 2nd Quartile</td></tr><tr><td>0%</td><td>3rd and 4th Quartile (bottom 50%)</td></tr></table>	100%	1st Quartile	50% to 100% (sliding scale)	Bottom of 2nd Quartile to top of 2nd Quartile	0%	3rd and 4th Quartile (bottom 50%)	Mr Douglass received 100% of this component in 2018, based on a 1st Quartile ranking
100%	1st Quartile								
50% to 100% (sliding scale)	Bottom of 2nd Quartile to top of 2nd Quartile								
0%	3rd and 4th Quartile (bottom 50%)								
Absolute Performance (Gross Return) of the Global Equity Strategy (measured in USD) (rolling 3 years as at 30 June each year)	25%	<div>The percentage paid is in the range of 0% to 100% dependent on the absolute performance achieved as per the below table:</div> <table><tr><td>100%</td><td>12% p.a. or greater</td></tr><tr><td>50% to 100% (sliding scale)</td><td>8% p.a. to 12% p.a.</td></tr><tr><td>0%</td><td>Less than 8% p.a.</td></tr></table>	100%	12% p.a. or greater	50% to 100% (sliding scale)	8% p.a. to 12% p.a.	0%	Less than 8% p.a.	Mr Douglass received 84.1% of this component in 2018, based on absolute performance of 10.73% p.a.
100%	12% p.a. or greater								
50% to 100% (sliding scale)	8% p.a. to 12% p.a.								
0%	Less than 8% p.a.								
Relative gross investment performance of the Global Equity Strategy against its Benchmark Index <sup>(B)</sup> (rolling 3 years as at 30 June each year)	25%	<div>The percentage paid is in the range of 0% to 100% dependent on pre-determined relative performance differences above the Benchmark Index as per the below table:</div> <table><tr><td>100%</td><td>Achieves Benchmark Index + 2.5% p.a. or greater</td></tr><tr><td>50% to 100% (sliding scale)</td><td>Achieves Benchmark Index to Benchmark Index + 2.5% p.a.</td></tr><tr><td>0%</td><td>Achieves less than Benchmark Index p.a.</td></tr></table>	100%	Achieves Benchmark Index + 2.5% p.a. or greater	50% to 100% (sliding scale)	Achieves Benchmark Index to Benchmark Index + 2.5% p.a.	0%	Achieves less than Benchmark Index p.a.	Mr Douglass received 95.0% of this component in 2018, based on relative gross investment performance of 10.73% p.a. against Benchmark Index of 8.48% p.a.
100%	Achieves Benchmark Index + 2.5% p.a. or greater								
50% to 100% (sliding scale)	Achieves Benchmark Index to Benchmark Index + 2.5% p.a.								
0%	Achieves less than Benchmark Index p.a.								
Down Market Capture of the Global Equity Strategy (measured in USD) against its Benchmark Index (rolling 3 years as at 30 June each year)	25%	<div>The percentage paid is in the range of 0% to 100% dependent on the Down Market Capture achieved as per the table below:</div> <table><tr><td>100%</td><td>Achieves Down Market Capture less than 75%</td></tr><tr><td>100% to 50% (sliding scale)</td><td>Achieves Down Market Capture of 75% to less than 100%</td></tr><tr><td>0%</td><td>Achieves Down Market Capture greater or equal to 100%</td></tr></table>	100%	Achieves Down Market Capture less than 75%	100% to 50% (sliding scale)	Achieves Down Market Capture of 75% to less than 100%	0%	Achieves Down Market Capture greater or equal to 100%	Mr Douglass received 84.7% of this component in 2018, based on Down Market Capture of 82.65%
100%	Achieves Down Market Capture less than 75%								
100% to 50% (sliding scale)	Achieves Down Market Capture of 75% to less than 100%								
0%	Achieves Down Market Capture greater or equal to 100%								

(A) Ranking determined by reference to Magellan Global Fund's quartile positioning in Global Equity sector for the 3 year total return as set out in the Morningstar Australian Institutional Sector Survey as at June of each year (or if that survey ceases to be published, an equivalent replacement survey).

(B) The Benchmark Index is the MSCI World Net Total Return (in USD), a free-float adjusted market capitalisation weighted index designed to measure the equity performance of 24 developed markets. Index results assume the reinvestment of all distributions of capital gain and net investment income using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. The returns are calculated using published index data on a daily basis. Daily returns are compounded to calculate the monthly and longer term returns.



# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT

### for the year ended 30 June 2018

### 3. 2018 Remuneration Report (Audited) (continued)

In respect of the year ended 30 June 2018, Mr Douglass will receive a total variable incentive of \$3,162,396 (June 2017: \$2,339,021) payable in 36 equal monthly instalments. Mr Douglass' entitlement to variable incentive amounts is dependent on him being employed by the Group at the time of the payment and, where relevant, is also subject to the termination arrangements described in "Termination arrangements" in Section 3.5.

#### *Changes to Mr Douglass' remuneration structure from 1 July 2018*

To ensure greater accountability and focus on the performance of the portfolio, the Board determined to amend Mr Douglass' remuneration structure from 1 July 2018. The amended structure will have effect for a minimum of three years and is outlined below:

<b>Fixed remuneration</b>	<ul style="list-style-type: none"> <li>Fixed \$2,500,000 per annum, inclusive of superannuation</li> </ul>
<b>Variable remuneration</b>	<ul style="list-style-type: none"> <li>Up to 200% of fixed remuneration based on the performance of the Group's Global Equity strategy over a three year period</li> <li>The performance metrics and weightings are unchanged from the year ended 30 June 2018</li> <li>Variable remuneration payable in 36 equal monthly instalments</li> </ul>

Mr Douglass' remuneration is now subject to a maximum total annual remuneration cap of \$7,500,000 for the next three years.

The Board considers that the revised remuneration arrangement is fair and is in the interests of both clients in the global equity strategy and shareholders of the Group. The revised structure:

- Substantially lowers the fixed remuneration amount compared with the amounts that were expected to be paid over the contract period under the previous percentage of profit based arrangement;
- Places a greater percentage of total remuneration at risk through the increase to the variable component; and
- Is expected to reduce the total remuneration payable and also caps the total remuneration amount for the next three years.

No other changes have been made to Mr Douglass' remuneration structure.

#### *Mr Stack's remuneration structure*

Following a review, for the period commencing 1 July 2017, Mr Stack's annual fixed remuneration was adjusted from \$464,000 per annum to an amount equal to 5% of the net infrastructure revenues for the prior financial year. Mr Stack's fixed remuneration (inclusive of superannuation) for the year ended 30 June 2018 was \$1,548,281. Further, Mr Stack's variable remuneration was also amended from up to 10% of net infrastructure revenues to:

- 5% of net infrastructure revenues for the current financial year; plus
- Up to 100% of fixed remuneration based on the performance of the Group's Select Infrastructure Strategy over a three year period.

Mr Stack's variable remuneration comprises a cash bonus amount and a conditional deferred cash bonus payable in 36 equal instalments over the course of the next three financial years. Entitlement to the deferred cash bonus is dependent on Mr Stack being employed by the Group at the time of payment.

The Board considers Mr Stack's remuneration structure appropriately rewards and aligns Mr Stack's interests with those of the Group's clients, through the investment performance of the Infrastructure Strategy and with shareholders through building the infrastructure business, and is appropriate given Mr Stack's role of Head of Investments and the Lead Portfolio Manager of the Group's Global Listed Infrastructure strategies which represent \$10.3 billion of funds under management.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT

### for the year ended 30 June 2018

### 3. 2018 Remuneration Report (Audited) (continued)

For the year ended 30 June 2018, the metrics for the portion of Mr Stack's variable remuneration relating to the performance of the Group's Select Infrastructure strategy were:

Performance Metrics	Weighting	Percentage Paid/Performance Measures	2018 outcome						
Absolute Gross A\$ hedged Investment Performance of the Select Infrastructure Strategy (rolling 3 years as at 30 June each year)	25%	<div>The percentage paid is in the range of 0% to 100% dependent on the performance achieved as per the below:</div> <table><tr><td>100%</td><td>10% p.a or greater</td></tr><tr><td>50% to 100% (sliding scale)</td><td>6% p.a to 10% p.a</td></tr><tr><td>0%</td><td>Less than 6% p.a</td></tr></table>	100%	10% p.a or greater	50% to 100% (sliding scale)	6% p.a to 10% p.a	0%	Less than 6% p.a	Mr Stack received 100% of this component in 2018, based on absolute performance of 12.48% p.a
100%	10% p.a or greater								
50% to 100% (sliding scale)	6% p.a to 10% p.a								
0%	Less than 6% p.a								
Relative Gross Investment Performance (A\$ hedged) against Benchmark Index <sup>(A)</sup> (rolling 3 years as at 30 June each year)	25%	<div>The percentage paid is in the range of 0% to 100% dependent on the performance achieved as per the below:</div> <table><tr><td>100%</td><td>Achieves Benchmark Index + 2.5% p.a. or greater</td></tr><tr><td>50% to 100% (sliding scale)</td><td>Achieves Benchmark Index to Benchmark Index + 2.5% p.a.</td></tr><tr><td>0%</td><td>Achieves less than Benchmark Index p.a.</td></tr></table>	100%	Achieves Benchmark Index + 2.5% p.a. or greater	50% to 100% (sliding scale)	Achieves Benchmark Index to Benchmark Index + 2.5% p.a.	0%	Achieves less than Benchmark Index p.a.	Mr Stack received 100% of this component in 2018, based on relative performance of 12.48% p.a against Benchmark Index of 6.43% p.a.
100%	Achieves Benchmark Index + 2.5% p.a. or greater								
50% to 100% (sliding scale)	Achieves Benchmark Index to Benchmark Index + 2.5% p.a.								
0%	Achieves less than Benchmark Index p.a.								
Absolute Gross US\$ unhedged Investment Performance of the Select Infrastructure Strategy (rolling 3 years as at 30 June each year)	25%	<div>The percentage paid is in the range of 0% to 100% dependent on the performance achieved as per the below:</div> <table><tr><td>100%</td><td>10% p.a or greater</td></tr><tr><td>50% to 100% (sliding scale)</td><td>6% p.a to 10% p.a</td></tr><tr><td>0%</td><td>Less than 6% p.a</td></tr></table>	100%	10% p.a or greater	50% to 100% (sliding scale)	6% p.a to 10% p.a	0%	Less than 6% p.a	Mr Stack received 100% of this component in 2018, based on absolute performance of 10.72% p.a
100%	10% p.a or greater								
50% to 100% (sliding scale)	6% p.a to 10% p.a								
0%	Less than 6% p.a								
Relative Gross Investment Performance (US\$ unhedged) against Benchmark Index <sup>(B)</sup> (rolling 3 years as at 30 June each year)	25%	<div>The percentage paid is in the range of 0% to 100% dependent on the performance achieved as per the below:</div> <table><tr><td>100%</td><td>Achieves Benchmark Index + 2.5% p.a. or greater</td></tr><tr><td>100% to 50% (sliding scale)</td><td>Achieves Benchmark Index to Benchmark Index + 2.5% p.a.</td></tr><tr><td>0%</td><td>Achieves less than Benchmark Index p.a.</td></tr></table>	100%	Achieves Benchmark Index + 2.5% p.a. or greater	100% to 50% (sliding scale)	Achieves Benchmark Index to Benchmark Index + 2.5% p.a.	0%	Achieves less than Benchmark Index p.a.	Mr Stack received 100% of this component in 2018, based on relative performance of 10.72% p.a against Benchmark Index of 5.03% p.a.
100%	Achieves Benchmark Index + 2.5% p.a. or greater								
100% to 50% (sliding scale)	Achieves Benchmark Index to Benchmark Index + 2.5% p.a.								
0%	Achieves less than Benchmark Index p.a.								

(A) S&P Global Infrastructure and Utilities Index Net A\$ Hedged

(B) S&P Global Infrastructure and Utilities Index

In respect of the year ended 30 June 2018, Mr Stack will receive a total variable incentive of \$3,840,377 (June 2017: \$3,121,562) payable partly in cash and partly in 36 equal monthly instalments over the next three financial years. This incentive comprises:

- \$2,292,096, being 5% of net infrastructure revenues; and
- \$1,548,281, which was the result of achieving 100% of the investment metrics as outlined above.

#### *Dr Cairns' remuneration structure*

Dr Cairns' fixed remuneration is subject to annual review and, for the year ended 30 June 2018, was unchanged from the previous year. As a result of changes to reporting lines whereby administrative functions now report to Dr Cairns, the Board has determined to increase Dr Cairns' fixed remuneration to \$1,500,000 (inclusive of superannuation) from 1 July 2018.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT

for the year ended 30 June 2018

### 3. 2018 Remuneration Report (Audited) (continued)

#### *Remuneration structure for Other KMP*

Fixed remuneration is structured as a total employment cost package, which may be received as a combination of cash, non-cash benefits and superannuation contributions. Fixed remuneration for Other KMP is reviewed annually to ensure that it is competitive and reasonable, however there are no guaranteed increases to the fixed remuneration amount. When considering variable remuneration, the Board's primary objective is that KMP are motivated to build valuable long term client relationships and generate returns for investors in the funds managed by the Group which will ultimately deliver shareholder wealth over the long term.

The CEO determines the amount of variable incentive to be paid to Other KMP, subject to review and approval by the Remuneration and Nominations Committee, taking into consideration the individual's performance and contribution during the year. The variable compensation of Other KMP (excluding Mr Stack) is discretionary and may be in the range of 0 to 100% of fixed remuneration (higher in exceptional circumstances) and comprises a cash bonus amount and a conditional deferred cash bonus payable in 36 equal monthly instalments over the course of the next three financial years. Entitlement to the deferred cash bonus is dependent on Other KMP being employed by the Group at the time of payment.

The Board believes that the CEO's and Chairman's shareholdings and the participation in the Group's SPP by Other KMP closely aligns their interests with the long term interests of shareholders.

#### Summary of 2018 variable remuneration outcomes

##### (a) Variable remuneration outcomes for 2018

The tables below outline the variable remuneration outcomes (as a % of fixed remuneration) for Executive Directors and Other KMP for the 2018 financial year and provide an overview of key achievements and business outcomes delivered by Other KMP that were considered when determining their variable remuneration for the year.

KMP	Variable remuneration outcome	Comments
Brett Cairns	n.a.	<ul style="list-style-type: none"> <li>No entitlement to receive variable incentive payments.</li> </ul>
Hamish Douglass	91%	<ul style="list-style-type: none"> <li>Based on agreed criteria and performance metrics relating to the performance of the investment strategies under his control over the three year period to 30 June 2018</li> <li>The performance metrics and relative weightings of these are outlined in section 3.3</li> </ul>
Frank Casarotti	90%	<ul style="list-style-type: none"> <li>Leading the client relationship and distribution efforts on the initial public offering of the Magellan Global Trust which raised \$1.6bn;</li> <li>Promoting and maintaining a client focussed culture with the Group's Distribution team.</li> </ul>
Kirsten Morton	100%	<ul style="list-style-type: none"> <li>Successful integration of US and Australian finance and administrative functions of acquired entities within 90 days, including streamlining support operations;</li> <li>Implemented resilience based approach to managing third party risk with key service providers;</li> <li>Delivered significant regulatory compliance projects, including AMIT, and transaction support for acquisitions;</li> <li>Strong contribution to procurement of key suppliers and simplification initiatives with a view to contain or reduce costs for the benefit of shareholders;</li> <li>Oversight of investment operations and management of administration functions in US and Australia</li> </ul>
Gerald Stack	248%	<ul style="list-style-type: none"> <li>5% of net revenues earned by the Group in respect of investment strategies for which he is portfolio manager, less an internal allocation of certain costs; and</li> <li>Up to 100% of fixed remuneration based on the performance of the Group's Select Infrastructure Strategy over a three year period.</li> </ul>
Marcia Venegas	75%	<ul style="list-style-type: none"> <li>Completed the Board annual risk workshop and implemented compliance with RG 259 – Risk Management Systems of Responsible Entities;</li> <li>Reviewed policies and procedures to reflect current regulatory requirements;</li> <li>Engaged with ASIC in respect of the Group's existing and proposed products;</li> <li>Provided key risk and compliance input into the acquisitions and integrations of Frontier and Airlie.</li> </ul>
Craig Wright	100%	<ul style="list-style-type: none"> <li>Leading the project management of strategic initiatives across the Group, including the initial public offering of the Magellan Global Trust, the acquisition of Airlie Funds Management and the acquisition of the Frontier in the United States;</li> <li>Overseeing the Group's IT infrastructure and business continuity planning;</li> <li>Overseeing the Group's UCITS investment company based in Ireland.</li> </ul>

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT

### for the year ended 30 June 2018

### 3. 2018 Remuneration Report (Audited) (continued)

(b) Split between cash and conditional deferred cash bonus components of 2018 variable remuneration

The below table provides a summary of variable remuneration outcomes for Executive Directors and Other KMP for the years ended 30 June 2018 and 30 June 2017. The table outlines the portion of variable remuneration awarded for each financial year that is paid in cash and the portion that is deferred over subsequent financial years.

		Variable incentive outcomes			Fixed remuneration (incl. superannuation)	Total variable remuneration awarded as % of fixed remuneration
		Cash Bonus <sup>(A)</sup>	Conditional Deferred Cash Bonus <sup>(B)</sup>	Total variable remuneration awarded		
		\$	\$	\$	\$	%
<b>Executive Directors<sup>(C)</sup></b>						
H Douglass	2018	-	3,162,396	3,162,396	3,476,832	91%
	2017	-	2,339,021	2,339,021	2,748,023	85%
<b>Group Executives (Other KMP)</b>						
F Casarotti	2018	311,625	205,875	517,500	575,000	90%
	2017	340,750	209,250	550,000	525,000	105%
K Morton	2018	274,500	175,500	450,000	450,000	100%
	2017	247,000	153,000	400,000	400,000	100%
G Stack	2018	1,287,653	2,552,724	3,840,377	1,548,281	248%
	2017	1,755,109	1,366,453	3,121,562	464,000	673%
M Venegas	2018	181,686	99,564	281,250	375,000	75%
	2017	167,250	87,750	255,000	340,000	75%
C Wright	2018	233,250	141,750	375,000	375,000	100%
	2017	198,121	113,004	311,125	327,500	95%
<b>Total KMP</b>		<b>2018</b>	<b>2,288,714</b>	<b>6,337,809</b>	<b>8,626,523</b>	<b>6,800,113</b>
		<b>2017</b>	<b>2,708,230</b>	<b>4,268,478</b>	<b>6,976,708</b>	<b>4,804,523</b>

<sup>(A)</sup> Cash Bonus represents the portion of Group Executives' awarded variable remuneration that is paid in cash after the release of the Group's Annual Report.

<sup>(B)</sup> Conditional Deferred Cash Bonus represents the portion of Group Executives' awarded variable remuneration for the financial year that is deferred and is paid in cash in 36 equal monthly instalments in future financial years, subject to continued employment with the Group.

<sup>(C)</sup> Dr Cairns is not entitled to any variable incentive.

The conditional deferred cash bonus payable by the Group to the Executive Directors, Other KMP and employees in respect of the year ended 30 June 2018 is \$9,823,552 and payable over the years ending 30 June 2019, 30 June 2020 and 30 June 2021 (June 2017: \$6,918,742 and payable over the years ended 30 June 2018, 30 June 2019 and 30 June 2020).

Details of the remuneration paid to Executive Directors and Other KMP is provided in section 3.4. Details of the employment agreements of Executive Directors and Other KMP are described in section 3.5.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT

### for the year ended 30 June 2018

### 3. 2018 Remuneration Report (Audited) (continued)

#### 3.4 Details of Remuneration

The total amount paid or payable to KMP of the Group is detailed below:

		Short Term Benefits			Post-employment Benefits	Long-term Benefits	Other Benefits	Total
		Salary	Cash Bonus (A)	Conditional Deferred Cash Bonus paid (B)	Super- annuation	Other (C)	(D)	(E)
		\$	\$	\$	\$	\$	\$	\$
<b>Non-Executive Directors</b>								
John Eales <sup>(F)</sup>	2018	73,059	-	-	6,941	-	15,986	95,986
Robert Fraser	2018	86,758	-	-	8,242	-	22,379	117,379
	2017	86,758	-	-	8,242	-	20,796	115,796
Paul Lewis	2018	80,000	-	-	-	-	-	80,000
	2017	80,000	-	-	-	-	-	80,000
Hamish McLennan	2018	73,059	-	-	6,941	-	23,435	103,435
	2017	73,059	-	-	6,941	-	5,450	85,450
Karen Phin	2018	73,059	-	-	6,941	-	18,463	98,463
	2017	73,059	-	-	6,941	-	17,157	97,157
<b>Executive Directors</b>								
Brett Cairns	2018	1,229,951	-	-	20,049	-	-	1,250,000
	2017	1,230,384	-	-	19,616	-	-	1,250,000
H Douglass <sup>(G)</sup>	2018	3,456,783	-	927,159	20,049	170,963	-	4,574,954
	2017	2,728,407	-	147,485	19,616	253,597	100,000	3,249,105
<b>Group Executives (Other KMP)</b>								
F Casarotti	2018	485,314	311,625	127,687	20,049	17,764	-	962,439
	2017	465,535	340,750	57,937	19,616	20,589	-	904,427
K Morton <sup>(H)</sup>	2018	429,951	274,500	96,750	20,049	36,389	21,652	879,291
	2017	380,384	247,000	45,750	19,616	-	3,503	696,253
G Stack	2018	1,528,232	1,287,653	804,659	20,049	161,824	27,057	3,829,474
	2017	439,256	1,755,109	349,175	19,616	10,160	16,372	2,589,688
M Venegas	2018	354,951	181,686	29,250	20,049	-	888	586,824
	2017	299,687	167,250	25,260	19,616	-	775	512,588
C Wright	2018	354,951	233,250	37,668	20,049	-	6,526	652,444
	2017	307,884	198,121	93,487	19,616	-	3,528	622,636
<b>Total KMP<sup>(I)</sup></b>		<b>2018</b>	<b>8,226,068</b>	<b>2,288,714</b>	<b>2,023,173</b>	<b>169,408</b>	<b>386,939</b>	<b>13,230,688</b>
		<b>2017</b>	<b>6,164,413</b>	<b>2,708,230</b>	<b>719,094</b>	<b>159,436</b>	<b>284,346</b>	<b>10,203,100</b>

(A) The cash bonus amount includes the current year cash bonus.

(B) The conditional deferred cash bonus paid is the deferred components of prior years' bonuses which have been paid in cash over the course of the current year.

(C) Includes long service entitlements accrued during the year.

(D) Other benefits represent the expense of providing interest-free loans to Participants in the Share Purchase Plan (refer to further details at section 3.1). These are non-cash items.

(E) No non-monetary benefits, other short term benefits, post employment benefits and termination benefits not otherwise disclosed were paid to the KMPs disclosed above during the years ended 30 June 2018 and 30 June 2017. Comparative information does not include details of payments made to a former KMP in the year ended 30 June 2017.

(F) Mr Eales was appointed on 1 July 2017.

(G) Other benefits include \$100,000 accrued in the year ended 30 June 2017 in relation to the investment restriction contract with Mr Douglass.

(H) Other benefits include an amount of \$16,537 of annual leave paid out during the year ended 30 June 2018.

(I) Comparative information does not include details of payments made to a former KMP in the year ended 30 June 2017.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT

### for the year ended 30 June 2018

### 3. 2018 Remuneration Report (Audited) (continued)

#### 3.5 Employment Agreements

The Executive Directors and Other KMP are engaged under employment agreements with Magellan Asset Management Limited ("MAM"), a controlled entity of the Group.

##### **Hamish Douglass**, CEO and Chief Investment Officer

Mr Douglass is employed under a contract with MAM, with effect from 1 March 2008 and which will continue indefinitely until terminated. The terms of the contract are outlined below.

##### *Fixed and variable compensation*

Mr Douglass is entitled to fixed and variable compensation as outlined in Section 3.3.

##### *Shareholding requirement*

Mr Douglass' contract does not specify a shareholding ownership requirement. However as one of the founders of the business Mr Douglass and his associates hold 21,792,277 ordinary shares (2017: 21,792,277 ordinary shares).

##### *Termination arrangements*

Termination arrangements within Mr Douglass' employment contract are as follows:

**Termination with cause:** The Board may immediately terminate Mr Douglass' employment agreement with cause. Under these circumstances, Mr Douglass will be paid the statutory requirements of any accrued fixed remuneration (eg accrued base salary and superannuation) and accrued leave entitlements (eg annual and long service leave) at the termination date, after set-off of any loss suffered by the Group from the acts of Mr Douglass which led to his termination.

**Termination without cause:** Either the Board or Mr Douglass can terminate Mr Douglass' employment contract at any time by providing not less than 12 months written notice. Under these circumstances, Mr Douglass will be paid the statutory requirements of any accrued fixed remuneration (eg accrued base salary and superannuation), accrued leave entitlements (eg annual and long service leave) at the termination date and any other amounts approved by the Board in its absolute discretion subject to all applicable laws and regulations.

**Termination due to death or incapacity:** In addition to the statutory requirements of any accrued fixed remuneration (eg accrued base salary and superannuation) and accrued leave entitlements (eg annual and long service leave) at the termination date, Mr Douglass will be paid:

- any outstanding variable remuneration attributable to any previous financial year; and
- a pro-rata variable remuneration component for the period from 1 July of that year to the termination date.

##### **Dr Brett Cairns**, Executive Chairman

The Executive Chairman is employed under a contract with MAM, with effect from 1 January 2015 and which will continue indefinitely until terminated. MAM may terminate the contract at any time by giving not less than three months written notice or providing payment in lieu of that notice, or at any time without notice if serious misconduct has occurred. Dr Cairns may terminate the contract at any time by giving three months written notice. In the event of termination of Dr Cairns' contract, his termination payment would comprise any accrued fixed compensation, including superannuation, after set-off of any loss suffered by the Group from the acts of Dr Cairns which led to his termination; and any amounts of accrued annual and long service leave.

Under the contract, Dr Cairns is restrained from soliciting employees and clients of MAM or any related company of MAM for a period of six months after termination of employment.

#### **Group Executives (Other KMP)**

Other KMP have rolling employment contracts with MAM. MAM may terminate the contracts at any time by giving not less than three months written notice (for Mr Casarotti and Mr Stack) or not less than one month written notice (for Ms Morton, Ms Venegas and Mr Wright) or providing payment in lieu of that notice, or at any time without notice if serious misconduct has occurred. Other KMP may terminate the contract at any time by giving three months written notice (for Mr Casarotti and Mr Stack) or not less than one month written notice (for Ms Morton, Ms Venegas and Mr Wright). On termination, Other KMP are required to repay any loan amounts outstanding in respect of shares acquired under the Group's SPP in accordance with the SPP terms and conditions. In the event of the termination of an Other KMP contract, their termination payment would comprise any accrued fixed compensation, including superannuation, after set-off of any loss suffered by MAM from the acts of that Other KMP which led to their termination; and any amounts of accrued annual and long service leave.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT

for the year ended 30 June 2018

### 3. 2018 Remuneration Report (Audited) (continued)

#### 3.6 Shareholdings

The number of ordinary shares and Class B Shares held during the year by each KMP, including their personally-related parties, is set out below:

	Opening balance 1 July 2016	Net Additions/ (disposals)	Opening balance 1 July 2017	Net Additions/ (disposals)	Closing balance 30 June 2018
<b>Non-Executive Directors</b>					
<b>John Eales <sup>(A)</sup></b>					
- Ordinary shares	-	-	24,262	53,354	77,616
<b>Robert Fraser</b>					
- Ordinary shares	599,109	-	599,109	-	599,109
<b>Paul Lewis</b>					
- Ordinary shares	1,800,000	(75,000)	1,725,000	(225,000)	1,500,000
<b>Hamish McLennan</b>					
- Ordinary shares	36,300	63,948	100,248	-	100,248
<b>Karen Phin</b>					
- Ordinary shares	89,312	-	89,312	-	89,312
<b>Executive Directors</b>					
<b>Brett Cairns</b>					
- Ordinary shares	1,024,523	-	1,024,523	-	1,024,523
<b>Hamish Douglass</b>					
- Ordinary shares	11,087,000	10,705,277	21,792,277	-	21,792,277
- Class B Shares <sup>(B)</sup>	10,200,000	(10,200,000)	-	-	-
<b>Group Executives (Other KMP)</b>					
<b>Frank Casarotti</b>					
- Ordinary shares	500,000	-	500,000	-	500,000
<b>Kirsten Morton</b>					
- Ordinary shares	18,896	-	18,896	-	18,896
<b>Gerald Stack</b>					
- Ordinary shares	457,602	14,178	471,780	(69,567)	402,213
<b>Marcia Venegas</b>					
- Ordinary shares	-	2,126	2,126	763	2,889
<b>Craig Wright</b>					
- Ordinary shares	18,896	-	18,896	-	18,896

<sup>(A)</sup> The opening balance at 1 July 2017 represents the shareholding from the date Mr Eales was appointed.

<sup>(B)</sup> On 22 November 2016 the MFG Class B Shares converted to 10,305,277 ordinary shares.

The Board does not grant options to KMP or employees of the Group under its remuneration policy.



# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT

for the year ended 30 June 2018

### 3. 2018 Remuneration Report (Audited) (continued)

#### 3.7 Unitholdings in Magellan Funds

The number of units held during the year by each KMP, including their personally-related parties, in funds managed by the Group, is set out below:

	Opening balance 1 July 2016	Additions/ (disposals) (A)	Opening balance 1 July 2017	Additions/ (disposals) (A)	Closing balance 30 June 2018
<b>Magellan Global Fund</b>					
<b>Directors</b>					
Hamish Douglass <sup>(B)</sup>	1,412,701	125,024	1,537,725	38,558	1,576,283
Paul Lewis	469,496	36,424	505,920	11,233	517,153
<b>Group Executives (Other KMP)</b>					
Frank Casarotti <sup>(B)</sup>	-	-	-	-	-
Gerald Stack	64,433	5,705	70,138	1,759	71,897
<b>Magellan Infrastructure Fund</b>					
<b>Directors</b>					
Paul Lewis	41,846	332,936	374,782	34,939	409,721
<b>Group Executives (Other KMP)</b>					
Gerald Stack	76,112	5,685	81,797	7,626	89,423
Marcia Venegas	-	-	-	3,508	3,508
<b>Magellan High Conviction Fund</b>					
<b>Directors</b>					
Hamish Douglass	1,592,076	127,414	1,719,490	39,048	1,758,538
<b>Group Executives (Other KMP)</b>					
Craig Wright	-	-	-	94,932	94,932
<b>Magellan Global Equities Fund</b>					
<b>Directors</b>					
Brett Cairns	40,111	407	40,518	732	41,250
Hamish Douglass	575,418	11,651	587,069	10,602	597,671
<b>Group Executives (Other KMP)</b>					
Frank Casarotti	-	200,000	200,000	-	200,000
Gerald Stack	-	100,000	100,000	-	100,000
Marcia Venegas	-	-	-	3,344	3,344
Craig Wright	15,134	(8,000)	7,134	440	7,574
<b>Magellan Global Equities Fund (Currency Hedged)</b>					
<b>Directors</b>					
Brett Cairns	10,000	-	10,000	178	10,178
Hamish Douglass	500,000	10,385	510,385	9,103	519,488
<b>Magellan Global Trust<sup>(C)</sup></b>					
<b>Directors</b>					
Brett Cairns	-	-	-	72,198	72,198
Hamish Douglass	-	-	-	13,946,780	13,946,780
John Eales	-	-	-	217,598	217,598
Robert Fraser	-	-	-	174,283	174,283
Paul Lewis	-	-	-	92,198	92,198
Hamish McLennan	-	-	-	72,019	72,019
Karen Phin	-	-	-	72,198	72,198
<b>Group Executives (Other KMP)</b>					
Frank Casarotti	-	-	-	140,790	140,790
Kirsten Morton	-	-	-	27,625	27,625
Gerald Stack	-	-	-	105,588	105,588
Marcia Venegas	-	-	-	10,830	10,830
Craig Wright	-	-	-	36,101	36,101
<b>Magellan Infrastructure Fund (Currency Hedged)</b>					
<b>Group Executives (Other KMP)</b>					
Frank Casarotti	-	-	-	75,000	75,000
Gerald Stack	-	210,000	210,000	-	210,000

<sup>(A)</sup> Includes the reinvestment of 30 June 2016 and 30 June 2017 distributions in the years ended 30 June 2017 and 30 June 2018 respectively.

<sup>(B)</sup> In addition to the above holdings, Mr Douglass and Mr Casarotti selected the Magellan Global Fund product via their employer superannuation account and currently have holdings of 450,260 and 24,869 units at a value of \$821,003 and \$70,851 respectively as at 30 June 2018 (June 2017: 440,031 and 39,898 units at a value of \$696,480 and \$63,151 respectively).

<sup>(C)</sup> Includes Loyalty Units issued as part of the Priority Offer of the Magellan Global Trust IPO. KMP, where eligible, received Loyalty Units on the same terms as other investors in the Priority Offer. Directors agreed to cap their participation under the Priority Offer to \$100,000 and therefore cap their Loyalty Unit issuance to 4,166 units. Mr Douglass participated in the General Public Offer and therefore did not receive any Loyalty Units.

Unless specified above, no other KMP or their personally-related parties held units in Magellan Funds.



# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT

### for the year ended 30 June 2018

### 3. 2018 Remuneration Report (Audited) (continued)

#### 3.8 Loans to KMP

The Group has made full recourse interest-free loans to Non-Executive Directors and Other KMP in connection with shares acquired under the Group's SPP. As at 30 June 2018, eight KMP held a loan (June 2017: seven). The terms and conditions of the loans, including repayment terms, are disclosed in note 14 of the financial statements.

			SPP Shares acquired during year	Opening Loan Balance	Loans made	Loans (repaid)	Closing Loan Balance	
			Number	\$	\$	\$	Face value <sup>(B)</sup>	Carrying value <sup>(B)</sup>
							\$	\$
<b>Directors</b>								
John Eales <sup>(A)</sup>	2018	53,354		-	999,987	(23,744)	976,243	901,837
Robert Fraser	2018	-		801,949	-	(89,638)	712,311	689,238
	2017	-		876,631	-	(74,682)	801,949	754,904
Hamish McLennan	2018	-		975,431	-	(58,640)	916,791	864,629
	2017	63,948		-	999,987	(24,556)	975,431	898,421
Karen Phin	2018	-		661,580	-	(73,921)	587,659	568,623
	2017	-		723,193	-	(61,613)	661,580	622,798
<b>Group Executives (Other KMP)</b>								
K Morton	2018	-		160,360	-	(50,055)	110,305	108,049
	2017	-		203,835	-	(43,475)	160,360	152,488
G Stack	2018	20,433		589,371	499,996	(278,931)	810,436	779,720
	2017	14,178		543,295	249,994	(203,918)	589,371	574,927
M Venegas	2018	-		49,166	-	(24,110)	25,056	24,946
	2017	2,126		-	49,982	(816)	49,166	48,091
C Wright	2018	-		170,049	-	(43,579)	126,470	123,020
	2017	-		206,704	-	(36,655)	170,049	159,448

<sup>(A)</sup> Mr Eales was appointed on 1 July 2017.

<sup>(B)</sup> The face value represents the loan balance due to be repaid to the Company. The carrying value represents the loan balance as required by the accounting standards (for further detail, please refer to note 14 of the financial statements)

#### 3.9 Other Transactions

On 9 August 2017, MAM appointed Taylor Collison Limited ("Taylor Collison") as Lead Arranger and a Joint Lead Manager in respect of the Broker Firm and General Public Offer for the IPO of Magellan Global Trust ("MGG"). Clients of Taylor Collison subscribed for broker firm units in the MGG IPO of \$78,132,231. Taylor Collison received a Joint Lead Manager fee and a selling fee on its broker firm subscriptions on the same terms as all other Joint Lead Managers. Mr Fraser is a director of Taylor Collison and has a non-material shareholding in that company. For the year ended 30 June 2018, Taylor Collison received a net amount of \$1,885,761 for its services as Lead Arranger and a Joint Lead Manager and for selling fees on broker firm subscriptions (net of amounts paid to clients) in relation to the MGG IPO.

During the 2018 financial year MAM paid International Quarterback Pty Limited (IQ) for consulting services. Mr Eales has a non-material shareholding in IQ and was formerly a director of IQ.

Both transactions were conducted as part of a normal supplier relationship on 'arm's length' terms.

There are no other related party transactions with KMP other than those disclosed.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT

### for the year ended 30 June 2018

### 3. 2018 Remuneration Report (Audited) (continued)

#### 3.10 Link Between Performance and Remuneration Paid by the Group

	2018	2017	2016	2015	2014
Total revenue (\$'000)	452,598	338,268	333,805	284,912	148,109
Total expenses (\$'000)	181,988	82,141	74,104	54,603	37,630
Net profit after tax (\$'000)	211,791	196,225	198,357	174,295	82,939
Net profit after tax before MGG net offer costs and amortisation (\$'000) <sup>(A)</sup>	268,897	196,225	198,357	174,295	82,939
Diluted earnings per share (cents per share)	122.0	114.1	115.5	101.8	48.9
Diluted earnings per share before MGG net offer costs and amortisation (cents per share) <sup>(A)</sup>	154.9	114.1	115.5	101.8	48.9
Total dividends paid (cents per share)	134.5	85.6	89.3	74.9	38.3
Closing share price (ASX code: MFG) <sup>(B)</sup>	\$ 23.30	\$ 28.84	\$ 22.25	\$ 17.40	\$ 10.93
Total KMP remuneration:					
- fixed compensation (\$) <sup>(C)</sup>	8,782,415	6,608,195	4,520,621	3,525,342	3,370,513
- variable compensation (\$) <sup>(D)</sup>	4,448,273	3,594,905	4,147,820	3,706,172	3,156,699
	<b>13,230,688</b>	<b>10,203,100</b>	<b>8,668,441</b>	<b>7,231,514</b>	<b>6,527,212</b>
Number of KMPs	12	12	10	9	10
% growth in net profit after tax	8%	-1%	14%	110%	25%
% growth in net profit after tax before MGG net offer costs and amortisation	37%	-1%	14%	110%	25%
% growth in diluted earnings per share	7%	-1%	13%	108%	22%
% growth in diluted earnings per share before MGG net offer costs and amortisation	36%	-1%	13%	108%	22%
% growth in total KMP remuneration	30%	18%	20%	11%	41%
% growth in dividends paid	57%	-4%	19%	96%	379%
Total KMP remuneration as % of net profit after tax	6%	5%	4%	4%	8%

(A) Excludes the one-off cost of the Magellan Global Trust IPO and non-cash amortisation.

(B) As at 30 June.

(C) Fixed compensation comprises salary, superannuation and other long term benefits outlined in Table 3.4.

(D) Variable compensation comprises cash bonuses and other benefits outlined in Table 3.4 and a discretionary payment to the former Chairman in 2014.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT

for the year ended 30 June 2018

### 4. Other

#### 4.1 Indemnification and Insurance of Directors and Officers

The Group insures the Directors and Officers of the Group in office to the extent permitted by law for losses, liabilities, costs and charges in defending any legal proceedings arising out of their conduct while acting in the capacity of Directors and Officers of the Group, other than conduct involving a wilful breach of duty in relation to the Group.

During the year, the Group paid insurance premiums to insure the Directors and Officers of the Company and its subsidiaries as permitted by the *Corporations Act 2001*. The terms of the contract prohibit the disclosure of the premiums paid.

#### 4.2 Auditor

Ernst & Young continues in office in accordance with section 327 of the *Corporation Act 2001*.

#### 4.3 Non-audit Services

During the year, Ernst & Young, the Group's auditor, has performed other services in addition to its statutory duties. Details of the amounts paid or payable to the auditor are set out in note 23 to the financial report.

The Directors, in accordance with advice received from the Audit and Risk Committee, are satisfied that the provision of those non-audit services during the year did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure that they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

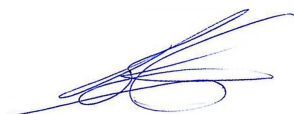
#### 4.4 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 32.

#### 4.5 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.

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



**Brett Cairns**

Executive Chairman

Sydney  
9 August 2018

## **Auditor's independence declaration to the Directors of Magellan Financial Group Limited**

As lead auditor for the audit of Magellan Financial Group Limited for the financial year ended 30 June 2018, 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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



Ernst & Young



Rita Da Silva  
Partner  
9 August 2018

# MAGELLAN FINANCIAL GROUP LIMITED

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS for the year ended 30 June 2018

		Consolidated Entity	
		30 June	30 June
		2018	2017
	Note	\$'000	\$'000
<b>Revenue</b>			
Management fees	5(a)	381,074	300,529
Performance fees	5(b)	39,772	21,696
Services fees	5(c)	4,701	6,650
Interest income		2,701	1,941
Dividend and distribution income		17,275	5,501
Net gain on sale of available-for-sale financial assets	5(f)	4,011	2,259
Net foreign exchange gain/(loss)		1,840	(308)
Other revenue		1,224	-
<b>Total revenue</b>		<b>452,598</b>	<b>338,268</b>
<b>Expenses</b>			
Employee expenses		52,038	47,370
Non-Executive Director fees		419	338
Fund administration and operational costs		14,866	10,482
Marketing expense		11,102	3,037
Information technology expense		4,588	3,758
Occupancy expense		4,276	3,155
US marketing/consulting fee expense		4,206	7,895
Legal and professional fees		2,474	1,688
Travel and entertainment expense		1,932	1,712
Depreciation expense		494	392
Amortisation expense	19	1,404	-
Auditor's remuneration	23	863	611
Foreign and withholding taxes		137	199
Loss on disposal of property, plant and equipment		-	18
Offer costs relating to capital raising of Magellan Global Trust	17	23,801	-
Offer costs of issuing loyalty units	17	56,965	-
Finance costs	21(c)	300	-
Other		2,123	1,486
<b>Total expenses</b>		<b>181,988</b>	<b>82,141</b>
<b>Net profit before income tax expense</b>		<b>270,610</b>	<b>256,127</b>
Income tax expense	6(a)	(58,819)	(59,902)
<b>Net profit after income tax for the year</b>		<b>211,791</b>	<b>196,225</b>
Basic earnings per share (cents per share)	3	122.0 cents	116.9 cents
Diluted earnings per share (cents per share)	3	122.0 cents	114.1 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 year ended 30 June 2018

		Consolidated Entity	
		30 June 2018	30 June 2017
	Note	\$'000	\$'000
<b>Net profit after income tax for the year</b>		<b>211,791</b>	<b>196,225</b>
<b>Other comprehensive income</b>			
<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		24,703	30,619
Net (gain)/loss on sale of available-for-sale financial assets	5(f)	(4,011)	(2,259)
Income tax (expense)/benefit on the above items	6(a)	(6,312)	(9,011)
Exchange differences on translation of operations		933	(31)
<b>Other comprehensive income for the year, net of tax</b>		<b>15,313</b>	<b>19,318</b>
<b>Total comprehensive income for the year</b>		<b>227,104</b>	<b>215,543</b>

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 30 June 2018

		Consolidated Entity	
		30 June	30 June
		2018	2017
	Note	\$'000	\$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	7(c)	169,095	146,243
Financial assets	12	1,972	1,775
Receivables	8	108,622	71,290
Loans - share purchase plan	14	3,298	1,940
Prepayments		1,079	926
<b>Total current assets</b>		<b>284,066</b>	<b>222,174</b>
<b>Non-current assets</b>			
Financial assets	12	274,567	263,113
Loans - share purchase plan	14	9,344	7,817
Property, plant and equipment	9	624	877
Net deferred tax asset	6(d)	1,324	-
Intangible assets	19	105,018	-
<b>Total non-current assets</b>		<b>390,877</b>	<b>271,807</b>
<b>Total assets</b>		<b>674,943</b>	<b>493,981</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables	10	20,612	22,336
Provisions	11	1,247	880
Income tax payable		29,702	4,863
<b>Total current liabilities</b>		<b>51,561</b>	<b>28,079</b>
<b>Non-current liabilities</b>			
Net deferred tax liabilities	6(c)	-	15,651
Deferred lease incentives		1,982	1,831
Provisions	11	967	809
<b>Total non-current liabilities</b>		<b>2,949</b>	<b>18,291</b>
<b>Total liabilities</b>		<b>54,510</b>	<b>46,370</b>
<b>Net assets</b>		<b>620,433</b>	<b>447,611</b>
<b>Equity</b>			
Contributed equity	13	218,877	115,250
Available-for-sale reserve		55,088	40,708
Foreign currency translation reserve		850	(83)
Retained profits		345,618	291,736
<b>Total equity attributable to members of the Group</b>		<b>620,433</b>	<b>447,611</b>
<b>Total equity</b>		<b>620,433</b>	<b>447,611</b>

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 year ended 30 June 2018

		Attributable to Equity Holders of the Consolidated Entity				
		Contributed Equity	Foreign currency translation reserve	Retained Profits	Available for Sale Reserve	Total Equity
2018	Note	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Equity - 1 July 2017</b>		<b>115,250</b>	<b>(83)</b>	<b>291,736</b>	<b>40,708</b>	<b>447,611</b>
Net profit for the year		-	-	211,791	-	211,791
Other comprehensive income		-	933	-	14,380	15,313
<b>Total comprehensive income for the year</b>		-	933	211,791	14,380	227,104
Transactions with owners in their capacity as owners:						
Issue of shares:						
- for acquisition of Airlie Funds Management Pty Limited	13(a)	97,113	-	-	-	97,113
- under Share Purchase Plan (SPP)	13(a)	6,013	-	-	-	6,013
- transaction costs arising on share issue	13(a)	(77)	-	-	-	(77)
Dividends paid	4	-	-	(157,909)	-	(157,909)
SPP expense for the year	13(a)	578	-	-	-	578
<b>Total transactions with equity holders in their capacity as equity owners</b>		<b>103,627</b>	<b>-</b>	<b>(157,909)</b>	<b>-</b>	<b>(54,282)</b>
<b>Equity - 30 June 2018</b>		<b>218,877</b>	<b>850</b>	<b>345,618</b>	<b>55,088</b>	<b>620,433</b>
<b>2017</b>						
<b>Equity - 1 July 2016</b>		<b>111,073</b>	<b>(52)</b>	<b>222,989</b>	<b>21,359</b>	<b>355,369</b>
Net profit for the year		-	-	196,225	-	196,225
Other comprehensive income		-	(31)	-	19,349	19,318
<b>Total comprehensive income for the year</b>		-	(31)	196,225	19,349	215,543
Transactions with owners in their capacity as owners:						
Issue of shares:						
- under Share Purchase Plan (SPP)	13(a)	4,004	-	-	-	4,004
- transaction costs arising on share issue	13(a)	(110)	-	-	-	(110)
Dividends paid	4	-	-	(127,478)	-	(127,478)
SPP expense for the year	13(a)	283	-	-	-	283
<b>Total transactions with equity holders in their capacity as equity owners</b>		<b>4,177</b>	<b>-</b>	<b>(127,478)</b>	<b>-</b>	<b>(123,301)</b>
<b>Equity - 30 June 2017</b>		<b>115,250</b>	<b>(83)</b>	<b>291,736</b>	<b>40,708</b>	<b>447,611</b>

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 year ended 30 June 2018

		Consolidated Entity	
		30 June	30 June
		2018	2017
	Note	\$'000	\$'000
<b>Cash flows from operating activities</b>			
Management and services fees received		399,854	317,453
Performance fees received		30,817	6,313
Dividends and distributions received		6,285	596
Interest received		2,016	1,576
Finance costs paid	21(c)	(212)	-
Tax paid		(59,183)	(61,609)
Payments to suppliers and employees (inclusive of GST)		(128,478)	(99,482)
Offer costs paid	17	(80,766)	-
<b>Net cash inflows/(outflows) from operating activities</b>	<b>7(a)</b>	<b>170,333</b>	<b>164,847</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of available-for-sale financial assets		19,419	9,350
Purchase of available-for-sale financial assets		(6,081)	(24,748)
Net matured term deposits classified as loans and receivables		161	107
Payments for property, plant and equipment	9(a)	(139)	(368)
Proceeds from sale of property, plant and equipment		25	-
Net cash flows from foreign exchange transactions		171	1
Acquisition of subsidiaries, net of cash acquired	18(c)	(8,668)	-
<b>Net cash inflows/(outflows) from investing activities</b>		<b>4,888</b>	<b>(15,658)</b>
<b>Cash flows from financing activities</b>			
Net proceeds from issue of shares		463	1,822
Proceeds from repayment of share purchase plan loans		2,266	1,899
Dividends paid		(156,948)	(126,708)
<b>Net cash inflows/(outflows) from financing activities</b>		<b>(154,219)</b>	<b>(122,987)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>21,002</b>	<b>26,202</b>
Effects of exchange rate movements on cash and cash equivalents		1,850	(321)
Cash and cash equivalents at the beginning of the year		146,243	120,362
<b>Cash and cash equivalents at the end of the year</b>	<b>7(c)</b>	<b>169,095</b>	<b>146,243</b>

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 year ended 30 June 2018

### Overview

Magellan Financial Group Limited (the "Company" or "MFG") is a for-profit entity that is incorporated and domiciled in Australia. The Company is listed on the Australian Securities Exchange (ticker code: MFG). The principal activities of the Company and its subsidiaries (the "Group" or "Consolidated Entity") are described in note 2 Segment Information. This financial report was authorised for issue in accordance with a resolution of the Directors on 9 August 2018 and the Directors have the power to amend and reissue this financial report.

### 1. Basis of Preparation

This general purpose financial report is presented in Australian dollars and has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards ("AASB") and Interpretations issued by the Australian Accounting Standards Board and other mandatory professional reporting requirements. It also complies with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

This financial report has been prepared on a going concern basis and under the historical cost convention except for available-for-sale financial assets, and financial assets and liabilities at fair value through profit or loss. All amounts in this financial report are rounded to the nearest thousand dollars (\$'000) in accordance with *Australian Securities & Investments Commission's Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless stated otherwise.

#### (a) Significant Accounting Policies

The accounting policies adopted in the preparation of this financial report are contained within the notes to which they relate. The policies have been consistently applied to all the years presented, unless otherwise stated.

#### (b) Critical Accounting Estimates and Judgements

In applying the Group's accounting policies, a number of estimates and assumptions have been made concerning the future. 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. As a result, actual results could differ from those estimates.

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

- estimation of useful lives and impairment of intangible assets including goodwill - refer to note 19
- deferred tax asset arising from unused tax loss - refer to note 6(c)

#### (c) New and Amended Accounting Standards

##### (i) Accounting Standards and Interpretations Adopted

The Group has adopted the new standards and amendments issued by the AASB which became mandatory for the current financial year. The adoption of the standards and amendments for the year ended 30 June 2018 did not result in any changes to the amounts or disclosures in the current or prior year.

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

The Group has not early adopted any new standards, amendments to standards and interpretations that are not yet effective. The Group has assessed the impact of these new standards and interpretations and with the exception of those mentioned below, none of the other standards and interpretations materially impact the Group.

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

AASB 15 supercedes AASB 118 *Revenue* and AASB 111 *Construction Contracts*. Although AASB 15 is principles-based, it is a significant change from the current revenue requirements and will involve more judgements and estimates as revenue is recognised when control of a good or service transfers to a customer, or on satisfaction of performance obligations under contracts, which replaces the existing notion of risks and rewards.

There were no impacts on the Group upon adoption of AASB 15 on 1 July 2018. The Group's revenue recognition of interest income, investment gains/(losses) and foreign exchange gains/(losses) was unaffected as these items are excluded from the scope of AASB 15. However, AASB 15 introduces a new concept that variable revenue is recognised to the extent that it is highly probable that there will be no significant reversal of the amount. This affected the Group's management and performance fees as these revenues vary based on portfolio values and performance returns respectively.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 1. Basis of Preparation (continued)

#### (c) New and Amended Accounting Standards (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)

Under AASB 15, there is no change in the Group's recognition of management fees as the fees are based on net assets under management at the end of the month/quarter and any uncertainty related to the fees is resolved at the end of the same month/quarter. Therefore, management fee revenues will continue to be recognised when invoiced, which corresponds directly with the value of performance delivered by the Group to its clients.

Given the Group's material performance fee agreements can have a broad range of outcomes and market volatility remains a key factor of uncertainty, performance fee revenue will not be recognised until the uncertainty is resolved or almost resolved. To assess uncertainty and therefore the potential reversal of performance fee revenue recognised, additional factors will now be considered to determine if a portion of the Group's performance fee revenue should be recognised prior to the end of the performance fee measurement period. Under AASB 15, performance fee revenue will most likely continue to be recognised once crystallised.

###### • AASB 9: Financial Instruments (AASB 9) (effective 1 July 2018)

AASB 9 contains new requirements for the classification, measurement and derecognition 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. It also includes new hedge accounting requirements and an expected-loss impairment model that requires credit losses to be recognised on a more timely basis.

The Group will adopt AASB 9 on 1 July 2018. At this time, the investments held by MFG in the Principal Investment Portfolio (refer note 12) will be classified as 'financial assets held at fair value through profit or loss' ("FVTPL"). Currently these investments are classified under AASB 139 as 'available-for-sale' ("AFS") financial assets held at fair value through other comprehensive income' ("FVOCI"). The change in classification arises as the investments will not meet the AASB 9 criteria for classification at amortised cost because their cash flows will not represent solely payments of principal and interest. Therefore, the accumulated fair value on these investments in the 'available-for-sale' reserve, net of tax, was transferred to retained profits on 1 July 2018.

As a consequence of the above, when the Group first reports under AASB 9, the Group's retained profits will increase by \$55,088,000 and the available-for-sale reserve will decrease by the same amount, as shown below:

Equity – 1 July 2018	Effect on available-for-sale reserve (net of tax)	Effect on retained profits	Effect on foreign currency translation reserve
<b>Opening balance – AASB 139</b>	55,088	345,618	-
Reclassify investments from available-for-sale to FVTPL	(55,088)	55,088	-
<b>Opening balance – AASB 9</b>	-	<b>400,706</b>	-

In addition, the classification of the 'available-for-sale' financial assets into the appropriate AASB 9 categories on the Consolidated Statement of Financial Position at 1 July 2018 is shown below:

Financial assets at 1 July 2018	FVTPL	FVOCI (2017: AFS)	Held to maturity	Amortised cost
<b>Financial assets under AASB 139 – 30 June 2018</b>	-	274,567	-	292,331
Reclassify investments from available-for-sale to FVTPL	274,567	(274,567)	-	-
<b>Opening balance – 1 July 2018</b>	<b>274,567</b>	-	-	<b>292,331</b>

The Group will not restate comparatives in accordance with the transitional provisions of AASB 9.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 1. Basis of Preparation (continued)

#### (c) New and Amended Accounting Standards (continued)

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

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

In addition, under AASB 9, expected credit losses on financial assets are to be recorded either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all eligible financial assets. It is expected the revised methodology for calculation of impairment will not have a significant impact on the financial statements.

- **AASB 16: Leases (effective 1 July 2019) (AASB 16)**

AASB 16 supercedes AASB 117 *Leases*. AASB 16 provides a new lessee accounting model which requires lessees to recognise the right-to-use assets, and liabilities to make lease payments, for leases with a term of more than 12 months unless the underlying asset is of low value. Expenses in respect of leases include amortisation of the right-of-use asset and interest expense in respect of the lease liability.

The Group will adopt AASB 16 from 1 July 2019. It is expected to result in most of the Group's leases (except short-term and low-value leases) being recognised on the Consolidated Statement of Financial Position. As at 30 June 2018, the Group had non-cancellable operating lease commitments of \$24,942,000. The Group has not yet determined to what extent these commitments will result in the recognition of a 'right-to-use' asset and a 'liability for future payments' and how this will affect the Group's profit or loss and classification of cash flows.

The Group expects to apply the modified retrospective approach on transition and reflect any impacts on transition to the new standard on a cumulative basis as an adjustment to the opening balance of retained earnings at 1 July 2019, the adoption date. For practical expediency lease contracts identified and ongoing as at 1 July 2019 and which are accounted for as leases under AASB 117 will continue to be accounted for as lease contracts under AASB 16. The Group will not restate comparatives in accordance with the transitional provisions of AASB 16.

#### (d) Foreign Currency Translation

Both the functional and presentation currency of MFG and its Australian subsidiaries is Australian dollars. Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Australian dollars at the Reuters London 4pm exchange rates at reporting date. The fair values of financial assets where denominated in a foreign currency are translated to Australian dollars using the Reuters London 4pm exchange rates at reporting date. Foreign currency exchange differences relating to financial assets are included in net changes in fair value in the Consolidated Statement of Profit or Loss. All other foreign currency exchange differences are presented separately in the Consolidated Statement of Profit or Loss as net gains/losses on foreign exchange.

#### (e) Goods and Services Tax (GST)

Revenue, expenses and assets (with the exception of receivables) are recognised net of the amount of GST, except when GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of that purchase or as an expense. Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included in the Consolidated Statement of Financial Position as a receivable or payable. Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST component of cash flows arising from financing activities which are recoverable from, or payable to the taxation authority, is presented as operating cash flows.

#### (f) Expenses

Expenses are recognised in the profit or loss on an accruals basis. Net rental payments for operating leases are recognised as an expense in the profit or loss on a straight line basis over the period of the lease. Directors' fees (including superannuation), related employment taxes and sponsorship and advertising are included as an expense in profit or loss as incurred. Information regarding the Directors' remuneration is included in sections 3.2 and 3.4 of the Remuneration Report.

#### (g) Impairment of Assets

All non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where an indicator or objective evidence of impairment exists, an estimate of the asset's recoverable amount is made. An impairment loss is recognised in the profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 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 are undertaken primarily by Magellan Asset Management Limited (MAM) and Airlie Funds Management Pty Limited (Airlie) in Australia and MFG Services LLC (MFGS) and Frontier North America Holdings Inc and its controlled entities (FNAH Group) in the United States of America (refer note 16).

The funds management activities undertaken by MAM comprise acting as:

- Responsible Entity(RE)/Trustee and/or Investment Manager(IM) for the following funds:

	Australian fund type	RE	IM
Magellan Global Fund	Unlisted registered fund	✓	✓
Magellan Global Fund (Hedged)	Unlisted registered fund	✓	✓
Magellan Infrastructure Fund	Unlisted registered fund	✓	✓
Magellan Infrastructure Fund (Unhedged)	Unlisted registered fund	✓	✓
Magellan High Conviction Fund	Unlisted registered fund	✓	✓
Magellan Global Equities Fund	ASX Quoted Fund registered fund	✓	✓
Magellan Global Equities Fund (Currency Hedged)	ASX Quoted Fund registered fund	✓	✓
Magellan Infrastructure Fund (Currency Hedged)	ASX Quoted Fund registered fund	✓	✓
Magellan Global Trust	ASX Listed Trust registered fund	✓	✓
Magellan Core Infrastructure Fund	Unregistered fund	✓	✓
Airlie Australian Share Fund	Unlisted registered fund	✓	

- 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 advisor for MFG Select Infrastructure Fund and MFG Infrastructure Fund, US domiciled open-ended mutual funds;
- Investment research and administrative services provider to MFF Capital Investments Limited, and investment research provider to a mandate; and
- Investment Manager or Sub-adviser to other external wholesale client mandates.

The funds management activities undertaken by Airlie comprise acting as:

- Trustee for the Airlie Concentrated Share Fund, an unregistered managed investment scheme;
- Investment Manager for the Airlie Australian Share Fund, a registered managed investment scheme; and
- Investment Manager to external wholesale client mandates.

The funds management activities undertaken by MFGS and the FNAH Group relate primarily to the distribution of the Group's funds in the United States of America.

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. No fees are paid to the Directors of Airlie or the FNAH Group.

#### Principal Investments

The principal investment portfolio is comprised of the Company's investments in the ASX Quoted Funds/Listed Trust, 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.

#### 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 year ended 30 June 2018

### 2. Segment Information (continued)

#### (a) Segment Financial Results

An operating segment is a distinguishable component of the Group that is engaged in business activities from which the Group earns revenues and incurs expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker in order to make decisions about the allocation of resources to the segment and assess its performance, and for which discrete financial information is available. The chief operating decision makers have been determined as the Chief Executive Officer and Chief Investment Officer, Mr Hamish Douglass and Executive Chairman, Mr Brett Cairns.

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

	Consolidated Entity			
	Funds Management (A)	Principal Investments	Corporate	Consolidated Entity
30 June 2018	\$'000	\$'000	\$'000	\$'000
<b>Segment revenue</b>				
Management fees	381,074	-	-	381,074
Performance fees	39,772	-	-	39,772
Services fees	4,701	-	-	4,701
Interest income	351	5	2,345	2,701
Dividend and distribution income	-	16,083	-	16,083
Net gain/(loss) on sale of available-for-sale financial assets	-	3,914	97	4,011
Other fee revenue	1,224	-	-	1,224
Net foreign exchange gain/(loss)	1,583	159	98	1,840
<b>Total segment revenue</b>	<b>428,705</b>	<b>20,161</b>	<b>2,540</b>	<b>451,406</b>
<b>Segment expenses</b>				
Employee expense	51,437	-	23	51,460
Employee expense - SPP	498	-	80	578
Non-Executive Director fees	250	-	169	419
Other expenses	45,090	201	2,070	47,361
<b>Total segment expenses</b>	<b>97,275</b>	<b>201</b>	<b>2,342</b>	<b>99,818</b>
<b>Total segment operating profit before income tax expense</b>	<b>331,430</b>	<b>19,960</b>	<b>198</b>	<b>351,588</b>
<b>Other comprehensive income</b>				
Net changes in fair value of available-for-sale financial assets	-	24,703	-	24,703
Net (gain)/loss on sale of available-for-sale financial assets	-	(3,914)	(97)	(4,011)
Exchange differences on translation of foreign operations	933	-	-	933
<b>Other comprehensive income for the year, before tax</b>	<b>933</b>	<b>20,789</b>	<b>(97)</b>	<b>21,625</b>
<b>Total comprehensive income for the year, before tax</b>	<b>332,363</b>	<b>40,749</b>	<b>101</b>	<b>373,213</b>

#### (i) Reconciliation of Segment Operating Profit Before Tax to Net Profit After Tax

	Consolidated Entity 30 Jun 2018 \$'000	30 Jun 2017 \$'000
<b>Segment operating profit before income tax expense</b>	<b>351,588</b>	<b>256,127</b>
<i>Individually significant items and amortisation of intangibles:</i>		
Offer costs relating to capital raising of Magellan Global Trust <sup>(B)</sup>	(23,801)	-
Offer costs of issuing loyalty units <sup>(B)</sup>	(56,965)	-
Interim distribution income from Magellan Global Trust <sup>(C)</sup>	1,192	-
Total net offer costs	(79,574)	-
Amortisation of intangible assets <sup>(D)</sup>	(1,404)	-
<b>Net profit before income tax expense</b>	<b>270,610</b>	<b>256,127</b>
Income tax expense	(58,819)	(59,902)
<b>Net profit for the year</b>	<b>211,791</b>	<b>196,225</b>

(A) Includes elimination of income and expense under the transfer pricing agreements between MAM and US subsidiaries within the Funds Management segment.

(B) Refer to note 17 for further details.

(C) Relates to the distribution declared for the half year ended 31 December 2017 on the MGG loyalty units (refer to note 17).

(D) Relates to amortisation expense on intangible assets acquired in Airlie, Frontier Partners Inc and Frontegra Strategies LLC (refer to note 19).



# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 2. Segment Information (continued)

#### (a) Segment Financial Results (continued)

	Consolidated Entity			
	Funds Management (A)	Principal Investments	Corporate	Consolidated Entity
	\$'000	\$'000	\$'000	\$'000
<b>30 June 2017</b>				
<b>Segment revenue</b>				
Management fees	300,529	-	-	300,529
Performance fees	21,696	-	-	21,696
Services fees	6,650	-	-	6,650
Interest income	534	64	1,343	1,941
Dividend and distribution income	-	5,501	-	5,501
Net gain/(loss) on sale of available-for-sale financial assets	-	2,259	-	2,259
Net foreign exchange gain/(loss)	(221)	(87)	-	(308)
<b>Total segment revenue</b>	<b>329,188</b>	<b>7,737</b>	<b>1,343</b>	<b>338,268</b>
<b>Segment expenses</b>				
Employee expense	47,072	-	15	47,087
Employee expense - SPP	240	-	43	283
Non-Executive Director fees	200	-	138	338
Other expenses	33,396	172	865	34,433
<b>Total segment expenses</b>	<b>80,908</b>	<b>172</b>	<b>1,061</b>	<b>82,141</b>
<b>Total segment operating profit before income tax expense</b>	<b>248,280</b>	<b>7,565</b>	<b>282</b>	<b>256,127</b>
<b>Other comprehensive income</b>				
Net changes in fair value of available-for-sale financial assets	-	30,619	-	30,619
Net (gain)/loss on sale of available-for-sale financial assets	-	(2,259)	-	(2,259)
Exchange differences on translation of foreign operations	(31)	-	-	(31)
<b>Other comprehensive income for the year, before tax</b>	<b>(31)</b>	<b>28,360</b>	<b>-</b>	<b>28,329</b>

(A) Includes elimination of income and expenses under the transfer pricing agreement between MAM and US subsidiaries within the Funds Management segment.

#### (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
<b>30 June 2018</b>				
Total assets	235,301	263,238	176,404	674,943
Total liabilities	24,163	-	30,347	54,510
<b>Net assets</b>	<b>211,138</b>	<b>263,238</b>	<b>146,057</b>	<b>620,433</b>
<b>30 June 2017</b>				
Total assets	104,900	271,318	117,763	493,981
Total liabilities	25,751	20,279	340	46,370
<b>Net assets</b>	<b>79,149</b>	<b>251,039</b>	<b>117,423</b>	<b>447,611</b>

(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 2017: \$20,000,000).

At 30 June 2018, MFG's net investment in the funds management business activities was \$124,446,000 (June 2017: \$13,204,000) with \$109,613,000 capital invested in MAM, \$210,000 capital invested in MFGS and \$14,623,000 capital invested in FNAH. All entities are controlled by MFG. Refer to note 16 for further details.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 3. Earnings Per Share (EPS)

Basic EPS is calculated as net profit/(loss) after income tax expense for the year divided by the weighted average number of ordinary shares on issue. Diluted EPS is calculated by adjusting the basic EPS to take into account the effect of any costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary units that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

	Consolidated Entity	
	30 Jun 2018	30 Jun 2017
<b>Basic EPS</b>		
Net profit attributable to shareholders (\$'000)	211,791	196,225
Weighted average number of shares for basic EPS ('000)	173,553	167,892
<b>Basic EPS (cents)</b>	<b>122.0</b>	<b>116.9</b>
<b>Diluted EPS</b>		
Net profit attributable to shareholders (\$'000)	211,791	196,225
Weighted average number of shares for diluted EPS ('000)	173,553	171,954
<b>Diluted EPS (cents)</b>	<b>122.0</b>	<b>114.1</b>
<b>Reconciliation of earnings used in calculating EPS</b>		
Net profit after income tax expense used in the calculation of basic and diluted EPS (\$'000)	211,791	196,225

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

Weighted average number of ordinary shares on issue used in calculating basic EPS ('000)	173,553	167,892
Add adjustments: equivalent number of MFG Class B Shares <sup>(A)</sup>	-	4,062
Weighted average number of shares used in calculating diluted EPS ('000)	<b>173,553</b>	<b>171,954</b>

(A) The MFG Class B Shares were considered to be potential ordinary shares up until conversion on 22 November 2016 and were included in the determination of diluted earnings per share to the extent they were dilutive.

### Non-IFRS EPS Calculation

The following adjusted EPS calculation has excluded net offer costs arising from the MGG IPO and amortisation expense on intangibles arising from the acquisitions of Airlie and Frontier Group:

	30 Jun 2018	30 Jun 2017
<b>Basic EPS before MGG net offer costs and amortisation expense</b>		
Net profit attributable to shareholders (\$'000)	211,791	196,225
Adjustments:		
Net offer costs incurred in relation to MGG IPO <sup>(B)</sup> (\$'000)	79,574	-
Tax expense on net offer costs (\$'000)	(23,872)	-
Amortisation of intangible assets (\$'000)	1,404	-
Adjusted net profit attributable to shareholders (\$'000)	268,897	196,225
Weighted average number of shares for adjusted basic EPS ('000)	173,553	167,892
<b>Basic EPS before MGG net offer costs and amortisation expense (cents)</b>	<b>154.9</b>	<b>116.9</b>
<b>Diluted EPS before MGG net offer costs and amortisation expense</b>		
Net profit attributable to shareholders (\$'000)	211,791	196,225
Adjustments:		
Net offer costs incurred in relation to MGG IPO <sup>(B)</sup> (\$'000)	79,574	-
Tax expense on net offer costs (\$'000)	(23,872)	-
Amortisation of intangible assets (\$'000)	1,404	-
Adjusted net profit attributable to shareholders (\$'000)	268,897	196,225
Weighted average number of shares for adjusted diluted EPS ('000)	173,553	171,954
<b>Diluted EPS before MGG net offer costs and amortisation expense (cents)</b>	<b>154.9</b>	<b>114.1</b>

(B) Refer to note 2 (a)(i) for the composition of offer costs.



# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 4. Dividends

	Consolidated Entity	
	30 June 2018 \$'000	30 June 2017 \$'000
<b>For the year ended 30 June 2018</b>		
Fully franked interim dividend for the year ended 30 June 2018: - 44.5 cents per ordinary share: paid 20 February 2018	76,688	-
Fully franked final and performance fee dividend for the year ended 30 June 2017: - final dividend: 41.5 cents per ordinary share: paid 28 August 2017	71,413	-
- performance fee dividend: 5.7 cents per ordinary share: paid 28 August 2017	9,808	-
<b>For the year ended 30 June 2017</b>		
Fully franked interim dividend for the year ended 30 June 2017: - 38.4 cents per ordinary share: paid 2 March 2017	-	66,077
Fully franked final dividend for the year ended 30 June 2016: - 38.0 cents per ordinary share: paid 26 August 2016	-	61,401
<b>Total dividends declared and paid during the year</b>	<b>157,909</b>	<b>127,478</b>

#### (i) Dividend Declared

On 9 August 2018, the Directors declared a total fully franked dividend of 90.0 cents per share in respect of the six months to 30 June 2018 (June 2017: 47.2 cents per share). The dividend comprises a Final Dividend of 75.1 cents per share and a Performance Fee Dividend of 14.9 cents per share (June 2017: Final Dividend of 41.5 cents per share and a Performance Fee Dividend of 5.7 cents per share). The Final Dividend includes a top up amount of 8.4 cents per share to align the previously paid Interim Dividend for the six months to 31 December 2017 to the Group's revised dividend policy. Refer to section 1.3 in the Directors' Report.

A dividend payable to shareholders of the Group is only recognised for the amount of any dividend declared by the Directors on or before the end of the financial year, but not paid at reporting date. Accordingly, the Final Dividend and Performance Fee Dividend totalling approximately \$158,590,000 are not recognised as liabilities and will be paid on 27 August 2018.

#### (ii) Imputation Credits

	Consolidated Entity	
	30 June 2018 \$'000	30 June 2017 \$'000
Total imputation credits available for subsequent reporting periods based on a tax rate of 30% (June 2017: 30%)	<b>62,461</b>	<b>48,817</b>

The above amount comprises the balance of the imputation account as at the end of the reporting period, adjusted for franking credits that will arise from the payment of income tax liabilities after the end of the year.

The dividend declared by the Directors on 9 August 2018 will be fully franked out of existing franking credits, or out of franking credits arising from the payment of income tax.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 5. Revenue

#### (a) Management Fees

Management fee revenue is recognised in the profit or loss over the period the service is provided. Management fees are based on a percentage of the portfolio value of the fund or mandate and calculated in accordance with the Investment Management Agreement or Constitution.

The management fees received/receivable during the year were:

	Consolidated Entity	
	30 June	30 June
	2018	2017
	\$'000	\$'000
Magellan Global Fund	125,788	112,732
Magellan Global Fund (Hedged)	5,996	4,946
Magellan Global Equities Fund	13,042	9,599
Magellan Global Equities Fund (Currency Hedged)	833	564
Magellan Global Trust	15,990	-
Magellan Infrastructure Fund	13,706	10,372
Magellan Infrastructure Fund (Unhedged)	6,620	5,649
Magellan Infrastructure Fund (Currency Hedged)	1,437	469
Magellan High Conviction Fund	6,960	4,614
Magellan Core Infrastructure Fund	526	807
MFG Global Fund	16,443	17,565
Frontier MFG Funds	14,464	10,237
MFG Select Infrastructure Fund	434	161
Airlie Concentrated Share Fund	895	-
Other funds and mandates	157,940	122,814
<b>Total management fees earned</b>	<b>381,074</b>	<b>300,529</b>

#### (b) Performance Fees

Performance fees may be earned from funds, mandates and MFF. The Group's entitlement to a performance fee for any given performance period is dependent on outperforming certain hurdles. These hurdles may be index relative (including in some cases a fixed percentage above an index), absolute return, both absolute return and index relative, or total shareholder return. Performance fees received/receivable for funds and mandates during the year were:

	30 June 2018	30 June	30 June
	High watermark	2018	2017
	unit price (\$)	\$'000	\$'000
<b>Based on performance relative to both market index and absolute return hurdle</b>			
Magellan Global Fund	2.1032	18,352	11,144
Magellan Global Fund (Hedged)	1.5212	692	959
Magellan Global Equities Fund	3.1425	2,015	1,003
Magellan Global Equities Fund (Currency Hedged)	2.9944	101	120
Magellan Global Trust	1.5451	36	-
Magellan Infrastructure Fund	1.2622	2,910	895
Magellan Infrastructure Fund (Unhedged)	1.7216	2,906	907
Magellan Infrastructure Fund (Currency Hedged)	2.7637	357	43
<b>Based on performance relative to absolute return hurdle</b>			
Magellan High Conviction Fund (Class A/B)	1.6903(A)/0.9592(B)	3,666	3,083
<b>Based on total shareholder return</b>			
MFF Capital Investments Limited	-	1,000	2,000
<b>Based on performance relative to a market index</b>			
Other funds and mandates	various	7,737	1,542
<b>Total performance fees earned</b>		<b>39,772</b>	<b>21,696</b>

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2018

### 5. Revenue (continued)

#### (b) Performance Fees (continued)

Performance fees are generally subject to either a high-water mark arrangement or a deficit clause, which ensures that fees are not earned more than once on the same performance. Some mandate performance fees are subject to a cap on the performance fee amount earned in each performance fee measurement period, with any amount in excess of the cap carried forward to the next calculation measurement period. There are no carried forward performance fees at 30 June 2018.

The Group's entitlement to future performance fees from Magellan funds is dependent on the unit price of the fund exceeding the high-water mark. The high-water mark is the unit price at the end of the most recent calculation period for which the Group was entitled to a performance fee, less any intervening income and capital distributions. The calculation periods for all Magellan funds (except for MGG) are 6 months in duration ending 30 June and 31 December each year. The calculation period for MGG is 6 months in duration ending 31 March and 30 September each year.

#### (c) Services Fees

Services fees are recognised in the profit or loss over the period the service is provided and calculated in accordance with the Services Agreement. Services fees arise from providing investment research and administrative services. Services fees from MFF, a listed investment company, comprised of a fixed quarterly base fee of \$1,000,000 which amounted to \$4,000,000 in total for the year ended 30 June 2018 (30 June 2017: \$5,954,000). Additionally, in the year ended 30 June 2018, MAM provided research to an institutional mandate and earned services fees of \$701,000 (June 2017: \$696,000) under a fixed fee arrangement.

#### (d) Management, Services and Performance Fees by Geographic Location

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

	30 June 2018 \$'000	30 June 2017 \$'000
Australia	283,360	214,789
United Kingdom & Ireland	73,850	59,060
United States	53,574	43,513
Canada	5,458	5,161
Asia	9,305	6,352
<b>Total management, services and performance fees</b>	<b>425,547</b>	<b>328,875</b>

#### (e) Management, Services and Performance fees by Investor Type

Fees by type of investor across global equities and infrastructure strategies is as follows:

<b>Management and services fees</b>		
- Retail	217,006	170,634
- Institutional	168,769	136,545
<b>Performance fees</b>		
- Retail	34,347	20,006
- Institutional	5,425	1,690
<b>Total management, services and performance fees</b>	<b>425,547</b>	<b>328,875</b>
Total Retail	251,353	190,640
Total Institutional	174,194	138,235
<b>Total management, services and performance fees</b>	<b>425,547</b>	<b>328,875</b>

#### (f) Net Gain on Sale of Available-for-sale Financial Assets

The net gain/(loss) on sale of available-for-sale financial assets is the difference between the carrying amount of the asset at the date of disposal and the net proceeds from disposal and is recognised in the profit or loss and other comprehensive income in the year of disposal. At 30 June 2018, the net gain/(loss) from disposal of unlisted and listed investments was \$4,011,000 (June 2017: \$2,259,000).

#### (g) Interest Income

Interest income is recognised on an accruals basis.

#### (h) Dividend and Distribution Income

Dividend and distribution income is recognised when it is declared.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2018

### 6. Taxation

#### (a) Reconciliation of Income Tax Expense

The income tax expense for the year is reconciled to the accounting net profit as follows:

		Consolidated Entity	
	Note	30 June 2018 \$'000	30 June 2017 \$'000
<b>Net profit before income tax expense</b>		<b>270,610</b>	<b>256,127</b>
Prima facie income tax expense at 30% (2017: 30%)		(81,183)	(76,838)
Effect of amounts which are non-deductible/(assessable) in calculating taxable income:			
- effect of concessional tax rate on offshore banking unit (OBU)	6(c)	22,386	16,259
- over/(under) provision of prior year income tax		102	623
- imputed interest and expense relating to share purchase plan		29	21
- tax effect of franked dividends/distributions received		32	28
- differences in overseas tax rates		50	1
- US state and local taxes (net of tax credits)		(830)	(666)
- non-assessable income and non-deductible expenses		595	670
<b>Income tax expense reported in the Consolidated Statement of Profit or Loss</b>		<b>(58,819)</b>	<b>(59,902)</b>
- changes in fair value of available-for-sale financial assets		(7,515)	(9,689)
- sale of available-for-sale financial assets recycled through profit or loss		1,203	678
<b>Income tax (expense)/benefit reported in the Consolidated Statement of Other Comprehensive Income</b>		<b>(6,312)</b>	<b>(9,011)</b>

#### (b) Components of Income Tax Expense

Income tax attributable to net profit from ordinary activities comprises:

	Note	30 June 2018 \$'000	30 June 2017 \$'000
<b>The major components of income tax expense are:</b>			
Current income tax expense	(i)	(81,049)	(60,477)
Deferred income tax expense/(benefit)	(ii)	22,908	617
Differences in overseas tax rates		50	1
US state and local taxes (net of tax credits)		(830)	(666)
Over/(under) provision of prior year income tax		102	623
<b>Income tax expense reported in the Consolidated Statement of Profit or Loss</b>		<b>(58,819)</b>	<b>(59,902)</b>

The tax expense of \$23,872,000 relating to the total offer costs of MGG comprises:

- \$1,070,000 of current income tax expense relates to the net tax benefit relating to capital raising costs deducted against taxable income in the current year and tax expense on the MGG interim distribution received by the Group in January 2018.
- \$22,802,000 of deferred income tax expense relates to the tax benefit arising on the offer costs relating to the issuance of loyalty units and the capital raising costs not deducted against taxable income in the current year.

#### (c) Offshore Banking Unit

MAM, a controlled entity of MFG and a member of the tax consolidated group, was declared an OBU on 31 July 2013. Assessable offshore banking ("OB") income derived from the Group's OB funds management and advisory activities provided to clients outside of Australia and New Zealand, net of costs, is subject to a concessional tax rate of 10% and is determined with reference to current Australian tax legislation definitions of assessable OB income, exclusive OB deductions and general OB deductions.

For the year ended 30 June 2018, the Company's effective tax rate was 21.7% (June 2017: 23.4%), which includes tax paid net of tax credits in foreign jurisdictions. This rate is below the Australian company tax rate of 30% primarily as a result of MAM's qualifying OB income, net of costs. The income tax expense of the OBU recognised in the Consolidated Statement of Profit or Loss is summarised at note 6(a).

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 6. Taxation (continued)

#### (d) Net Deferred Tax Asset/(Liability)

(i) Deferred tax asset/(liability) balances comprises:

		Consolidated Entity	
		30 June 2018 \$'000	30 June 2017 \$'000
	Note		
Amounts recognised in Consolidated Statement of Financial Position:			
- Deferred tax liabilities from changes in the fair value of available-for-sale financial assets		(26,613)	(20,301)
- Deferred tax asset on offer costs relating to capital raising of MGG	17	5,712	-
- Deferred tax assets from movements in accruals, provisions and other items		4,756	4,650
- Deferred tax assets from acquired subsidiaries		379	-
<b>Total net deferred tax (liability) relating to temporary differences</b>		<b>(15,766)</b>	<b>(15,651)</b>
Deferred tax asset relating to unused tax loss arising on issuance of loyalty units to unitholders under MGG priority offer	17	17,090	-
<b>Total net deferred tax asset/(liability)</b>		<b>1,324</b>	<b>(15,651)</b>

(ii) The reconciliation of movements in the deferred tax asset/(liability) is as follows:

	Note	Consolidated Entity	
		30 June 2018 \$'000	30 June 2017 \$'000
Opening balance		(15,651)	(7,257)
<b>(i) Movement in temporary differences during the year:</b>			
- changes in the fair value of available for sale financial assets		(6,312)	(9,033)
- offer costs relating to capital raising of MGG	17	5,712	-
- accruals, provisions and other items		106	639
- acquired deferred tax asset from subsidiaries		379	-
<b>(ii) Movement in unused tax loss</b>			
- capital loss on issuance of loyalty units to unitholders under MGG priority offer	17	17,090	-
<b>Closing balance - net deferred tax asset/(liability)</b>		<b>1,324</b>	<b>(15,651)</b>

#### Key Estimate and Judgement

At 30 June 2018, the Group's net deferred tax asset of \$1,324,000 includes a deferred tax asset of \$5,712,000 relating to one-off offer costs incurred on the capital raising of MGG during the year and a deferred tax asset of \$17,090,000 relating to the unused capital loss on the issuance of loyalty units to eligible unitholders of MGG under the priority offer. The Directors have determined that the deferred tax asset will be recoverable using estimated future taxable income based on the Group's budgets and that the Group is expected to generate taxable income in future periods. As a result, the Group has determined as at 30 June 2018, that future taxable profits and capital gains to utilise these tax assets are sufficiently probable and therefore the deferred tax asset has been recognised.

#### (e) Tax consolidation

MFG and its wholly owned Australian subsidiaries formed a tax consolidated group for income tax purposes. The entities in the tax consolidated group have entered a tax sharing agreement, which limits the joint and several liability of the subsidiaries in the case of a default of MFG. The subsidiaries also entered a tax funding agreement whereby each will compensate MFG for the amount of tax payable that would be calculated as if the subsidiary was a tax paying entity. MFG, as head entity, and the subsidiaries in the tax consolidated group continue to account for their own current and deferred tax amounts. The amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right. The current or deferred tax balances are transferred to MFG via intercompany balances and recognised as related party tax receivables or payables.

During the year, income tax liabilities of \$84,149,000 (June 2017: \$61,783,000) were assumed by MFG. Payments totalling \$64,568,000 (June 2017: \$52,187,000) were made to MFG from the other entities under the tax sharing and funding agreement and \$19,581,000 (June 2017: \$9,596,000) remains receivable as at 30 June 2018. Refer to note 20(d)(ii) and (iii) for the related party tax transactions.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 6. Taxation (continued)

#### Accounting Policy for Tax

Income tax expense/benefit is the tax payable/receivable on the current year's taxable income based on the current income tax rate adjusted by changes in deferred tax assets and liabilities. Taxable profit differs from net profit reported in the Consolidated Statement of Profit or Loss and the Consolidated Statement of Other Comprehensive Income as items of income or expense are taxable or deductible in years other than the current year and in addition some items are never taxable or deductible.

#### Current tax

Current tax assets or liabilities are amounts receivable or payable in relation to income taxes attributable to taxable profits of the current or prior financial years, less income tax instalments paid. The tax rates and laws used to calculate current taxes are those that are enacted or substantively enacted as at the reporting date.

#### Deferred tax

Deferred tax balances arise when there are temporary differences between accounting carrying amounts and the tax bases of assets and liabilities in the consolidated entity's financial report. Deferred tax is not recognised if it arises from the initial recognition of goodwill or an asset or liability in a transaction other than a business combination which affects neither taxable income nor accounting profit or from investments in subsidiaries, or foreign operations in certain circumstances.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise the temporary differences and losses. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that the tax benefit will be realised.

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relates to income taxes levied by the same taxation authority and for which the tax consolidated group intends either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted for each jurisdiction by the end of reporting date and expected to apply when the temporary differences reverse.

Current and deferred tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or equity respectively.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 7. Notes to the Consolidated Statement of Cash Flows

#### (a) Reconciliation of Net Profit after Tax to Net Cash Flows from Operating Activities

	Consolidated Entity	
	30 June	30 June
	2018	2017
	\$'000	\$'000
Net profit after income tax expense	211,791	196,225
Adjusted for:		
Net (gain)/loss on disposal of available-for-sale financial assets	(4,011)	(2,259)
Loss on disposal of property, plant and equipment	-	18
Dividends and distributions reinvested	(395)	(10,898)
Depreciation and amortisation expense	1,898	392
Net foreign exchange (gain)/loss	(1,840)	309
Imputed interest on loans under the SPP	(673)	(354)
Employee expense on loans under SPP	578	283
(Increase)/decrease in receivables	(30,649)	(20,357)
(Increase)/decrease in prepayments	35	(527)
(Increase) in net deferred tax asset/increase in net deferred tax liabilities	(22,908)	8,411
Increase/(decrease) in payables	(5,464)	(4,634)
Increase/(decrease) in income tax payable	21,957	(1,747)
Effects of exchange rates on cash and cash equivalents	14	(15)
<b>Net cash inflows from operating activities</b>	<b>170,333</b>	<b>164,847</b>

#### (b) Non-Cash Financing and Investing Activities

		Consolidated Entity	
		30 June	30 June
		2018	2017
	Note	\$'000	\$'000
Issue of MFG shares for acquisition of Airlie Funds Management Pty Limited	18(a)	97,113	-
Issue of MFG shares under the SPP		5,439	3,060
Dividends paid to SPP Participants applied as repayment against SPP loan balance	14	961	770
Imputed interest on SPP loans	14	673	354
Employee expense on SPP loans	14	578	283
Value of units issued to MFG in lieu of distributions for Principal Investments		395	10,898

#### (c) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and short term deposits with a maturity of 90 days or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

For the purposes of the Consolidated Statement of Cash Flows, cash includes cash and cash equivalents of \$169,095,000 (June 2017: \$146,243,000). Term deposits with maturity dates greater than 90 days from inception date are included in financial assets (refer to note 12).

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 8. Receivables

Fees receivable comprise management, services and performance fees. These amounts are recognised at the amounts due and their collectability is reviewed regularly. Where there is evidence that amounts due may not be recoverable, a provision for doubtful debts is recognised in the profit or loss.

	Consolidated Entity	
	30 June	30 June
	2018	2017
	\$'000	\$'000
Fees receivable	93,272	66,026
Distributions receivable from Magellan Funds	14,888	4,838
Other	462	426
<b>Total receivables</b>	<b>108,622</b>	<b>71,290</b>

#### Ageing of receivables

All of the \$108,622,000 receivables at 30 June 2018 are due within 0 to 90 days (June 2017: 0 to 90 days) and \$1,301,000 were past due at 30 June 2018 (June 2017: \$1,088,000). No amounts are impaired.

### 9. Property, Plant and Equipment

Property, plant and equipment assets are stated at cost less accumulated depreciation and impairment. These assets are depreciated on a straight-line basis over their estimated useful lives of the assets and are tested for impairment when there is an indication of impairment. Useful life details of the assets are:

- Leasehold improvements life of the relevant lease
- Furniture and fittings 3 to 5 years
- Computer equipment 3 to 5 years

An item of property, plant and equipment is derecognised upon disposal of an asset. Any gain or loss on disposal (calculated by comparing sale proceeds with the carrying amount) is recognised in the profit or loss in that year.

	Consolidated Entity					
	30 June 2018			30 June 2017		
	Leasehold Improve- ments	Office Equipment, Fixture & Fittings	Total	Leasehold Improve- ments	Office Equipment, Fixture & Fittings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At cost	321	1,872	2,193	303	1,649	1,952
less: accumulated depreciation	263	1,306	1,569	190	885	1,075
<b>Total property, plant &amp; equipment</b>	<b>58</b>	<b>566</b>	<b>624</b>	<b>113</b>	<b>764</b>	<b>877</b>
Movements:						
Carrying amount at beginning of year	113	764	877	91	823	914
Additions	31	108	139	73	295	368
Acquisition of subsidiaries	-	122	122	-	-	-
Disposals	(15)	(10)	(25)	(6)	(7)	(13)
Depreciation expense	(73)	(421)	(494)	(45)	(347)	(392)
Net foreign exchange differences	2	3	5	-	-	-
<b>Carrying amount at end of year</b>	<b>58</b>	<b>566</b>	<b>624</b>	<b>113</b>	<b>764</b>	<b>877</b>



# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 10. Payables

Payables represent liabilities for goods and services received prior to the end of the year and that remain unpaid at reporting date. Trade payables are unsecured and are recognised at the amount due to suppliers. Accruals represent amounts due for supplies and services received but not invoiced at reporting date.

	Consolidated Entity	
	30 June	30 June
	2018	2017
	\$'000	\$'000
Trade payables and accruals	4,981	4,029
Accrued employee entitlements	13,403	14,824
Taxes payable - GST and Fringe Benefits Tax	2,228	1,340
US marketing/consulting costs payable	-	2,143
<b>Total payables</b>	<b>20,612</b>	<b>22,336</b>

#### Employee entitlements

Employee entitlements comprise wages, salaries, annual leave and bonuses.

Liabilities for wages and salaries and annual leave are measured at the amounts expected to be paid when the liabilities are settled and include related on-costs, for example payroll tax. Bonuses are recognised in respect of employee services up to the end of the reporting period. A liability and an expense are recognised for the employee bonus plan where the Group is contractually obliged or where there is past practice that has created a constructive obligation to pay the relevant bonuses. The cash bonus is paid within three months of reporting date. The conditional deferred cash bonus is paid in 12 or 36 equal instalments (depending on the employee) in the following financial year or years and payment of the deferred cash bonus is conditional on an eligible employee being employed at the time of payment. The deferred cash bonus for each month is expensed in the Consolidated Statement of Profit or Loss as incurred.

#### Maturities of financial liabilities

At 30 June 2018, the Group's financial liabilities comprise trade creditors and payables which mature in 1 year or less (June 2017: 1 year or less).

### 11. Provisions

	Consolidated Entity	
	30 June	30 June
	2018	2017
	\$'000	\$'000
Employee entitlements - long service leave	1,247	380
Provision for investment restriction contract	-	500
<b>Total current provisions</b>	<b>1,247</b>	<b>880</b>
Employee entitlements - long service leave	937	799
Provision for make-good	30	10
<b>Total non-current provisions</b>	<b>967</b>	<b>809</b>

#### Long service leave

Liabilities for long service leave are recognised when employees reach a qualifying period of continuous service. Non-current liabilities are measured as the present value of expected future payments and expected to be paid after 12 months of reporting date. Current liabilities are measured at the amount expected to be settled within 12 months of the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service and discounted using high quality corporate bond rates at reporting date, with terms to maturity that match, as closely as possible, the estimated future cash outflows.

#### Provision for make-good

A make-good provision is recognised for the present value of the estimated expenditure required to restore office premises back to the condition at lease inception. A corresponding asset is recognised in leasehold improvements within property, plant and equipment and is depreciated over the remaining life of the relevant lease.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 12. Financial Assets

	Consolidated Entity	
	30 June	30 June
	2018	2017
	\$'000	\$'000
<b>Current</b>		
<b>(i) Financial assets classified as loans and receivables</b>		
Term deposits <sup>(A)</sup>	1,972	1,775
<b>Total current financial assets</b>	<b>1,972</b>	<b>1,775</b>
<b>Non-Current</b>		
<b>(ii) Available-for-sale financial assets</b>		
<b>Investments in listed shares (by domicile of primary stock exchange)</b>		
- United States	2,714	14,301
- United Kingdom	87	728
- Australia	-	76
- France	31	847
- Switzerland	43	1,508
- Netherlands	42	242
- Germany	26	225
- Other	34	474
<b>Investments in ASX listed trust/Quoted funds<sup>(B)</sup></b>		
- Magellan Global Trust <sup>(C)</sup>	4,086	-
- Magellan Global Equities Fund	64,413	56,837
- Magellan Global Equities Fund (Currency Hedged)	18,313	16,965
- Magellan Infrastructure Fund (Currency Hedged)	11,097	10,655
<b>Total listed/quoted investments</b>	<b>100,886</b>	<b>102,858</b>
<b>Investments in unlisted funds<sup>(B)</sup></b>		
- Magellan Global Fund	111,992	103,160
- Magellan Global Fund (Hedged)	784	739
- Magellan High Conviction Fund <sup>(D)</sup>	32,801	29,905
- Magellan Wholesale Plus Global Fund	7,532	6,434
- Magellan Wholesale Plus Infrastructure Fund	5,451	5,124
- Frontier MFG Core Infrastructure Fund	6,026	5,799
- Frontier MFG Global Plus Fund	8,839	7,534
- MFG Infrastructure Fund <sup>(E)</sup>	-	1,304
- Other	81	81
<b>Investments in unlisted shares</b>		
- Other	175	175
<b>Total unlisted investments</b>	<b>173,681</b>	<b>160,255</b>
<b>Total non-current financial assets</b>	<b>274,567</b>	<b>263,113</b>

(A) Comprises term deposits held with major Australian banks and pledged against bank guarantees in respect of the Group's future lease obligations. In the event 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) At 30 June 2018 the Group held the following investments: Magellan Global Trust 0.2% (June 2017: nil), Magellan Global Equities Fund 6.1% (June 2017: 6.7%), Magellan Global Equities Fund (Currency Hedged) 27.3% (June 2017: 31.4%), Magellan Infrastructure Fund (Currency Hedged) 6.2% (June 2017: 12.6%), Magellan Global Fund 1.2% (June 2017: 1.2%), Magellan Global Fund (Hedged) 0.2% (June 2017: 0.2%), Magellan High Conviction Fund 7.0% (June 2017: 9.1%), Magellan Wholesale Plus Global Fund 1.0% (June 2017: 1.1%), Magellan Wholesale Plus Infrastructure Fund 41.6% (June 2017: 88.0%), Frontier MFG Core Infrastructure Fund 1.1% (June 2017: 1.8%), Frontier MFG Global Plus Fund 1.9% (June 2017: 1.9%) and MFG Infrastructure Fund nil (June 2017: 100%).

(C) Comprises 1,613,070 units acquired by MGT Investment Corp Pty Limited (refer to note 17) and a further 940,541 units acquired directly by MFG.

(D) On 14 November 2017, MFG seeded the Class B unit class in Magellan High Conviction Fund ("MHCF") with \$100,000 by way of a switch from its current investment in this fund.

(E) The investment was liquidated on 27 April 2018.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 12. Financial Assets (continued)

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

	Consolidated Entity	
	30 June 2018 \$'000	30 June 2017 \$'000
<b>Current</b>		
Opening balance at 1 July	1,775	1,719
Term deposit of acquired subsidiary	358	-
Cash placed on term deposit	2,331	1,939
Matured term deposits	(2,492)	(1,883)
<b>Closing balance</b>	<b>1,972</b>	<b>1,775</b>
<b>Non-current</b>		
Opening balance at 1 July	263,113	206,221
Acquisitions	8,784	35,687
Disposals	(18,022)	(7,154)
Net changes in fair values of investments	20,692	28,359
<b>Closing balance</b>	<b>274,567</b>	<b>263,113</b>

#### Loans and receivables

Term deposits with a term greater than 90 days from the date of inception are classified as loans and receivables and recognised at the value of the cash on deposit. Where the term to maturity from reporting date is less than 12 months, the term deposit is classified as a current asset.

#### Available-for-sale financial assets

Available-for-sale financial assets are assets that are not classified in any other financial asset category and are carried at fair value. Changes in the fair value of available-for-sale financial assets are recognised in the available-for-sale reserve and included in other comprehensive income until the asset is disposed or impaired. When available-for-sale financial assets are sold or impaired, cumulative gains recognised in the available-for-sale reserve are recognised in profit or loss. Cumulative losses are recognised in the available-for-sale reserve to the extent that they reverse previously recorded gains, and when previously recorded gains have been reversed in full, any impairment loss below original cost (when significant and prolonged) is recognised in profit or loss. In assessing whether an available-for-sale asset is impaired, the Board considers a number of quantitative and qualitative factors, including the current market price of the asset, research performed internally by experienced equity analysts, and, where appropriate, external research that provides guidance on the long-term underlying value of the asset. Available-for-sale financial assets are classified as non-current assets unless management intends to dispose of the assets within 12 months of reporting date.

Purchases and sales are recognised on trade date, being the date the Group commits to purchase or sell the asset. Payments for purchases and proceeds from sale of investment securities are classified as cash flows from investing activities.

#### Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity and the relevant activities are directed by means of contractual arrangements under AASB 12 *Disclosure of Interests in Other Entities* (AASB 12). The Group has assessed whether the funds in which it invests (as set out in note 12) and to which it has been appointed Investment Manager or Sub-Adviser, should be classified as structured entities. The Group has considered the voting rights and other similar rights afforded to investors in these funds, including the rights to remove the Investment Manager or redeem holdings. The Group has concluded that the funds in which it invests are not structured entities under AASB 12.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 13. Contributed Equity

Ordinary shares are issued by MFG, classified as equity and recognised at the value of consideration received by the Company. Incremental costs directly attributable to the issue of new shares are recognised in equity as a deduction, net of tax.

Consolidated Entity			
		30 June 2018	30 June 2017
	Note	\$'000	\$'000
Ordinary Shares	(a)	218,877	115,250
<b>Total contributed equity</b>		<b>218,877</b>	<b>115,250</b>

Consolidated Entity				
	30 June 2018 Number of shares '000	30 June 2017 Number of shares '000	30 June 2018 \$'000	30 June 2017 \$'000
Note				
<b>(a) Ordinary Shares</b>				
Opening balance	172,076	161,189	115,250	111,073
Shares issued for acquisition of Airlie <sup>(i)</sup>	18(a)	3,857	-	-
Shares issued on exercise of MFG 2016 Options	-	391	-	-
Shares issued on conversion of MFG Class B Shares	-	10,305	-	-
Shares issued under SPP <sup>(ii)</sup>	278	191	6,013	4,004
SPP expense for year	-	-	578	283
less: transaction costs arising on share issue	-	-	(77)	(110)
<b>Closing balance - Ordinary Shares</b>	<b>176,211</b>	<b>172,076</b>	<b>218,877</b>	<b>115,250</b>

(i) In accordance with the sale agreement, the ordinary shares were placed in escrow in the name of the former shareholders. The ordinary shares will release in equal amounts on the anniversary date of issue, being 1 March, over five years.

(ii) Of the 176,211,167 ordinary shares on issue at 30 June 2018, 1,088,300 ordinary shares are held by Participants in the SPP (June 2017: 986,993). Refer to note 14 for further details.

### Terms and Conditions

Ordinary shares are fully paid and entitle the holder to receive dividends declared and proceeds on winding up MFG 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 MFG.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 14. Share Purchase Plan

The Group has put in place a Share Purchase Plan (the "Plan" or "SPP") for its employees and Non-Executive Directors ('Participants'). MFG provides financial assistance to Participants to invest in MFG shares in order to align more closely the interests of Participants with the interests of the shareholders of the Group.

The financial assistance provided to Participants is by way of a full recourse interest free loan ("SPP loan"). The SPP loan is secured by the MFG shares issued under the SPP to that Participant. The maximum SPP loan term is 10 years and for Non-Executive Director Participants it is 5 years, except where an extension is approved by MFG shareholders. Any outstanding balance at the end of the SPP loan term must be repaid by the Participant. A Participant who ceases to be employed and has a SPP loan balance must repay the total amount owing under the SPP loan within 3 months of cessation, or such longer period determined by the Board.

The issue price for shares issued under an SPP offer is the fair market value of the shares at the offer date. This is calculated using the volume weighted average price of traded shares in the 5 business days prior to the offer date. Shares issued under an SPP have the same rights as all other MFG ordinary shares except they are placed in a trading lock. Following full repayment of the SPP loan, the holding lock and any security over the shares issued under the SPP is released and the Participant shall be entitled to retain his or her shares issued under the SPP.

Repayment of a SPP loan occurs either by applying an amount equal to 25% of the Participant's after tax annual cash bonus and/or applying dividends received on their shares issued under the SPP. Dividends paid to Participants and applied as a repayment of the SPP loans amounted to \$961,000 for the year ended 30 June 2018 (June 2017: \$770,000).

SPP loans to Participants are initially recognised at fair value, which is determined by discounting loans to their net present value using the risk-free interest rate at the time the loan is granted and an estimated repayment schedule. Following initial recognition, they are carried at amortised cost using the effective interest rate method, adjusted for changes in the projected repayment schedule. Changes in the carrying value of the SPP loans are recognised within interest income in the profit or loss. The cost of providing the benefit to Participants is recognised as an employee expense in the profit or loss on a straight-line basis over the expected life of the SPP loan.

Amounts recognised at 30 June 2018 in respect of the SPP loans are:

	Consolidated Entity	
	30 June 2018 \$'000	30 June 2017 \$'000
<b>Current</b> - SPP loans due within 1 year	3,298	1,940
<b>Non-current</b> - SPP loans due later than 1 year and within 10 years	9,344	7,817
<b>Total SPP loans</b>	<b>12,642</b>	<b>9,757</b>
SPP interest income	673	354
SPP employee expense	(578)	(283)
<b>Net SPP income/(expense) in the Consolidated Statement of Profit or Loss</b>	<b>95</b>	<b>71</b>

Both the change in the carrying value of the SPP loans recorded in interest income and the cost of providing the benefit to Participants recorded in employee expense are non-cash items and therefore are not reflected in the Group's Consolidated Statement of Cash Flows. Over the life of the SPP loans, the amounts credited to interest income and the amounts recognised as employee expense will exactly offset each other.

At 30 June 2018, the total value of MFG shares securing the SPP loans to all Participants applying MFG's closing share price of \$23.30 was \$25,357,000 (June 2017: \$28,465,000). No amounts are past due or permanently impaired as the SPP provides that any shortfall between the SPP loan and the value of MFG shares under the SPP is recoverable from the Participant.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 14. Share Purchase Plan (continued)

The face value of the SPP loans outstanding at 30 June 2018, along with the total number of shares issued under the SPP and the share price at which they were issued are:

SPP issue	Share issue price	Total number of shares issued under SPP	Consolidated Entity	
			30 June 2018	30 June 2017
<b>29 October 2013 tranche</b>	\$10.02	186,200		
Face value of loans (\$)			144,000	414,000
Estimated weighted average duration of loans			0.2 years	0.9 years
Imputed interest rate			3.4%	3.4%
<b>22 September 2014 tranche</b>	\$13.23	342,609		
Face value of loans (\$)			1,241,000	2,011,000
Estimated weighted average duration of loans			1.0 years	2.6 years
Imputed interest rate			3.0%	3.0%
<b>13 November 2014 tranche</b>	\$13.64	243,155		
Face value of loans (\$)			1,664,000	1,902,000
Estimated weighted average duration of loans			1.5 years	2.6 years
Imputed interest rate			2.8%	2.8%
<b>14 September 2015 tranche</b>	\$18.88	265,443		
Face value of loans (\$)			1,869,000	2,972,000
Estimated weighted average duration of loans			2.4 years	2.7 years
Imputed interest rate			2.2%	2.2%
<b>16 September 2016 tranche</b>	\$23.51	126,038		
Face value of loans (\$)			1,691,000	2,214,000
Estimated weighted average duration of loans			2.3 years	4.1 years
Imputed interest rate			1.8%	1.8%
<b>18 November 2016 tranche</b>	\$20.85	63,948		
Face value of loans (\$)			917,000	975,000
Estimated weighted average duration of loans			2.8 years	4.0 years
Imputed interest rate			2.1%	2.1%
<b>18 September 2017 tranche</b>	\$24.47	202,536		
Face value of loans (\$)			4,474,000	-
Estimated weighted average duration of loans			4.5 years	-
Imputed interest rate			2.4%	-
<b>16 November 2017 tranche</b>	\$24.99	53,354		
Face value of loans (\$)			976,000	-
Estimated weighted average duration of loans			3.7 years	-
Imputed interest rate			2.2%	-
<b>13 March 2018 tranche</b>	\$24.93	22,061		
Face value of loans (\$)			550,000	-
Estimated weighted average duration of loans			4.2 years	-
Imputed interest rate			2.4%	-
<b>Total number of MFG ordinary shares held by Participants at end of year</b>			<b>1,088,300</b>	<b>986,993</b>

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 15. Parent Entity Information

	Parent Entity	
	30 June 2018 \$'000	30 June 2017 \$'000
<b>Assets</b>		
Current assets	155,089	119,660
Non-current assets	408,357	284,133
<b>Total Assets</b>	<b>563,446</b>	<b>403,793</b>
<b>Liabilities</b>		
Current liabilities	29,435	5,093
Non-current liabilities	9,129	20,216
<b>Total Liabilities</b>	<b>38,564</b>	<b>25,309</b>
<b>Net Assets</b>	<b>524,882</b>	<b>378,484</b>
<b>Equity</b>		
Contributed equity	219,252	115,625
Available for sale reserve	57,983	43,602
Retained profits	247,647	219,257
<b>Total Equity</b>	<b>524,882</b>	<b>378,484</b>
Net profit after income tax expense for the year	186,300	179,059
Other comprehensive income after income tax expense for the year	14,381	19,349
<b>Total comprehensive income for the year</b>	<b>200,681</b>	<b>198,408</b>

The financial information for the parent entity, Magellan Financial Group Limited, has been prepared on the same basis as the Group's consolidated financial statements, except for investments in subsidiaries. Investments in subsidiaries are accounted for at cost less impairment expense, in the financial statements of the parent entity. Dividends received from subsidiaries are recognised in the parent entity's profit or loss rather than being deducted from the carrying amount of the investment.

#### (a) Contingent Assets and Liabilities of MFG

At 30 June 2018, MFG has no contingent assets or contingent liabilities (June 2017: nil).

#### (b) Commitments of MFG

MFG has committed to pay an amount to MGG, at each distribution period where a DRP is offered to ensure unitholders in MGG suffer no dilution where a MGG unitholder participates in the DRP. Refer to note 22(b) for further details. In addition, MFG, as ultimate parent entity, has entered into a share sale agreement to acquire Frontegra Asset Management Inc for USD\$18,500,000, subject to regulatory and member approvals. Refer to note 22(a) for further details.

#### (c) Guarantees Entered into by MFG

Refer to note 22(c) for details.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 30 June 2018

#### 16. Subsidiaries

At 30 June, the Group's subsidiaries were:

	Note	Country of incorporation/ Principal place of business	% equity interest <sup>(a)</sup>	
			30 June 2018	30 June 2017
Magellan Asset Management Limited ("MAM")		Australia	100	100
- Airlie Funds Management Pty Limited	(b)	Australia	100	-
MGT Investment Corp Pty Limited ("MGTI")	(c)	Australia	100	-
Magellan Capital Partners Pty Limited		Australia	100	100
MFG Services LLC ("MFGS")	(d)	United States of America	100	100
Frontier North American Holdings Inc. ("FNAH")	(e)	United States of America	80	-
- Frontier Partners Inc.		United States of America	100	-
- Frontegra Strategies LLC		United States of America	100	-

Inset names indicate that shares are held by the company immediately above.

All material subsidiaries have a 30 June reporting date.

- (a) The proportion of ownership interest is equal to the proportion of voting power held
- (b) Airlie was acquired by MAM on 1 March 2018 (refer to note 18(a)).
- (c) A special purpose vehicle formed on 9 August 2017 to subscribe for loyalty units for eligible unitholders of MGG under the priority offer (refer to note 17). At 30 June 2018, this entity was dormant as the loyalty units, in the form of ordinary units, were allotted on 15 January 2018.
- (d) A Delaware limited liability company formed on 3 August 2015. MFGS is a service company and provides MAM with investment research and distribution services.
- (e) A Delaware limited liability company formed on 26 January 2018. FNAH is a US holding company of the Frontier Group. FNAH's is 20% owned by a former shareholder of the Frontier Group.

Transactions between MAM and foreign entities are subject to transfer pricing arrangements.

The Group's investments in other entities are set out in note 12.

#### Principles of consolidation

The consolidated financial report of the Group comprises the financial statements of the Company and its subsidiaries. Subsidiaries are entities over which the Group has the power to govern the financial and operating policies, is exposed to variable returns from its involvement in the entity and has the ability to affect those returns. Assets and liabilities, income and expenses of a subsidiary are included from the date the Group gains control until control ceases. On consolidation, assets and liabilities and income and expenses of foreign operations are translated at the reporting date and date of transaction respectively. Equity and reserve balances are translated at the date of transaction and not retranslated, that is the historical rate. The foreign exchange differences arising on translation are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When the foreign operation is disposed, amounts in other comprehensive income relating to that foreign operation are recognised in the consolidated statement of profit or loss. All inter-entity assets, liabilities, equity, income, expenses and cash flows relating to transactions within the Group are eliminated in full on consolidation. When necessary, adjustments are made to the results of subsidiaries to bring them into line with the Group's accounting policies.

#### Foreign subsidiaries

On consolidation, the assets and liabilities of foreign subsidiaries whose functional currency differs from the presentation currency are translated into Australian dollars at the rate of exchange at reporting date. Exchange differences arising on retranslation are taken directly to the foreign currency translation reserve in equity. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of other comprehensive income.



# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 17. Magellan Global Trust Capital Raising

On 9 October 2017, Magellan Global Trust ("MGG") raised \$1.57 billion from an IPO. MGG is a closed end fund which invests in a portfolio of between 15 and 35 high quality global equity stocks and has the ability to manage equity market risk by holding up to 50% of the Trust's gross assets in cash and cash equivalents and borrowing up to 20% of the Trust's gross assets.

On 12 October 2017, units in MGG were allotted and on 18 October 2017, MGG commenced trading on the Australian Securities Exchange. The costs of the IPO were paid by MFG, which ensured the opening cash net asset value per unit of MGG was equal to the application unit price of \$1.50.

The IPO comprised a broker firm/general public offer and a priority offer. The priority offer was only available to existing Group shareholders or unitholders in Magellan Funds as at 1 August 2017. Under the priority offer, unitholders were entitled to additional loyalty units worth 6.25% of the value of their initial unit allotment providing those units were held on 11 December 2017 ("eligible unitholders").

MGT Investment Corporation Pty Limited ("MGTI"), a wholly owned subsidiary of MFG, subscribed for the loyalty units of MGG to facilitate the issue of the additional loyalty units to eligible unitholders under the priority offer. On 13 October 2017, 39,747,290 loyalty units were allotted in MGG at an issue price of \$1.50 and for a total cash consideration of \$59,621,000. On 11 December 2017, 38,134,220 loyalty units vested to eligible unitholders and these units were subsequently allotted as ordinary units on 15 January 2018. The remaining 1,613,070 units were retained as an investment by the Group.

The net offer costs borne by the Group totalled \$79,574,000 comprising costs relating to the IPO of \$23,801,000, the cost of issuing loyalty units which amounted to \$56,965,000 offset by the distribution on the loyalty units of \$1,192,000 for the half year ended 31 December 2017. The costs have been recognised as an expense in the Consolidated Statement of Profit or Loss for the year ended 30 June 2018 and \$23,872,000 has been included in the calculation of the Group's income tax expense.

For tax purposes, the costs relating to the capital raising have been treated as fully deductible against income over 5 years and as a result a deferred tax asset of \$5,712,000 has been recognised on the basis outlined in note 6(c). The cost of issuing the loyalty units has been treated as a capital loss. Utilisation of all, or part, of the loss is dependent on the Group's profitability and also its ability to generate capital gains in the future. Following an assessment, the capital loss of \$56,965,000 has been offset against the Group's capital gains which has had the effect of reducing the Group's deferred tax liability at 30 June 2018 by \$17,090,000 as set out in note 6(d).

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 18. Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the fair values (at acquisition date) of assets acquired, equity issued, liabilities incurred or assumed and the amount of any non-controlling interest in the acquired entity at the date of acquisition. For each business combination, the Group elects whether to measure the non-controlling interest in the acquired entity at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs related to acquisitions are expensed as incurred to the profit or loss.

The excess of consideration paid and non-controlling interest in the acquired entity over the fair value of the identifiable net assets acquired is goodwill. Goodwill and fair value adjustments arising on an acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Goodwill arising from business combinations is included in intangible assets in the Group's net assets (refer to note 19).

#### (a) Airlie Funds Management Pty Limited

On 1 March 2018, MAM acquired 100% of the issued capital of Airlie. Airlie is a specialist Australian equities fund manager with over \$6 billion of funds under management, primarily for institutional and high net wealth clients. Airlie was founded by John Sevier and David Cooper in 2012, with Matt Williams joining in 2016. Airlie continues to operate under the Airlie brand providing Australian equities capabilities to its clients.

MFG issued 3,856,748 ordinary shares as purchase consideration for the acquisition. This amounted to \$97,112,915. The fair value of the ordinary shares issued was \$25.18 per share, calculated with reference to the closing quoted price of MFG ordinary shares on 1 March 2018, being the date of acquisition.

In accordance with the sale agreement, all ordinary shares issued were placed in escrow (escrowed shares) on 1 March 2018. The escrowed shares will be released in equal amounts over five years following acquisition. As a result, one fifth of the ordinary shares will be released each anniversary date, with the first anniversary date being 1 March 2019. The escrowed shares have the same rights as MFG ordinary shares, but for the exception that the escrowed shares have a trading lock placed on them, preventing them being sold. The Directors consider the probability of the escrowed shares not being fully released to be remote at reporting date.

The fair value of the assets and liabilities recognised on 1 March 2018, being the date of acquisition, was:

	Note	\$'000
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents		4,464
Financial assets		358
Receivables		4,389
Prepayments		121
Property, plant and equipment		122
Intangibles - customer relationships	19	16,560
Deferred tax asset		379
<b>Total assets</b>		<b>26,393</b>
<b>Liabilities</b>		
Payables		2,389
Income tax payable		2,882
Deferred lease incentives		19
Provisions		151
<b>Total liabilities</b>		<b>5,441</b>
<b>Total identifiable net assets at fair value</b>		<b>20,952</b>
Goodwill arising on acquisition	19	76,161
<b>Purchase consideration</b>		<b>97,113</b>

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 18. Business Combinations (continued)

#### (a) Airlie Funds Management Pty Limited (continued)

Transaction costs of \$238,000 have been expensed as incurred and included within other expenses in the Consolidated Statement of Profit or Loss and costs arising on the issuance of the ordinary shares of \$59,000 have been charged directly to equity as a reduction in contributed equity.

Of the \$4,389,000 receivables, the acquired trade receivables were \$778,089, representing amounts invoiced to clients in accordance with investment management agreements. The balance related to accrued revenue not yet invoiced at 1 March 2018. At acquisition date, no amounts were expected to be uncollectable.

Goodwill of \$76,161,000 is attributable to expected synergies arising from the acquisition and workforce in place. It will not be deductible for income tax purposes and has been allocated entirely to the Funds Management segment.

#### (b) Frontier Group

On 5 February 2018, MFG entered into an agreement to acquire 100% of the Frontier Group, a privately owned group of companies based in Chicago, USA. The Frontier Group has been Magellan's distribution partner in North America since 2011. The Frontier Group was founded in 1993 by Bill Forsyth to assist specialised fund managers penetrate the North American institutional marketplace. The Frontier Group comprises Frontier Partners Inc, a registered investment adviser that distributes investment strategies to institutional clients in North America, Frontegra Strategies LLC, a registered broker-dealer and Frontegra Asset Management Inc, an investment adviser and mutual fund platform.

The Group established a US holding company, Frontier North America Holdings Inc ("FNAH"), to acquire the Frontier Group. FNAH acquired Frontier Partners Inc on 5 February 2018 and Frontegra Strategies LLC on 2 April 2018 for cash consideration of US\$11,500,000 (A\$14,623,000).

The provisionally determined fair value of the assets and liabilities of Frontier Partners Inc and Frontegra Strategies LLC at their respective acquisition dates, have been aggregated below, and were:

	Note	A\$'000
<b>Assets</b>		
Cash and cash equivalents		1,491
Receivables		724
Prepayments		67
Intangibles - customer relationships	19	6,041
<b>Total assets</b>		<b>8,323</b>
<b>Liabilities</b>		
Payables		504
Deferred lease incentives		29
<b>Total liabilities</b>		<b>533</b>
<b>Total identifiable net assets at fair value</b>		<b>7,790</b>
Goodwill arising on acquisition	19	6,833
<b>Purchase consideration</b>		<b>14,623</b>

As part of the terms of the acquisition, the Group ceased paying US marketing/success fees to Frontier Partners Inc. from 1 January 2018 which results in significant cost savings. No adjustment has been reflected in the profit or loss to settle this pre-existing relationship with Frontier.

Transaction costs of \$411,000 have been expensed as incurred and are included within other expenses in the Consolidated Statement of Profit or Loss.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 18. Business Combinations (continued)

#### (b) Frontier Group (continued)

Of the \$724,000 receivables, the acquired trade receivables comprised \$686,000, representing amounts invoiced to clients. At acquisition date, no amounts were expected to be uncollectable. Goodwill of \$6,833,000 is attributable to expected synergies arising from the acquisition and workforce in place. It is tax deductible for income tax purposes and is allocated entirely to the Funds Management segment.

MFG has a call option over the remaining 20% of the issued share capital of FNAH, the acquirer of the Frontier Group and a controlled entity of MFG. The minority shareholder of FNAH, Mr Bill Forsyth, holds a put option over his interest in the issued share capital of FNAH. The options can be exercised by either party during the period 1 January 2026 to 31 March 2026, at an exercise price based on a multiple of annualised average earnings for a specified period.

In addition to the above, MFG holds a further call option to purchase the remaining 20% of the issued share capital of FNAH for \$1. This option can be triggered at any time prior to 31 December 2025 in certain circumstances. At the date of this report, the Group has no expectation that this call option would be triggered.

The Group has determined that it has a present ownership interest in the non-controlling interest of FNAH.

#### (i) Proposed Acquisition of Frontegra Asset Management Inc ("FAM")

The proposed acquisition of FAM is subject to regulatory and member approvals and is expected to complete in late 2018. At 30 June 2018, the Group has a commitment of USD\$18,500,000, being the agreed purchase price of FAM under the sale agreement dated 5 February 2018. Payment consideration is a combination of USD\$3,500,000 cash and USD\$15,000,000 of MFG ordinary shares. The number of MFG shares to be issued will be determined at the volume weighted average price of A\$27.225 per share.

Upon completion of the FAM acquisition, the MFG ordinary shares issued will be placed in escrow and vest in equal amounts over seven years following the anniversary date of the acquisition. The escrowed shares will have all the same rights as MFG ordinary shares, but for the exception that the escrowed shares have a trading lock placed on them, preventing them being sold until the vesting date.

The MFG shares to be issued for the acquisition of FAM have not been included in the diluted EPS for the year ended 30 June 2018.

#### (c) Cash Outflow Associated With the Acquisition of Subsidiaries, Net of Cash Acquired

The cash outflow for the acquisition of subsidiaries, net of cash acquired comprises:

	A\$'000
Airlie Funds Management Pty Limited	4,464
Frontier Group	(13,132)
<b>Total cash outflow for acquisition of subsidiaries, net of cash acquired</b>	<b>(8,668)</b>

#### (d) Revenue and Profit Contribution of Acquisitions

Airlie has contributed revenues of \$7,120,000 and net profit of \$2,825,000 to the Group for the period since acquisition, being 1 March to 30 June 2018. Frontier Partners, Inc. and Frontegra Strategies, LLC have contributed revenues of \$1,224,000 and net loss of \$193,000 to the Group since acquisition.

If the acquisitions had occurred from the beginning of the year, the Group's revenue and net profit after tax for the full year ended 30 June 2018 would have been \$472,643,000 and \$219,868,000 respectively.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 19. Intangibles

Consolidated Entity				
30 June 2018				30 June 2017
	Definite lives	Indefinite lives		
	Customer Relationships	Goodwill	Total	Total
Note	\$'000	\$'000	\$'000	\$'000
At cost	22,933	83,489	106,422	-
less: accumulated amortisation and impairment	(1,404)	0	(1,404)	-
<b>Total intangible assets</b>	<b>21,529</b>	<b>83,489</b>	<b>105,018</b>	<b>-</b>
Movement:				
Carrying amount at beginning of year	-	-	-	-
Acquisition of subsidiaries	18 22,601	82,994	105,595	-
Amortisation expense	(1,404)	-	(1,404)	-
Net foreign exchange differences	332	495	827	-
<b>Carrying amount at end of year</b>	<b>21,529</b>	<b>83,489</b>	<b>105,018</b>	<b>-</b>

Intangible assets comprise goodwill and customer relationships resulting from the acquisition of Airlie and the Frontier Group during the year ended 30 June 2018 (refer to note 18).

Intangible assets are recognised at fair value at the date of acquisition and subsequently measured at cost less any accumulated amortisation and accumulated impairment losses. The useful lives of intangible assets are assessed as either definite or indefinite.

#### Customer relationships

Customer relationships relate to existing agreements with clients and relationships with unitholders in the case of the funds. These assets have been determined to have a definite life, being the expected client attrition profile, which is as follows:

- Customer relationships – Airlie 5 years
- Customer relationships – Frontier Group 7 years

Customer relationships are recognised at fair value at the date of acquisition and amortised on a straight-line basis over the useful lives stated above. Amortisation expense is recognised in the statement of profit or loss.

#### Goodwill

Goodwill represents the excess of the consideration paid for the business combination over the fair value of the identifiable net assets acquired or liabilities assumed at the date of acquisition. It comprises the value of expected synergies arising from the acquisitions and the value of the workforce in place at Airlie and the Frontier Group.

Goodwill has an indefinite life and is initially recognised at cost and subsequently measured at cost less any accumulated impairment losses.

#### Impairment

Impairment tests are carried out annually for goodwill (or when circumstances indicate the carrying value may not be recoverable). In addition, impairment tests for all assets are performed when there is an indication of impairment.

For the purposes of impairment testing, goodwill is allocated at the date of acquisition to a cash generating unit (CGU) that is expected to benefit from the acquisition. A CGU is the lowest level of grouped assets for which there are separately identifiable cashflows. When the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognised and allocated first to reduce the carrying amount of any goodwill allocated to the CGU, then to reduce the carrying amount of the other assets in the CGU on a pro-rata basis. Impairment losses recognised for goodwill are not reversed.

Goodwill arising on both acquisitions in 2018 has been allocated entirely to one CGU, being the Funds Management segment (FM CGU) (refer to note 2).

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 19. Intangibles (continued)

The recoverable amount of the FM CGU has been determined using the value-in-use approach. Value-in-use represents the CGU's estimated future pre-tax cash flows of fee revenue, net income and operating expenses which have been discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. The estimated future cash flows are based on financial budgets approved by the Directors and cash flows beyond the approved budget periods are extrapolated using the assumptions listed below.

With the acquisitions being completed in the last half of the 2018 financial year, management consider the key assumptions and estimates used for the purchase of both businesses remains appropriate for the assessment of value-in-use at 30 June 2018. The key assumptions applied for value-in-use are:

- funds under management of \$6.0bn in the case of Airlie, being the approximate FUM at acquisition date, and FUM flows based on contractual trail periods in the case of the Frontier Group, with no additional FUM inflows
- client attrition rate in the range of 5 to 10 years, based on publicly available industry estimates
- market growth rate of 6% per annum, based on external forecast return data; and
- pre-tax discount rate of 15% using the weighted average cost of capital methodology which incorporates market risk determinants and adjustments for specific risks related to smaller funds management businesses.

Based on current economic conditions and the Funds Management segment performance, no reasonably possible change in a key assumption used in the determination of the recoverable amount resulted in a material impairment of any goodwill amounts recognised at 30 June 2018.

The conclusion from the goodwill impairment testing performed for the year ended 30 June 2018 is that there has been no impairment to the amount of goodwill recognised.

#### Key Estimate and Judgement

Judgement is used to assess the recoverable value of goodwill, the estimated useful life of acquired intangibles, in the assessment of impairment indicators for acquired intangibles and, where required, in determining the recoverable amount.

The carrying amount of goodwill is based on judgements including the basis of assumptions and forecasts used for determining cashflows for the Funds Management CGU, headroom availability and sensitivities of the forecasts to reasonably possible changes in assumptions. The Group undertakes an annual assessment to evaluate whether the carrying value of goodwill on the Consolidated Statement of Financial Position is impaired. The level at which goodwill is allocated for testing, the estimation of future cash flows and the discount rates applied requires significant judgement.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 20. Related Party Disclosures

#### (a) Ultimate Parent Entity

Magellan Financial Group Limited is the ultimate parent entity.

#### (b) Transactions with Related Parties

Interests in subsidiaries are set out in note 16 and transactions with the related parties are set out below.

#### (c) Key Management Personnel

The Directors and senior executives considered Key Management Personnel of the Group during the year and up to the date of this report:

##### (i) Directors

The Directors of the Company unless otherwise stated during the year and up to the date of this report were:

Name	Directorship	Appointed
Brett Cairns	Executive Chairman	22 January 2007
Hamish Douglass	CEO and Chief Investment Officer	21 November 2006
John Eales	Non-Executive Director	1 July 2017
Robert Fraser	Non-Executive Director and Senior Independent Director	23 April 2014
Paul Lewis	Non-Executive Director	20 December 2006
Hamish McLennan	Non-Executive Director	1 March 2016
Karen Phin	Non-Executive Director	23 April 2014

On 9 August 2017, MAM appointed Taylor Collison Limited ("Taylor Collison") as Lead Arranger and a Joint Lead Manager in respect of the Broker Firm and General Public Offer for the IPO of Magellan Global Trust ("MGG"). Clients of Taylor Collison subscribed for broker firm units in the MGG IPO of \$78,132,231. Taylor Collison received a Joint Lead Manager fee and a selling fee on its broker firm subscriptions on the same terms as all other Joint Lead Managers. Mr Fraser is a director of Taylor Collison and has a non-material shareholding in that company. For the year ended 30 June 2018, Taylor Collison received a net amount of \$1,885,761 for its services as Lead Arranger and a Joint Lead Manager and for selling fees on broker firm subscriptions (net of amounts paid to clients) in relation to the MGG IPO.

During the 2018 year, MAM paid International Quarterback Pty Limited (IQ) for consulting services. Mr Eales has a non-material shareholding in IQ and was formerly a director of IQ.

##### (ii) Other Key Management Personnel ("KMP")

In addition to the Directors, the following persons also had authority for the strategic direction and management of the Group, directly or indirectly, during the financial year:

Frank Casarotti	General Manager - Distribution
Gerald Stack	Head of Investments
Kirsten Morton	Chief Financial Officer
Marcia Venegas	Head of Risk, Compliance and Legal
Craig Wright	Head of Governance & Advisory

##### (iii) Remuneration of KMP

KMP of the Group received the following amounts during the financial year:

	Consolidated Entity	
	30 June 2018	30 June 2017 <sup>(A)</sup>
	\$	\$
Short term benefits		
- Salary	8,226,068	6,164,413
- Cash Bonus	4,311,887	3,427,324
Post-employment benefits	169,408	159,436
Long-term benefits	386,939	284,346
Other benefits	136,386	167,581
<b>Total remuneration paid to KMP</b>	<b>13,230,688</b>	<b>10,203,100</b>

(A) Comparative information does not include details of payments made to a former KMP.

Refer to section 3.3 of the Remuneration Report for further details.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 20. Related Party Disclosures (continued)

#### (d) Transactions with Other Related Parties

The following transactions occurred with entities in the Group:

		30 June 2018 \$'000	30 June 2017 \$'000
	Note		
Dividends received by MFG from subsidiaries	(i)	232,864	173,000
Repayment to MFG by MAM for MFG ordinary shares issued as payment consideration for Airlie acquisition	18(a)	97,113	-
Capital contribution by MFG into MGTI	17	59,621	-
Loan provided by MFG to FNAH for acquisition of Frontier Group	18(b)	14,623	-
Received/receivable by MFG under the tax funding agreement from MAM	(ii)	82,486	61,783
Received/receivable by MFG under the tax funding agreement from Airlie	(iii)	1,662	-
Received by MFG pursuant to tax funding agreement from MGTI		1	-
Service fees paid by MAM to MFGS pursuant to transfer pricing agreement		6,306	6,247
Service fees paid by MFGS to MAM pursuant to transfer pricing agreement		65	80
Net amounts (paid)/received by MFG to/from MAM for expense reimbursements		(114)	86
Net amounts received by MAM from MFGS to reimburse for US state taxes paid by MAM given unitary tax lodgements		99	213
Net amounts received by MAM from Airlie for administration cost reimbursements		60	-
Received/receivable by Frontier Partners Inc from MAM for marketing expenses		30	-
Net amounts receivable by MFG from FNAH for expense reimbursements		10	-

(i) Dividends from controlled entities totalling \$232,864,000 comprised \$211,879,000 representing \$1.93 per share paid by MAM to MFG (June 2017: \$173,000,000 representing \$13.84 per share), \$111,000 paid by MFGS to MFG (June 2017: nil) and \$20,874,000 paid by MGTI to MFG (June 2017: nil).

(ii) During the year ended 30 June 2018, MAM's income tax liabilities of \$82,486,000 (June 2017: \$61,783,000) were assumed by MFG, the head entity of the tax consolidated group. Payments totalling \$63,319,000 (June 2017: \$52,187,000) were received by MFG from MAM under the tax funding agreement during the year and \$19,167,000 was receivable by MFG from MAM in respect of amounts arising from the transfer of MAM's tax liability to MFG (June 2017: \$9,596,000).

(iii) Airlie became a member of the MFG tax consolidated group on 1 March 2018 and as a result Airlie's income tax liabilities of \$1,662,000 were assumed by MFG. During the year ended 30 June 2018, payments totalling \$1,248,000 were received by MFG from MAM under the tax funding agreement and \$414,000 was receivable by MFG from Airlie in respect of amounts arising from the transfer of Airlie's tax liability to MFG (June 2017: nil).

All transactions with related parties are conducted on normal commercial terms and conditions. Receivable and payable balances at year end are unsecured and settlement occurs in cash.



# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 21. Capital and Risk Management

The Group is subject to liquidity risk, price risk, foreign currency risk, interest rate risk, credit risk and translation risk and how these risks could affect the Group's future financial performance is discussed below.

#### (a) Capital Management

The Group's approach to capital management remained unchanged during the year, which was to ensure that the Group continues as a going concern, it has sufficient liquidity to meet its operating requirements, it is able to support the payment of dividends to shareholders in accordance with the Group's dividend policy, and it retains the flexibility to retain capital if required for future business expansion. The Group's capital consists entirely of shareholder equity. The Group has access to a \$50m revolving credit facility at 30 June 2018 (June 2017: nil) (refer note 21(c) for further detail).

The Directors believe that the Group's core business, funds management, is scalable over time and the funds under management should continue to grow without the need to make material additional capital investment into the business.

MAM and Airlie are subject to regulatory financial requirements by virtue of holding an Australian Financial Services Licence ("AFSL"). During the year ended 30 June 2018, both entities satisfied the liquidity requirements under their AFSL. MAM maintained the required net tangible assets of 10% of the three year average of MAM's revenues and satisfied the requirements of cash and cash equivalents which is 50% of the required net tangible assets, in accordance with ASIC Regulatory Guide 166. Notwithstanding the liquidity requirements of the AFSL, the Directors of MAM determined that MAM would hold a greater amount of cash and cash equivalents being at least \$20,000,000.

#### (b) Financial Risk Management

The Board has an approved risk management framework including policies, procedures and limits and uses different methods to measure and manage different types of risks to which it is exposed. The Group seeks to deal only with creditworthy counterparties and these assessments are regularly reviewed. Liquidity risk is monitored through the use of future rolling cash flow forecasts and ageing analysis of receivables.

The investment portfolios of funds managed by MAM and Airlie, which are listed in note 2, are managed on a daily basis in accordance with the investment objectives and mandates of those funds. Further details of the risk management objectives and policies of those entities can be found in their Product Disclosure Statement ("PDS") and in the case of the Frontier MFG Funds, in their prospectuses.

#### (c) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities on the due date or will be forced to sell financial assets at a value which is less than they are worth.

The Group manages liquidity risk by maintaining sufficient cash reserves to cover its liabilities. Management monitors rolling forecasts of the Group's liquidity reserve (comprising the undrawn borrowing facility below) and cash and cash equivalents on the basis of expected cash flows. The Board of MFG has also determined that the Group would maintain a minimum amount of \$20,000,000 in cash and cash equivalents and a minimum amount of liquid assets equal to 0.5% of the Group's funds under management subject to a maximum amount of \$100,000,000.

As at 30 June 2018, the Group had an obligation to settle trade creditors and other payables of \$20,612,000 (June 2017: \$22,336,000) within 30 days. In addition, a further obligation of \$29,702,000 (June 2017: \$4,863,000) is payable between 30-150 days for the Group's tax instalment and final income tax payment. Furthermore, the fully franked dividend of 90.0 cents per share in respect of the six months ended 30 June 2018, amounting to \$158,590,000 is expected to be paid on 27 August 2018 (refer to note 4(i)) and a US\$3,500,000 commitment is expected to be paid in 2018 to acquire Frontegra Asset Management Inc (refer note 18(b)(i)).

The Group had cash of \$169,095,000 (June 2017: \$146,243,000) and a further \$108,622,000 (June 2017: \$71,290,000) of receivables to cover these liabilities.

In addition, the Group has access to a \$50 million multi-currency revolving credit facility provided by a major Australian bank. This floating rate facility may be drawn in either Australian dollars or United States dollars at any time up to 31 January 2021. At 30 June 2018, this facility was undrawn. A facility fee applies on the amount of the undrawn facility. For the year ended 30 June 2018, total finance costs of \$300,000 have been expensed to the profit or loss and of this amount \$212,000 has been paid (June 2017: nil). The facility is subject to annual review and the Group has complied with the financial covenants under this facility for the year ended 30 June 2018.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 21. Capital and Risk Management (continued)

#### (c) Liquidity Risk (continued)

At 30 June 2018, the Group reported current assets of \$284,066,000 and current liabilities of \$51,561,000 resulting in a net current asset surplus of \$232,505,000. After taking into account the final dividend for the year ended 30 June 2018 totalling \$158,590,000, this would result in a net current asset surplus of \$73,915,000. Accordingly, the Group has sufficient liquid funds and current assets to meet its current liabilities.

Borrowings are initially recognised by the Group at fair value net of transaction costs incurred. Subsequent to initial recognition, borrowings are stated at amortised cost. Borrowings are derecognised from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability that has been extinguished and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss as other income or finance costs. Finance costs include interest paid or payable on borrowings along with ancillary costs incurred in connection with the arrangement of borrowings. Finance costs are expensed as incurred which in the case of the facility fee is the period the facility has been provided.

#### (d) Price Risk

Price risk is the risk that the value of investments in the Principal Investment Portfolio (at note 12) and management and performance fees will increase or decrease as a result of changes in equity prices in local currency (caused by factors specific to the individual stock or the market as a whole), exchange rate movements, or a combination of both.

Over the past 10 financial years, the annual performance of the MSCI World Net Total Return Index has ranged between +31% and -30% (in USD) and +33% and -16% (in AUD). The past performance of markets is not always a reliable guide to future performance, and MFG's Principal Investments portfolio does not attempt to mirror the global indices, but this very wide range of historic movements in the indices provides an indication of the magnitude of equity price movements that might reasonably occur within the portfolio.

An increase of 5% in market prices would have had the following impacts at 30 June:

	Consolidated Entity	
	30 June 2018 \$'000	30 June 2017 \$'000
<b>5% increase in market prices would result in:</b>		
- higher value of AFS investments in Principal investments Portfolio recognised in OCI (net of tax) and equity for the year	9,610	9,209
<b>Impact on other comprehensive income and equity</b>	<b>9,610</b>	<b>9,209</b>
<b>5% increase in average value of funds under management would result in:</b>		
- higher base management fees recognised in net profit after tax and equity for the year	15,103	11,765
<b>Impact on net profit after tax and equity</b>	<b>15,103</b>	<b>11,765</b>

A decrease of 5% in each risk factor above would have an equal but opposite impact on net profit, other comprehensive income and equity.

#### Assumptions and explanatory notes

- The Group holds an investment in an unlisted fund that invests in unlisted equities. The fair value of this fund is determined by a Directors' valuation. The underlying values of the unlisted equities are determined by the fund's investment manager with reference to the projected cash flows of those businesses, which may or may not be correlated with changes in market prices of listed equities. No assessment has been made of the impact of changes in market prices on the fair value of the fund.
- Changes in market prices may impact inflows to, and outflows from, the Group's funds under management. This impact has not been estimated.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 21. Capital and Risk Management (continued)

#### (e) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or cash flows arising from a financial commitment or recognised asset or liability will fluctuate due to changes in foreign exchange rates. The Group's foreign currency risk arises on:

- cash and term deposits denominated in foreign currency;
- investments denominated in foreign currency (refer note 12) along with their respective distributions received/receivable and outstanding settlements/payments for purchases or sales of equities;
- management and performance fees receivable denominated in a foreign currency;
- payables denominated in a foreign currency namely supplier invoices and firm commitments; and
- translation of US based foreign subsidiaries.

The Group's foreign currency transactions are conducted in the following currencies: Australian dollars, United States dollars, Great British pound, Euros and New Zealand dollars.

If the Australian dollar strengthened by 10% relative to each currency to which the Group had exposure, with all other variables held constant, the impact on the net profit would have been:

Consolidated Entity								
	Increase/(decrease) in net profit				Increase/(decrease) in equity			
	USD	GBP	Other	Total	USD	GBP	Other	Total
30 June 2018	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets and liabilities</b>								
Cash and cash equivalents	(714)	(76)	-	(790)	-	-	-	-
Investments	-	-	-	-	(1,119)	(6)	(18)	(1,143)
Receivables	(1,662)	(546)	(1)	(2,209)	-	-	-	-
Payables	130	4	8	142	-	-	-	-
<b>30 June 2017</b>								
<b>Financial assets and liabilities</b>								
Cash and cash equivalents	(400)	(2)	(2)	(404)	-	-	-	-
Investments	-	-	-	-	(1,776)	(46)	(386)	(2,208)
Receivables	(1,170)	(452)	-	(1,622)	-	-	-	-
Payables	312	3	7	322	-	-	-	-

A decrease of 10% in the Australian dollar relative to each currency would have an equal but opposite impact.

The Group also has indirect exposure to foreign currency via its investment in funds. The Magellan and Airlie Funds (in note 12) are denominated in Australian dollars and the Frontier MFG and MFG UCITS Funds are US dollar denominated. The underlying investment portfolios of these funds comprise entities predominantly denominated in foreign currencies, and with extensive operating exposure to global currency fluctuations which will drive portfolio values. Changes in their fair value are therefore influenced by movements in currencies. The sensitivity analysis disclosed above disregards the impact on the foreign currency movement on the underlying portfolios. For the year ended 30 June 2018, approximately 87% of the Group's management and performance fees were exposed to movements in the Australian dollar relative to other currencies (June 2017: 92%). In addition, the Group's management and performance fees are exposed to fluctuations in foreign currency where fees are invoiced in a different currency to the investment portfolio.

#### (f) Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to interest rate risk relates primarily to cash and cash equivalents and also term deposits. Substantially all of the Group's holdings of cash and cash equivalents are held with major Australian banks. Term deposits are of relatively short duration and their fair value would not be materially affected by changes in interest rates.

Based on the cash and cash equivalents held by the Group at reporting date, the sensitivity on the Group's net profit and equity of a decrease of 50 basis points in floating interest rates, assuming all other variables remain constant is \$670,000 for the year ended 30 June 2018 (June 2017: \$567,000). An increase of 50 basis points in floating rate interest rates would have an equal but opposite impact on net profit and equity.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 21. Capital and Risk Management (continued)

#### (g) Credit Risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of financial assets and liabilities when valued at fair value.

The Group minimises concentrations of credit risk by ensuring cash balances and term deposits are held with and managed by counterparties that are reputable financial intermediaries with acceptable credit ratings determined by a recognised rating agency. In addition, credit limits are reviewed by management with reference to the counterparty's latest credit rating. For the year ended 30 June 2018, the Group held cash and term deposits with major Australian and international banks. The credit quality of Australian banks counterparties at 30 June 2018 was rated by Standard & Poor's as being AA-, and by Moody's as being Aa3 (AA- and Aa3 respectively at 30 June 2017). The credit quality of the international bank counterparty at 30 June 2018 was rated by Moody's as A1 (Baa2 at 30 June 2017).

MFG has also entered into an International Prime Brokerage Agreement ("IPBA") with Merrill Lynch International ("MLI"), a subsidiary of Bank of America. The services provided by MLI under the IPBA include clearing and settlement of transactions, securities lending and acting as custodian for MFG's investment assets. The IPBA with MLI is in a form that is typical of prime brokerage arrangements. MFG has granted MLI a fixed charge over the Company's right, title and interest in the assets held in custody with MLI, as security for the performance of its obligations under the IPBA. In the event of MLI becoming insolvent, MFG would rank as an unsecured creditor and, to the extent MLI has exercised a right of use over MFG's securities, MFG may not be able to recover such equivalent securities in full. In addition, cash which MLI holds or receives on behalf of MFG is not segregated from MLI's own cash and may be used by MLI in the course of its business. In the event of MLI becoming insolvent, MFG would rank as an unsecured creditor and may not be able to recover the cash in full. At 30 June 2018 and 2017, MFG held a negligible cash balance with MLI.

The Group also manages credit risk by regularly monitoring SPP loan and receivable balances. Receivable are typically paid within 15 to 45 days after being invoiced. No provision for doubtful debts was required at 30 June 2018 (June 2017: nil). The Group also had credit exposure to SPP Participants with loans under the SPP. At 30 June 2018, the outstanding balance on the loans totalled \$13,527,435 (June 2017: \$10,488,000). At 30 June 2018, the total shortfall was \$92,000 (June 2017: nil) which represented the difference between the face value of certain SPP loans and the value of MFG shares under the SPP for those loans. As the SPP loans are full recourse loans, any shortfall between the SPP loan and the value of the MFG shares under the SPP is recoverable from the Participant.

The Company in its capacity as Trustee and Responsible Entity of the following registered managed investment schemes has appointed The Northern Trust Company ("NT") as custodian of Magellan Global Fund, Magellan Global Fund (Hedged), Magellan Infrastructure Fund, Magellan Infrastructure Fund (Unhedged), Magellan High Conviction Fund, Magellan Core Infrastructure Fund, Magellan Global Equities Fund, Magellan Global Equities Fund (Currency Hedged), Magellan Infrastructure Fund (Currency Hedged), Magellan Global Trust and Airlie Australian Share Fund. The credit quality of NT's senior debt is rated, as at 30 June 2018 by Standard and Poor's as A+ and by Moody's as A2 (A+ and A2 respectively at 30 June 2017). In acting as custodian, NT is required to comply with the relevant provisions of the Corporations Act, applicable ASIC regulatory guides and Regulatory Instruments relating to registered managed investment scheme property arrangements with custodians.

The Group's maximum exposure to credit risk is the sum of the carrying amount of all cash and cash equivalents, financial assets, receivables and SPP loans recognised in the Consolidated Statement of Financial Position.

#### (h) Translation Risk

The financial balances of MFG's foreign operations are prepared in their local currency, United States dollars. For the purposes of preparing the Group's consolidated financial information, each foreign operation's financial statements are translated into Australian dollars using applicable foreign exchange rates for the reporting period. A translation risk exists on translating the financial statements of MFG's foreign operations. As a result, volatility in foreign exchange rates can impact the Group's net assets, profit or loss and other comprehensive income.

The Group does not hedge translation risk.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 21. Capital and Risk Management (continued)

#### (i) Fair Value Disclosures

The Group measures its investments in the Principal Investment Portfolio at fair value. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its investments measured at fair value into the following three levels prescribed under the accounting standards.

- 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.

		Consolidated Entity			
	Note	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>30 June 2018</b>					
<b>Financial assets measured at fair value</b>					
Available-for-sale financial assets					
Investments in listed/quoted investments	12	100,886	-	-	100,886
Investments in unlisted funds	12, (i)	-	173,425	81	173,506
Investments in unlisted shares	12, (ii)	-	-	175	175
<b>Total financial assets measured at fair value</b>		<b>100,886</b>	<b>173,425</b>	<b>256</b>	<b>274,567</b>
<b>30 June 2017</b>					
<b>Financial assets measured at fair value</b>					
Available-for-sale financial assets					
Investments in listed/quoted investments	12	102,858	-	-	102,858
Investments in unlisted funds	12, (i)	-	159,999	81	160,080
Investments in unlisted shares	12, (ii)	-	-	175	175
<b>Total financial assets measured at fair value</b>		<b>102,858</b>	<b>159,999</b>	<b>256</b>	<b>263,113</b>

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

(i) Investments in unlisted funds are set out in note 12. With the exception of the unlisted funds – other (discussed below), the fair value of investments in unlisted funds is determined with reference to the fund's redemption price at reporting date. They are categorised in level 2 as inputs into the redemption unit price are directly observable from published price quotations.

The investment in the "unlisted funds – other" set out in note 12 comprises an investment in a single private equity fund. As there is no active market, the fair value is a Directors' valuation that is determined with reference to the unit price of the fund. A discount to reflect the illiquidity of the units has been applied to the redemption unit price provided by that Fund. The Directors believe the estimated fair value and the discount assumptions applied are reasonable and appropriate.

(ii) Unlisted shares comprise 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 level during the year ended 30 June 2018 or 2017 and the Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. At 30 June 2018, the fair value of the level 3 assets is \$256,000 (June 2017: \$256,000) and there has been no movement in the fair value of the level 3 assets during the years ended 30 June 2018 or 2017.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2018

### 22. Contingent Assets, Contingent Liabilities and Commitments

#### (a) Commitments

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

The Group has entered into non-cancellable operating leases for its office premises in Australia (Sydney, Melbourne, Brisbane, Adelaide, Perth) and the United States (Chicago) and has agreements for office equipment. The minimum lease payments in relation to non-cancellable operating leases and agreements are as follows:

	Consolidated Entity	
	30 June 2018 \$'000	30 June 2017 \$'000
Within one year	2,904	2,674
Later than one year but no later than five years	11,541	10,822
More than five years	10,757	13,767
<b>Total</b>	<b>25,202</b>	<b>27,263</b>

In addition to the above, the Group has a commitment of USD\$18,500,000, being the agreed purchase price of Frontegra Asset Management Inc under the share sale agreement dated 5 February 2018. Refer to note 18(b)(i) for further details.

On 29 March 2018, the Group withdrew from its sponsorship agreement with Cricket Australia.

#### (b) Contingent Assets and Contingent Liabilities

In accordance with the terms of the MFG Subscription and Commitment Deed, MFG will pay MGG to ensure that unitholders in MGG who do not participate in the MGG Dividend Reinvestment Plan ("DRP") suffer no dilution as result of any DRP discount. As a result, MFG has a contingent liability where MGG offers a discount to the Net Trust Value per unit on units issued under the DRP in future periods. The quantum of the contingent liability is determined at each distribution date of MGG and the amount is equal to a 5% discount to MGG's NAV per unit multiplied by the number of units participating in the DRP. It is not practical to estimate the future cost to the Group as there is uncertainty as to the level of participation in the DRP, the NAV per unit and whether the DRP will be offered. For the year ended 30 June 2018, \$414,000 was paid or payable by the Group to MGG in respect of MGG's interim and final distributions.

Other than the above, the Group has no material contingent assets or contingent liabilities as at 30 June 2018 (June 2017: nil).

#### (c) Guarantees

In October 2017, MFG issued a letter of support to MGTI to provide support and assistance as required to ensure compliance with the obligations in the MFG Subscription and Commitment Deed. Following the allotment of loyalty units in MGG, in the form of ordinary units on 15 January 2018, the MGTI entity is dormant and a letter of support is no longer required.

Furthermore, a guarantee provided by MFG to the landlord of the Group's New York office premises ceased in October 2017 as it was no longer required (June 2017: \$1,707,000).



# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 30 June 2018

#### 23. Auditor's Remuneration

Amounts received or due and receivable by the auditor of the Group, Ernst & Young:

	Consolidated Entity	
	30 June 2018 \$	30 June 2017 \$
<b>Ernst &amp; Young Australia</b>		
<b>Audit services</b>		
Audit and review of the financial reports:		
- Group and controlled entities	156,700	102,500
- Magellan Funds <sup>(A)</sup>	239,300	183,200
Other assurance services <sup>(B)</sup>	186,000	84,500
Advisory services	46,000	-
	<b>628,000</b>	<b>370,200</b>
<b>Non-audit services</b>		
Taxation <sup>(C)</sup>	186,450	100,258
<b>Total remuneration of Ernst &amp; Young Australia</b>	<b>814,450</b>	<b>470,458</b>
<b>Network firms of Ernst &amp; Young Australia</b>		
<b>Audit services</b>		
Audit of the financial report - MFG Investment Fund Plc	48,987	56,801
	<b>48,987</b>	<b>56,801</b>
<b>Non-audit services</b>		
Taxation <sup>(C)</sup>	-	83,384
<b>Total remuneration of network firms of Ernst &amp; Young Australia</b>	<b>48,987</b>	<b>140,185</b>
<b>Total auditor's remuneration</b>	<b>863,437</b>	<b>610,643</b>

(A) The Magellan Funds comprise Magellan Global Fund, Magellan Global Fund (Hedged), Magellan High Conviction Fund, Magellan Global Equities Fund, Magellan Global Equities Fund (Currency Hedged), Magellan Infrastructure Fund, Magellan Infrastructure Fund (Unhedged), Magellan Core Infrastructure Fund, Magellan Infrastructure Fund (Currency Hedged), Magellan Global Trust and Airlie Australian Share Fund.

(B) Other assurance services consist of engagements in relation to an audit that are not the direct audit or review of financial reports. These services include regulatory compliance, accounting advice, reviews of controls and audit of ICRs for the Magellan Funds.

(C) Non-audit services consist of income tax return reviews for the Group (\$33,200), tax advisory services (\$59,500) and income tax and distribution reviews for the Magellan Funds (\$93,750).

#### 24. Subsequent Events

On 6 August 2018, the Group reported to the ASX that its funds under management was \$70.0 billion as at 31 July 2018.

Other than the above matters and the dividend in respect of the six months ended 30 June 2018 (refer to note 4(i)), 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

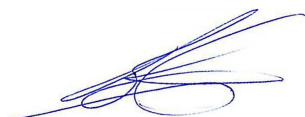
## DIRECTORS' DECLARATION

In the Directors' opinion,

- a) the financial statements and notes set out on pages 33 to 75 are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
  - (ii) complying with Accounting Standards, the *Corporations Regulations 2001*, International Financial Reporting Standards as disclosed in note 1 and other mandatory professional reporting requirements; and
- b) there are reasonable grounds to believe the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2018.

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



**Brett Cairns**  
Executive Chairman

9 August 2018



## **Independent Auditor's Report to the Members of Magellan Financial Group Limited**

### **Report on the Audit of the Financial Report**

#### **Opinion**

We have audited the financial report of Magellan Financial Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### **Basis for Opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

## 1. Management and Performance Fee Revenue

### Why significant

The Group's key revenue stream is management and performance fees earned by Magellan Asset Management Limited (MAM), a consolidated subsidiary, through agreements with third parties and Magellan Funds.

For the year ended 30 June 2018, management fees were \$381,074,000 and performance fees were \$39,772,000.

Revenue from management and performance fees are earned in accordance with the Investment Management Agreements and Constitutions of the funds. Performance fees are also dependent on the portfolio outperforming certain hurdles and are only recognised in the Statement of Profit and Loss when MAM's entitlement to the fee is highly probable.

The quantum of these revenue streams and the variability of market based returns on the recognition and earning of performance fees results in this being a key audit matter.

Disclosures relating to these revenue streams are included in Note 5 to the financial report.

### How our audit addressed the key audit matter

We assessed the effectiveness of the controls in relation to the calculation of management and performance fees.

We recalculated management fees, on a sample basis, in accordance with contractual arrangements.

We assessed the performance fees which were recognised as at 30 June 2018 from funds and mandates and checked they met the relevant recognition criteria, including assessing the inputs into the calculation model and that the methodology applied was in accordance with contractual arrangements.

We assessed the adequacy of the disclosures in the financial report in accordance with Australian Accounting Standards.

## 2. Investment existence and valuation

### Why significant

The Group has a significant investment portfolio consisting of listed and unlisted equities and investments in its own managed funds. As at 30 June 2018, the value of these non-current financial assets, per Note 12 of the financial report was \$274,567,000, which equates to 40.7% of the total assets held by the Group.

As described in Notes 12 and 21(i), the Group's financial assets are classified as 'available for sale' and are measured at fair value in line with Australian Accounting Standards - AASB 139: *Financial Instruments Recognition and Measurement* (AASB 139).

Pricing, exchange rates and other market drivers can have a significant impact on the value of these financial assets and the financial report, therefore the valuation of the investment portfolio is a key audit matter.

### How our audit addressed the key audit matter

We assessed the effectiveness of the controls relating to the recognition and valuation of investments.

We obtained and considered the assurance reports on the controls of the Group's custodians and administrators in relation to investment management services and considered the auditor's qualifications and objectivity and results of their procedures.

We agreed all investment holdings, including cash accounts, to third party confirmations at 30 June 2018.

We assessed the fair value of all investments in the portfolio held at 30 June 2018 to independent pricing sources for listed securities. For unlisted funds, we agreed the investment valuations to statements from external fund administrators.

We evaluated the Group's assessment of available for sale financial assets for any additional impairment in accordance with AASB 139 and performed an independent assessment of their assumptions and conclusions.

We assessed the adequacy of the disclosures in the notes to the financial report in accordance with Australian Accounting Standards.

### 3. Consolidation and Equity Accounting Considerations

#### Why significant

Investments are accounted for in the Group by consolidation, equity accounting, or as investments at fair value. The determination of the appropriate accounting depends upon whether the Group has the ability to exercise control or significant influence.

This is a key audit matter as it is complex and requires judgements to assess whether the Group exercises control and significant influence for its investments.

Judgement is required each balance date in determining the appropriate accounting as the Group's ownership percentage changes over time.

The Group's subsidiaries and interests in other entities are disclosed in Notes 12 and 16 of the financial report.

#### How our audit addressed the key audit matter

We evaluated the Group's assessment of whether control or significant influence existed for investments, and that the appropriate accounting treatment was applied in accordance with that assessment.

We also assessed the adequacy of the disclosures in Notes 12 and 16 in accordance with Australian Accounting Standards.

### 4. Business Combinations

#### Why significant

As described in Note 18, the Group made two acquisitions in the year.

On 1 March 2018, the Group acquired 100% of the shares of Airlie Funds Management Pty Limited for \$97,112,915.

The Group acquired Frontier Partners Inc on 5 February 2018 and Frontegra Strategies LLC on 2 April 2018 for total cash consideration of \$14,623,000.

Australian Accounting Standards applicable to business combinations require the purchase price to be allocated between the acquired assets and liabilities assumed, which has resulted in the recognition of tangible, intangible assets and goodwill. Based on purchase price allocations, goodwill of \$83,489,000 and acquired intangible assets of \$22,933,000 were recorded in the statement of financial position of the Group at 30 June 2018.

The accounting for the above acquisitions has been identified as a key audit matter as the transactions are material to the Group and the accounting required significant judgment, including determination of the purchase price allocation and the related fair values of assets acquired and liabilities assumed.

#### How our audit addressed the key audit matter

We reviewed the agreements entered into by the Group in relation to the acquisitions.

We also verified the consideration paid, evaluated the determination of the identified net tangible and intangible assets acquired and the allocation of the purchase consideration to the fair value of the assets acquired and liabilities assumed.

We tested the valuation models prepared by the Group in relation to acquired intangible assets. We involved our valuation specialists to assess the methodologies and key assumptions used to determine fair values, including discount rates and the longevity of acquired client relationships, and validated these with external market data. We also performed sensitivity analyses to determine the impact of changes in the key assumptions.

We evaluated the appropriateness of the related disclosures included in the financial report in accordance with Australian Accounting Standards.

## **Information Other than the Financial Report and Auditor's Report**

The directors are responsible for the other information. The other information comprises the information in the Company's Annual Report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of the Directors' for the Financial Report**

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

## **Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the Audit of the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 30 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Magellan Financial Group Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Ernst & Young



Rita Da Silva

Partner

Sydney

9 August 2018

# MAGELLAN FINANCIAL GROUP LIMITED

## CORPORATE SUSTAINABILITY AND RESPONSIBILITY REPORT

Magellan is committed to acting responsibly and ethically in all areas of its business. The Group seeks to engender a culture of building trust with all that do business with us.

### Responsible Investment

Magellan is committed to responsible investment and became a signatory to the United Nations supported Principles of Responsible Investment ("PRI") in March 2012. The PRI is the globally recognised accord for responsible investing. Environmental, Social and Governance ("ESG") issues are considered to be a natural component of Magellan's investment process, as gaining a robust understanding of these issues is a key part to assessing the outlook for future cash flow generation and risks facing investors. Magellan's investment process seeks to identify high quality companies which naturally filters out most companies from sectors that typically come with material ESG issues (eg Magellan's investment universe excludes pro-cyclical resources, energy and materials stocks). Magellan's Investment team's research reports also include a discussion of climate change risks facing companies including emissions intensity. Magellan maintains an ESG Policy, which outlines how ESG issues are incorporated into Magellan's investment analysis framework and investment process.

In September 2016, Magellan launched the first of a series of Sustainable strategies, renamed from Low Carbon strategies, that implement a proprietary low carbon overlay. Magellan believes it is highly likely that the world will move further towards addressing climate change risks by reducing carbon emissions. Climate change is therefore an increasingly important issue for global companies and investors, with the potential to affect profoundly business models through government regulation (eg carbon pricing), technology and changes in consumption patterns. These factors directly and indirectly impact the relative cost of companies' products and services, customer demand, and pricing power. Magellan's Sustainable strategies provide investors with a high quality, absolute-return focused portfolio with materially lower carbon factor risk than global markets.

In May 2017, Magellan became a signatory of the PRI's Montreal Pledge. Under the Pledge, Magellan commits to measure and publicly disclose the carbon footprint of its actively managed investment portfolios which are outlined in the table below.

Carbon footprint as at 30 June 2018 (tonnes CO2e per \$US million revenue)	
Magellan Global Fund	26.2
Magellan High Conviction Fund	28.6
Magellan Infrastructure Fund	297.3
Global Sustainable strategy	23.1
US Sustainable strategy	31.4
<i>MSCI World Index (as at 31 December 2017)</i>	
	194.1

Note: portfolio carbon intensities are calculated using the weighted average carbon intensity method.

Magellan considers proxy voting rights as an important power, which if exercised diligently can enhance client returns. Magellan believes these should be managed with the same care as any other asset managed on behalf of its clients. Magellan maintains a Proxy Voting Policy and set of Corporate Governance Principles which outline its approach to proxy voting and engagement with portfolio companies. These policies and all proxy voting records are available to Magellan's clients, however, given the concentrated nature of Magellan's portfolios, proxy voting records are not made publicly available.

As a long term investor, Magellan is committed to engaging with portfolio companies on ESG matters. During the year ended 30 June 2018 Magellan engaged with many portfolio companies on a number of material ESG topics.

### Environment

Magellan understands the importance of mitigating its impact on the environment and is committed to environmental sustainability. Magellan's Board of Directors assesses its appetite for climate-related issues under "environmental risk" as part of an annual review of risks impacting the company. Given the nature of Magellan's business and as a services firm of 124 employees, with approximately 70% of employees based in the head office in Sydney, Magellan has a relatively small environmental footprint and the Board has determined that this risk is not material to Magellan's operations. Environmental risk is reviewed annually by senior management as part of the firm's risk management framework.



# MAGELLAN FINANCIAL GROUP LIMITED

There are three main areas where Magellan's environmental footprint lies – premises, energy and travel. Magellan aims to ensure that, where possible, business operations are conducted in the most environmentally sustainable way possible. For example, Magellan's head office is a 4.5 star NABERS<sup>1</sup> rated office building. Magellan also continues to build awareness amongst its employees and focus on areas where it can make an impact including recycling and minimising printing.

Magellan is a signatory to the Carbon Disclosure Project's ("CDP") climate change program. CDP holds the largest global collection of self-reported climate change, water and forest-risk data in an effort to transform the way the world does business to prevent dangerous climate change and protect natural resources.

Greenhouse Gas ("GHG") emissions by Scope (metric tonnes CO<sub>2</sub>e)

	Calendar Year 2015	Calendar Year 2016	Calendar Year 2017
Scope 1	0	0	0
Scope 2	97	124	134
Total GHG emissions	97	124	134
Total per employee	1.05	1.14	1.29
Total per A\$ million of revenue	0.3	0.4	0.4

As outlined in the table above, Magellan's GHG emissions are relatively small, particularly on a per employee and per A\$ million of revenue basis. Magellan's Scope 1 & 2 emissions intensity for calendar year 2017 of 0.4 tonnes CO<sub>2</sub>e per A\$ million dollars of revenue puts Magellan among the lowest emissions intensity companies globally.

Within Magellan's funds management business, as discussed in the section titled "Responsible Investment", Magellan considers Environmental issues as a natural component of its investment process, particularly where such issues may impact the future cash flows of the companies in which it is invested. Research reports compiled by the Investment team include a discussion of climate change risks facing companies and includes a company's emissions intensity. Magellan aims to engage with portfolio companies where it considers a material potential environmental issue has arisen. The development of Magellan's Sustainable strategies offers investors the opportunity to invest in a high quality, absolute-return focused portfolio with materially lower carbon factor risk than global markets.

## People

As a funds management company, Magellan's people are integral to the success of the company. Magellan takes an active involvement in staff wellbeing, staff engagement, motivation and career development.

Magellan implements a number of initiatives to promote staff engagement and retention. Middle and senior management seek regular feedback from employees and Magellan also undertakes annual performance reviews with all employees to discuss performance against a set of internal performance objectives, to identify development areas as well as any training requirements.

Magellan strongly believes that staff engagement and satisfaction go well beyond direct financial compensation. Magellan's annual leave policy encourages staff to take their full statutory requirement over each annual period by providing an additional week of leave if they do so. The aim is to ensure that staff maintain an appropriate work/life balance. Magellan also enables flexible work arrangements to assist employees to balance their work, personal and family responsibilities.

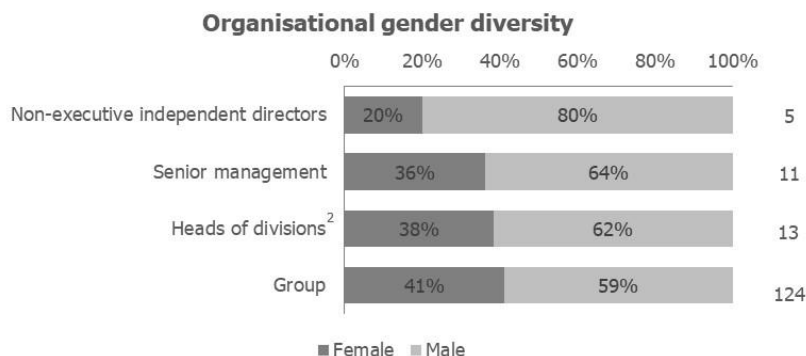
Magellan promotes staff ownership of the Company and encourages staff to think like owners as a way of engaging and retaining staff. Magellan believes the Company's voluntary Share Purchase Plan (SPP), described in section 3.1 in the Directors' Report, is a transparent and essential program which improves staff retention and aligns the long-term interests of the staff with shareholders through a sense of ownership. As at 30 June 2018 approximately 63% of employees had an individual shareholding in the Company.

Magellan is committed to workplace diversity and recognises the value of attracting and retaining employees with different backgrounds, knowledge, experience and abilities. Magellan maintains a Diversity Policy that outlines the Group's commitment to diversity in the workplace and provides a framework to achieve the Group's diversity goals for the business. The Group's policy is to recruit and manage on the basis of competence and performance regardless of age, race, gender, nationality, beliefs, sexuality, physical ability or cultural background. The policy can be found on our website: [www.magellangroup.com.au](http://www.magellangroup.com.au).

(1) NABERS is a national rating system that measures the environmental performance of Australian buildings, tenancies and homes. NABERS is managed nationally by the NSW Office of Environment and Heritage, on behalf of Commonwealth, state and territory governments.

# MAGELLAN FINANCIAL GROUP LIMITED

In the 2018 financial year, the Board reviewed the measurable objectives it has set to achieve improvement in the diversity of employees. These objectives for female representation are 33% for independent directors, 40% for senior management (classified by Magellan as direct reports to the CEO or Executive Chairman) and 40% for the overall Group. The current gender representation across the Group is shown below as at 30 June 2018.



In 2018 Magellan became a sponsor of Future IM/Pact, a Mercer led initiative that seeks to promote diversity within the investment management industry. Through this, Magellan hopes to promote careers in investment management to a diverse talent pool.

At Magellan culture is very important and the Company will continue to monitor retention rates.

## Community

Magellan believes an active contribution to community is important and actively seeks to give back throughout the year. Magellan does not generally make corporate donations as the Group believes it is appropriate to focus on delivering satisfactory returns inclusive of regular dividend payments and allowing shareholders to determine the charities to which they donate. Instead, Magellan prefers to focus its efforts on employee participation in fund raising initiatives.

Magellan's efforts over the past financial year include:

- Supporter of Rotary Club fund-raising initiative Bobbin Head Cycle Classic
- Employee participation in JPMorgan Corporate Challenge
- Employee participation in UN Women's International Women's Day breakfast

Magellan is also a participating fund manager in the Future Generation Global Investment Company. The Future Generation Global Investment Company is an ASX listed investment company that invests in global equities investment strategies managed by prominent, Australian fund managers. Participating fund managers manage the capital entirely pro-bono so that 1.0% of net assets each year can be donated to Australian non-profits committed to young Australians affected by mental health issues. In the 2018 financial year, this equated to approximately \$550,000 in respect of funds managed by Magellan. Magellan is a foundation member and received an initial allocation of ~10% of the assets under management at time of IPO.

(2) Heads of division refers to employees who are responsible for a division or function within the organization. This statistic includes Senior Management, excluding the Executive Chairman and CEO.



# MAGELLAN FINANCIAL GROUP LIMITED

## CORPORATE INFORMATION

### **Directors**

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

### **Company Secretary**

Geoffrey Stirton

### **Registered Office**

Magellan Financial Group Limited  
Level 36, 19 Martin Place  
Sydney NSW 2000  
Telephone: +61 2 9235 4888  
Fax: +61 2 9235 4800  
Email: [info@magellangroup.com.au](mailto:info@magellangroup.com.au)

### **Auditors & Tax**

Ernst & Young  
200 George Street  
Sydney NSW 2000

### **Share Registrar**

Boardroom Pty Limited  
Level 12,  
Grosvenor Place  
225 George Street  
Sydney NSW 2000  
Telephone: +61 2 9290 9600  
Fax: +61 2 9279 0664  
Email: [enquiries@boardroomlimited.com.au](mailto:enquiries@boardroomlimited.com.au)

### **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>

# MAGELLAN FINANCIAL GROUP LIMITED

## SHAREHOLDER INFORMATION

AS AT 6 AUGUST 2018

### Distribution of Shareholders

Analysis of the numbers of shareholders by size of holding at 6 August 2018 is presented below:

Holding	Number of Holders	Number of Ordinary Shares	Percentage of Shares on Issue %
1-1,000	13,282	6,229,480	3.54
1,001-5,000	7,137	15,609,768	8.86
5,001-10,000	807	5,863,862	3.33
10,001-100,000	730	19,318,680	10.96
100,001 and over	90	129,189,377	73.31
<b>Total</b>	<b>22,046</b>	<b>176,211,167</b>	<b>100.00</b>
Number of holders with less than a marketable parcel of Ordinary Shares	192	1,550	

### Twenty Largest Shareholders

The names of the 20 largest shareholders of the Company as at 6 August 2018 are listed below:

Holder Name	Number of Ordinary Shares	Percentage of Shares on Issue
HSBC Custody Nominees (Australia) Limited	21,235,397	12.05
Midas Touch Investments Pty Ltd	21,001,577	11.92
JP Morgan Nominees Australia Limited	18,340,999	10.41
Magellan Equities Pty Limited	16,888,949	9.58
Citicorp Nominees Pty Limited	8,921,388	5.06
National Nominees Limited	4,505,779	2.56
Marsev Pty Limited	2,699,724	1.53
BNP Paribas Noms Pty Ltd	2,358,871	1.34
Nota Bene Investments Pty Ltd	2,311,497	1.31
Emmanuel Capital Pty Ltd	1,600,000	0.91
Mr David Doyle	1,500,000	0.85
Mr Brett William Fisher Paton & Mrs Vicki Anne Paton	1,397,328	0.79
Aljamat Pty Ltd	1,310,000	0.74
Citicorp Nominees Pty Limited	1,203,757	0.68
Jash Pty Limited	1,130,331	0.64
Mr Christopher John Mackay	963,062	0.55
BNP Paribas Nominees Pty Ltd	778,328	0.44
UBS Nominees Pty Limited	752,671	0.43
PAJ Lewis Superannuation Fund Pty Ltd	750,000	0.43
PAJ Lewis Pty Ltd	750,000	0.43
<b>Total shares held by the twenty largest shareholders</b>	<b>110,399,658</b>	<b>62.65</b>
<b>Total ordinary shares on issue</b>	<b>176,211,167</b>	

# MAGELLAN FINANCIAL GROUP LIMITED

## SHAREHOLDER INFORMATION

AS AT 6 AUGUST 2018

### Substantial Shareholders

The substantial shareholders in the Company's Register of Substantial Shareholders at 6 August 2018 are listed below:

Shareholder	Number of Ordinary Shares	Percentage of Shares on issue %
Hamish Douglass, Midas Touch Investments Pty Ltd and associates <sup>(A)</sup>	21,792,277	12.37
Chris Mackay and associates <sup>(B)</sup>	18,615,610	10.56

<sup>(A)</sup> Date of last Appendix 3Y notice lodged on 31 July 2018

<sup>(B)</sup> Date of the last substantial shareholder notice lodged on 22 November 2016

### Voting Rights

Subject to the Company Constitution:

- at meetings of shareholders, each shareholder is entitled to vote in person, by proxy, by attorney or by representative;
- on a show of hands, each shareholder present in person, by proxy, by attorney or by representative is entitled to one vote; and
- on a poll, each shareholder present in person, by proxy, by attorney or by representative is entitled to one vote for every share held by the shareholder.

In the case of joint holdings, only one joint holder may vote.