

**Chairman's Address
to the 2019 Annual General Meeting
Thursday 24 October 2019**

Welcome everyone to the 13th Annual General Meeting of Magellan Financial Group Limited.

Today I will touch briefly upon some of the Company's activities over the last financial year, and the firm's strategy.

Before running through the financial highlights for the year I would like to comment on the management changes we announced at last year's AGM and some recent changes to Board responsibilities. I am pleased to report that the job swap with Brett Cairns (where he became CEO and I became Chairman) has occurred seamlessly. Brett is doing an outstanding job as CEO and looks after all the key operational functions of Magellan. Brett has an extremely detailed understanding of our business and a vision for simplifying the way managed funds are administered for investors in Australia. I continue to look after the investment functions of Magellan in my role as Chief Investment Officer and remain focused on developing the strategy for the group in conjunction with Brett and the Board. I continue to skip to work every day and have never been happier or more engaged. I can assure you I am not going anywhere – I love what I do at Magellan.

In June this year we announced that Hamish McLennan was appointed Deputy Chairman of Magellan and Robert Fraser was appointed Chairman of Magellan Asset Management Limited, the Responsible Entity and main operating subsidiary of Magellan. These appointments strengthen the governance framework of both Magellan and Magellan Asset Management Limited. I thank both Hamish and Rob for agreeing to take on the additional responsibilities.

The 2019 financial year has been a very satisfactory one from a financial perspective.

For the year, Magellan's reported net profit after tax increased by 78% to \$376.9 million. Excluding amortisation relating to the acquisitions of Airlie Funds Management and Frontier Partners, the gains in our Principal Investments portfolio and the costs associated with capital raisings for our funds, Magellan's adjusted net profit after tax increased by 35% to \$364.2 million.

Total dividends for the year of 185.2 cents per share compares with 134.5 cents per share last year. This represents an increase of 38%. The increase in total dividends is broadly in line with the 39% increase in profit before tax for the Funds Management Segment. We have a dividend policy of paying dividends amounting to 90-95% of the after tax profit of the Funds Management Segment.

The key drivers of the 39% increase in the profitability of the Funds Management Segment were:

- A 31% increase in revenues driven by a 28% increase in average funds under management from \$59 billion to \$75.8 billion and a more than doubling of performance fees to \$83.6 million; and
- Positive operating leverage due to a modest increase in expenses of 4%.

It is also important for investors to understand that performance fees by their nature will be lumpy. In some years we could earn substantial performance fees and in other years we may earn no performance fees. Performance fees increase the volatility of our reported financial results. Even though performance fees increase the volatility of our reported financial results year to year, they are likely to be an important part of investor returns over time. It would not be in your interests as investors for Magellan to forego the ability to earn performance fees (for achieving outstanding investment results for our clients) in order to report less volatility in our reported profits.

Moving forward the most important determinant of the Funds Management Segment's revenues and profitability, and hence dividends, will be the movement in average funds under management which is the principal driver of revenue. It is unrealistic to expect that average funds under management can increase at a rate over time anywhere near the 28% increase achieved last year. The increase in average funds under management will primarily be driven by the investment performance of the investment strategies we manage on behalf of clients and to a lesser extent net inflows or outflows from clients investing with us. In assessing the growth from investment performance, we note our long-term investment objectives for the investment strategies managed by Magellan aim to deliver returns net of fees broadly in the range of 7-9% per annum on average over time. Whilst we are in no way guaranteeing this level of return for our investment strategies, we consider our return objective to be realistic. I also note that the annual investment returns will swing wildly around these long-term numbers – including negative returns in some years.

The following chart (chart 1) sets out a conceptual model for long term shareholder value creation at Magellan. The chart indicates that our base existing business (excluding any new business) may be able to produce total shareholder returns (profit growth and dividends) in the low double digits. This is a combination of profit growth of 7-9% per annum on average and an average annual dividend yield of 4-5%, which is supported by our 90-95% dividend payout ratio. We could supplement this base level of total shareholder returns if we are able to generate new business and attract new funds under management via flows into existing strategies and new products. Brett will talk about these initiatives to generate additional funds under management in his address.

Our job at Magellan is to add value for all our stakeholders. This starts with delivering strong investment performance for our clients who have entrusted us to manage money on their behalf. I am proud of the investment performance that has been delivered by the Magellan investment team over many years.

We also add value by providing investment insight and servicing our clients with unrelenting focus. Our client relationship and communications teams are second to none. I would encourage you to read our new investor magazine (2019 INREVIEW) which was sent to our investors recently. This is a first-class publication and I hope you enjoy reading it. We are hosting Investor Evenings across Australia and in Auckland in New Zealand in February/March next year. The format of the evenings will be a presentation followed by a cocktail reception. We have recently sent out invitations to our shareholders and investors. We have total seating capacity at around 15,000 people across all the venues but would encourage you to purchase tickets as soon as possible as there is a chance we could be sold out at many of the venues. All proceeds from the ticket sales are being donated to four fabulous charities (Rural Aid, Reach Foundation and Fly High Billie in Australia and the Sweet Louise Foundation in New Zealand).

I really hope you will be able to join me and the Magellan team at these investor evenings. Hopefully you will find them informative and a bit of fun.

It is critical that we retain outstanding people. This involves creating a positive working environment, supporting our employees' career ambitions and having a fair and aligned incentive system.

If we do these things, we should be in a position to create value for our shareholders. It is important for you as shareholders to appreciate that we do not put your interests first. We will act in the interests of our clients and employees even if it comes at financial cost to our reported profits. We believe this mindset of putting our clients and employees first is the best model to create significant long-term shareholder value.

It is pleasing that since we established Magellan in 2006 we have generated approximately \$55 billion in combined stakeholder value (measured by realised and unrealised profits and dividends) for clients invested in Magellan strategies and for Magellan shareholders. We are proud of the value that has been created to date.

We believe that to create long-term enduring value, the concept of a partnership with our clients is important. A partnership exists where both parties in the relationship benefit.

Good examples of our partnership approach are our two closed ended ASX listed trusts: the Magellan Global Trust; and the recently listed Magellan High Conviction Trust. The initial public offerings of these trusts raised a combined \$2.4 billion. As part of these raisings we offered Magellan shareholders and investors in Magellan funds the right to receive loyalty units that entitled them to additional units in the trusts under the priority offers. The financial cost of the loyalty units and the full expenses of these raisings totaled \$136 million. This cost was borne by Magellan.

Other examples of our partnership approach include: the Distribution Reinvestment Plans for the Magellan Global Trust and the Magellan High Conviction Trust, where investors can reinvest distributions at a 5% discount to the net asset value and the discount is paid for by Magellan; and the Unit Purchase Plan for the Magellan Global Trust where investors could apply for up to \$15,000 of units at a 5% discount to the net asset value. Again, Magellan paid the cost of this benefit. These investor benefits are set out in the following chart (chart 2).

The question you may ask is why Magellan would voluntarily pay these costs when we could probably raise additional funds under management without incurring these expenses. The answer to this question is twofold:

- Treating investors in our funds as partners and providing real tangible benefits is likely to make them more engaged and loyal investors over the long-term, and may attract more investors into our funds; and
- Every dollar we pay upfront to people investing additional capital into our closed end funds has resulted in materially more than two dollars of shareholder value to date.

We believe that this partnership approach is a win-win outcome for investors in our funds and our shareholders. Every time you see Magellan incur an expense related to such activities in the future you should celebrate. The larger the expense the greater the quantum of potential shareholder value creation.

The following chart (chart 3) sets out the implied price earnings multiple of the earnings generated from the incremental funds under management divided by the post tax cost to Magellan from the partnership investment. As you can see from the chart, the incremental funds under management from these partnership investments have come at a cost at less than 5 times earnings. We view this as a highly attractive investment for shareholders.

It is important for you to appreciate that we believe we have only scratched the tip of an iceberg on the potential of our partnership thinking and we envisage making more partnership investments in the future. While we will expense these costs up front for accounting purposes, you should think of the expense as an investment in the future of the business. Importantly the Board excludes these expenses from profits when determining the amount of dividends.

Finally, I would like to thank our extraordinary employees at Magellan who all contribute to the firm's success and of course our Board. As we have remarked before, the Board works extremely well together and brings an independence of diversified thought that is extremely valuable.

Each Board member is engaged, diligent and thoughtfully considers the many issues that arise like true long-term owners of the business – something that perhaps has been underrated when considering Magellan's success.

I will now hand over to Brett for his CEO's review.

Hamish M Douglass
Chairman and Chief Investment Officer

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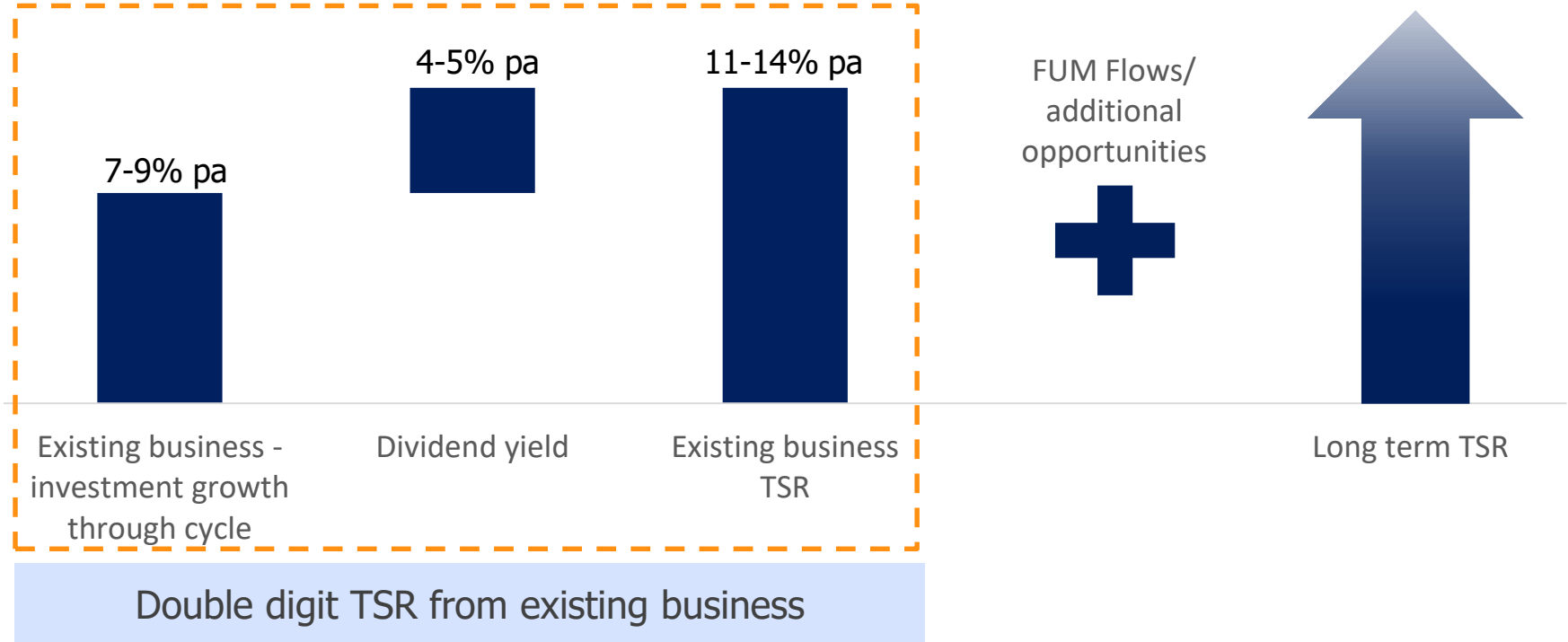
Magellan Financial Group Limited

2019 AGM Presentation

Hamish Douglass | Chairman & Chief Investment Officer



A model for long term Total Shareholder Return (TSR)



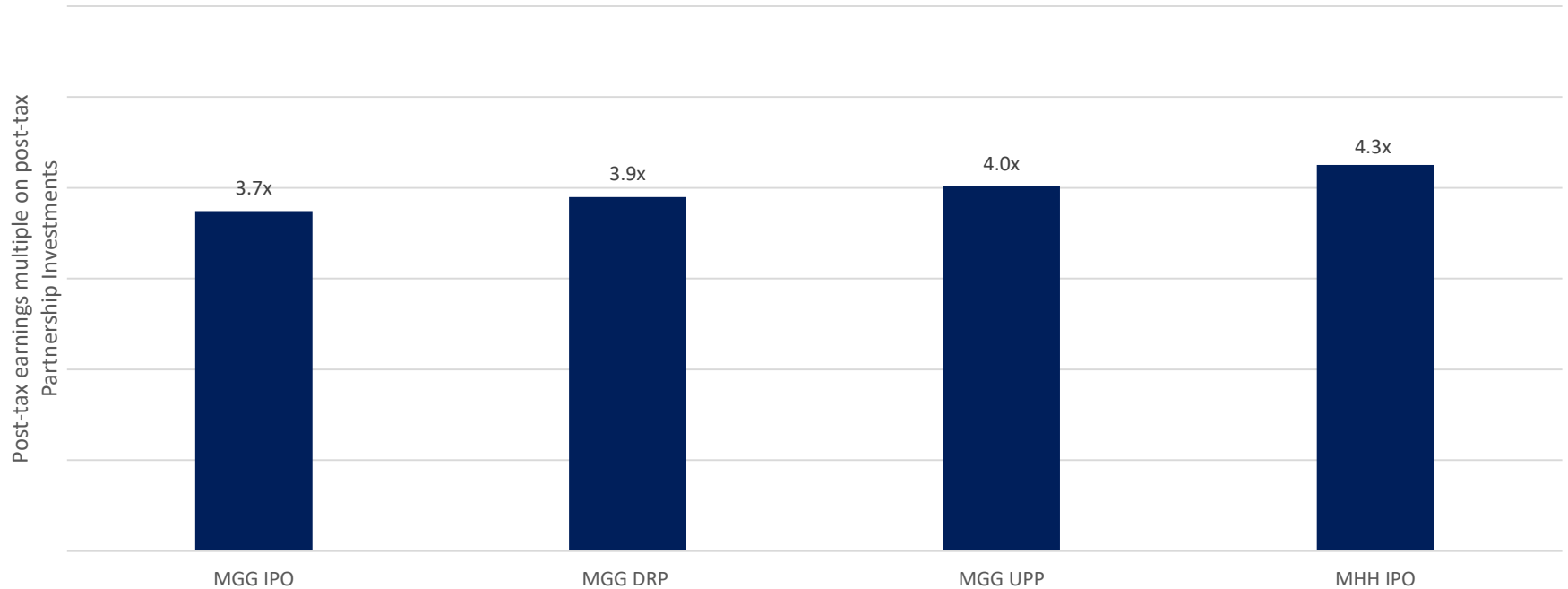
The Partnership in Action – Investor Benefits

	MGG IPO	MGG DRP	MGG UPP	MHCT IPO (ASX: MHH)
FUM raised	\$1.57 billion	\$17.5 million	\$277 million	\$862 million
Investor Partnership Benefit ¹	Loyalty Units of 6.25%	Ability to reinvest distributions at 5% discount to NAV	Ability to subscribe for up to \$15,000 of units at 5% discount to NAV	Loyalty Units of 7.5% or IPO Foundation Units of 2.5%
Total cost to Magellan ²	\$81 million	\$0.9 million	\$15 million	\$55 million

1. The benefit provided to investors participating in the relevant investor offer, distribution reinvestment plan or unit purchase plan

2. Pre-tax costs related to the strategic initiatives as outlined in the Segment Note of the Annual Report

The Partnership in Action – Enhancing Shareholder Value



Each dollar spent on partnership investment has resulted in materially more than \$2 of shareholder value to date

Note: Calculated as post-tax cost relating to strategic initiatives and costs of the offer borne by Magellan divided by annualised post-tax base management fee on total FUM raised