

Magellan Financial Group Limited  
ABN 59 108 437 592

Level 7, 1 Castlereagh Street  
Sydney NSW 2000 AUSTRALIA

Tel +61 2 8114 1888

Fax +61 2 8114 1800

Web [www.magellangroup.com.au](http://www.magellangroup.com.au)

17 October 2014

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

**MAGELLAN FINANCIAL GROUP LIMITED (ASX: MFG)  
2014 ANNUAL GENERAL MEETING  
CHAIRMAN'S ADDRESS & CEO'S PRESENTATION**

Magellan Financial Group Limited ('MFG') hereby submits copies of:

- the Address by MFG's Chairman, Dr Brett Cairns; and
- the Presentation by MFG's CEO, Mr Hamish Douglass,

which will be delivered at this morning's Annual General Meeting.

Yours faithfully,



**Geoffrey Stirton**  
**Company Secretary**

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**Chairman's Address  
to the 2014 Annual General Meeting  
Friday 17 October 2014**

Welcome everyone.

Today I will make a few remarks about our business and its prospects. I will also touch upon capital management and the changes to the Board before handing over to Magellan's Managing Director and CEO, Hamish Douglass.

We are pleased with the solid progress that has been made over the past year, both in terms of our financial results and the overall development of the business. Hamish will run through the detailed results in his presentation, but in summary, like-for-like operating profit (that is, excluding the effects of the in-specie distribution) increased over 70% for the year and our combined interim and final dividends totalled 38.3 cents per share fully franked, a 78% increase from the previous year. Importantly our clients continue to entrust us with their funds to manage, with our funds under management increasing 60% to \$23.5 billion at year end, and to \$26.8 billion subsequently at 30 September 2014.

These are results for which the entire Magellan team should be justifiably proud.

While yearly financial metrics are important, more important is the foundation from which these results are produced. We have often remarked that our long term vision is to develop a world class investment management business. This sometimes gets misinterpreted as a sole focus on increasing size, and sometimes with even other grander global ambitions. We of course are saying neither.

Ultimately, solid long-term results for our shareholders will only be derived from the delivery of excellent long-term results for our clients and their advisors. As shareholders, our business cannot prosper unless those whom we serve prosper.

Developing a motivated, world class, performance orientated team, enmeshed in world class systems and processes are important goals if we want to produce sustainable, attractive investments returns and excellent overall service for our clients. Furthermore, developing over time a world class business built on broad and solid foundations, spanning products, people and geographies will help ensure enduring long-term partnerships across all our constituents.

We believe that by constantly pursuing these objectives our business can, and will, be able to compete successfully both here in Australia and in other regions across the globe. Given the very large size of the world-wide investment management business we are, therefore, also hopeful that Magellan can continue to improve and grow for many years to come. Being based in Australia is no handicap.

In thinking about our prospects, however, we believe it is also important not to focus on growth just for the sake of it. We are very aware, for example, that growth that is accompanied with excessive complexity is often a poisoned chalice. Buffett, and particularly Munger, in reviewing Berkshire Hathaway's tremendous success, have repeatedly made an important observation which often gets overlooked: that is, they have looked to do the simple things. While looking only to jump the "one-foot hurdle" may seem obvious, this tends not to be how the human psyche works in practice. There can be a strong attraction to tackling the more-complex in preference to the more-simple, usually because of a wrongly perceived sense of heightened value that comes from conquering something difficult.

At Magellan we want to make a habit of pursuing the simple and shunning the unnecessarily complex. Simple and scalable are key tenets of our business.

In the annual report we also briefly touched upon our culture. While in a growing organisation some evolution in culture is natural, we are firmly committed to maintaining our core principles which relate to acting rationally and fairly while being realistic and pragmatic. We will always look to treat all our main constituents – clients and their advisors, employees and shareholders – fairly. We want to foster a culture whereby we act internally and externally in a partnership orientated way, and in that sense hope to attract employees, clients and indeed fellow shareholders who are like minded.

Further, we also want to ensure our culture is one where inevitable mistakes are sensibly dealt with and ultimately form an integral part of the learning process. Encouraging feedback loops to enhance learning is as important in the investment management process as it is in the execution of our business structures and practices. We must always want to improve.

We continue to invest in our people and systems, particularly across our investment team. Hamish and his team continue to do an excellent job in meeting our clients' needs by focussing on the objectives of achieving attractive risk-adjusted returns over the medium term, while reducing the risk of permanent capital loss. Tuning out short-term noise is very important in achieving excellent longer term investment results and never more so when risks go up with generally high prices. Focussing on the delivery of results for our clients is paramount.

An essential element of our interaction with clients and their advisors comes from our distribution team who champion a relationship approach. In our retail business we have developed very broad based support across the financial advisor community and we have also made significant advances in establishing relationships with the important bank/AMP aligned advice markets. Our institutional business continues to develop and broaden with now over 80 client relationships across a range of geographies.

At the beginning of last financial year we launched several new products: a foreign exchange hedged version of the Global Fund; a foreign exchange unhedged version of the Infrastructure Fund; and a

High Conviction Fund focussed on global equities. In addition, as we have previously mentioned, we are currently working on an ASX listed version of our open-ended Global Fund, which, if successful, could be very attractive to a wide audience including intermediaries and self-directed, self-managed superannuation fund investors.

Coupled with our strong balance sheet, our business foundations continue to strengthen along with our expanding client and product bases.

In that sense we believe our current capital management practices continue to strike the right balance between generating returns for shareholders, maintaining significant financial strength, ensuring client alignment and providing optionality to pursue opportunities over time. The Board regularly reviews capital management and is comfortable in maintaining a dividend payout equating to 75%-80% of the net profit after tax of our funds managements business, subject to available franking credits and regulatory requirements.

In setting our capital management framework it has been important to correctly establish our true working capital requirements by regularly providing for dividend, tax and bonus accruals, and thereby accurately measuring what portion of earnings has been retained in our principal investments and when those investments occurred. This process has enabled proper monitoring of the returns generated by our principal investments which are regularly reviewed by the Board and reported to shareholders.

Moreover, in clearly separating working capital needs from our principal investments there is no ambiguity as to when shareholders should receive their dividends – as soon as possible. We were pleased to be able to pay this year's final dividend on 1 September 2014, almost six weeks earlier than the equivalent time last year.

This past financial year has seen several changes to the Board, with Naomi Milgrom AO, and Chris Mackay stepping down. We are delighted that two high calibre directors, Karen Phin and Robert Fraser, have joined our Board. Both are passionate about Magellan and very business focussed. We have already benefited from their perspectives and energy. Both are standing for re-election today which we strongly support.

Pleasingly, Karen and Robert have voluntarily agreed to participate in our Share Purchase Plan, resolutions for which you will also vote on today. We believe this is important, as under our plan both Karen and Robert are subject to real, non-asymmetric, ownership risks.

Under the plan, Karen and Robert will make meaningful upfront personal investments in Magellan shares equivalent to a number of years of director's fees. These investments will be enhanced further with a 5 year interest free loan provided by the company to allow for the purchase of additional shares. The resulting total amount of shares purchased, which will be issued at market prices, will then be held in locked trading accounts as security for the loans, with all dividends paid on the shares swept to repay the loans. Most importantly, these loans are full recourse to Karen and Robert and are not just limited to shares held as security. Therefore, the plan does not provide for an asymmetric option-like investment, but rather a real, long term, meaningful ownership stake, financed by a loan that is repayable by Karen and Robert, irrespective of the performance of Magellan's shares.

This is a plan designed to engage our independent directors as focussed long term owners of the business, which the Board strongly supports. In essence, we believe trading away the interest foregone on the loans is a good long term investment for Magellan, as the provision of this form of financial assistance does not diminish independence, it enhances engagement.

Finally we would like to thank Naomi and Chris. Naomi's experience has been very important in taking Magellan from a twinkle in Chris and Hamish's eye to where it is today. Chris' continuing insights and counsel over the past year as our on-going Special Advisor have likewise been very valuable and much appreciated.

I will now hand over to Hamish.

**Brett Cairns**  
**Chairman**

# Magellan Financial Group Limited

## 2014 AGM Presentation

Hamish Douglass | Chief Executive Officer | 17<sup>th</sup> October 2014

# Magellan Financial Group Overview

[2]

- For the year ending 30 June 2014:
  - Net profit after tax \$82.9 million, 71% increase<sup>1</sup>
  - EPS of 48.9 cents per share, 67% increase<sup>2</sup>
  - Dividend (interim & final) of 38.3 cents per share, 78% increase<sup>3</sup>
- As at 30 June 2014:
  - Strong balance sheet with net assets of \$206.6 million, 35% increase
  - \$23.5 billion in funds under management, 60% increase
  - 69 total staff, 19% increase
- As at 30 September 2014:
  - \$26.8 billion in funds under management
  - 74 total staff

<sup>1</sup> Excludes gain on the in-specie distribution as a result of the disposal of the Group's investment in MFF in February 2013. Including the gain represents 25% increase from \$66.6 million NPAT at 30 June 2013.

<sup>2</sup> Fully diluted and excludes the gain on the in-specie distribution. Including the gain represents 22% increase from 40.0 cents per share EPS at 30 June 2013.

<sup>3</sup> Excludes the in-specie distribution representing 9.16 cents per share in the year ended 30 June 2013. Including the distribution represents 25% increase.



# Magellan Financial Group Overview

## Continued

[3]

- Two business activities
  - Magellan Asset Management (Funds Management Business)
  - Principal Investments
- Continuing dividend policy 75%-80% of underlying profit of funds management segment<sup>1</sup>
- Final dividend payment date brought forward 1 month (1 Sept 2014)
- Offshore Banking Unit (OBU)
  - Declared an OBU on 31 July 2013
  - Assessable offshore banking income subject to a concessional tax rate of 10%. (under current legislation)
  - Effective tax rate for the 12 months to 30 June 2014 is 24.9%

<sup>1</sup> Subject to available franking credits and corporate, legal and regulatory considerations.



# Funds Management Business

[4]

\$ million	30 June 2014	30 June 2013	% change
<b>Revenue</b>			
Management fees	132.6	56.0	137%
Performance fees	2.1	28.5	(93%)
Service fees	3.9	-	n/a
Consulting fees <sup>1</sup>	-	1.2	n/a
Interest/other income	0.5	1.1	(53%)
	<b>139.1</b>	<b>86.8</b>	<b>60%</b>
<b>Expenses</b>			
Employee expense	23.6	17.4	35%
US Marketing/consulting fees <sup>2</sup>	3.1	1.6	96%
Other expense	9.9	6.2	60%
	<b>36.6</b>	<b>25.2</b>	<b>45%</b>
<b>Profit before tax</b>	<b>102.5</b>	<b>61.6</b>	<b>66%</b>

## Key Statistics

	30 June 2014	30 June 2013	% change
Average Funds Under Management (\$billion)	19.1	9.4	104%
Avg. Number of Employees	64	51	25%
Employee expense/total expense	64.4%	69.1%	
Cost/Income	26.3%	29.0%	
Cost/Income (excl performance fees)	26.7%	43.2%	

<sup>1</sup> The arrangement under which consulting fees are received expired on 30 June 2013.

<sup>2</sup> Pursuant to the agreement, Frontier Partners is entitled to receive 25% of net management fees from Frontegra MFG Funds and 20% of management fees from institutional mandate clients in North America.

# Funds Under Management Summary

[5]

	30 Sept 2014	30 June 2014	30 June 2013
<b>\$ million</b>			
Retail	7,278	6,693	4,542
Institutional			
- Australia/NZ	3,135	2,889	2,424
- North America	5,561	4,690	2,891
- Rest of World	10,816	9,241	4,838
	19,512	16,820	10,153
<b>Total FUM</b>	<b>26,790</b>	<b>23,513</b>	<b>14,695</b>
<b>%</b>			
Retail	27%	28%	31%
Institutional			
- Australia/NZ	12%	12%	16%
- North America	21%	20%	20%
- Rest of World	40%	40%	33%
	73%	72%	69%
<b>Total FUM</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Breakdown of Funds Under Management (\$ million)</b>			
- Global Equities	22,407	19,443	12,088
- Infrastructure Equities	4,383	4,070	2,607

# Funds Under Management Capacity

[6]

- Current theoretical capacity of the Global Equity and Infrastructure strategies is US\$50 billion<sup>1</sup>
  - Global Equities US\$40 billion
  - Infrastructure US\$10 billion
- Theoretical capacity is not static and should be approximately indexed to changes in world equity markets over time.

For example<sup>2</sup>: if world equity markets increased by 7% p.a. over the next 5 years, our theoretical capacity should increase to approximately US\$70 billion.

<sup>1</sup> The capacity numbers are purely theoretical and should in no way be taken as a forecast or indication as to the level of funds under management that Magellan may have in the future.

<sup>2</sup> This example is for illustrative purposes only and should not be construed as a forecast.

# Employee Summary

[7]

	30 Sept 2014	30 June 2014	30 June 2013
<b>Investment</b>			
Professional	28	24	22
Administration	2	2	2
	<b>30</b>	<b>26</b>	<b>24</b>
<b>Distribution</b>			
Professional	17	15	14
Administration	2	3	1
	<b>19</b>	<b>18</b>	<b>15</b>
<b>Business Support &amp; Control</b>			
Professional	22	22	17
Administration	3	3	2
	<b>25</b>	<b>25</b>	<b>19</b>
<b>Total</b>	<b>74</b>	<b>69</b>	<b>58</b>

- Expect staff expense to increase 30-35% in 2014/15 financial year
- Plans to increase size of Investment team



# Retail Business

## FUM and Net Inflows

[8]

- Total Retail FUM is \$6.7 billion at 30 June 2014 (30 June 2013: \$4.5 billion)
- Total Net Retail Inflows for the year to 30 June 2014: \$2.1 billion (year to 30 June 2013 was \$1.8 billion)
- Average Monthly Retail Net Inflows:

Financial Year Ending	Magellan Global Fund <sup>1</sup> (\$million)	Total Retail (\$million)
2008	1.1	2.8
2009	4.1	6.8
2010	14.8	18.1
2011	32.0	37.0
2012	50.4	54.3
2013	140.8	148.5
2014	154.1	177.5

- Total Retail FUM is \$7.3 billion at 30 September 2014

<sup>1</sup> Includes Colonial First State Magellan Global Option from April 2011

# Retail Business

## New Funds Update

[9]

- Three new funds launched for Australian and New Zealand Investors on 1 July 2013
  - Magellan Global Fund (Hedged)
  - Magellan Infrastructure Fund (Unhedged) and
  - Magellan High Conviction Fund.
- Magellan High Conviction Fund
  - Unconstrained, highly concentrated, high quality global equity strategy
  - FUM at 30 June 2014 is \$129 million.



# Distribution Opportunities

[10]

Two new distribution channels:

- Bank/AMP aligned advice markets
  - Substantial progress over the last 3-6 months
  - Expect to gain traction in these channels over the coming year
- Self directed self managed superannuation
  - Working on an ASX listed version of the Magellan Global Fund

# Institutional Business

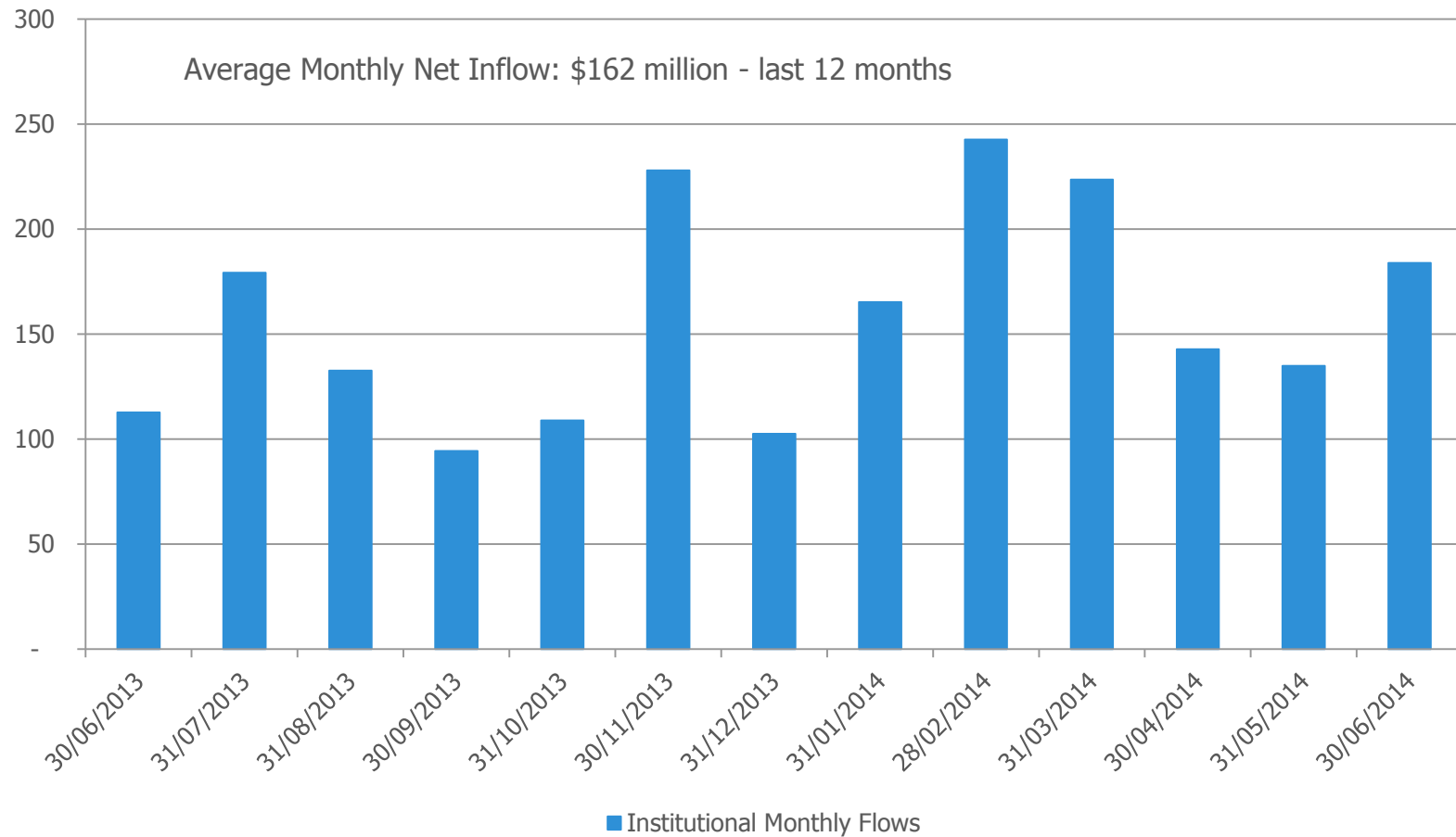
[11]

- Total institutional FUM is \$16.8 billion at 30 June 2014 (30 June 2013:\$10.1 billion)
  - Global equities \$13.2 billion
  - Infrastructure \$3.6 billion
- More than 80 institutional clients<sup>1</sup> at 30 June 2014
- Net inflows for the year ended 30 June 2014 is \$5.0 billion
- Total institutional FUM is \$19.5 billion at 30 Sept 2014
  - Global equities \$15.6 billion
  - Infrastructure \$3.9 billion

<sup>1</sup> The number of clients include separately managed accounts and institutional investors in local and offshore vehicles

# Institutional Business

## Regular Monthly Institutional Net Inflows - Global Equity<sup>1</sup>



<sup>1</sup> Separate accounts with regular monthly inflows which Includes St James's Place, Frontegra MFG Global Equity Fund (a US Mutual Fund), MFG Global Fund (UCITS) and 3 other undisclosed accounts. The flows excludes the first month during initial seeding.

# Update on Investment Performance

## Investment Performance for the period to 30 September 2014

	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)
<b>Magellan Global Fund (\$A)</b>	<b>16.7</b>	<b>24.1</b>	<b>16.6</b>	<b>10.2</b>
MSCI World NTR Index (\$A)	19.9	22.1	11.1	2.6
MSCI World Minimum Volatility NTR Index (\$A)	18.3	16.9	10.9	3.8
S&P 500 TR Index (\$A)	27.9	27.4	15.9	5.6
Dow Jones Industrials TR Index (\$A)	23.2	23.3	15.0	5.7

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

Source: MSCI, UBS, Bloomberg, Magellan Asset Management



# Update on Net Inflows

Net Inflows for the quarter ending 30 September 2014

[14]

\$million	Retail	Institutional	Total
July 2014	198	1,242	1,440
August 2014	133	52	185
September 2014	100	301	401
<b>Total</b>	<b>431</b>	<b>1,595</b>	<b>2,026</b>

1 Includes Colonial First State Magellan Global Option

# Principal Investments

[15]

- Principal Investments include investments in Magellan Funds, listed shares, a small number of unlisted investments and surplus cash after allowing for the Group's working capital requirements.
- Board set a pre-tax hurdle 10% p.a. (over business cycle) for the Principal Investments.

## Investment Returns:

Time Period	Return
1 Year to 30 June 2014	13.1%
3 Years to 30 June 2014 p.a.	23.3%
5 Years to 30 June 2014 p.a.	18.7%
1 July 2007 to 30 June 2014 p.a. <sup>1</sup>	8.5%
1 Jan 2007 to 30 June 2014 p.a.	5.0%

<sup>1</sup> Return excludes investment in Magellan Flagship Fund Ltd.



# Principal Investments (continued)

[16]

Investment (\$ million)	30 June 2014	30 June 2013
Cash	0.3	0.4
Magellan Unlisted Funds <sup>1</sup>	115.5	73.1
Listed shares	10.1	21.6
Listed subordinated bank notes	-	4.3
Other <sup>2</sup>	3.5	2.8
<b>Total</b>	<b>129.4</b>	<b>102.2</b>
Deferred tax liability <sup>3</sup>	(9.7)	(7.9)
Payables – outstanding settlements	-	(8.8)
<b>Net principal investments</b>	<b>119.7</b>	<b>85.5</b>
Net principal investments per share (cents) <sup>4</sup>	70.9	52.6

1. Magellan Unlisted Funds includes the Magellan Global Fund, Magellan Infrastructure Fund, Magellan Global Fund (Hedged), Magellan Infrastructure Fund (Unhedged), Magellan High Conviction Fund and the Frontegra MFG Funds.

2. Other comprises distributions receivable and unlisted funds and shares.

3. Deferred tax liability arising from changes in the fair value of financial assets and net capital losses carried forward.

4. Based on the aggregate of 158,842,157 ordinary shares on issue at 30 June 2014 and 10,119,516 ordinary shares being the ordinary shares into which the 10,200,000 Class B Shares would be entitled to convert at 30 June 2014. At 30 June 2013, it is based on 152,782,876 ordinary shares and 9,732,697 ordinary shares into which the 10,200,000 Class B Shares would have been entitled to convert at 30 June 2013

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