

21 September 2020

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

**MAGELLAN FINANCIAL GROUP LIMITED**  
**INFORMATION ABOUT 2020 AGM /REVISED ANNUAL REPORT**

Pursuant to ASX Listing Rule 3.17.1 please find attached a copy of the 2020 Annual Report which, on 18 September 2020, was mailed to those shareholders who elected to receive a printed copy.

Authorised by

Marcia Venegas | Company Secretary



# Annual Report

for the year ended 30 June 2020

MAGELLAN FINANCIAL GROUP LIMITED: ABN 59 108 437 592

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

		30 June 2020	30 June 2019	30 June 2018	30 June 2017	30 June 2016
<b>Group Results</b>						
Total Revenue	\$'000	693,952	617,387	452,598	338,268	333,805
Total Expenses	\$'000	178,874	124,050	181,988	82,141	74,104
Net Profit Before Tax	\$'000	515,078	493,337	270,610	256,127	259,701
Net Profit After Tax	\$'000	396,214	376,947	211,791	196,225	198,357
Adjusted Revenue <sup>(2)</sup>	\$'000	692,941	577,251	452,598	338,268	333,805
Adjusted Expenses <sup>(2)</sup>	\$'000	119,751	104,024	101,010	82,141	74,104
Adjusted Net Profit After Tax <sup>(2)</sup>	\$'000	438,299	364,225	268,897	196,225	198,357
Effective Tax Rate	%	23.1	23.6	21.7	23.4	23.6
<b>Funds Under Management<sup>(3)</sup></b>						
Average Funds Under Management	\$m	95,458	75,819	59,034	45,667	39,437
Closing Funds Under Management	\$m	97,184	86,718	69,509	50,597	40,495
Funds Under Management comprises:						
- Retail	\$m	26,769	23,216	19,182	15,159	12,041
- Institutional	\$m	70,415	63,502	50,327	35,438	28,454
Average Base Management Fee (per annum) <sup>(4)</sup>	bps	62	62	65	66	66
<b>Funds Management Business<sup>(2)</sup></b>						
Total Revenue	\$'000	674,811	561,326	428,705	329,188	315,268
Total Expenses	\$'000	116,799	101,537	97,275	80,908	71,483
Net Profit Before Tax	\$'000	558,012	459,789	331,430	248,280	243,785
Net Profit Before Tax and before performance fees <sup>(2)</sup>	\$'000	477,048	376,182	291,841	226,774	196,425
Employee Expenses/ Total Expenses	%	63.2	61.8	53.4	58.5	58.8
Cost to Income Ratio (expense/revenue)	%	17.3	18.1	22.7	24.6	22.7
Cost to Income Ratio (excluding performance fees)	%	19.7	21.3	25.0	26.3	26.5
<b>Assets</b>						
Total Assets	\$'000	1,123,873	800,291	674,943	493,981	392,379
Net Assets	\$'000	1,045,927	734,022	620,433	447,611	355,369
Net Tangible Assets Per Share	\$	5.08	3.44	2.92	2.60	2.07
<b>Shareholder Value</b>						
Basic Earnings Per Share	cents	218.3	213.1	122.0	116.9	123.5
Diluted Earnings Per Share	cents	218.3	213.1	122.0	114.1	115.5
Adjusted Basic and Diluted Earnings Per Share <sup>(2)</sup>	cents	241.5	205.9	154.9	114.1	115.5
Dividends Per Share	cents	214.9	185.2	134.5	85.6	89.3
Franking	%	75	75	100	100	100
<b>Other Information</b>						
Number of Employees		131	125	124	108	100
Average Number of Employees		128	125	116	104	96

(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 Comprehensive Income and Consolidated Statement of Financial Position extracts are derived from the published financial statements. This table includes non-IFRS information as defined in section 1.4.1 of the Directors' Report.

(2) Adjustments are made for strategic, non-cash or unrealised items to provide additional meaningful information (refer to section 1.4.1 of the Directors' Report and note 2(a) in the financial statements for the breakdown of these items).

(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.

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## Chairman's Report for the year ended 30 June 2020

Dear Investor,

I am delighted to write to you as a shareholder in Magellan Financial Group Limited ("Magellan"). The 2020 financial year has been a busy year for all of us at Magellan, not least due to market volatility experienced in the second half of the year due to COVID-19. Overall we believe Magellan's financial results for the year ended 30 June 2020 are more than satisfactory:

- Magellan's reported net profit after tax increased by 5% to \$396.2 million. Excluding amortisation relating to the acquisitions of Airlie Funds Management and Frontier Partners, the unrealised 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 20% to \$438.3 million.
- Total dividends (interim, final and performance fee dividends) increased by 16% to 214.9 cents per share.
- Net profit before tax and before performance fees for the Funds Management Segment increased by 27% to \$477.0 million. Including performance fees, net profit before tax for the Funds Management Segment increased by 21% to \$558.0 million.

I encourage you to read the CEO report by Brett Cairns which provides a comprehensive review of our 2019/20 financial results.

COVID-19 has brought considerable uncertainty and market volatility. I am proud of the results that our Investment team and investment process have produced in these times. Downside protection is a key component of our investment objectives and something that we discuss with our clients in depth. We continue to manage our portfolios to protect capital of investors.

I am also proud of how our business and people have adapted during the second half of the year. We seamlessly moved to work-from-home arrangements and, whilst our employees have faced various challenges including full time home-schooling and turning a dining room into an office (and back again) each day, it is a testament to the quality of the people we employ that we got on with the job of servicing our clients seamlessly.

Our team has been very busy on the business development front this year with the launch of various initiatives and new fund products which we believe will add considerable value and increase the resilience of our business over time. Importantly, each of these initiatives are client driven. Our objectives are to simplify the way funds can be accessed, meet unmet client needs and to offer partnership benefits.

During the year we completed the initial public offering of the Magellan High Conviction Trust, our second closed-end listed investment trust, which raised \$862 million. Consistent with our partnership approach, Magellan paid for the additional bonus units which were issued to investors who participated in the offering.

In addition, we continue to think deeply about how we can reduce friction and improve access to our investment strategies for our clients. In June 2020 we were pleased to announce the quotation of the Airlie Australian Share Fund on the ASX. This innovation is an extension of our Active ETFs and brings together unlisted funds and Active ETFs into a single unit and a single fund. This fund structure provides investors with greater flexibility and choice as to how can they enter and exit a managed fund depending on their personal preferences, whilst eliminating the need for two separate funds. We believe this is a significant event in the funds management industry as it will open a pathway for managers to make their existing unlisted funds available on the stock exchange.

We have been on a journey over the past five years to simplify and improve the efficiency of how investors can access fund management products in Australia. In 2015 we launched Active ETFs to enable investors to access our funds simply on the stock exchange. In 2017 we launched a closed-ended Listed Investment Trust which enabled us to demonstrate the power of partnership benefits via funding attractive bonus units and an ongoing discounted distribution reinvestment plan. Most recently, we established the next generation of Active ETFs with the launch of the Airlie Australian Share Fund with a single unit that acts as both a listed fund and an unlisted fund. On 3 August 2020 we announced the final step of this journey with a restructure proposal to simplify Magellan's Global Equities retail product offering via a consolidation of the unlisted opened-ended Magellan Global Fund, the listed

opened-ended Magellan Global Equities Fund ("MGE") and the listed closed-ended Magellan Global Trust ("MGG") into a single fund with two unit classes – an open-ended class and closed-ended class. At current unit prices, the merged Magellan Global Fund will have a total value of around \$15 billion (excluding a proposed capital raising) and will be the largest managed fund listed on the ASX.

The restructure offers investors a simplified investment proposition with multiple choices in how they access Magellan's flagship Global Equities fund depending on their preferences. Importantly, Magellan believes that combining open and closed-ended unit classes under a single unified trust should improve secondary market trading in the closed-ended units.

As an initial valuable partnership benefit, it is intended that the merged trust will undertake a capital raising and bonus option issue post implementation of the merger. The proposed capital raising will offer all Magellan Global Fund, Magellan Global Trust and Magellan Global Equities Fund unitholders a valuable 1 for 4 entitlement to subscribe for units in the closed-ended class and receive additional closed-ended units worth 7.5% of their subscription early next year. The merged trust will also issue 3 year bonus options to subscribe for closed-ended units at a 7.5% discount to NAV at the time of exercise. It is intended to apply to list the options on the ASX. Importantly, Magellan will fund these partnership benefits, compensating the trust for the discounts offered under the capital raising and on exercise of the options.

As I've previously written to shareholders, the partnership approach is a win-win outcome for investors in our funds and our shareholders. Partnership benefits increase investor engagement, promote loyalty and can attract more investors over time and generate substantial shareholder value. We view the cost to Magellan to fund these partnership benefits as investments in the future of the business. Importantly, the Board excludes these expenses from profits when determining the appropriate level of dividends.

Further information about the restructure and proposed capital raising will be available to investors in due course.

Today we announced a number of new product launches.

The first is the launch of the MFG Core Series for retail investors. This initiative has been under development for a number of years and is consistent with our approach to product development to think deeply about solving problems for our clients and leveraging our core competencies to address their needs. The MFG Core Series utilises our research process and aims to offer clients who are seeking lower cost alternatives an attractive investment proposition that leverages Magellan's expertise. The MFG Core Series (comprising three funds: MFG Core International Fund, MFG Core ESG Fund and MFG Core Infrastructure Fund) will offer investors more diversified portfolios of high quality companies based on Magellan's investment philosophy and proprietary research that will be actively constructed and managed systematically. The Core Infrastructure strategy has a very successful institutional track record, has substantial funds under management and has been available to institutional investors for the past decade. The MFG Core Series will be priced at a management fee of 0.50% which we believe will appeal to investors who are wanting attractive lower cost investment funds. We intend to launch the MFG Core Series as Active ETFs by the end of the year. This is a large and growing space and we believe that could become a material part of Magellan's funds under management over time.

The second is the launch, by the end of the year, of the Magellan Global Sustainable strategy as an Active ETF. The Global Sustainable strategy has now established a three year track record and we are seeing considerable interest in sustainable investing from advisers and retail investors.

We continue to make progress on our retirement income product for the Australian market and we look forward to being able to share more details with you shortly.

Thank you for your ongoing support of Magellan.

Yours sincerely



**Hamish M Douglass**  
Chairman

12 August 2020

# MAGELLAN FINANCIAL GROUP LIMITED

## Chief Executive Officer's Annual Letter for the year ended 30 June 2020

Dear Shareholder,

I am delighted to present this report for Magellan Financial Group Limited ("the Group" or "Magellan") for the year ended 30 June 2020.

### OVERVIEW OF MAGELLAN

For those who might be new to Magellan this section provides a brief overview of the business. For those who are more familiar with Magellan's business, please feel free to skip to the section "Overview of Results", which provides a detailed discussion of results for the period. This year, before reviewing the results, we also discuss the impact of the COVID-19 pandemic.

Magellan is a specialist fund manager that has four core investment strategies – Global Equities, Global Listed Infrastructure, Sustainable and Australian Equities (via Airlie Funds Management). We manage these strategies on behalf of retail investors in Australia and New Zealand and institutional investors located around the world.

The Group's Funds Management segment is our core business and is the driver of the Group's revenues, profitability and, therefore, dividends paid to shareholders.

The primary component of the Group's revenues is the management fees that we earn on the investment strategies we manage for our clients. Management fees are based on funds under management ("FUM") and thus management fee revenue will be driven by the Group's FUM. Changes in FUM itself are driven primarily by investment performance and also by client inflows, outflows and distributions. From time to time we may also earn performance fees if our funds and mandates achieve certain performance hurdles. Performance fees are lumpy and do not occur evenly from period to period.

Our clients, of course, have a choice as to who manages their money, and so it is crucial we focus on them and achieving the investment outcomes we aim to deliver. We have invested significantly in our investment team, developed key systems and processes and built scalable operations and risk management frameworks, all aimed to deliver for our clients.

We have also developed a strong distribution team to work with our clients and their advisers. Our distribution team prides itself on building long standing relationships and delivering high standards of communication and insightful events.

As a fund manager, our business is heavy in human capital. Although not noted in our balance sheet, people are our most valuable asset and, as our profit and loss statement show, they are also our largest expense (apart from payments for tax). Payments to employees make up roughly 60% of our adjusted operating expense base. Given the nature of our business, we believe it is very important to foster a culture amongst our team where everyone is encouraged to think and act like owners of the business. We are pleased our voluntary employee share purchase plan has resulted in approximately 70% of employees being Magellan shareholders.

The remaining 40% of adjusted operating expenses include such things as marketing and distribution costs, funds administration costs including custody and registry, information technology expenses, legal and professional fees, rent and so on. About half of these expenses are variable in nature with some moving in line with changes in FUM (and therefore revenue) and others being a function of the number of investors and their activity (statement communications for example). The other half of these non-employee related costs result from the day-to-day running of the business, such as office tenancies and information technology expenses which tend to be fixed in nature.

We have focused on developing the business to ensure scalability as the business grows and currently our core cost-to-income ratio is 19.7% (excluding the positive impact of performance fees).

Although our business is relatively capital light, we do believe it is essential to maintain a strong balance sheet and accordingly Magellan had \$925.4 million of net tangible assets as at 30 June 2020. Our liabilities comprise of day-to-day payables and provisions for employee entitlements and tax, together with lease liabilities for our offices. We have no borrowings although for funding flexibility, we do maintain an undrawn corporate debt facility. We believe a strong balance sheet that can withstand almost any market condition is important for our clients as well as shareholders, as has been demonstrated during these recent uncertain times.

A meaningful portion of the Group's capital is invested in our strategies alongside our clients via our Principal Investments portfolio. This is shown in our accounts under the Principal Investment business segment. Through the Principal Investments we invest in our funds (for example the Magellan Global Fund) including seeding new strategies and initiatives. The Group earns revenue from these investments through distributions from the funds and, if these investments grow over time, we may realise a capital gain (or capital loss, if these investments decline over time). It is important to note that these earnings may fluctuate significantly from period to period and while growing, are not a core driver of the business.

Accounting standards require us to include both realised and unrealised gains/losses in the Group's reported earnings. Given the size of our Principal Investments this brings some unwanted noise into our reported earnings at various times and as such we will endeavour to be clear in our discussions and financial accounts as to what portion of our earnings are derived from the core business and what is the result of investment gains or losses, some of which may not yet be realised.

As at 30 June 2020 the Group has net assets of \$1,045.9 million, of which \$120.6 million is classified as intangible. These intangible assets arose following the purchases of Airlie Funds Management ("Airlie") and Frontier Group ("Frontier") and comprise values attributed to customer relationships and goodwill.

Accounting standards dictate that some intangible assets (like customer relationships) are treated as having finite useful lives while others (such as goodwill) are deemed to have indefinite useful lives.

The values of those intangible assets with fixed lives are required to be amortised (i.e. written-off) typically in equal yearly amounts over their life, with that amortisation amount being accounted for as an expense against earnings in each year. Goodwill, on the other hand, has no fixed useful life and therefore is subject to a yearly impairment test, with any recognised impairment also being accounted for as an expense against earnings in that year.

It is important to note that while these amortisation and impairment expenses (if any) reduce our reported earnings, they are not cash items. Furthermore, in the case of customer relationships, the amortisation over set periods implicitly assumes customers leave by those times and are not replaced, an assumption from a management point of view we would expect not to be the case.

Therefore, when reviewing our financial statements and results we believe it is important to consider several different measures to gain an overall understanding of the business and its performance.

Firstly, an analysis of our statutory reported earnings is clearly important, but when doing so it is also important to be mindful of the inherent assumptions and assorted items which are included in that measure.

As such, secondly, we also think a metric whereby we make adjustments to exclude specific items provides additional meaningful information about the performance of the business, particularly in comparative analysis. Such adjustments include adding back non-cash items such as amortisation, because we consider departing clients would be replaced, and removing unrealised gain/losses, because they are unrealised. We also adjust for items that relate to transaction costs of strategic initiatives. For example the offer costs we incurred as part of the initial public offerings ("IPO") of our two closed-ended funds, the Magellan Global Trust (ASX: MGG) and the Magellan High Conviction Trust (ASX: MHH); and funding of the discounts offered on any Unit Purchase Plans ("UPP") and Distribution Reinvestment Plans ("DRP") in the closed-ended funds that may have occurred in a period.

Thirdly, as our business consists of a dominant Funds Management segment and a portfolio of Principal Investments, each should be considered separately. Our Principal Investments portfolio can be considered by assessing its value per share, whilst the Funds Management segment can be reviewed by considering the net profit before tax of that segment, both with and without performance fees (due to their lumpy nature).

We discuss each of these measures in the analysis below.

Finally, a word on tax. Our effective tax rate is below the company tax rate (currently 30%) because Magellan has the benefit of being declared an Offshore Banking Unit ("OBU"). The benefit of an OBU is that assessable offshore income, net of costs, is taxed at a concessional rate of 10%. Our assessable domestic income is still taxed at the company tax rate and so our actual overall tax rate will depend on the mix of our offshore and onshore businesses. Currently our effective tax rate is 23.1%.

The remainder of this report discusses the business in more detail, the impact on the Group of the COVID-19 pandemic and the Group's financial results for the year ended 30 June 2020.

## **VIRUS**

To say the world has changed in an almost unimaginable way since our half year report in February 2020, is probably itself a gross understatement. The speed, breadth and outright nasty nature of the COVID-19 pandemic has highlighted many, many things, none the least of which is just how vulnerable the world now is to the network effect of such an efficient disease.

Whilst Magellan's business has thankfully not been at the front line of the virus' impact, we are still very mindful of the impact it has had on those with whom we interact: our investors and their advisers, our staff, colleagues, friends, and all their families.

Hamish's recent note to investors (which can be found on our website if you missed it) homed in on understanding the limits of our knowledge when it comes to thinking things through in relation to the pandemic – known unknowns.

We know that second and third order (and beyond) effects – those knock-on effects and their knock-on effects – are important, but we also know it is difficult to predict what might occur amongst the many possible interactions. We know we don't really know.

The best we can do in this environment is deal with what we can control and be prepared for what we cannot. In this sense, we want to act prudently and where possible, be clear to reduce uncertainty and anxiety. Further, in considering our position, we should also not lose sight that these environments often present business opportunities.

We made it clear to our team at the outset that there would be no staff reductions as a result of the pandemic. As noted above, we have long believed a strong balance sheet that can withstand almost any market condition is an important factor for our clients and therefore shareholders. Having a strong balance sheet has allowed us to be clear with our team, which in turn has allowed them to focus on our clients and the business without the additional worry of their (and their families') own livelihoods.

This has been important. Notwithstanding the disruption of uprooting our office surroundings in favour of working from home, our team has remained focussed. Our investment team assessed the many and varied risks posed by the pandemic with the clear intent of protecting investors and made suitable portfolio adjustments. The results for our clients have been positive and meaningful. Across the overall business, likewise all involved have continued to be driven and very productive.

It has been evident through this period that our team do indeed think and act like business owners – something we believe to be of the upmost importance. In this context, we also asked our staff to understand the need for the business to be prudent as we elected this year to freeze salaries and generally pull back on bonuses. For some senior members of our team this has meant meaningful bonus reductions. Hamish and I have waived our bonus entitlements in full this year and the Board has also waived a scheduled fee increase.

In balancing the need for prudence with the impact on our team, we have also been aware that some households have lost an income and generally circumstances are difficult. As such we elected this year not to defer any bonus payments and to bring forward all previous earned bonus deferrals (excluding those payable to Hamish) to help the household cash flow.

These are uneasy times and I want to thank everyone for the contributions they have made to this year's results, which are discussed in detail below.

## **OVERVIEW OF RESULTS**

During the year, the Group saw a 26% growth in average FUM over the previous corresponding period, to \$95.5 billion (average FUM of \$75.8 billion for the year ended 30 June 2019). We are pleased with this outcome, particularly given the severe market volatility seen around the world driven by the COVID-19 pandemic. This could not have been achieved without the performance of our investment strategies which exhibited the strong downside protection traits that are a key component of our investment objectives.

For the year ended 30 June 2020, the Group reported net profit after tax of \$396.2 million, which represents an increase of 5% over the previous corresponding period (\$376.9 million for the year ended 30 June 2019).

Adjusted for non-cash and unrealised items and costs relating to strategic initiatives, the Group's net profit after tax increased by 20% to \$438.3 million for the year ended 30 June 2020 (\$364.2 million for the year ended 30 June 2019). Adjusted financial measures for the year are adjusted for non-cash amortisation expense of \$4.7 million, unrealised capital gains (net of a realised financial liability relating to strategic initiatives – see Note 16 in the Financial Statements) from the Principal Investments segment of \$0.7 million (net of tax) and costs related to strategic initiatives of \$38.1 million (net of tax), which primarily relate to the IPO of the Magellan High Conviction Trust ("MHH") in October 2019. Adjusted earnings per share increased by 17% to 241.5 cents per share (205.9 cents per share for the year ended 30 June 2019). The slight decline in percentage increase on a per share basis reflects the increased number of shares on issue primarily as a result of the share placement in August 2019.

In the period, the Group earned crystallised performance fees before tax of \$81.0 million. As we have discussed previously, it is important to note performance fees can, and usually do, vary significantly from period to period. Whilst this does not detract from their value, it can distort near term comparative analysis.

We therefore draw shareholders' attention to the change in profit before tax and performance fees of our Funds Management business. This increased 27% to \$477.0 million for the year ended 30 June 2020 (\$376.2 million for the year ended 30 June 2019), slightly ahead of the 26% increase in average FUM over the period.

Earnings before tax from Principal Investments totalled \$15.5 million, of which \$14.6 million came from distributions, \$7.1 million attributed to unrealised capital gains, offset by \$5.7 million from realised capital losses and a \$0.2 million net foreign exchange loss. Earnings from distributions and realised capital gains/losses are included in other revenue in the table on the next page.

The Directors have declared total dividends of 214.9 cents per share for the year ended 30 June 2020. This is an increase of 16% over the 2019 financial year. In respect of the six months to 30 June 2020, the Directors have declared a total dividend of 122.0 cents per share, franked at 75% (111.4 cents per share, 75% franked, in 2019) which will be paid on 26 August 2020. The dividend comprises:

- A Final Dividend of 91.6 cents per share; and
- A Performance Fee Dividend of 30.4 cents per share.

The Company's 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. Net profit after tax of the Funds Management business excludes amortisation of intangibles and costs related to strategic initiatives. 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. Any Performance Fee Dividend will be paid annually alongside the Final Dividend. The payment of dividends by the Group will be subject to corporate, legal and regulatory considerations.

As we have previously noted, dividends are likely to be less than 100% franked due to the combination of our payout ratio and our below 30% tax rate. Although the Board has a policy of paying out franking credits to the maximum extent possible over time, the level of franking attached to dividends may vary from period to period.

The following table summarises the Group's profitability over the past two financial years<sup>(1)</sup>:

	30 June 2020 \$'000	30 June 2019 \$'000	Change %
Management and services fees	591,641	472,486	25%
Performance fees	80,964	83,631	(3%)
Other revenue	20,336	21,134	(4%)
<b>Adjusted Revenue</b>	<b>692,941</b>	<b>577,251</b>	<b>20%</b>
Adjusted expenses	(119,751)	(104,024)	15%
<b>Adjusted net profit before tax</b>	<b>573,190</b>	<b>473,227</b>	<b>21%</b>
Adjusted tax expense	(134,891)	(109,002)	24%
<b>Adjusted net profit after tax</b>	<b>438,299</b>	<b>364,225</b>	<b>20%</b>
Transaction costs related to strategic initiatives (after tax) <sup>(2)</sup>	(38,104)	(10,856)	n/m
Amortisation expense of intangible assets	(4,689)	(4,518)	n/m
Net unrealised change in fair value of financial assets and liabilities (after tax) <sup>(3)</sup>	708	28,095	n/m
<b>Total non-IFRS adjustments</b>	<b>(42,085)</b>	<b>12,722</b>	<b>n/m</b>
<b>Profit after tax</b>	<b>396,214</b>	<b>376,947</b>	<b>5%</b>
<b>Key Statistics</b>			
Diluted earnings per share (cents per share)	218.3	213.1	2%
Adjusted diluted earnings per share (cents per share)	241.5	205.9	17%
<b>Dividends</b>			
Interim and Final Dividends (cents per share)	184.5	151.8	22%
Annual Performance Fee Dividend (cents per share)	30.4	33.4	(9%)
Total Dividends (cents per share)	214.9	185.2	16%

## FUNDS MANAGEMENT SEGMENT

For the year ended 30 June 2020, the Group's Funds Management segment profit before tax increased by 21% to \$558.0 million (\$459.8 million for the year ended 30 June 2019). Excluding performance fees, profit before tax grew by 27% to \$477.0 million<sup>(4)</sup> (\$376.2 million for the year ended 30 June 2019). The following table summarises the profitability of the Funds Management business over the past two financial years:

	30 June 2020 \$'000	30 June 2019 \$'000	Change %
<b>Revenue</b>			
Management fees	587,246	467,786	26%
Performance fees	80,964	83,631	(3%)
Services fees	4,395	4,700	(6%)
Interest and other income	2,206	5,209	(58%)
	<b>674,811</b>	<b>561,326</b>	<b>20%</b>
<b>Expenses</b>			
Employee expense	73,781	62,770	18%
Fund administration and operational costs	18,820	15,976	18%
Marketing expense	4,929	3,382	46%
Other expense	19,269	19,409	(1%)
	<b>116,799</b>	<b>101,537</b>	<b>15%</b>
<b>Profit before tax expense</b>	<b>558,012</b>	<b>459,789</b>	<b>21%</b>
<b>Profit before tax and before performance fees<sup>(4)</sup></b>	<b>477,048</b>	<b>376,182</b>	<b>27%</b>
<b>Key Statistics</b>			
Average funds under management (\$ million)	95,458	75,819	26%
Average AUD/USD exchange rate	0.6716	0.7155	(6%)
Average number of employees	128	125	2%
Employee expenses / total expenses	63.2%	61.8%	
Cost / income	17.3%	18.1%	
Cost / income, excl. performance fees	19.7%	21.3%	

(1) Adjusted financial measures are adjusted for non-cash items (amortisation expense and unrealised gains/losses) and transaction costs related to strategic initiatives. A reconciliation to the reported profit and loss statement is outlined in Section 1.4 of the Directors' Report.

(2) Includes net transaction costs relating to the MHH IPO, and DRP discount funding costs for MGG and MHH for the year ended 30 June.

(3) Net of a realised financial liability relating to strategic initiatives – see Note 16 in the Financial Statements.

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

## Revenues

The key driver of revenue is FUM and this is discussed in detail in the next section. Revenues for the year ended 30 June 2020 increased by 20% to \$674.8 million over the period. This was driven by a 26% increase in total management fee revenue as a result of a 26% increase in average FUM over the period attributable to strong investment performance and net inflows.

Over the year, average Retail FUM increased by 27% and average Institutional FUM increased by 26%. The average annualised Base Management fee for the year was 0.62%, unchanged from 2019.

Performance fees before tax for the year totalled \$81.0 million compared with \$83.6 million in the prior corresponding period. Performance fees can, and very often do, vary significantly from period to period.

As a result of the acquisition of Frontier, the Group also now receives revenues relating to Frontier's third-party fund manager distribution business (excluding Magellan) which has been included in other revenue.

## Expenses

In considering the operating expenses of the Funds Management segment we exclude costs relating to strategic initiatives, for instance the IPOs of our closed-ended funds, the Magellan Global Trust (ASX: MGG) in October 2017 and the Magellan High Conviction Trust (ASX: MHH) in October 2019, and funding of the discounts offered on UPPs and DRPs in these two funds.

We view these amounts as investments in building FUM and underpinning our long-term partnership approach, rather than contributing to day-to-day operating expenses.

Overall, the Funds Management business operated efficiently with a cost to income ratio (excluding performance fees) of 19.7% compared with 21.3% for the year ended 30 June 2019.

Expenses increased by 15% to \$116.8 million over the previous corresponding period (in line with our expectations that Fund Management segment expenses would be in the range \$115-\$120 million).

As noted above, given current uncertainties, we have elected to freeze salaries, pull back on current year bonus payments and bring forward previously earned, but deferred, bonus payments to this year. These changes have been reflected in this year's recorded expenses. We expect next year's Funds Management segment expenses to be in the range \$110-\$115 million, reflecting amongst other things, generally lower costs related to items such as travel and the effect of bringing forward bonus deferrals.

Ultimately the level of our expenses for the year will depend on a number of market related variables such as foreign exchange rates, FUM levels and unitholder activity. Although we pay close attention to our costs and have a cost conscious culture, our current cost to income ratio of 19.7% means incremental changes in expenses will not be a material driver of profitability. For example, a \$5 million increase in our expenses has roughly the same impact on profits as would an annualised revenue reduction resulting from a 0.85% decline in our FUM (something which can happen from day to day merely due to market movements).

The following table sets out total employee numbers:

	30 June 2020	30 June 2019
<b>Investment</b>		
- Portfolio Managers/Analysts	31	29
- Dealers	3	3
	34	32
<b>Distribution &amp; Marketing</b>	34	31
<b>Other (including Finance, Risk &amp; Compliance, Admin)</b>	44	41
<b>Frontier</b>	11	12
<b>Airlie</b>	8	9
<b>Total</b>	<b>131</b>	<b>125</b>
Average number of employees	128	125

As at 30 June 2020, the Group had 131 employees. We are pleased with the talent employed across the business and the bench strength of the management team. We expect future increases in employee numbers resulting from organic growth to be modest, reflecting scalability. Such increases are unlikely to occur evenly from one year to the next as the various areas of our business reach resource constraints at different points in time as we grow.

## Funds Under Management

As at 30 June 2020, the Group had FUM of \$97.2 billion, split between global equities (77%), infrastructure equities (16%) and Australian equities (7%). This compares with FUM of \$86.7 billion at 30 June 2019. The increase in FUM was driven by investment performance of approximately \$5.4 billion and net inflows of \$5.7 billion less cash distributions (net of reinvestment) of approximately \$0.7 billion. As we have previously noted, given the size of the Group's FUM, investment performance is the key driver of FUM movement.

The following table sets out the composition of FUM:

\$billion	30 June 2020	30 June 2019	30 June 2018
Retail	26.8	23.2	19.2
Institutional	70.4	63.5	50.3
<b>Total FUM</b>	<b>97.2</b>	<b>86.7</b>	<b>69.5</b>
Retail (%)	28%	27%	28%
Institutional (%)	72%	73%	72%
FUM subject to Performance Fees (%)	34%	33%	34%
Breakdown of FUM (\$billion)			
- Global Equities	74.3	64.0	52.7
- Global Listed Infrastructure	15.9	15.2	10.3
- Australian Equities	7.0	7.5	6.5
Average Base Management fee (bps) per annum excluding Performance Fees <sup>(5)</sup>	62	62	65

### Retail FUM

The Group's retail business is focused on retail investors in Australia and New Zealand who we target through two key channels: broker advised and financial advisers, and self-directed retail investors.

At 30 June 2020, the Group had total retail FUM of \$26.8 billion. We experienced total net retail inflows of \$2.9 billion for the 12 months to 30 June 2020 (including the proceeds of the MHH IPO), compared with \$1.5 billion for the previous financial year.

The Group experienced average monthly retail net inflows of approximately \$169 million over the 12 months to 30 June 2020 (excluding the proceeds of the MHH IPO), compared with \$121 million over the previous corresponding period.

We were very pleased with the support from both existing and new investors for the IPO of MHH, which raised \$862 million. In line with our partnership approach, Magellan funded all the costs associated with the raising including the Loyalty Units and IPO Foundation Units that were offered to investors as part of the IPO. Net costs relating to the offer totalled \$53.4 million for the period (see Note 16 in the Financial Statements). As previously noted, we view these costs as investments in building FUM and underpinning our long-term partnership approach, and as such exclude them from the Funds Management segment when calculating shareholder dividends.

During the period, we were pleased to make the Airlie Australia Share Fund available on the ASX. Importantly, this is not a new fund or a new class of units. Rather, the existing units of the unquoted fund are now available for purchase or sale on the ASX, along with the existing application and redemption processes directly with the Responsible Entity. This effectively represents the convergence of listed and unlisted open-ended funds into a single entity and single unit and we believe brings significant simplification and other benefits to our clients as well as Magellan.

We now have four Active ETFs quoted on an exchange with total FUM of \$2.6 billion as at 30 June 2020, with over 42,000 direct unitholders. Over the past year we have welcomed, on average, 55 new unitholders every day into our Active ETFs. During the period we also saw greater flows into our fully currency hedged products as the Australian dollar fell.

Along with the continued growth in our retail business, we remain extremely focused on those clients and their advisers for whom we already manage money. Our highly experienced retail Distribution team is dedicated to providing value to our existing relationships and aims to support and partner with our adviser network by delivering clear and relevant information in a timely manner.

A key component of this was our 2020 Investor Evenings which occurred in February and March 2020. Magellan's Chairman and Chief Investment Officer, Hamish Douglass, visited seven cities in Australia and New Zealand and presented to approximately 10,000 people, providing an update on global markets and investments. Magellan paid for the full cost of these events with 100% of the monies raised from ticket sales going to three very deserving charities – REACH, Rural Aid and Fly High Billie. We were delighted to help raise over \$450,000 across all the events for these truly worthwhile organisations.

<sup>(5)</sup> 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.

The following table sets out the investment performance of the Magellan Global Fund, the Magellan Infrastructure Fund, the Magellan High Conviction Fund and the Airlie Australian Share Fund since their inceptions.

Investment Performance for the period to 30 June 2020 <sup>(6)</sup>		1 Year	3 Years	5 Years	Since Inception <sup>(7)</sup>
		%	% p.a.	% p.a.	% p.a.
<b>Magellan Global Fund</b>		<b>9.0</b>	<b>15.3</b>	<b>12.0</b>	<b>12.0</b>
MSCI World NTR Index (\$A)		4.8	10.6	9.3	6.3
<b>Magellan Infrastructure Fund</b>		<b>-8.9</b>	<b>4.3</b>	<b>7.7</b>	<b>7.6</b>
Global Listed Infrastructure Benchmark (\$A) <sup>(8)</sup>		-16.2	-1.4	2.6	4.2
<b>Magellan High Conviction Fund</b>		<b>6.1</b>	<b>12.6</b>	<b>11.2</b>	<b>14.7</b>
<b>Airlie Australian Share Fund</b>		<b>1.6</b>	<b>-</b>	<b>-</b>	<b>4.6</b>
S&P/ASX 200 Accum. Index		-7.7	-	-	3.0

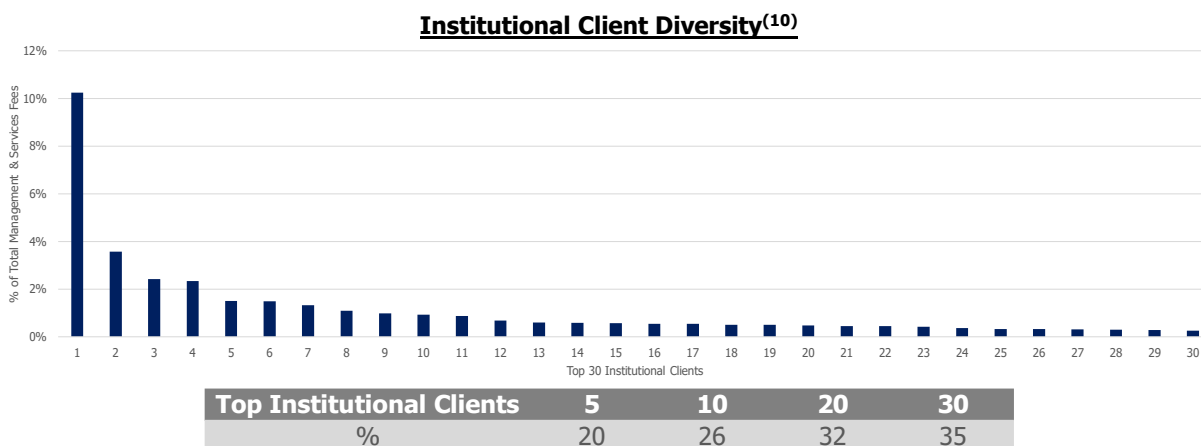
Overall, we are pleased with the performance achieved to date, particularly given recent market conditions.

#### Institutional FUM

At 30 June 2020, the Group had total institutional FUM of \$70.4 billion from around 140 clients<sup>(9)</sup>. During the 12 months to 30 June 2020, we experienced institutional net inflows of \$2.8 billion, which compares with net inflows of \$2.9 billion for the previous financial year.

Although our institutional clients are located around the world, the Group seeks to implement a targeted approach to institutional distribution and therefore most of our institutional clients are based in North America, the UK and Australia/NZ. In February 2018, the Group acquired our North American distribution partner, Frontier. We view North America as a key market for our institutional distribution activities and we are delighted to have Bill Forsyth, Frontier's founder and Chairman, leading this activity.

We view our institutional business as well diversified by client. The following table and chart set out the percentage of management and services fees revenue generated by the top 30 institutional clients and highlights only four clients individually represent more than 2% of total management and services fees revenue.



On 31 December 2017 we closed our core global equities strategies managed by Hamish to new institutional investors<sup>(11)</sup>. We do, however, expect to see continued inflows from existing institutional clients that have reserved capacity.

Our global listed infrastructure strategies continue to see interest from institutional investors, and we believe Magellan is well positioned to grow in this space given our unique approach to defining infrastructure and the consistent long-term investment outperformance the team has achieved. We believe the theoretical capacity of our global listed infrastructure strategies is approximately US\$16-17 billion. At 30 June 2020 the Group's infrastructure FUM was US\$11.0 billion.

(6) 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). Annualised performance is denoted with "p.a." for the relevant period.

(7) Inception date for the Magellan Global Fund and Magellan Infrastructure Fund is 1 July 2007, the inception date for Magellan High Conviction Fund is 1 July 2013 and the inception date for the Airlie Australian Share Fund is 1 June 2018.

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

(9) The number of clients includes separately managed accounts and institutional investors in local and offshore vehicles.

(10) Management and services fees for the 12 months to 30 June 2020 for separately managed accounts and institutional investors in local and offshore vehicles. Excludes Performance fees.

(11) U.S. mutual fund will remain open with some allocated capacity.

We are also pleased with the development of our next generation of global equities strategies, the Sustainable strategies. Our Deputy CIO Dom Giuliano manages the Global Sustainable strategy, and our US Sustainable strategy is managed by Alan Pullen. Both strategies have recently passed their three year anniversaries.

We believe both these strategies are well positioned on the back of solid track records and a thoughtful, differentiated sustainable investment approach. We estimate the theoretical capacity of the Sustainable strategies is approximately US\$20 billion. Good performance coupled with increasing track record length has led to favourable discussions with potential investors and recent commitments which we expect to be funded by the end of the calendar year.

## PRINCIPAL INVESTMENTS

The Group's Principal Investments is a sub-set of the Group's balance sheet and is invested in Magellan funds, listed shares and a small number of unlisted investments. At 30 June 2020, the Group had net Principal Investments of \$373.7 million, compared with \$323.1 million at 30 June 2019.

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 portfolio.

The Group's Principal Investments portfolio has returned pre-tax 6.5%, 13.6% and 11.4% per annum over the last 1, 3 and 5 years to 30 June 2020 respectively. Excluding the effect of the Group's previous investment in MFF Capital Investments Limited, disposed of by way of an in-specie distribution to shareholders in February 2013, the portfolio returned pre-tax 10.9% 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 2020.

### The Group's Principal Investments

\$million	30 June 2020	30 June 2019
Cash	1.4	4.6
Magellan Unlisted Funds <sup>(12)</sup>	258.3	213.4
Listed shares/funds <sup>(13)</sup>	137.8	125.7
Other <sup>(14)</sup>	7.4	3.8
<b>Total</b>	<b>404.9</b>	<b>347.5</b>
Deferred tax liability <sup>(15)</sup>	(31.2)	(24.4)
<b>Net Principal Investments</b>	<b>373.7</b>	<b>323.1</b>
<b>Net Principal Investments per share (cents)<sup>(16)</sup></b>	<b>205.0</b>	<b>182.5</b>

## CAPITAL MANAGEMENT

As at 30 June 2020, the Group's financial position included:

- investment assets (cash and cash equivalents and financial assets) of \$836.0 million (30 June 2019: \$539.3 million). The Group's cash position at 30 June 2020 was \$437.5 million and current receivables were \$136.4 million. Dividends of \$222.4 million are due to be paid to shareholders on 26 August 2020;
- net assets of \$1,045.9 million (30 June 2019: \$734.0 million) which includes \$120.6 million of intangible assets following the acquisitions of Airlie and Frontier;
- net tangible assets per share of \$5.08 (30 June 2019: \$3.44); and
- total liabilities of \$77.9 million which relate predominantly to payables, provisions and lease liabilities. The Group has no debt but has access to an undrawn debt facility.

Although our business is capital light, we continually think about the use of capital balancing the following needs:

- maintaining a strong balance sheet in proportion to the scale of our business to ensure the continued support of our clients, which has proved particularly important in these times of uncertainty;
- ensuring flexibility for growth whether that be through new fund launches or strategic opportunities; and
- delivering capital efficiency, solid dividends and attractive returns for shareholders.

(12) Magellan Unlisted Funds as outlined in Note 12 of the Financial Statements.

(13) Listed shares/funds include seed portfolios and Magellan's listed funds (as outlined in Note 12 of the Financial Statements) excluding receivables/payables (refer to footnote 14).

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

(15) Net deferred tax liability arising from changes in the fair value of financial assets offset by the deferred tax asset relating to the unused tax loss arising on issuance of loyalty units to unitholders under the Magellan Global Trust priority offer.

(16) Based on the aggregate of 182,280,222 ordinary shares on issue at 30 June 2020 (at 30 June 2019, it is based on 177,087,458 ordinary shares)

## OTHER

There has been much work put into developing a range of initiatives over the past few years, some of which are now coming to fruition. Most notably these are:

### *Restructure of Global Equities retail funds*

On 3 August 2020 we announced the restructure of three of our retail funds into a single trust with two unit classes, one open-ended and the other closed-ended. If implemented, the restructure will consolidate the progress Magellan has made over a number of years to provide retail investors with a more efficient investment experience coupled with greater access and choice – firstly with the launch of Active ETFs in 2015, then with partnership benefits within closed-ended funds in 2017 and most recently, the next generation of Active ETFs in 2020.

We believe the consolidation of these funds into a single trust with an open-ended unit class and a closed-ended unit class is another positive step for investors. We have long recognised and understood that some investors prefer the characteristics and outcomes of investing in open-ended funds whereas others prefer closed-ended structures for the different characteristics and outcomes that they bring. However, each of these structures has also had its own inefficiencies and drawbacks – for example, open-ended structures have largely been confined to the unlisted space with the associated burden of the application and redemption process, and closed-ended investors have historically had to fund establishment costs and importantly also deal with the prospect of large and persistent trading price discounts to net asset value.

By building on the changes we have already made, we believe bringing both open and closed-ended units together into a single trust should provide investors with valuable efficiencies. In particular, establishing open and closed-ended unit classes over the same investment portfolio should help create an improved trading environment for the closed-ended unit class given the removal of any “basis risk” between the two securities.

We are excited by this development and look forward to discussing this further during the implementation process.

### *Retirement Income*

The expected pre 30 June 2020 launch of our retirement income solution has unfortunately been delayed by the pandemic (yet another knock-on effect). Notwithstanding COVID-19 we have made further progress, securing an important and necessary private binding tax ruling from the ATO. We continue to work with the remaining regulators with a view to launching the product once all necessary approvals have been obtained.

### *MFG Core Series*

Today we announced the development of the MFG Core Series for retail investors – a series of diversified investment strategies that build upon the investment processes of our Investment team. The MFG Core Series will initially comprise three funds: MFG Core International Fund, MFG Core ESG Fund, and MFG Core Infrastructure Fund. We plan to make each of these open-ended funds available as an Active ETF, accessible via the Chi-X exchange and by direct application, by the end of the year.

The MFG Core Series has been under development for several years and extends the successful approach that has been applied by our Core Infrastructure fund (and mandates) for institutional clients over the past 10 years. This approach actively constructs diversified portfolios of high-quality companies leveraging Magellan’s research, and manages them using a proprietary process.

The MFG Core Series will be offered at a management fee of 0.5% p.a. We believe it provides an attractive lower cost investment alternative for those wishing to gain an expose to Magellan’s research and investment expertise but are not necessarily seeking our full actively managed portfolio services.

### *Magellan Sustainable Fund*

We are on track to make our Global Sustainable strategy, managed by Dom Giuliano, available to retail investors via an Active ETF by the end of the year.

Finally, we continue to assess and work on a number of different opportunities and proposals with the view to strengthening and diversifying Magellan’s business over time.

## CLOSING REMARKS

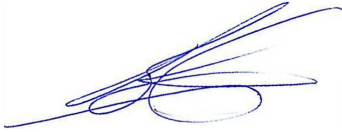
These are truly uncomfortable times given what is unfolding here and around the world. It is uncomfortable in part because of the broad uncertainty that exists. The ease in which we can construct various scenarios as to the future of the virus, the economy and markets, is unfortunately not matched by the confidence we have in handicapping the likelihood of their occurrence. This is not a time to throw caution into the wind.

Despite this uneasy reality, Magellan’s business is well positioned, and we do not intend to stand still. Being cautious does not necessarily equate to inaction, particularly given it is in difficult times where many opportunities are born.

The strength of our position is in no short measure due to our team. There is a clear passion for the firm that runs through Magellan's business and this dedication and focus is fundamental to our clients' outcomes and thus shareholder returns.

Thank you again to our entire team and thanks also to Hamish and the Board for their support during another interesting year.

Yours faithfully,

A handwritten signature in blue ink, consisting of several overlapping loops and a long horizontal stroke extending to the left.

**Brett Cairns**  
CEO

12 August 2020

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT for the year ended 30 June 2020

The Directors of Magellan Financial Group Limited (the "Company" or "MFG") present 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 2020.

### 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 2020, dividends amounting to \$366,614,000 were paid representing 204.3 cents per ordinary share (June 2019: \$289,281,000 representing 163.8 cents per ordinary share).

On 12 August 2020, the Directors declared a total dividend of 122.0 cents per ordinary share (75% franked) in respect of the six months to 30 June 2020 (June 2019: 111.4 cents per ordinary share 75% franked). The dividend payments comprise a Final Dividend of 91.6 cents per ordinary share and a Performance Fee Dividend of 30.4 cents per share (June 2019: Final Dividend of 78.0 cents per ordinary share and a Performance Fee Dividend of 33.4 cents per ordinary share). The amount of the Final and Performance Fee Dividend expected to be paid on 26 August 2020, but not recognised as a liability as at 30 June 2020, is approximately \$222,382,000 (June 2019: \$197,275,000).

The Company's 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. Net profit after tax of the funds management business excludes amortisation of intangibles and costs related to strategic initiatives. In addition to the Interim and Final Dividends, the Directors will pay an annual Performance Fee Dividend of 90% to 95% of net crystallised performance fees after tax. Any Performance Fee Dividend will be paid annually alongside the Final Dividend. The payment of dividends by the Group will be subject to corporate, legal and regulatory considerations.

### 1.4 Review of Financial Results and Operations

#### 1.4.1 Reconciliation of Net Profit After Tax to Adjusted Net Profit After Tax

The Group's net profit after tax ("Statutory net profit") and earnings per share are prepared in accordance with Australian Accounting Standards. The Group also reports a number of non-IFRS (International Financial Reporting Standards) financial measures including 'adjusted revenue', 'adjusted net profit after tax' and 'adjusted basic and diluted EPS' which are shown below. Refer to section 1.4.2 for further details on non-IFRS financial measures.

The Group's statutory net profit after tax for the year ended 30 June 2020 was \$396,214,000 up \$19,267,000 on the prior year. The Group's adjusted net profit after tax was \$438,299,000 (June 2019: \$364,225,000) which excludes various non-IFRS adjustments as shown on the following page.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT for the year ended 30 June 2020

### 1. Operations and Activities (continued)

#### 1.4 Review of Financial Results and Operations (continued)

##### 1.4.1 Reconciliation of Net Profit After Tax to Adjusted Net Profit After Tax (continued)

	30 June 2020		30 June 2019	
	Statutory	Non-IFRS	Statutory	Non-IFRS
	\$'000	\$'000	\$'000	\$'000
Management and services fees	591,641	591,641	472,486	472,486
Performance fees	80,964	80,964	83,631	83,631
Other revenue	21,347	21,347	61,270	61,270
<b>Total revenue</b>	<b>693,952</b>	693,952	<b>617,387</b>	617,387
Adjust for: net unrealised change in fair value of financial assets and liabilities		(7,091)		(40,136)
Adjust for: realised change in fair value of financial liabilities <sup>(A)</sup>		6,080		-
<b>Adjusted revenue</b>		692,941		577,251
<b>Total expenses</b>	<b>(178,874)</b>	(178,874)	<b>(124,050)</b>	(124,050)
Adjust for: costs related to strategic initiatives <sup>(B)</sup>		54,434		15,508
Adjust for: amortisation of intangible assets		4,689		4,518
<b>Adjusted expenses</b>		(119,751)		(104,024)
<b>Income tax expense</b>	<b>(118,864)</b>	(118,864)	<b>(116,390)</b>	(116,390)
Tax expense on above adjustments		(16,027)		7,388
<b>Adjusted income tax expense</b>		(134,891)		(109,002)
<b>Net Profit after income tax expense for the year</b>	<b>396,214</b>		<b>376,947</b>	
<b>Adjusted Net Profit after income tax expense for the year</b>		438,299		364,225
<b>Basic and diluted earnings per share</b>	218.3		213.1	
<b>Adjusted basic and diluted earnings per share</b>		241.5		205.9

(A) This is a cost related to the MHH IPO strategic initiative and relates to an additional amount paid for the Loyalty Units and IPO Foundation Units as a result of the increase in the net asset value of MHH units from the date of the IPO up to allotment date, 15 January 2020 (refer to note 16 for further details).

(B) Includes Initial Public Offering ("IPO") costs for Magellan High Conviction Trust ("MHH") and Dividend Reinvestment Plan ("DRP") discount funding costs for MHH and Magellan Global Trust ("MGG") for year ended 30 June 2020.

#### Impact of COVID-19 on Financial Results

The impacts arising from the COVID-19 pandemic on the financial results of the Group are discussed within the Chief Executive Officer's ("CEO") Annual Letter and note 1(c) of the financial statements. The Group's Adjusted Net Profit after income tax expense for the year ended 30 June 2020 shown in the table above has not been adjusted for any COVID-19 impacts.

#### 1.4.2 Non-IFRS Financial Measures

Non-IFRS financial measures are measures that are not defined or specified under IFRS. The Directors believe non-IFRS financial measures assist in providing additional meaningful information about the performance of the business and period-to-period comparability by adjusting for strategic, non-cash or unrealised items which affect the Group's statutory financial results.

Non-IFRS financial measures should be viewed in addition to, and not as a substitute for, the Group's statutory results. These measures may also differ from non-IFRS measures used by other companies.

The Group's non-IFRS financial measures are presented with reference to the Australian Securities & Investments Commission (ASIC) Regulatory Guide 230 *Disclosing non-IFRS financial information*, issued in December 2011. Non-IFRS financial measures are not subject to audit or review.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT for the year ended 30 June 2020

### 1. Operations and Activities (continued)

#### 1.4.3 Statement of Financial Position

The Group is in a strong financial position and at 30 June 2020 reported:

- Investment assets (including cash and cash equivalents and financial assets) of \$835,950,000 (June 2019: \$539,281,000) and shareholders' funds of \$1,045,927,000 (June 2019: \$734,022,000); and
- NTA per share of \$5.08 (June 2019: \$3.44).

Refer to the CEO's Annual Letter on page 5 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 CEO's Annual Letter.

#### 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 7 August 2020, the Group reported to the ASX that its funds under management was \$98.5 billion as at 31 July 2020.

On 3 August 2020, the Group announced a restructure proposal to simplify MAM's Global Equities retail product offering. The restructure is proposed to occur via a consolidation of the unlisted opened-ended Magellan Global Fund, the listed opened-ended Magellan Global Equities Fund and the listed closed-ended Magellan Global Trust into a single fund with two unit classes – an Open Class and a Closed Class. The units of the merged trust – the Magellan Global Fund – are intended to be quoted on the ASX.

Post completion of the restructure, the enlarged Magellan Global Fund intends to undertake a one-for-four entitlement offer to its unitholders to subscribe for new Closed Class Units with an attached bonus three-year option. Unitholders will have the ability to subscribe for new Closed Class Units under the entitlement offer at the prevailing NAV per Unit and receive a valuable partnership benefit in the form of additional Closed Class Units worth 7.5% of the value of their subscription. Applicants who are allotted new Closed Class Units will also receive one option for each new Closed Class Unit issued under the entitlement offer with each option exercisable into one Closed Class Unit at an exercise price set at a 7.5% discount to the prevailing NAV per Unit at the time of exercise.

In addition to the entitlement offer above, Magellan Global Fund also proposes to issue a bonus option to Closed Class unitholders in Magellan Global Fund on the basis of one option for every two Closed Class Units held, with each option exercisable into one Closed Class Unit at an exercise price set at a 7.5% discount to the prevailing NAV per Unit at the time of exercise.

MFG will pay the full costs of implementing the restructure and compensate the Magellan Global Fund for the partnership benefits being offered under the entitlement offer and upon exercise of any options. MFG intends to fund the cost of the restructure and any partnership benefits from existing financial resources (including an undrawn corporate debt facility). It is anticipated that MFG will generate an attractive financial return from funding these partnership benefits.

Other than the items above and the dividends disclosed in respect of the six months ended 30 June 2020 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.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT for the year ended 30 June 2020

### 2. Directors and Officers

#### 2.1 Directors

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

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

#### 2.2 Secretary

Marcia Venegas was Company Secretary during the year and up to the date of this report.

#### 2.3 Information on Directors and Officers

##### Hamish Douglass

Chairman 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.

##### Brett Cairns

Chief Executive Officer

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.

##### 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 co-founded 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 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.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT for the year ended 30 June 2020

### 2. Directors and Officers (continued)

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

##### **Robert Fraser**

Non-Executive Director, Chairman of the Audit & Risk Committee and member of the Remuneration & Nominations Committee, Chairman of Magellan Asset Management Limited (Responsible Entity and main operating subsidiary of Magellan Financial Group Limited)

Robert is a company director and corporate adviser with over 30 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 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), F.F.I. Holdings Limited (since October 2011) and MFF Capital Investments Limited (since May 2019).

##### **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, and was awarded an MBE in June 2018.

##### **Hamish McLennan**

Deputy Chairman, 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, and Chairman of HT&E Limited (appointed 30 October 2018), an Australian media and entertainment company. Hamish is also a Non-Executive Director of the tech firm Claim Central Consolidated (since January 2020) and was elected Chairman of Rugby Australia in June 2020. 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.

##### **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 Omni Bridgeway Ltd (since August 2017), Non-Executive Director of ARB Corporation Limited (since June 2019) 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.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT for the year ended 30 June 2020

### 2. Directors and Officers (continued)

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

##### **Marcia Venegas**

Company Secretary, Chief Risk Officer and Head of Risk, Compliance and Legal

Marcia was appointed Company Secretary of the Company on 20 March 2019. Marcia has been the Chief Risk Officer of MFG since November 2015. Prior to MFG, Marcia was Chief Compliance Officer at Platinum Asset Management in Sydney and held senior roles including Chief Compliance Officer at Dodge & Cox in the US. Marcia brings more than 20 years' experience in the financial services industry in Australia and the US, during which time she has been responsible for national and international regulatory requirements, the development and maintenance of governance, risk and compliance frameworks, licensing, proxy voting, training and liaising with regulators, auditors and clients. Marcia holds a Bachelor of Arts from the University of Wollongong.

#### 2.4 Directors' Meetings

The number of meetings of the Board and Board Committees, held during the year ended 30 June 2020 and the number of those meetings attended by each Director are set out below:

	Board		Audit & Risk Committee		Remuneration & Nominations Committee	
	Held	Attended	Held	Attended	Held	Attended
	while a Director		while a member		while a member	
B Cairns	7	7	-	-	-	-
H Douglass	7	7	-	-	-	-
J Eales	7	7	8	8	2	2
R Fraser	7	7	8	8	2	2
P Lewis	7	7	8	8	2	2
H McLennan	7	7	8	8	2	2
K Phin	7	7	8	8	2	2

#### 2.5 Directors' Interests

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 2020

### 3. 2020 Remuneration Report (Audited)

This Remuneration Report outlines the remuneration arrangements for the Key Management Personnel ("KMP") of the Group for the year ended 30 June 2020. 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 2020 financial year, the KMP for the Group included the Chairman and Chief Investment Officer ("CIO"), the CEO, the Non-Executive Directors and the Group's 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>		
Hamish Douglass	Chairman & CIO	Full Year
Brett Cairns	CEO	Full Year
<b>Group Executives (Other KMP)</b>		
Kirsten Morton	Chief Financial Officer	Full Year
Marcia Venegas	Head of Risk, Compliance and Legal/Company Secretary	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 and act 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 usually 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.

#### Variable remuneration

The Board believes variable incentives should be aimed at areas where employees have a direct influence over the business and the outcomes that are aligned to the best interests of the Group's 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.

With the exception of the Chairman & CIO 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.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT for the year ended 30 June 2020

### 3. 2020 Remuneration Report (Audited) (continued)

The Chairman & CIO's variable incentive is capped at 200% 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 Chairman & CIO'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 Lead 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 again 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 employee's 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 interest in the Group and, unlike many option and performance share plans, participants are required to pay for the shares. 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 8(a) to the financial statements.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT for the year ended 30 June 2020

### 3. 2020 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 Board's remuneration policy is designed to attract and retain appropriately experienced, skilled and qualified personnel in order to achieve the Group's objectives. 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 MAM for the year ended 30 June 2020. Non-Executive Directors' fees increased 3% in the year ended 30 June 2020. No increase will apply for the 2021 financial year.

	Position	Fees (\$)
<b>Magellan Asset Management Limited</b>	Chairman	25,750
<b>Board (Group)</b>	Non-Executive Director	72,100
<b>Audit &amp; Risk Committee</b>	Chairman	25,750
	Member	10,300
<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 \$876 (June 2019: \$731).

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 Executive Directors and Other KMP remuneration structures for the 2020 financial year.

	Fixed remuneration (incl. of superannuation)	Variable remuneration	SPP participation
Hamish Douglass	\$2,500,000	Up to 200% of fixed remuneration 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 22.2 million shares which provide a material alignment with shareholders
Brett Cairns	\$1,545,000	Up to 50% of fixed remuneration based on performance metrics set by the Board	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 2020

### 3. 2020 Remuneration Report (Audited) (continued)

#### Impact of COVID-19 on 2020 remuneration outcomes

The COVID-19 pandemic has brought a significant amount of market volatility in the second half of the 2020 financial year driven by material business, social and economic disruption. Magellan is in a relatively strong position due to its strong balance sheet and a focus on downside protection within its investment strategies. However, Magellan recognises the importance of being financially prudent in these times of uncertainty and therefore has made a number of changes to its remuneration outcomes for the 2020 financial year as outlined below.

In this context, as a general rule, there will be no increases to fixed remuneration for the 2021 financial year, including Non-Executive Directors fees. As part of the business' efforts for prudence, Magellan's Chairman & CIO and CEO have both waived their entitlement to their variable remuneration in 2020 and the discretionary variable remuneration outcomes for all other employees in 2020 have been reduced. To balance the impact on employees in the current environment where some households have lost income, Magellan has decided to bring forward the payment of all unpaid conditional deferred cash bonus amounts into 2020 (excluding any conditional deferred cash bonus amounts payable to the Chairman & CIO which will continued to be paid on a deferred basis). Further, no variable remuneration for 2020 will be subject to a deferral component.

These amendments in the 2020 financial year are one-off and do not reflect ongoing changes to Magellan's remuneration framework or philosophy.

#### Mr Douglass' remuneration structure

Mr Douglass is Magellan's co-founder, Chairman, CIO and Lead Portfolio Manager of Magellan's Global Equities strategies. The Board believes it is important for Mr Douglass' remuneration to be tied to the performance of the investment strategies under his control. Mr Douglass is responsible for managing \$74 billion of funds under management (as at 30 June 2020). Focusing on client outcomes and achieving Magellan's investment objectives will ultimately be in shareholders' interests.

Mr Douglass' remuneration took effect from 1 July 2018 for a minimum of three years. Mr Douglass' remuneration is subject to a maximum total annual remuneration cap of \$7,500,000 over this period, of which \$2,500,000 (inclusive of superannuation) is fixed and \$5,000,000 is variable.

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 upfront. Instead payment is deferred over the subsequent three financial years which is consistent with the medium term focus of Mr Douglass' variable remuneration arrangements.

In addition, Mr Douglass' substantial shareholding in the Group, along with his investments in the Group's investment strategies, creates strong alignment with clients and shareholders.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT for the year ended 30 June 2020

### 3. 2020 Remuneration Report (Audited) (continued)

The Board, in consultation with Mr Douglass, determined the performance metrics and underlying quantitative measures that apply for the relevant period for Mr Douglass' variable remuneration. For the year ending 30 June 2020, the metrics were:

Performance Metrics	Weighting	Percentage Paid/Performance Measures	2020 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 achieved 100% of this component in 2020, 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 achieved 100% of this component in 2020, based on absolute performance of 12.78% 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 achieved 100% of this component in 2020, based on gross investment performance of 12.78% p.a. against Benchmark Index of 6.70% 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 achieved 100% of this component in 2020, based on Down Market Capture of 65.21%
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.

In respect of the year ended 30 June 2020, Mr Douglass was entitled to total variable incentive of \$5,000,000 (June 2019: \$5,000,000). Mr Douglass has waived this entitlement in full and will be paid no variable incentive for the year ended 2020.

#### Dr Cairns' remuneration structure

Dr Cairns' fixed remuneration (inclusive of superannuation) for the year ended 30 June 2020 was \$1,545,000 (2019: \$1,500,000).

Dr Cairns is eligible to receive variable remuneration of up to 50% of fixed remuneration based on performance metrics the Board believes are important to the long term success of the business and over which Dr Cairns has direct influence. The Remuneration and Nominations Committee will determine the amount to be awarded on an annual basis with regard to the determined performance metrics. The Board will, in consultation with Dr Cairns, review the performance metrics that will apply, and their respective weightings, from 1 July each year.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT for the year ended 30 June 2020

### 3. 2020 Remuneration Report (Audited) (continued)

In considering the appropriate structure for Dr Cairns' remuneration as CEO, the Board believes it is important for incentives to be aligned to the Group's strategy and aimed at areas where Dr Cairns has a direct influence over the outcome. As previously outlined to shareholders, the key driver of creating shareholder value is servicing and retaining the Group's existing clients and the funds the Group already manages on behalf of clients by achieving our stated investment objectives. Over time, shareholder value can also be created by additional earnings growth via net new client business either via flows into existing products or via the launch of new products.

As CEO, Dr Cairns is not responsible for managing client money and, therefore, the Board believes it would be inappropriate for incentives to be based on investment performance. Dr Cairns is responsible for ensuring the Group operates to the highest standards and to ensure operational areas that underpin the Group's reputation and confidence of clients in the Group such as compliance, cybersecurity and fund operations are managed appropriately. Further, the Group's employees are key to the success of the Group and achievement of the Group's strategy and the ability to foster and retain key talent and protect the Group's cultural values is a priority for the business. Dr Cairns is also integral to a number of strategic projects under development that if successful, could create significant shareholder value. For the year ended 30 June 2020, the Board determined the four performance metrics were: Delivery of Key Strategic Projects, Leadership, People and Culture, Compliance, Governance and Cybersecurity and Operational Effectiveness.

The below table provides an overview of key achievements and business outcomes delivered by Dr Cairns that were considered when determining his variable remuneration for the year.

Performance Metric	2020 Achievements
<b>Delivery of Key Strategic Projects</b>	<ul style="list-style-type: none"><li>• Listing of Magellan High Conviction Trust in October 2019, with Loyalty and IPO Foundation Units part of the Group's partnership approach with its clients</li><li>• Quotation of the Airlie Australian Share Fund, bringing together the features of an unlisted fund and Active ETF into a single unit in a single fund</li><li>• Significant contribution into the design and development of strategic initiatives</li><li>• Significant progress made in relation to the Group's retirement income initiative</li></ul>
<b>Leadership, People and Culture</b>	<ul style="list-style-type: none"><li>• Leading cohesive senior executive team</li><li>• No regretted departures across the Group</li><li>• Executed seamless work-from-home transition in March 2020 across the Group</li></ul>
<b>Compliance, Governance and Cybersecurity</b>	<ul style="list-style-type: none"><li>• Continued evaluation and improvement of risk management framework, including extending the framework to satisfactorily cover businesses acquired by the Group</li><li>• No significant regulatory issues identified or unresolved during the year</li><li>• Security of Group's IT network maintained</li></ul>
<b>Operational Effectiveness</b>	<ul style="list-style-type: none"><li>• Completed operational integration across acquired businesses</li><li>• Group continued to operate efficiently with cost to income ratio (excluding performance fees) of the Funds Management Business of 19.7% for the year ended 30 June 2020</li></ul>

In respect of the year ended 30 June 2020, the Remuneration and Nominations Committee awarded Dr Cairns a variable incentive of \$772,500 (50% of fixed remuneration). Dr Cairns has waived this entitlement in full and will be paid no variable incentive in 2020.

Had a variable component been paid, the after tax amount would be credited toward repayment of the loan associated with the recent allocation of shares to Dr Cairns under the SPP plan.

#### 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.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT for the year ended 30 June 2020

### 3. 2020 Remuneration Report (Audited) (continued)

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 remuneration of Other KMP 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. In the 2020 financial year, there was no conditional deferred cash bonus component of the variable remuneration due to the impact of COVID-19.

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

#### Summary of 2020 variable remuneration outcomes

##### (a) Variable remuneration outcomes for 2020

The tables below outline the variable remuneration outcomes (as a % of fixed remuneration) for Executive Directors and Other KMP for the 2020 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.

These outcomes reflect the reduction in variable remuneration outcomes due to the impact of COVID-19. For Other KMPs, variable remuneration outcomes have also been capped for the 2020 financial year.

KMP	Variable remuneration outcome	Comments
Hamish Douglass	0% <i>Waived entitlement</i>	<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 2020, Mr Douglass was awarded a variable incentive of 200% of fixed remuneration</li> <li>Mr Douglass has waived his entitlement to variable remuneration in 2020</li> </ul>
Brett Cairns	0% <i>Waived entitlement</i>	<ul style="list-style-type: none"> <li>Based on performance metrics relating to the long term success of the business and over which Dr Cairns has direct influence outlined in section 3.3, Dr Cairns was awarded variable remuneration of 50% of fixed remuneration</li> <li>Dr Cairns has waived his entitlement to variable remuneration in 2020</li> </ul>
Kirsten Morton	65%	<ul style="list-style-type: none"> <li>Maintained focus in meeting the Group's financial, tax and related risk management, regulatory and compliance obligations including for acquired operations and strategic initiatives during the year</li> <li>Expanded coverage and capabilities of operations in FY20 to support Magellan High Conviction Trust and future strategic initiatives</li> <li>Cost and time savings delivered through streamlining integrated operations, removal of unnecessary legal structures and registry services review</li> <li>Well progressed on rationalisation initiative with Magellan's acquired US business to deliver risk and compliance efficiencies</li> </ul>
Marcia Venegas	51%	<ul style="list-style-type: none"> <li>Continue enhancement of the Group's Risk Management Framework including investment in key risk systems in FY20 to ensure the Group's risk function is delivered efficiently and effectively</li> <li>Provided risk and compliance advice on strategic initiatives and new products</li> <li>Ensured Magellan's compliance obligations were upheld during the transition to work-from-home</li> </ul>
Craig Wright	57%	<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 High Conviction Trust which raised \$862 million, the restructure underway to simplify Magellan's Global Equities retail funds offering and other products currently under development such as the MFG Core Series, Magellan Sustainable Fund the retirement income product</li> <li>Overseeing the Group's IT infrastructure &amp; security and Business continuity planning and delivery of a seamless transition to a whole of firm work-from-home pandemic state</li> <li>Overseeing Magellan's involvement in the Group's UCITS investment company based in Ireland and co-mingled private fund in respect of the High Conviction investment strategy to make that strategy available to institutional investors globally</li> </ul>

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT for the year ended 30 June 2020

### 3. 2020 Remuneration Report (Audited) (continued)

#### Summary of 2020 variable remuneration outcomes (continued)

(b) Split between cash and conditional deferred cash bonus components of 2020 variable remuneration

The below table provides a summary of variable remuneration outcomes for Executive Directors and Other KMP for the years ended 30 June 2020 and 30 June 2019. 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. In 2020, no awarded variable remuneration is subject to a deferral period.

		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</b>						
Hamish Douglass <sup>(C)</sup>	2020	-	-	-	2,500,000	0%
	2019	-	5,000,000	5,000,000	2,500,000	200%
Brett Cairns <sup>(C)(D)</sup>	2020	-	-	-	1,545,000	0%
	2019	-	-	-	1,500,000	0%
<b>Group Executives (Other KMP)</b>						
Kirsten Morton	2020	308,228	-	308,228	477,400	65%
	2019	312,462	127,863	440,325	463,500	95%
Marcia Venegas	2020	216,300	-	216,300	425,000	51%
	2019	227,100	81,900	309,000	386,250	80%
Craig Wright	2020	243,338	-	243,338	425,000	57%
	2019	252,207	95,418	347,625	386,250	90%
<b>Total KMP</b>						
	<b>2020</b>	<b>767,866</b>	<b>-</b>	<b>767,866</b>	<b>5,372,400</b>	
	<b>2019</b>	<b>791,769</b>	<b>5,305,181</b>	<b>6,096,950</b>	<b>5,236,000</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. In the 2020 financial year, no component of the awarded variable remuneration was deferred due to COVID-19.

<sup>(C)</sup> Mr Douglass and Dr Cairns waived 100% of their awarded bonus for the 2020 financial year due to COVID-19.

<sup>(D)</sup> Dr Cairns was not entitled to any variable incentive in 2019.

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 2020 is nil (June 2019: \$12,643,169 and payable over the years ended 30 June 2020, 30 June 2021 and 30 June 2022). Refer to note 10(a) in the financial statements for the cumulative total of conditional deferred cash bonuses unpaid at 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 2020

### 3. 2020 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					Leave Benefits				Total
		Salary	Cash Bonus (A)	Conditional Deferred Cash Bonus paid (B)	Brought Forward Deferred Cash Bonus (C)	Super- annuation	Total Cash Remuneration (D)	Short term (E)	Long term (E)	Other Benefits (F)	Statutory Remuneration (G)
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Non-Executive Directors</b>											
John Eales	2020	75,251	-	-	-	7,149	82,400	-	-	33,598	115,998
	2019	73,059	-	-	-	6,941	80,000	-	-	21,970	101,970
Robert Fraser	2020	118,238	-	-	-	5,362	123,600	-	-	17,435	141,035
	2019	88,339	-	-	-	8,392	96,731	-	-	17,363	114,094
Paul Lewis	2020	82,400	-	-	-	-	82,400	-	-	-	82,400
	2019	80,000	-	-	-	-	80,000	-	-	-	80,000
Hamish McLennan	2020	75,251	-	-	-	7,149	82,400	-	-	29,857	112,257
	2019	73,059	-	-	-	6,941	80,000	-	-	19,171	99,171
Karen Phin	2020	75,251	-	-	-	7,149	82,400	-	-	14,384	96,784
	2019	73,059	-	-	-	6,941	80,000	-	-	14,324	94,324
<b>Executive Directors</b>											
Hamish Douglass	2020	2,478,997	-	3,500,473	-	21,003	6,000,473	41,329	-	-	6,041,802
	2019	2,479,469	-	1,981,291	-	20,531	4,481,291	(127,063)	-	-	4,354,228
Brett Cairns	2020	1,523,997	-	-	-	21,003	1,545,000	19,121	139,687	91,294	1,795,102
	2019	1,479,469	-	-	-	20,531	1,500,000	(1,911)	-	-	1,498,089
<b>Group Executives (Other KMP)</b>											
Kirsten Morton	2020	456,397	308,228	152,151	143,742	21,003	1,081,521	2,298	8,988	1,549	1,094,356
	2019	442,969	312,462	155,250	-	20,531	931,212	(1,141)	8,486	1,981	940,538
Marcia Venegas	2020	403,997	216,300	89,738	87,788	21,003	818,826	(511)	-	1,344	819,659
	2019	365,719	227,100	62,438	-	20,531	675,788	(1,304)	-	110	674,594
Craig Wright	2020	403,997	243,338	116,724	110,862	21,003	895,924	5,811	10,128	5,331	917,194
	2019	365,719	252,207	84,918	-	20,531	723,375	5,763	32,254	2,858	764,250
<b>Total KMP</b>	<b>2020</b>	<b>5,693,776</b>	<b>767,866</b>	<b>3,859,086</b>	<b>342,392</b>	<b>131,824</b>	<b>10,794,944</b>	<b>68,048</b>	<b>158,803</b>	<b>194,792</b>	<b>11,216,587</b>
	<b>2019</b>	<b>5,520,861</b>	<b>791,769</b>	<b>2,283,897</b>	<b>-</b>	<b>131,871</b>	<b>8,728,398</b>	<b>(125,656)</b>	<b>40,739</b>	<b>77,777</b>	<b>8,721,258</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) The brought forward deferred cash bonus is the deferred cash bonuses due to be paid in future financial years that were brought forward as a result of changes to remuneration in 2020 due to COVID-19 and will be paid in cash after the release of the Group's 2020 annual results.

(D) The total represents the cash amounts that has or will be paid to the Group KMP during the year or after the release of the Group's annual results, as distinct from the accounting expense. As a result, it does not align to Australian Accounting Standards.

(E) Comprises annual leave and long service leave entitlements accrued but not taken during the year. Ms Morton's short-term entitlements also includes an amount of \$17,554 for annual leave paid out during the year ended 30 June 2020 (June 2019: \$17,038).

(F) 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.

(G) No non-monetary benefits or other short term benefits not otherwise disclosed above were paid during the years ended 30 June 2020 and 30 June 2019.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT for the year ended 30 June 2020

### 3. 2020 Remuneration Report (Audited) (continued)

#### 3.5 Employment Agreements

The Executive Directors and Other KMP are engaged under employment agreements with MAM, a controlled entity of the Group.

##### **Hamish Douglass**, Chairman and CIO

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 remuneration*

Mr Douglass is entitled to fixed and variable remuneration 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 22,212,727 ordinary shares (2019: 22,212,727 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**, CEO

The CEO 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 one month written notice 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 one month written notice. 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 2020

### 3. 2020 Remuneration Report (Audited) (continued)

#### 3.6 Shareholdings

The number of ordinary shares held during the year by each KMP is set out below:

	Opening balance 30 June 2018	Net Additions/ (disposals)	Closing balance 30 June 2019	Net Additions/ (disposals)	Closing balance 30 June 2020
<b>Non-Executive Directors</b>					
John Eales	77,616	-	77,616	-	77,616
Robert Fraser	599,109	-	599,109	-	599,109
Paul Lewis	1,500,000	-	1,500,000	-	1,500,000
Hamish McLennan	100,248	-	100,248	5,000	105,248
Karen Phin	89,312	-	89,312	-	89,312
<b>Executive Directors</b>					
Hamish Douglass	22,212,727	-	22,212,727	-	22,212,727
Brett Cairns	1,024,523	10,000	1,034,523	103,092	1,137,615
<b>Group Executives (Other KMP)</b>					
Kirsten Morton	18,896	-	18,896	-	18,896
Marcia Venegas	2,889	-	2,889	1,805	4,694
Craig Wright	18,896	-	18,896	-	18,896

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 2020

### 3. 2020 Remuneration Report (Audited) (continued)

#### 3.7 Unitholdings in Magellan Funds

The number of units held during the year by each KMP in funds managed by the Group, is set out below:

	Opening balance 30 June 2018	Additions/ (disposals) (A)	Closing balance 30 June 2019	Additions/ (disposals) (A)	Closing balance 30 June 2020
<b>Magellan Global Fund<sup>(B)</sup></b>					
Hamish Douglass	2,053,512	121,007	2,174,518	83,059	2,257,577
Paul Lewis	521,873	35,253	557,126	24,198	581,324
<b>Magellan Infrastructure Fund<sup>(C)</sup></b>					
Hamish Douglass	101,174	-	101,174	-	101,174
Paul Lewis	409,721	18,909	428,629	13,206	441,835
<b>Magellan High Conviction Fund<sup>(D)</sup></b>					
Hamish Douglass	1,872,239	1,469,078	3,341,317	40,783	3,382,101
Craig Wright	94,932	(56,237)	38,695	847	39,542
<b>Magellan Global Equities Fund</b>					
Hamish Douglass	637,671	55,816	693,487	319	693,806
Brett Cairns	41,250	1,228	42,478	1,240	43,718
Marcia Venegas	3,344	-	3,344	98	3,442
Craig Wright	7,574	(7,574)	-	-	-
<b>Magellan Global Equities Fund (Currency Hedged)</b>					
Hamish Douglass	519,488	353	519,841	277	520,118
Brett Cairns	10,178	394	10,572	309	10,881
<b>Magellan Infrastructure Fund (Currency Hedged)</b>					
Marcia Venegas	3,508	45	3,553	108	3,661
<b>Magellan Global Trust<sup>(E)</sup></b>					
Hamish Douglass	14,386,425	579,809	14,966,234	510,336	15,476,570
Brett Cairns	72,198	12,635	84,833	2,983	87,816
John Eales	217,598	66,701	284,299	9,995	294,294
Robert Fraser	174,283	16,664	190,947	6,713	197,660
Paul Lewis	92,198	12,635	104,833	2,638	107,471
Hamish McLennan	72,019	12,628	84,647	2,976	87,623
Karen Phin	72,198	12,635	84,833	2,983	87,816
Kirsten Morton	27,625	7,615	35,240	1,239	36,479
Marcia Venegas	10,830	427	11,257	396	11,653
Craig Wright	36,101	(36,101)	-	-	-
<b>Magellan High Conviction Trust<sup>(F)</sup></b>					
Hamish Douglass	-	-	-	14,294,964	14,294,964
Brett Cairns	-	-	-	181,594	181,594
John Eales	-	-	-	218,196	218,196
Robert Fraser	-	-	-	252,566	252,566
Paul Lewis	-	-	-	1,485,530	1,485,530
Hamish McLennan	-	-	-	36,319	36,319
Karen Phin	-	-	-	120,471	120,471
Kirsten Morton	-	-	-	21,791	21,791
Marcia Venegas	-	-	-	3,632	3,632
Craig Wright	-	-	-	72,638	72,638
<b>Airlie Australian Share Fund</b>					
Karen Phin	-	19,049	19,049	-	19,049
Brett Cairns	-	-	-	20,000	20,000

(A) Includes the reinvestment of June and December distributions in the years ended 30 June 2018 and 30 June 2019 respectively.

(B) In addition to the above holdings, Mr Douglass and Ms Morton selected the Magellan Global Fund product via their employer superannuation account and currently has holdings of 467,196 and 57,765 units at a value of \$1,072,963 and \$134,251 respectively as at 30 June 2020 (June 2019: 459,428 at a value of \$982,166 and nil respectively).

(C) In addition to the above holdings, Ms Morton selected the Magellan Infrastructure Fund product via her employer superannuation account and currently has holdings of 148,438 units at a value of \$161,426 as at 30 June 2020 (June 2019: nil).

(D) Includes Class A and Class B units of the Magellan High Conviction Fund.

(E) If KMP were eligible and participated in the Magellan Global Trust Unit Purchase Plan ("UPP") in the year ended 30 June 2019, additions include units issued under the UPP offer on 13 March 2019 at \$1.5327 per new unit. These units were issued on the same terms as other investors in the UPP offer.

(F) Includes Loyalty Units and IPO Foundation Units issued as part of the Magellan High Conviction Trust IPO on 15 January 2020. These units were issued on the same terms as other investors in the IPO.

Unless specified above, no other KMP held units in Magellan Funds.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT for the year ended 30 June 2020

### 3. 2020 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 2020, six KMP held a loan (June 2019: six). The terms and conditions of the loans, including repayment terms, are disclosed in note 8(a) of the financial statements. There are no other related party transactions with the KMP other than those disclosed.

			SPP Shares acquired during year	Opening Loan Balance	Loans made	Loans (repaid)	Closing Loan Balance	
			Number	\$	\$	\$	Face value <sup>(A)</sup>	Carrying value <sup>(A)</sup>
							\$	\$
<b>Directors</b>								
Brett Cairns <sup>(B)</sup>	2020	103,092	-	-	4,999,962	(95,772)	4,904,190	3,789,323
	2019	-	-	-	-	-	-	-
John Eales	2020	-	-	888,850	-	(109,002)	779,848	635,551
	2019	-	-	976,243	-	(87,394)	888,850	836,413
Robert Fraser	2020	-	-	552,195	-	(199,705)	352,490	333,105
	2019	-	-	712,311	-	(160,116)	552,195	546,585
Hamish McLennan	2020	-	-	812,044	-	(130,646)	681,398	583,350
	2019	-	-	916,791	-	(104,747)	812,044	779,054
Karen Phin	2020	-	-	455,562	-	(164,758)	290,804	274,812
	2019	-	-	587,659	-	(132,097)	455,562	450,851
<b>Group Executives (Other KMP)</b>								
Kirsten Morton	2020	-	-	42,963	-	(42,963)	-	-
	2019	-	-	110,305	-	(67,342)	42,963	42,869
Marcia Venegas	2020	1,305	-	-	49,975	(1,212)	48,763	44,381
	2019	-	-	25,056	-	(25,056)	-	-
Craig Wright	2020	-	-	64,593	-	(64,593)	-	-
	2019	-	-	126,470	-	(61,877)	64,593	64,000

<sup>(A)</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 8(a) of the financial statements)

<sup>(B)</sup> Following approval at the Company's 2019 AGM, the Company issued an SPP loan totalling \$5,000,000 to Dr Cairns on 14 November 2019 which resulted in the issuance of 103,092 MFG ordinary shares at \$48.50 per share on the same day.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT for the year ended 30 June 2020

### 3. 2020 Remuneration Report (Audited) (continued)

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

	2020	2019	2018	2017	2016
Total revenue (\$'000)	693,952	617,387	452,598	338,268	333,805
Total expenses (\$'000)	178,874	124,050	181,988	82,141	74,104
Net profit after tax (\$'000)	396,214	376,947	211,791	196,225	198,357
Diluted earnings per share (cents per share)	218.3	213.1	122.0	114.1	115.5
Adjusted revenue (\$'000) <sup>(A)</sup>	692,941	577,251	452,598	338,268	333,805
Adjusted expenses (\$'000) <sup>(A)</sup>	119,751	104,024	101,010	82,141	74,104
Adjusted net profit after tax (\$'000) <sup>(A)</sup>	438,299	364,225	268,897	196,225	198,357
Adjusted diluted earnings per share (cents per share) <sup>(A)</sup>	241.5	205.9	154.9	114.1	115.5
Total Dividends paid (cents per share)	214.9	185.2	134.5	85.6	89.3
Closing share price (ASX code: MFG) <sup>(B)</sup>	\$ 58.01	\$ 51.00	\$ 23.30	\$ 28.84	\$ 22.25
Total KMP remuneration <sup>(C)</sup> :					
- fixed compensation (\$) <sup>(D)</sup>	6,052,451	5,567,815	8,782,415	6,608,195	4,520,621
- variable compensation (\$) <sup>(E)</sup>	5,164,136	3,153,443	4,448,273	3,594,905	4,147,820
	<b>11,216,587</b>	<b>8,721,258</b>	<b>13,230,688</b>	<b>10,203,100</b>	<b>8,668,441</b>
Number of KMPs	10	10	12	12	10
% growth in net profit after tax	5%	78%	8%	-1%	14%
% growth in adjusted net profit after tax	20%	35%	37%	-1%	14%
% growth in diluted earnings per share	2%	75%	7%	-1%	13%
% growth in adjusted diluted earnings per share	17%	33%	36%	-1%	13%
% growth in total KMP remuneration	29%	-34%	30%	18%	20%
% growth in dividends paid	16%	38%	57%	-4%	19%
Total KMP remuneration as % of net profit after tax	3%	2%	6%	5%	4%

<sup>(A)</sup> Adjusted financial measures are adjusted for non-cash items (amortisation expense and unrealised gains/losses) and transaction costs related to strategic initiatives.

<sup>(B)</sup> As at 30 June.

<sup>(C)</sup> As reported in historical Annual Reports and has not been adjusted for changes to KMP.

<sup>(D)</sup> Fixed compensation comprises salary, superannuation and leave benefits outlined in Table 3.4.

<sup>(E)</sup> Variable compensation comprises cash bonuses and other benefits outlined in Table 3.4.

# MAGELLAN FINANCIAL GROUP LIMITED

## DIRECTORS' REPORT for the year ended 30 June 2020

### 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 21 to the financial statements.

The Directors, in accordance with advice received from the Audit & 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 & 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 36.

#### 4.5 Rounding of Amounts

The Company is of a kind referred to in the *ASIC 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.



**Hamish M Douglass**

Chairman

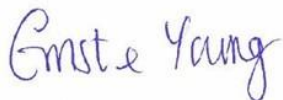
Sydney  
12 August 2020

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

As lead auditor for the audit of the financial report of Magellan Financial Group Limited for the financial year ended 30 June 2020, 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



Clare Sporle  
Partner  
12 August 2020

# MAGELLAN FINANCIAL GROUP LIMITED

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME for the year ended 30 June 2020

		Consolidated Entity	
		30 June 2020	30 June 2019
	Note	\$'000	\$'000
<b>Revenue</b>			
Management fees	5(a)	587,246	467,786
Performance fees	5(b)	80,964	83,631
Services fees	5(c)	4,395	4,700
Advisory fees		2,472	3,017
Dividend and distribution income		14,570	12,824
Interest income		3,724	2,907
Net change in the fair value of financial assets and liabilities:			
- Realised		(5,700)	577
- Unrealised		7,091	40,136
Net foreign exchange (loss)/gain		(810)	1,809
<b>Total revenue</b>		<b>693,952</b>	<b>617,387</b>
<b>Expenses</b>			
Employee expenses		73,900	62,865
Non-Executive Director fees		456	420
Fund administration and operational costs		19,034	16,126
Information technology and information services expense		6,738	6,226
Marketing expense		4,929	3,382
Legal and professional fees		4,734	3,499
Travel and entertainment expense		1,615	2,391
Occupancy expense		660	4,298
Auditor's remuneration	21	1,064	967
Depreciation expense	9	2,415	416
Amortisation expense	17	4,689	4,518
Foreign and withholding taxes		324	139
Transaction costs related to strategic initiatives	16 & 20(b)	54,434	15,508
Finance costs	19(c),10(b)	1,158	425
Other expenses		2,724	2,870
<b>Total expenses</b>		<b>178,874</b>	<b>124,050</b>
<b>Net profit before income tax expense</b>		<b>515,078</b>	<b>493,337</b>
Income tax expense	6(a)	(118,864)	(116,390)
<b>Net profit after income tax for the year</b>		<b>396,214</b>	<b>376,947</b>
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign operations		882	1,650
<b>Other comprehensive income for the year, net of tax</b>		<b>882</b>	<b>1,650</b>
<b>Total comprehensive income for the year</b>		<b>397,096</b>	<b>378,597</b>
Basic earnings per share (cents per share)	3	218.3 cents	213.1 cents
Diluted earnings per share (cents per share)	3	218.3 cents	213.1 cents

The Consolidated Statement of Profit or Loss and 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 2020

		Consolidated Entity	
		30 June 2020	30 June 2019
	Note	\$'000	\$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	7(c)	437,513	198,188
Financial assets	12	2,017	2,009
Loans and receivables	8	136,428	127,428
Prepayments		775	895
Other assets		385	-
<b>Total current assets</b>		<b>577,118</b>	<b>328,520</b>
<b>Non-current assets</b>			
Financial assets	12	396,420	339,084
Loans and receivables	8	13,567	7,603
Property, plant and equipment	9	14,251	576
Intangible assets	17	120,552	124,508
Other assets		1,965	-
<b>Total non-current assets</b>		<b>546,755</b>	<b>471,771</b>
<b>Total assets</b>		<b>1,123,873</b>	<b>800,291</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables	10(a)	34,682	31,793
Provisions	11	1,437	1,802
Income tax payable		20,179	19,355
Lease liabilities	10(b)	2,411	-
<b>Total current liabilities</b>		<b>58,709</b>	<b>52,950</b>
<b>Non-current liabilities</b>			
Net deferred tax liability	6(d)	1,250	9,151
Deferred lease incentives		-	2,114
Provisions	11	3,110	2,054
Lease liabilities	10(b)	14,877	-
<b>Total non-current liabilities</b>		<b>19,237</b>	<b>13,319</b>
<b>Total liabilities</b>		<b>77,946</b>	<b>66,269</b>
<b>Net assets</b>		<b>1,045,927</b>	<b>734,022</b>
<b>Equity</b>			
Contributed equity	13	525,271	243,150
Retained profits		160,349	488,372
Profits reserve	1(k)	356,925	-
Foreign currency translation reserve		3,382	2,500
<b>Total equity attributable to members of the Group</b>		<b>1,045,927</b>	<b>734,022</b>
<b>Total equity</b>		<b>1,045,927</b>	<b>734,022</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 2020

Attributable to Equity Holders of the Consolidated Entity						
		Contributed Equity	Retained Profits	Profits Reserve and Available For-Sale Reserve (A)	Foreign Currency Translation Reserve	Total Equity
2020	Note	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Equity - 1 July 2019</b>		<b>243,150</b>	<b>488,372</b>	<b>-</b>	<b>2,500</b>	<b>734,022</b>
Adoption of AASB 16, net of tax	1(d)	-	(698)	-	-	(698)
<b>Restated equity - 1 July 2019</b>		<b>243,150</b>	<b>487,674</b>	<b>-</b>	<b>2,500</b>	<b>733,324</b>
Net profit for the year		-	396,214	-	-	396,214
Other comprehensive income for the year		-	-	-	882	882
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>396,214</b>	<b>-</b>	<b>882</b>	<b>397,096</b>
Transactions with owners in their capacity as owners:						
Issue of shares:						
- under institutional placement	13(a)	275,000	-	-	-	275,000
- under Share Purchase agreements ("SPA")	13(a)	10,533	-	-	-	10,533
- transaction costs arising on share issue/placement, net of tax	13(a)	(3,723)	-	-	-	(3,723)
Dividends paid	4	-	(366,614)	-	-	(366,614)
SPP expense for the year	13(a)	311	-	-	-	311
Transfer (from)/to profits reserve			(356,925)	356,925	-	-
<b>Total transactions with equity holders in their capacity as equity owners</b>		<b>282,121</b>	<b>(723,539)</b>	<b>356,925</b>	<b>-</b>	<b>(84,493)</b>
<b>Equity - 30 June 2020</b>		<b>525,271</b>	<b>160,349</b>	<b>356,925</b>	<b>3,382</b>	<b>1,045,927</b>
<b>2019</b>						
<b>Equity - 1 July 2018</b>		<b>218,877</b>	<b>345,618</b>	<b>55,088</b>	<b>850</b>	<b>620,433</b>
Adoption of AASB 9		-	55,088	(55,088)	-	-
<b>Restated equity - 1 July 2018</b>		<b>218,877</b>	<b>400,706</b>	<b>-</b>	<b>850</b>	<b>620,433</b>
Net profit for the year		-	376,947	-	-	376,947
Other comprehensive income for the year		-	-	-	1,650	1,650
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>376,947</b>	<b>-</b>	<b>1,650</b>	<b>378,597</b>
Transactions with owners in their capacity as owners:						
Issue of shares:						
- to acquire Frontegra Asset Management, Inc. ("FAM")	13(a)	21,672	-	-	-	21,672
- under SPA	13(a)	2,187	-	-	-	2,187
- transaction costs arising on share issue, net of tax	13(a)	(31)	-	-	-	(31)
Dividends paid	4	-	(289,281)	-	-	(289,281)
SPP expense for the year	13(a)	445	-	-	-	445
<b>Total transactions with equity holders in their capacity as equity owners</b>		<b>24,273</b>	<b>(289,281)</b>	<b>-</b>	<b>-</b>	<b>(265,008)</b>
<b>Equity - 30 June 2019</b>		<b>243,150</b>	<b>488,372</b>	<b>-</b>	<b>2,500</b>	<b>734,022</b>

(A) \$55,088,000 relates to the initial adoption of AASB 9 against the Available-For-Sale ("AFS") reserve. At 30 June 2019 the AFS reserve balance is nil and there are no other balances relating to the AFS reserve for the year ended 30 June 2020.

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 2020

		Consolidated Entity	
		30 June	30 June
		2020	2019
	Note	\$'000	\$'000
<b>Cash flows from operating activities</b>			
Management and services fees received (inclusive of GST)		616,590	486,150
Performance fees received (inclusive of GST)		92,303	80,004
Advisory fees received		2,957	3,217
Dividends and distributions received		10,964	152
Interest received		3,113	2,439
Finance costs paid		(1,158)	(425)
Tax paid		(124,153)	(115,794)
Payments to suppliers and employees (inclusive of GST)		(148,386)	(125,734)
Transaction costs related to strategic initiatives paid		(54,197)	(15,218)
<b>Net cash inflows/(outflows) from operating activities</b>	7(a)	<b>398,033</b>	<b>314,791</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of financial assets and liabilities		5,749	2,147
Purchase of financial assets and liabilities		(61,374)	(2,628)
Net matured term deposits		(5)	(37)
Payments for property, plant and equipment	9	(263)	(372)
Loan to third party		(7,500)	-
Proceeds from sale of property, plant and equipment		-	4
Acquisition of subsidiaries, net of cash acquired		-	(1,632)
<b>Net cash inflows/(outflows) from investing activities</b>		<b>(63,393)</b>	<b>(2,518)</b>
<b>Cash flows from financing activities</b>			
Net proceeds from issue of shares		270,554	208
Proceeds from repayment of Share Purchase agreements		1,427	2,160
Dividends paid	4	(364,641)	(287,596)
Payments of principal under office premise leases		(1,939)	-
<b>Net cash inflows/(outflows) from financing activities</b>		<b>(94,599)</b>	<b>(285,228)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>240,041</b>	<b>27,045</b>
Effects of exchange rate movements on cash and cash equivalents		(716)	2,048
Cash and cash equivalents at the beginning of the year		198,188	169,095
<b>Cash and cash equivalents at the end of the year</b>	7(c)	<b>437,513</b>	<b>198,188</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 2020

### 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 12 August 2020 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 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 *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless stated otherwise.

#### (a) Accounting Policies

The accounting policies adopted in the preparation of this financial report are contained within the notes to which they relate. The policies adopted in the preparation of this financial report are consistent with those of the previous financial year except for the profits reserve described in note 1(k) and the adoption of new standards on 1 July 2019 that are described in note 1(d). The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

#### (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 17;
- Deferred tax asset arising from unused tax loss - refer to note 6(d).

#### (c) Impacts of COVID-19

In preparing these financial statements, the Group has considered the impacts of COVID-19 on the Group's assets, liabilities and disclosures for the year ended 30 June 2020.

The COVID-19 pandemic first affected the Group in March 2020 through significant share market and currency volatility given the Group's main source of revenue, management fees, are based on funds under management. The volatility was the main contributor to a 6.6% reduction in the Group's funds under management from A\$100.7 billion at 28 February 2020 to A\$93.9 billion at 31 March 2020. Markets have since rallied and this has resulted in recouping some of the initial losses. At 30 June 2020, the Group reported funds under management of \$97.2 billion although this also reflects net inflows, payments of annual 30 June fund distributions and the effects of portfolio rebalancing undertaken by Portfolio Managers. Further to the above, the Group is unaware of material outflows from institutional clients in response to the Australian Government's COVID-19 early release of superannuation.

Apart from the volatility discussed above and in the CEO's letter at page 5, the Group has experienced few other financial reporting impacts as detailed below.

The deterioration of market conditions initially resulted in a valuation decline of MFG's investments held through its Principal Investment Portfolio (refer note 12). No asset impairments have been recorded as MFG's listed investments, classified as level 1 in the fair value hierarchy (as defined in note 19(i)), are marked-to-market in the profit or loss with reference to quoted prices on stock exchanges. Similarly, the underlying investments of unlisted funds are

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 1. Basis of Preparation (continued)

#### (c) Impacts of COVID-19 (continued)

valued with reference to quoted prices on stock exchanges and MFG's unlisted investments are marked-to-market in the profit or loss in accordance with AASB 9 *Financial Instruments*.

With regards to fee receivables, the Group has not experienced any notable change in the timeliness of receipt of its management, services and performance fees from its clients nor been approached for any change in payment terms. In addition, the Group's expected credit losses of loans and receivables, which also comprise interest on cash balances, dividends/distributions on investments and SPP loan repayments, have remained materially unchanged. Furthermore, there was no shortfall in the SPP loans as the market value of the MFG shares, which acts as security for the loans, exceeded the loan balances at reporting date. Since 30 June 2020, receivables have either been collected or counterparties owing amounts have been assessed to have strong credit ratings.

No indicators of impairment of the Group's goodwill (refer to note 17) were identified and there were no other material assets or liabilities of the Group that involved forward-looking information or variables impacted by COVID-19. The estimates and judgements that have been applied to the Group's assets and liabilities are set out in note 1(b).

As mentioned in the CEO letter, there were no redundancies or terminations resulting from COVID-19 that gave rise to additional liabilities. In addition, the Group elected to freeze salaries and Director fees in the coming 2021 financial year and also pull back on current year staff bonuses. Mr Douglass and Dr Cairns also waived their current year bonus entitlements in full.

Furthermore, the Group has not experienced any interruption to its services or operations (including those of its major service providers) as a result of working from home and has not modified or renegotiated any terms or conditions of its material supplier contracts or its SPP loan agreements as a result of COVID-19. In addition, the Group has no financial guarantees within its contracts.

The Group was not eligible for any government stimulus or tax benefits except for a six month deferral of a minor value NSW payroll tax liability. Notwithstanding this, the Group maintained solvency throughout the year with strong cash reserves and access to liquid investments (\$396.4m at 30 June 2020) which more than covered the Group's obligations and regulatory capital requirements under MAM's AFSL (refer to note 19). The Group had no borrowings and at no time during the year had drawn on its credit facility. With the uncertain outlook of macroeconomic conditions, additional disclosure of financial risks, as they relate to the Group, have been included in note 19.

#### (d) New and Amended Accounting Standards and Interpretations Effective 1 July 2019

From 1 July 2019, the Group applied AASB 16 *Leases* ("AASB 16") and AASB Interpretation 23 *Uncertainty over Income Tax Treatment* ("Interpretation 23"). The impact of the changes are discussed below.

- **AASB 16: Leases**

AASB 16 superceded AASB 117 *Leases* and requires a lessee to recognise an asset and liability in the Consolidated Statement of Financial Position where a contract contains a lease. On 1 July 2019, the Group recognised right-of-use assets ("ROU") for leased office premises and office equipment of \$15,817,000 in the Consolidated Statement of Financial Position. These leases had previously been classified as 'operating leases' under AASB 117 at 30 June 2019 and disclosed within the commitments note. The ROU assets have been included within 'property, plant and equipment' in the Statement of Financial Position. Simultaneously, lease liabilities of \$19,279,000 were recognised in the Consolidated Statement of Financial Position. These liabilities represent the present value of the remaining lease payments owing under the lease contracts at 1 July 2019 and discounted using the weighted average of the Group's incremental borrowing rate of 4.0%. The Group also recognised adjustments on adoption for the rent prepayment of \$210,000, deferred lease incentives on office leases of \$2,114,000 and an onerous lease provision of \$728,000. These adjustments primarily represented the difference between the cumulative lease expense recognised and cash paid on the leases.

Adoption of AASB 16 has resulted in an increase in assets and liabilities in the Group's Consolidated Statement of Financial Position at 1 July 2019, with a net impact of \$698,000 recognised as an adjustment to retained profits at 1 July 2019, as shown in the table on the next page. The classification of the Group's leases has remained unchanged under AASB 16. Under AASB 16, the ROU assets are depreciated over the lease term. Similarly, the lease liability is amortised over the lease term. As compared to AASB 117, the pattern of expense recognition will involve higher costs in the earlier stages of a lease as a result of the lease liability amortising over the lease term using the effective interest method.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 30 June 2020

#### 1. Basis of Preparation (continued)

##### (d) New and Amended Accounting Standards and Interpretations Effective 1 July 2019 (continued)

	Consolidated Entity		
	30 June 2019	Adjustment on adoption of AASB 16	1 July 2019
	\$'000	\$'000	\$'000
<b>Assets</b>			
Prepayments	895	(210)	685
Property, plant and equipment	576	15,817	16,393
<b>Liabilities</b>			
Provisions	3,856	(728)	3,128
Lease liabilities	-	19,279	19,279
Net deferred tax liability	9,151	(132)	9,019
Deferred lease incentives	2,114	(2,114)	-
<b>Equity</b>			
Retained profits	488,372	(698)	487,674

The impact of applying AASB 16 in the Group's Consolidated Statement of Profit or Loss and Comprehensive Income during the year ended 30 June 2020 was:

- Interest expense on the lease liabilities of \$732,000 (30 June 2019: nil); and
- Depreciation expense on the right-of-use assets of \$2,158,000 (30 June 2019: nil).

As the above expenses are separately recorded from 1 July 2019, this has resulted in a significant decrease in occupancy expenses shown in the Group's Statement of Profit or Loss and Comprehensive Income where rent expense was recorded in prior periods. From 1 July 2019, occupancy expense only includes short term lease expenses and outgoings costs.

In applying AASB 16, the Group elected not to restate prior year comparatives as permitted under the modified retrospective approach and applied the practical expedient of a single discount rate to the portfolio of leases with reasonably similar characteristics when measuring the lease liabilities.

- **AASB Interpretation 23: Uncertainty over Income Tax Treatment**

Interpretation 23 clarifies the recognition and measurement criteria in AASB 112: *Income Taxes* where there is uncertainty over income tax treatments. It requires an assessment of each uncertain tax position as to whether it is probable that a taxation authority will accept the position. Where it is not probable, the effect of the uncertainty is reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates. The amount is determined as either the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes, whichever predicts the resolution of the uncertainty. Judgements are reassessed as and when new facts and circumstances are presented.

The Group adopted Interpretation 23 on 1 July 2019 and as the existing recognition and measurement accounting policies were aligned with Interpretation 23, there was no impact on the Group's financial statements.

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

- **Revised AASB Conceptual Framework for Financial Reporting**

The revised AASB Conceptual Framework is effective for the Group's annual reporting period from 1 July 2020 and includes amendments to the definition and recognition criteria for assets, liabilities, income and expenses, guidance on measurement and derecognition, and other relevant financial reporting concepts. The revised AASB Conceptual Framework is not expected to have a material impact on Group's financial statements.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 1. Basis of Preparation (continued)

#### (f) Foreign Currency Translation

Both the functional and presentation currency of MFG 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 profit or loss. All other foreign currency exchange differences are presented separately in the profit or loss as net gains/losses on foreign exchange.

#### (g) 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.

#### (h) 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.

#### (i) Impairment of Non-Financial 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.

#### (j) Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities are measured at fair value through profit or loss if they are held for trading purposes or designated to be measured at fair value to profit or loss upon initial recognition.

Financial liabilities at fair value through profit or loss are carried in the statement of financial position at fair value with the net change in fair value recognised in the statement of profit or loss.

#### (k) Profits Reserve

The profits reserve consists of profits transferred from retained profits that are preserved for future dividend payments. The profits reserve will reduce when dividends are paid from this reserve.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 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 segment provides investment funds management to high net worth and retail investors in Australia and New Zealand, and institutional investors globally. The Funds Management activities include:

- Acting as Responsible Entity/Trustee ("RE") 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 registered fund	✓	✓
Magellan Global Equities Fund (Currency Hedged)	ASX Quoted registered fund	✓	✓
Magellan Infrastructure Fund (Currency Hedged)	ASX Quoted registered fund	✓	✓
Airlie Australian Share Fund	ASX Quoted registered fund (single unit)	✓	✓
Magellan Global Trust	ASX Listed Trust - registered fund	✓	✓
Magellan High Conviction Trust	ASX Listed Trust - registered fund	✓	✓
Magellan Core Infrastructure Fund	Unlisted unregistered fund	✓	✓
Airlie Concentrated Share Fund	Unlisted unregistered fund	✓	✓
	Irish fund type		IM
MFG Global Fund	UCITS <sup>(A)</sup>		✓
MFG Select Infrastructure Fund	UCITS <sup>(A)</sup>		✓
MFG Global Sustainable Fund	UCITS <sup>(A)</sup>		✓
	United States fund type		IM
Frontier MFG Global Equity Fund <sup>(B)</sup>	Open-ended mutual fund		✓
Frontier MFG Global Plus Fund <sup>(B)</sup>	Open-ended mutual fund		✓
Frontier MFG Core Infrastructure Fund <sup>(B)</sup>	Open-ended mutual fund		✓
Frontier MFG Select Infrastructure Fund <sup>(B)</sup>	Open-ended mutual fund		✓
Frontier MFG Global Sustainable Fund <sup>(B)</sup>	Open-ended mutual fund		✓

(A) UCITS are funds authorised under the European Communities (Undertakings for Collective Investment in Transferable Securities ("UCITS")) and offered to global institutional clients.

(B) Collectively, the Frontier MFG 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.

Current tax liabilities and deferred tax assets/liabilities that arise from the operations of the Funds Management business are included within the Corporate segment.

#### Principal Investments

The Principal Investment portfolio is comprised of the Company's investments in the ASX Active Exchange Traded Funds ("ETF")/Listed Trusts, the Unlisted Magellan Funds, the Frontier MFG Funds and 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 loans issued by the Company including loans under share purchase agreements and cash (including term deposits), corporate costs including Non-Executive Directors' fees relating to the Company's 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 2020

### 2. Segment Information (continued)

#### (a) Segment Financial Results

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 2020	\$'000	\$'000	\$'000	\$'000
<b>Segment revenue</b>				
Management fees	587,246	-	-	587,246
Performance fees	80,964	-	-	80,964
Services fees	4,395	-	-	4,395
Advisory fees	2,472	-	-	2,472
Dividend and distribution income	-	14,570	-	14,570
Interest income	309	12	3,403	3,724
Net change in the fair value of financial assets and liabilities:				
- Realised	-	(5,700)	-	(5,700)
- Unrealised	-	7,091	-	7,091
Net foreign exchange (loss)	(575)	(235)	-	(810)
<b>Total segment revenue</b>	<b>674,811</b>	<b>15,738</b>	<b>3,403</b>	<b>693,952</b>
<b>Segment expenses</b>				
Employee expense	73,781	-	119	73,900
Non-Executive Directors' fees	283	-	173	456
Other expenses	42,735	222	2,438	45,395
<b>Total segment expenses</b>	<b>116,799</b>	<b>222</b>	<b>2,730</b>	<b>119,751</b>
<b>Total segment operating profit before income tax expense</b>	<b>558,012</b>	<b>15,516</b>	<b>673</b>	<b>574,201</b>
<b>Other comprehensive income</b>				
Exchange differences on translation of foreign operations	882	-	-	882
<b>Other comprehensive income for the year, before tax</b>	<b>882</b>	<b>-</b>	<b>-</b>	<b>882</b>
<b>Total comprehensive income for the year, before tax</b>	<b>558,894</b>	<b>15,516</b>	<b>673</b>	<b>575,083</b>

#### Reconciliation of Segment Operating Profit Before Tax to Net Profit After Tax

	Consolidated Entity	
	30 Jun 2020 \$'000	30 Jun 2019 \$'000
<b>Segment operating profit before income tax expense</b>	<b>574,201</b>	<b>513,363</b>
<i>Individually significant items and amortisation of intangibles:</i>		
Amortisation of intangible assets <sup>(B)</sup>	(4,689)	(4,518)
Transaction costs related to strategic initiatives		
Initial Public Offering ("IPO") costs for Magellan High Conviction Trust ("MHH") <sup>(C)</sup>	(53,402)	-
Dividend Reinvestment Plan discount funding costs for MHH and Magellan Global Trust ("MGG") <sup>(D)</sup>	(1,032)	(505)
MGG Unit Purchase Plan costs <sup>(E)</sup>	-	(15,003)
<b>Net profit before income tax expense</b>	<b>515,078</b>	<b>493,337</b>
Income tax expense	(118,864)	(116,390)
<b>Net profit for the year</b>	<b>396,214</b>	<b>376,947</b>

(A) Includes elimination of income and expense under the transfer pricing agreements between Magellan Asset Management Limited ("MAM") and US controlled entities, within the Funds Management segment.

(B) Relates to amortisation expense on intangible assets acquired in Airlie Funds Management Pty Limited ("Airlie") and Frontier Partners Inc, Frontegra Strategies LLC and Frontegra Asset Management Inc. (together referred to as "Frontier Group").

(C) Refer to note 16.

(D) Relates to MFG's payment to MHH and MGG to ensure unitholders who do not participate in the MHH and MGG Dividend Reinvestment Plan ("DRP") suffer no dilution per share as a result of any DRP discount.

(E) Relates to MFG's payment to MGG to ensure unitholders who did not participate in the MGG Unit Purchase Plan ("UPP") suffer no dilution per share as a result of the UPP discount.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 2. Segment Information (continued)

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

	Consolidated Entity			
	Funds Management (A)	Principal Investments	Corporate	Consolidated Entity
30 June 2019	\$'000	\$'000	\$'000	\$'000
<b>Segment revenue</b>				
Management fees	467,786	-	-	467,786
Performance fees	83,631	-	-	83,631
Services fees	4,700	-	-	4,700
Advisory fees	3,017	-	-	3,017
Dividend and distribution income	-	12,824	-	12,824
Interest income	413	5	2,489	2,907
Net change in the fair value of financial assets and liabilities:				
- Realised	-	577	-	577
- Unrealised	-	40,136	-	40,136
Net foreign exchange gain	1,779	(18)	48	1,809
<b>Total segment revenue</b>	<b>561,326</b>	<b>53,524</b>	<b>2,537</b>	<b>617,387</b>
<b>Segment expenses</b>				
Employee expense	62,770	-	95	62,865
Non-Executive Directors' fees	252	-	168	420
Other expenses	38,515	151	2,073	40,739
<b>Total segment expenses</b>	<b>101,537</b>	<b>151</b>	<b>2,336</b>	<b>104,024</b>
<b>Total segment operating profit before income tax expense</b>	<b>459,789</b>	<b>53,373</b>	<b>201</b>	<b>513,363</b>
<b>Other comprehensive income</b>				
Exchange differences on translation of foreign operations	1,650	-	-	1,650
<b>Other comprehensive income for the year, before tax</b>	<b>1,650</b>	<b>-</b>	<b>-</b>	<b>1,650</b>
<b>Total comprehensive income for the year, before tax</b>	<b>461,439</b>	<b>53,373</b>	<b>201</b>	<b>515,013</b>

(A) Includes elimination of income and expense under the transfer pricing agreements between MAM and US controlled entities, 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	Principal Investments	Corporate	Total
30 June 2020	\$'000	\$'000	\$'000	\$'000
Total assets	306,344	405,207	412,322	1,123,873
Total liabilities	54,605	39,518	(16,177)	77,946
<b>Net assets</b>	<b>251,739</b>	<b>365,689</b>	<b>428,499</b>	<b>1,045,927</b>
30 June 2019	\$'000	\$'000	\$'000	\$'000
Total assets	281,204	351,363	167,724	800,291
Total liabilities	32,902	43,580	(10,213)	66,269
<b>Net assets</b>	<b>248,302</b>	<b>307,783</b>	<b>177,937</b>	<b>734,022</b>

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 Chairman and Chief Investment Officer, Mr Hamish Douglass and Chief Executive Officer, Dr Brett Cairns.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 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 June 2020	30 June 2019
<b>Basic EPS</b>		
Net profit attributable to shareholders (\$'000)	396,214	376,947
Weighted average number of shares for basic EPS ('000)	181,521	176,865
<b>Basic EPS (cents)</b>	<b>218.3</b>	<b>213.1</b>
<b>Diluted EPS</b>		
Net profit attributable to shareholders (\$'000)	396,214	376,947
Weighted average number of shares for diluted EPS ('000)	181,521	176,865
<b>Diluted EPS (cents)</b>	<b>218.3</b>	<b>213.1</b>

### 4. Dividends

Consolidated Entity				
	Total \$'000	Cents per Share	Franking %	Date Paid
<b>During the year ended 30 June 2020</b>				
Prior year final dividend paid	138,128	78.0	75%	29 Aug 2019
Prior year performance dividend paid	59,147	33.4	75%	29 Aug 2019
Total prior year final and performance fee dividend paid	197,275	111.4		
Interim dividend paid	169,339	92.9	75%	27 Feb 2020
<b>Total dividends declared and paid during the year</b>	<b>366,614</b>	<b>204.3</b>		
<b>During the year ended 30 June 2019</b>				
Prior year final dividend paid	132,335	75.1	100%	27 Aug 2018
Prior year performance dividend paid	26,256	14.9	100%	27 Aug 2018
Total prior year final and performance fee dividend paid	158,591	90.0		
Interim dividend paid	130,690	73.8	75%	28 Feb 2019
<b>Total dividends declared and paid during the year</b>	<b>289,281</b>	<b>163.8</b>		

#### (a) Dividend Declared

On 12 August 2020, the Directors declared a total dividend of 122.0 cents per ordinary share (75% franked) in respect of the six months to 30 June 2020 (June 2019: 111.4 cents per ordinary share 75% franked). The dividend comprises a Final Dividend of 91.6 cents per ordinary share and a Performance Fee Dividend of 30.4 cents per share (June 2019: Final Dividend of 78.0 cents per ordinary share and a Performance Fee Dividend of 33.4 cents per ordinary share).

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 \$222,382,000 are not recognised as liabilities and will be paid on 26 August 2020.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 4. Dividends (continued)

#### (b) Imputation Credits

	Consolidated Entity	
	30 June 2020	30 June 2019
	\$'000	\$'000
Total imputation credits available for subsequent reporting periods based on a tax rate of 30% (June 2019: 30%)	61,728	56,442

The above amount comprises the balance of the imputation account as at the end of the reporting date, 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 12 August 2020 will be partially franked out of existing franking credits, or out of franking credits arising from the payment of income tax.

### 5. Revenue

Revenue from contracts with clients is recognised when there is a right to invoice the client at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services. This method corresponds directly with the delivery of performance obligations by the Group to its clients.

#### (a) Management Fees

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 2020	30 June 2019
	\$'000	\$'000
Magellan Global Fund	156,861	134,537
Magellan Global Fund (Hedged)	11,220	6,982
Magellan Global Equities Fund	21,929	16,415
Magellan Global Equities Fund (Currency Hedged)	1,924	1,110
Magellan Global Trust	31,569	25,423
Magellan Infrastructure Fund	22,236	16,302
Magellan Infrastructure Fund (Unhedged)	10,537	7,526
Magellan Infrastructure Fund (Currency Hedged)	5,583	2,662
Magellan High Conviction Fund	8,733	8,464
Magellan High Conviction Trust	10,175	-
Magellan Core Infrastructure Fund	1,629	734
The Airlie Concentrated Share Fund	691	1,028
MFG Global Fund	20,226	18,819
MFG Select Infrastructure Fund	2,081	669
MFG High Conviction Master Fund	690	218
Frontier MFG Funds	24,089	19,265
Other funds and mandates	257,073	207,632
<b>Total management fees</b>	<b>587,246</b>	<b>467,786</b>

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 5. Revenue (continued)

#### (b) Performance Fees

Performance fee arrangements give rise to variable consideration. An estimate of the variable consideration is recorded when it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Performance fees may be earned from funds, mandates and MFF Capital Investments Limited ("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:

		Consolidated Entity	
		30 June	30 June
		2020	2019
		\$'000	\$'000
High watermark (\$) <sup>(A)</sup>			
<b>Based on performance relative to both market index and absolute return hurdle</b>			
Magellan Global Fund	2.5204	3,107	13,756
Magellan Global Fund (Hedged)	1.6110	74	661
Magellan Global Equities Fund	3.8285	293	1,527
Magellan Global Equities Fund (Currency Hedged)	3.1803	5	115
Magellan Global Trust	1.6041	12	1,700
Magellan Infrastructure Fund	1.4529	219	125
Magellan Infrastructure Fund (Unhedged)	1.5525	40	19
Magellan Infrastructure Fund (Currency Hedged)	3.1804	51	4
<b>Based on performance relative to absolute return hurdle</b>			
Magellan High Conviction Fund (Class A/B)	2.0249(A)/1.2337(B)	5,106	7,240
Magellan High Conviction Trust	1.5774	5,612	-
MFG High Conviction Master Fund	-	1,191	-
<b>Based on total shareholder return</b>			
MFF Capital Investments Limited	-	1,000	1,000
<b>Based on performance relative to a market index</b>			
Other funds and mandates	various	64,254	57,484
<b>Total performance fees earned</b>		<b>80,964</b>	<b>83,631</b>

(A) The high watermark shown as at 30 June 2020 and adjusted for distributions.

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 mandates have a cap on the performance fee that can be charged in a given measurement period. Amounts in excess of a cap and carried forward to future measurement periods ("Carried Forward Performance Fees") may be recognised as performance fees in future periods subject to various conditions being satisfied, which may or may not occur. At 30 June 2020, the Group has a contingent asset in respect of Carried Forward Performance Fees that could range from nil to \$7,639,000 (30 June 2019: nil to \$7,056,000) (refer to note 20 (b)).

The Group's entitlement to future performance fees from Magellan funds is dependent on the net asset value per unit of the fund exceeding the high-water mark. The high-water mark is the net asset value per unit 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.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 5. Revenue (continued)

#### (c) Services Fees

Services fees arise from providing investment research and administrative services to MFF and research services under a mandate.

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

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

	Consolidated Entity	
	30 June	30 June
	2020	2019
	\$'000	\$'000
Australia & New Zealand	426,662	353,617
United Kingdom & Europe	133,118	105,444
North America	95,855	79,588
Asia	16,970	17,468
<b>Total management, services and performance fees</b>	<b>672,605</b>	<b>556,117</b>

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

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

	Consolidated Entity	
	30 June	30 June
	2020	2019
	\$'000	\$'000
<b>Management and services fees</b>		
- Retail	319,824	251,184
- Institutional	271,817	221,302
<b>Performance fees</b>		
- Retail	48,708	48,975
- Institutional	32,256	34,656
<b>Total management, services and performance fees</b>	<b>672,605</b>	<b>556,117</b>
Total Retail	368,532	300,159
Total Institutional	304,073	255,958
<b>Total management, services and performance fees</b>	<b>672,605</b>	<b>556,117</b>

#### (f) Interest Income

Interest income is recognised on an accrual basis.

#### (g) 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 2020

### 6. Taxation

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

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

	Note	Consolidated Entity	
		30 June 2020 \$'000	30 June 2019 \$'000
<b>Net profit before income tax expense</b>		<b>515,078</b>	<b>493,337</b>
Prima facie income tax expense at 30% (2019: 30%)		(154,523)	(148,001)
Effect of amounts which are non-deductible/(assessable) in calculating taxable income:			
- effect of concessional tax rate on offshore banking unit (OBU)	6(c)	42,025	34,801
- non-assessable income and non-deductible expenses		(4,556)	(2,278)
- US state and local taxes (net of tax credits)		(1,189)	(1,242)
- differences in overseas tax rates		(93)	257
- (under)/over provision of prior year income tax		(483)	47
- imputed interest and expense relating to SPP		(45)	13
- tax effect of franked dividends/distributions received		-	13
<b>Income tax (expense)/benefit reported in the Consolidated Statement of Profit or Loss and Comprehensive Income</b>		<b>(118,864)</b>	<b>(116,390)</b>

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

Income tax attributable to net profit from ordinary activities comprises:

	Consolidated Entity	
	30 June 2020 \$'000	30 June 2019 \$'000
<b>The major components of income tax expense are:</b>		
Current income tax expense	(123,272)	(104,963)
Deferred income tax expense/(benefit)	6,173	(10,489)
Differences in overseas tax rates	(93)	257
US state and local taxes (net of tax credits)	(1,189)	(1,242)
(Under)/over provision of prior year income tax	(483)	47
<b>Income tax expense reported in the Consolidated Statement of Profit or Loss and Comprehensive Income</b>	<b>(118,864)</b>	<b>(116,390)</b>

#### (c) Offshore Banking Unit

MAM, a controlled entity of MFG and a member of the Australian 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 2020, the Company's effective tax rate was 23.1% (June 2019: 23.6%), 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 impact of the OBU on income tax expense 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 2020

### 6. Taxation (continued)

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

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

	Consolidated Entity	
	30 June 2020 \$'000	30 June 2019 \$'000
Amounts recognised in the Consolidated Statement of Financial Position:		
- Deferred tax liabilities from changes in the fair value of financial assets and liabilities	(43,185)	(39,737)
- Deferred tax assets from movements in accruals, provisions and dividends accrued	9,164	7,412
- Deferred tax asset from tax cost base uplift	3,983	-
- Deferred tax assets from costs deductible over 5 years	20,786	7,813
<b>Total net deferred tax (liability) relating to temporary differences</b>	<b>(9,252)</b>	<b>(24,512)</b>
Deferred tax asset relating to unused tax loss arising on issuance of loyalty units to unitholders under MGG priority offer	8,002	15,361
<b>Total net deferred tax (liability)/asset</b>	<b>(1,250)</b>	<b>(9,151)</b>

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

	Consolidated Entity	
	30 June 2020 \$'000	30 June 2019 \$'000
Opening balance	(9,151)	1,324
<b>(i) Movement in temporary differences</b>		
- changes in the fair value of financial assets and liabilities	(3,448)	(13,124)
- accruals, provisions and dividends accrued	1,752	2,277
- deferred tax asset from tax cost base uplift	3,983	-
- costs deductible over 5 years	12,973	2,101
<b>(ii) Movement in unused tax loss</b>		
- capital loss on issuance of loyalty units to unitholders under MGG priority offer	(7,359)	(1,729)
<b>Closing balance - net deferred tax (liability)/asset</b>	<b>(1,250)</b>	<b>(9,151)</b>

#### Key Estimate and Judgement

At 30 June 2020, the Group's net deferred tax liability of \$1,250,000 includes a deferred tax asset of \$8,002,000 (30 June 2019: \$15,361,000) relating to the unused capital loss on the issuance of loyalty units to eligible unitholders of MGG under the priority offer. At 30 June 2020, the deferred tax asset has been recognised on the basis that it is probable that the capital loss will be offset against capital gains that are expected to be realised from the Principal Investments Portfolio.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 6. Taxation (continued)

#### (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.

There is also a US tax consolidated group for income tax purposes which includes several US based entities.

During the year, income tax liabilities of \$126,609,000 (June 2019: \$104,312,000) were assumed by MFG. Payments totalling \$131,949,000 (June 2019: \$105,957,000) were made to MFG from the other entities under the tax sharing and funding agreement and \$12,596,000 (June 2019: \$17,936,000) remains receivable as at 30 June 2020. Refer to note 18(d)(ii) for the related party tax transactions.

#### 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 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 comprehensive income or directly in equity. In this case, the tax is recognised in comprehensive income or equity respectively.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 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
	2020	2019
	\$'000	\$'000
Net profit after income tax expense	396,214	376,947
Adjusted for:		
Net change in fair value of financial assets and liabilities:		
- Realised	5,700	(577)
- Unrealised	(7,091)	(40,136)
Dividends and distributions reinvested	(1,062)	(16,242)
Depreciation and amortisation expense	7,104	4,934
Net foreign exchange (loss)/gain	810	(1,809)
Imputed interest on loans under SPP	(443)	(487)
Employee expense on loans under SPP	593	445
Net change in fair value of financial assets recorded as dividends and distribution income	(2,793)	(3,238)
(Increase)/decrease in receivables	(3,814)	(14,638)
Decrease in prepayments	271	184
(Decrease)/Increase in net deferred tax liability	(6,306)	10,475
Increase/(decrease) in payables and provisions	8,028	9,279
Increase/(decrease) in income tax payable	824	(10,347)
Effects of exchange rates on cash and cash equivalents	(2)	1
<b>Net cash inflows from operating activities</b>	<b>398,033</b>	<b>314,791</b>

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

	Consolidated Entity	
	30 June	30 June
	2020	2019
	\$'000	\$'000
Issue of MFG ordinary shares under the SPP	7,028	1,934
Dividends paid to SPP Participants applied as repayment against SPP loan balance	1,973	1,685
Imputed interest on SPP loans	443	487
Employee expense on SPP loans	593	445
Value of units issued to MFG in lieu of distributions in the Principal Investments Portfolio	1,062	16,242
Issue of MFG ordinary shares for acquisition of FAM	-	21,672

#### (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 \$437,513,000 (June 2019: \$198,188,000). Term deposits with maturity dates greater than 90 days from inception date are classified as financial assets (refer to note 12).

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 8. Loans and Receivables

Fees receivable comprise management, services and performance fees. These amounts are initially recognised at the fair value of the amounts due. An impairment analysis is performed at each balance date to measure expected credit losses. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The Group applies the simplified approach for trade receivables whereby the loss allowance is based on lifetime expected credit losses at each balance date.

		Consolidated Entity	
		30 June 2020	30 June 2019
		\$'000	\$'000
	Note		
<b>Current assets</b>			
Fees receivable		119,495	115,731
Distributions receivable from Magellan Funds		7,333	7,641
Other receivables		378	440
Loans issued under share purchase agreements	(a)	1,722	3,616
Loan to third party		7,500	-
		136,428	127,428
<b>Non-current assets</b>			
Loans issued under share purchase agreements	(a)	13,567	7,603
<b>Total loans and receivables</b>		<b>149,995</b>	<b>135,031</b>

Receivables of \$14,599,000 were past due at 30 June 2020 (June 2019: \$2,652,000) however no loss allowances have been recorded.

#### (a) Share Purchase Agreements

The Group has 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. During the year ended 30 June 2020, the term applying to Non-Executive Director Participants loans was extended from 5 to 10 years. This change was approved by the MFG Board on 4 September 2019 and applied to outstanding SPP loans from that date. 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% (or other amount permitted under the SPP rules) 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 \$1,973,000 for the year ended 30 June 2020 (June 2019: \$1,686,000).

SPP loans to Participants are initially recognised at fair value, which is determined by discounting loans to their net present value using an interest rate reflective of the risk of the underlying asset 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.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 8. Loans and Receivables (continued)

#### (a) Share Purchase Agreements (continued)

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.

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 2020, the total value of MFG ordinary shares securing the SPP loans to Participants applying MFG's closing share price of \$58.01 was \$55,137,000 (June 2019: \$46,462,000). An impairment analysis is performed at each reporting date to measure expected credit losses. Expected credit losses are provided for credit losses that result from default events that are possible. At reporting date, 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.

The total number of MFG ordinary shares issued under the SPP and the share price at which they were issued for are set out below. During the year ended 30 June 2020, the Group issued two SPP tranches and of the 123,710 MFG ordinary shares issued on 14 November 2019, 103,092 were issued to Mr Brett Cairns pursuant to the approval at the Company's AGM on 24 October 2019.

SPP tranche <sup>(A)</sup>	SPP tranche issue price	Total number of shares issued under SPP
13 November 2014	\$13.64	243,155
14 September 2015	\$18.88	265,443
16 September 2016	\$23.51	126,038
18 November 2016	\$20.85	63,948
18 September 2017	\$24.47	202,536
16 November 2017	\$24.99	53,354
13 March 2018	\$24.93	22,061
17 September 2018	\$27.92	88,784
18 September 2019 <sup>(B)</sup>	\$51.06	87,167
14 November 2019 <sup>(B)</sup>	\$48.50	123,710

<sup>(A)</sup> Tranches disclosed are those with outstanding SPP loans at 30 June 2020 and 30 June 2019.

<sup>(B)</sup> The imputed interest rate of 6.8% was applied to the loan issued on 18 September 2019 and 6.6% was applied to the loan issued on 14 November 2019 to calculate the net present value of the respective loan.

At 30 June 2020, 950,469 MFG ordinary shares were held by Participants (30 June 2019: 911,016).

At 30 June 2020, the estimated weighted average duration of SPP loans, including those that were issued and extended was 0.8 years to 4.6 years (June 2019: 0.7 years to 4.6 years).

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 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 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
- Office equipment (including IT) 3 to 5 years
- Furniture and fittings 3 to 5 years
- Right-of-use asset ("ROU") life of the relevant lease

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 2020				30 June 2019		
	Leasehold Improve- ments	Office Equipment Fixture & Fittings	ROU Assets (A)	Total	Leasehold Improve- ments	Office Equipment Fixture & Fittings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At cost	466	1,873	15,824	18,163	391	1,719	2,110
less: accumulated depreciation	279	1,475	2,158	3,912	232	1,302	1,534
<b>Total property, plant &amp; equipment</b>	<b>187</b>	<b>398</b>	<b>13,666</b>	<b>14,251</b>	<b>159</b>	<b>417</b>	<b>576</b>
Movements:							
Carrying amount at beginning of year	159	417	-	576	58	566	624
Change on adoption of AASB 16 <sup>(B)</sup>	-	-	15,817	15,817	-	-	-
Restated amount at beginning of year	159	417	15,817	16,393	58	566	624
Additions	75	188	-	263	128	244	372
Disposals	-	-	-	-	-	(7)	(7)
Depreciation expense	(47)	(210)	(2,158)	(2,415)	(27)	(389)	(416)
Net foreign exchange differences	-	3	7	10	-	3	3
<b>Carrying amount at end of year</b>	<b>187</b>	<b>398</b>	<b>13,666</b>	<b>14,251</b>	<b>159</b>	<b>417</b>	<b>576</b>

<sup>(A)</sup> Relates to the Group's leases on office premises and office equipment following the adoption of AASB 16 on 1 July 2019.

<sup>(B)</sup> The Group has not restated the comparative period. Refer to note 1(d) for the impact of initial adoption of AASB 16.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 10. Payables and Lease Liabilities

#### (a) 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
	2020	2019
	\$'000	\$'000
Trade payables and accruals	10,076	9,366
Unsettled trades	14	3,843
Accrued employee entitlements	22,019	16,185
Taxes payable - GST and Fringe Benefits Tax	2,280	2,399
Financial liabilities at fair value through profit or loss	293	-
<b>Total payables</b>	<b>34,682</b>	<b>31,793</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 date. A liability is recognised for annual cash bonuses paid within three months of reporting date, where the Group is contractually obliged or where there is past practice that has created a constructive obligation to pay the bonus under the employee bonus plan. Where 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 is conditional on the employee being employed at the time of payment, the bonus paid each month is expensed in the Consolidated Statement of Profit or Loss as incurred. At 30 June 2020, a liability is recognised for the unpaid conditional deferred cash bonus amounts brought forward that will be payable within three months of 30 June 2020.

At 30 June 2020, the cumulative total of conditional deferred cash bonuses unpaid by the Group was \$4,387,000 (30 June 2019: \$19,906,000) and is a contingent liability. Subject to the vesting conditions being met, \$2,721,000 will be payable during the year ended 30 June 2021 and \$1,667,000 during the year ended 30 June 2022. The amount unpaid at 30 June 2020 related to bonuses awarded in the financial years ended 2018 and 2019 as no bonuses awarded in 2020 had a deferred component.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 10. Payables and Lease Liabilities (continued)

#### (b) Lease Liabilities

At the commencement of a lease, the Group recognises a liability for the present value of future lease payments under the lease contract ('lease liability') and an asset representing the right-to-use the leased asset over the lease term ('right-of-use asset'), which is included within property, plant and equipment on the Statement of Financial Position. A right-of-use asset is measured at cost, which is the amount of the initial measurement of the lease liability and any initial direct costs in obtaining the leased asset. The right-of-use asset is depreciated over the shorter of the leased asset's useful life or lease term and depreciation expense is recognised separately in profit or loss.

The lease liability is discounted using the weighted average of the Group's incremental borrowing rate, unless an interest rate is stated within the lease. The liability is remeasured upon the occurrence of certain events, such as a change in the lease term or lease payments. The amount of any re-measurement in the lease liability is adjusted against the right-of-use asset. Interest expense arising on the amortisation of the lease liability over the lease term is recognised in 'finance costs' in profit and loss. Payments associated with short term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short term leases have a term of 12 months or less and low-value assets comprise small items of technology and office equipment.

The current and non-current lease liabilities recognised on the Statement of Financial Position at 30 June 2020 totalling \$17,288,000 relate to leases over office premises and office equipment. The contracts are typically for fixed periods of up to 10 years. Interest expense on lease liabilities, which is classified as depreciation expense in the Statement of Profit or Loss, for the year ended 30 June 2020 was \$732,000 (June 2019: nil).

#### Maturities of Liabilities

At 30 June 2020, the Group's financial liabilities comprise trade creditors and payables which mature in 1 year or less (June 2019: 1 year or less). Of the Group's lease liabilities, \$2,411,000 will mature within one year (June 2019: nil), \$10,199,000 will mature later than one year but no later than five years (June 2019: nil) and \$4,678,000 will mature over five years (June 2019: nil).

### 11. Provisions

		Consolidated Entity	
		30 June	30 June
		2020	2019
		\$'000	\$'000
	Note		
Employee entitlements - long service leave	(i)	1,419	1,472
Other		18	330
<b>Total current provisions</b>		<b>1,437</b>	<b>1,802</b>
Employee entitlements - long service leave	(i)	1,314	722
Other employee entitlements		1,706	763
Other		90	569
<b>Total non-current provisions</b>		<b>3,110</b>	<b>2,054</b>

#### (i) 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 are 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.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 12. Financial Assets

	Consolidated Entity	
	30 June	30 June
	2020	2019
	\$'000	\$'000
<b>(i) Financial assets at amortised cost</b> - Term deposits <sup>(A)</sup>	2,017	2,009
<b>Total current financial assets</b>	<b>2,017</b>	<b>2,009</b>
<b>(ii) Financial assets at fair value through profit or loss</b>		
<b>Investments in equity securities (by domicile of primary stock exchange)</b>		
- United States	6,320	6,285
- Europe and United Kingdom	1,243	1,234
- Asia	476	-
- Australia	119	-
<b>Investments in Active ETF's/ASX listed trusts<sup>(B)</sup></b>		
- Magellan Global Equities Fund	84,076	79,218
- Magellan Global Equities Fund (Currency Hedged)	21,823	21,632
- Magellan Infrastructure Fund (Currency Hedged)	11,903	13,101
- Magellan Global Trust <sup>(C)</sup>	7,401	4,215
- Magellan High Conviction Trust <sup>(D)</sup>	4,770	-
<b>Total Active ETF's/listed investments</b>	<b>138,131</b>	<b>125,685</b>
<b>Investments in unlisted funds<sup>(B)</sup></b>		
- Magellan Global Fund	144,551	138,191
- Magellan Global Fund (Hedged)	927	921
- Magellan High Conviction Fund	40,533	39,398
- Magellan Wholesale Plus Global Fund	9,796	9,020
- Magellan Wholesale Plus Infrastructure Fund	5,742	6,330
- Frontier MFG Core Infrastructure Fund	7,180	7,245
- Frontier MFG Global Plus Fund	11,734	10,703
- Frontier MFG Global Sustainable Fund <sup>(E)</sup>	15,157	-
- Frontier Caravan Emerging Markets Fund <sup>(F)</sup>	21,039	-
- MFG Global Sustainable Fund <sup>(G)</sup>	1,630	1,569
- Other	-	22
<b>Total unlisted investments</b>	<b>258,289</b>	<b>213,399</b>
<b>Total non-current financial assets</b>	<b>396,420</b>	<b>339,084</b>

(A) Comprises term deposits which are held with major Australian banks 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 2020 the Group held the following investments: Magellan Global Equities Fund 5.0% (June 2019: 5.6%), Magellan Global Equities Fund (Currency Hedged) 9.9% (June 2019: 21.4%), Magellan Infrastructure Fund (Currency Hedged) 1.9% (June 2019: 3.5%), Magellan Global Trust 0.3% (June 2019: 0.2%), Magellan High Conviction Trust 0.6% (June 2019: nil), Magellan Global Fund 1.3% (June 2019: 1.3%), Magellan Global Fund (Hedged) 0.1% (June 2019: 0.2%), Magellan High Conviction Fund 8.6% (June 2019: 6.9%), Magellan Wholesale Plus Global Fund 1.0% (June 2019: 1.0%), Magellan Wholesale Plus Infrastructure Fund 7.3% (June 2019: 16.7%), Frontier MFG Core Infrastructure Fund 1.2% (June 2019: 1.3%), Frontier MFG Global Plus Fund 2.6% (June 2019: 3.5%), Frontier MFG Global Sustainable Fund 99.0% (June 2019: nil), Frontier Caravan Emerging Markets Fund 79.6% (June 2019: nil) and MFG Global Sustainable Fund 100.0% (June 2019: 4.7%).

(C) MFG purchased 2,373,305 units for \$4,142,500 and sold 578,027 units for \$1,004,611 during the year ended 30 June 2020.

(D) MFG purchased 3,406,174 units for \$4,985,915 and sold nil units during the year ended 30 June 2020.

(E) On 9 October 2019, MFG purchased 1,000,000 units for US\$10,000,000 to seed the fund.

(F) On 4 December 2019, MFG purchased 1,600,000 units for US\$16,000,000 to seed the fund.

(G) On 30 June 2020, MFG redeemed 90 shares in MFG Global Sustainable Fund (Share Class S) for US\$10,106 and purchased 90 shares in MFG Global Sustainable Fund (Share Class Accumulating USD) for US\$10,106.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 12. Financial Assets (continued)

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

	Consolidated Entity	
	30 June	30 June
	2020	2019
	\$'000	\$'000
<b>Current</b>		
Opening balance at 1 July	2,009	1,972
Cash placed on term deposit	2,379	2,151
Matured term deposits	(2,371)	(2,114)
<b>Closing balance</b>	<b>2,017</b>	<b>2,009</b>
<b>Non-current</b>		
Opening balance at 1 July	339,084	274,567
Acquisitions	52,437	22,713
Disposals	(5,344)	(2,147)
Net change in fair value		
- Realised	388	577
- Unrealised	7,062	40,136
Net change in fair value recorded as dividend and distribution income	2,793	3,238
<b>Closing balance</b>	<b>396,420</b>	<b>339,084</b>

#### Accounting Policies

##### Initial Recognition and Measurement

Financial assets are classified, at initial recognition, based on whether they will be subsequently measured at amortised cost or fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures financial assets at their fair value.

##### Subsequent Measurement

Financial assets at fair value through profit or loss are carried in the Statement of Financial Position at fair value with the net change in fair value recognised in the statement of profit or loss. The net change in fair value does not include dividend and distribution income. Financial assets at fair value through profit or loss are classified as non-current assets unless management intends to dispose of the assets within 12 months of reporting date.

Financial assets at amortised cost are carried using the effective interest rate method. Gains or losses are recognised in profit or loss when the financial asset is derecognised or impaired. The Group assesses on a forward looking basis the expected credit losses associated with financial assets at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Purchases and sales are recognised on trade date, being the date the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. 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 2020

### 13. Contributed Equity

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

		Consolidated Entity	
	Note	30 June 2020 \$'000	30 June 2019 \$'000
Ordinary Shares	(a)	525,271	243,150
<b>Total contributed equity</b>		<b>525,271</b>	<b>243,150</b>

Consolidated Entity				
	30 June 2020 Number of shares '000	30 June 2019 Number of shares '000	30 June 2020 \$'000	30 June 2019 \$'000
<b>(a) Ordinary Shares</b>				
Opening balance	177,087	176,211	243,150	218,877
Shares issued under institutional placement <sup>(i)</sup>	4,982	-	275,000	-
Shares issued under share purchase agreements <sup>(iii)</sup>	211	88	10,533	2,187
Shares issued for acquisition of FAM <sup>(ii)</sup>	-	788	-	21,672
Expense for loans under share purchase agreements	-	-	311	445
Transaction costs arising on share issues/placement, net of tax	-	-	(3,723)	(31)
<b>Closing balance - Ordinary Shares</b>	<b>182,280</b>	<b>177,087</b>	<b>525,271</b>	<b>243,150</b>

- (i) On 14 August 2019, MFG completed a \$275,000,000 institutional placement whereby 4,981,885 ordinary shares were issued at a price of \$55.20.
- (ii) In accordance with the sale agreement, 689,066 of the 787,507 ordinary shares issued were placed in escrow in the name of the former shareholder. The escrowed shares will be released in equal amounts on the anniversary date of issue, being 1 October, over seven years until 2025. On 1 October 2019, a further 98,438 ordinary shares were released bringing the total number of shares released to 196,879.
- (iii) Of the 182,280,220 ordinary shares on issue, 950,469 ordinary shares are held by employees and Non-Executive Directors under the SPP (June 2019: 911,016). Refer to note 8(a) for further details.

#### Terms and Conditions

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

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 14. Parent Entity Information

		Parent Entity	
	Note	30 June 2020 \$'000	30 June 2019 \$'000
<b>Assets</b>			
Current assets		355,278	165,377
Non-current assets		570,311	497,546
<b>Total Assets</b>		<b>925,589</b>	<b>662,923</b>
<b>Liabilities</b>			
Current liabilities		21,584	23,791
Non-current liabilities		12,926	20,485
<b>Total Liabilities</b>		<b>34,510</b>	<b>44,276</b>
<b>Net Assets</b>		<b>891,079</b>	<b>618,647</b>
<b>Equity</b>			
Contributed equity		525,646	243,525
Retained profits	(a)	8,508	375,122
Profits reserve	(a)	356,925	-
<b>Total Equity</b>		<b>891,079</b>	<b>618,647</b>
Net profit after income tax expense for the year		356,925	358,772
<b>Total comprehensive income for the year</b>		<b>356,925</b>	<b>358,772</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) Profits Reserve

The profits reserve consists of profits transferred from retained profits that are preserved for future dividend payments. The profits reserve will reduce when dividends are paid from this reserve. The movement between retained profits and the profits reserve is as follows:

	30 June 2020		30 June 2019	
	Retained profits \$'000	Profits reserve \$'000	Retained profits \$'000	Profits reserve \$'000
<b>Opening balance - 1 July</b>	375,122	-	247,647	-
Adoption of AASB 9	-	-	57,984	-
Restated opening balance - 1 July	375,122	-	305,631	-
Net profit for the year	356,925	-	358,772	-
Transfer (from)/to profits reserve	(356,925)	356,925	-	-
Dividends paid	(366,614)	-	(289,281)	-
<b>Closing balance</b>	<b>8,508</b>	<b>356,925</b>	<b>375,122</b>	<b>-</b>

#### (b) Contingent Assets and Liabilities

At 30 June 2020, MFG has no contingent assets (June 2019: nil) and a contingent liability to pay an amount to MHH and MGG, at each distribution period where a DRP is offered, to ensure unitholders in MHH and MGG suffer no dilution where a unitholder of MHH or MGG participates in the respective DRP. Refer to note 20 (b) for further details.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 15. Subsidiaries

At 30 June, the Group's subsidiaries were:

	Note	Country of incorporation/ Principal place of business	% equity interest <sup>(a)</sup>	
			30 June 2020	30 June 2019
Magellan Asset Management Limited ("MAM")		Australia	100	100
- Airie Funds Management Pty Limited ("Airie")	(b)	Australia	-	100
MRTF Pty Limited ("MRTF")	(c)	Australia	100	100
Magellan Capital Partners Pty Limited ("MCP")		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	80
- Frontier Partners Inc.		United States of America	100	100
- Frontegra Strategies LLC		United States of America	100	100
- Frontegra Asset Management Inc.		United States of America	100	100
- MFG High Conviction Master Fund GP LLC		United States of America	100	100

(a) The proportion of ownership interest is equal to the proportion of voting power held.

(b) During the year, the business activities of Airie were transferred to its parent entity MAM, and Airie was deregistered on 5 August 2020.

(c) MRTF (formerly MGT Investment Corp Pty Limited) was a special purpose vehicle formed on 9 August 2017 to subscribe for loyalty units for eligible unitholders of MGG under the priority offer.

(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 is 20% owned by a former shareholder of the Frontier Group. 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.

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

All material subsidiaries have a 30 June reporting date.

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. The foreign exchange differences arising on translation are recognised in 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 comprehensive income.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 16. Magellan High Conviction Trust IPO

On 3 October 2019, MFG announced that MHH raised \$862 million from an IPO. MHH is a closed end fund which replicates the Magellan High Conviction Fund investment strategy. On 8 October 2019, units in MHH were allotted and on 11 October 2019, MHH commenced trading on the ASX. The costs of the IPO were paid by MFG, which ensured the opening cash net asset value per unit of MHH was equal to the application unit price of \$1.50.

The offer comprised a priority offer to underlying investors in MFG, MGG and the Magellan High Conviction Fund and a wholesale/general public offer. Under the priority offer, eligible applicants could apply for up to 33,334 units equivalent to \$50,001 and receive a loyalty reward of additional units ("Loyalty Units") worth 7.5% of the value of the units allotted to them under the priority offer subject to the terms and conditions outlined in the Product Disclosure Statement ("PDS"). In addition, applicants under the wholesale/general public offer could receive additional units ("IPO Foundation Units") worth 2.5% of the value of the units allotted to them subject to the terms and conditions outlined in the PDS.

On 15 January 2020, a total of 34,447,931 Loyalty Units and IPO Foundation Units were allotted as ordinary units in MHH. MFG paid \$57,752,000 to MHH, being the economic cost associated with the issue of Loyalty Units and IPO Foundation Units, on 15 January 2020. The costs relating to the IPO are treated as deductible over five years for income tax purposes.

The offer costs borne by the Group totalled \$59,482,000, comprising:

- Costs relating to the IPO of \$1,730,000 (included in expenses in profit and loss);
- The cost of issuing 34,447,931 Loyalty Units and IPO Foundation Units at the application unit price of \$1.50 which amounted to \$51,672,000 (included in expenses in profit and loss); and
- The increase in the cost of issuing Loyalty Units and IPO Foundation Units due to changes in the MHH net asset value per unit from the IPO date up to 15 January 2020 of \$6,080,000. The cost of these changes was partially offset against the gains earned from financial assets held in the Principal Investment Portfolio that largely mirrored the MHH strategy.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 17. Intangibles

Consolidated Entity			
30 June 2020	Definite lives	Indefinite lives	
	Customer Relationships	Goodwill	Total
	\$'000	\$'000	\$'000
At cost	25,911	105,252	131,163
less: accumulated amortisation and impairment	(10,611)	-	(10,611)
<b>Total intangible assets</b>	<b>15,300</b>	<b>105,252</b>	<b>120,552</b>
Movement:			
Carrying amount at beginning of year	19,805	104,703	124,508
Amortisation expense	(4,689)	-	(4,689)
Net foreign exchange differences	184	549	733
<b>Carrying amount at end of year</b>	<b>15,300</b>	<b>105,252</b>	<b>120,552</b>
30 June 2019	Definite lives	Indefinite lives	
	Customer Relationships	Goodwill	Total
	\$'000	\$'000	\$'000
At cost	25,727	104,703	130,430
less: accumulated amortisation and impairment	(5,922)	-	(5,922)
<b>Total intangible assets</b>	<b>19,805</b>	<b>104,703</b>	<b>124,508</b>
Movement:			
Carrying amount at beginning of year	21,529	83,489	105,018
Acquisition of subsidiaries	2,418	20,198	22,616
Amortisation expense	(4,518)	-	(4,518)
Net foreign exchange differences	376	1,016	1,392
<b>Carrying amount at end of year</b>	<b>19,805</b>	<b>104,703</b>	<b>124,508</b>

Intangible assets comprise goodwill and customer relationships resulting from the acquisition of Airlie and the Frontier Group.

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.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 17. Intangibles (continued)

#### *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.

All goodwill has been allocated to one cash generating unit (CGU), being the Funds Management segment (FM CGU) (refer to note 2). The recoverable amount of the FM CGU has been determined using the value-in-use approach. Value-in-use represents the present value of the CGU's estimated future pre-tax cash flows of fee revenue, net income and operating expenses.

The estimated future cash flows are based on financial budgets approved by the Directors for a period of one year. Cash flows beyond the approved budget period are extrapolated using a growth rate of 6% based on external forecasts of long-term global equity market returns. A pre-tax discount rate of 12% was applied to the cash flow projections.

The current economic conditions, impacts arising from COVID-19 and the Funds Management segment performance, has been considered in the impairment testing. With consideration of those factors, no reasonably possible change in a key assumption used in the determination of the recoverable amount is expected and as a result there was no impairment of goodwill at 30 June 2020.

#### **Key Estimates 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 recognised in the Consolidated Statement of Financial Position is impaired. 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 2020

### 18. 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 15 and transactions with the related parties are set out below.

#### (c) Key Management Personnel ("KMP")

The Directors and senior executives considered KMP 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
Hamish Douglass	Chairman and Chief Investment Officer	21 November 2006
Brett Cairns	Chief Executive Officer	22 January 2007
John Eales	Non-Executive Director	1 July 2017
Robert Fraser	Non-Executive Director and Chairman of MAM	23 April 2014
Paul Lewis	Non-Executive Director	20 December 2006
Hamish McLennan	Non-Executive Director and Deputy Chairman	1 March 2016
Karen Phin	Non-Executive Director	23 April 2014

No Director has or has had any interest in a contract entered into up to the date of this report with the Company or any related entity other than as disclosed in this report.

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

Other KMP as disclosed below are those whom, the Board deemed, most accurately met the definition during the financial year:

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 2020 \$	30 June 2019 \$
Short term benefits		
- Salary	5,693,776	5,520,861
- Cash bonus	4,969,344	3,075,666
Post-employment benefits	131,824	131,871
Long-term benefits	158,803	40,739
Other benefits	262,840	(47,879)
<b>Total remuneration paid to KMP</b>	<b>11,216,587</b>	<b>8,721,258</b>

Refer to section 3.4 of the Remuneration Report for further details.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 18. Related Party Disclosures (continued)

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

The following transactions occurred with entities in the Group:

		30 June 2020	30 June 2019
	Note	\$	\$
<b>Revenue with Controlled Entities</b>			
Dividends	(i)	385,414,562	332,306,213
Reimbursed expenses		231,750	201,581
<b>Expenses with Controlled Entities</b>			
Expense reimbursements		22,081	51,509
<b>Outstanding balances with Controlled Entities</b>			
Receivables			
- Tax funding agreement - receivable	(ii)	12,595,407	17,935,731
- Tax funding agreement - received	(ii)	131,949,399	105,956,905
- Loan receivable		-	5,344
- Loan received		5,344	-
<b>Equity contribution to Controlled Entities</b>			
- Cash		-	4,837,260
- Non-cash		-	21,672,193
<b>Equity returned from Controlled Entities</b>			
- Cash		-	97,391
<b>Transfer Pricing between Controlled Entities</b>			
- Service fees		23,073,055	14,368,631
- Recharged expenses		8,537	1,528,736

- (i) Dividends to MFG from MAM totalled \$385,414,562 (June 2019: \$332,127,844 paid by MAM and \$178,369 paid by MFGS).
- (ii) During the year ended 30 June 2020, MAM, Airlie and MCP's income tax liabilities of \$126,609,075 (June 2019: \$104,311,529) were assumed by MFG, the head entity of the tax consolidated group. Payments totalling \$128,356,674 (June 2019: \$101,870,170) were received by MFG from MAM under the tax funding agreement during the year and \$12,532,430 was receivable by MFG from MAM in respect of amounts arising from the transfer of MAM's tax liability to MFG (June 2019: \$17,394,661). Payments totalling \$3,592,726 were received by MFG from Airlie under the tax funding agreement and nil was receivable by MFG from Airlie in respect of amounts arising from the transfer of Airlie's tax liability to MFG (June 2019: \$541,070). Payments totalling nil were received by MFG from MCP under the tax funding agreement and \$62,977 was receivable by MFG from MCP in respect of amounts arising from the transfer of MCP's tax liability to MFG (June 2019: 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 2020

#### 19. 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 Board of Directors is committed to prudent capital management and a conservative approach to protect shareholder value. The approach to capital management is to ensure the Group continues as a going concern, has sufficient liquidity to meet its operating requirements, is able to support the payment of dividends to shareholders in accordance with the Group's dividend policy, and retains the flexibility to retain capital if required for future business expansion. The Directors recognise and believe that the Group's core business, funds management, is scalable over time and funds under management should continue to grow without the need to make material additional capital investment into the business.

The Group's capital consists entirely of shareholder equity and in 2020, the Board approved the formation of the profits reserve to preserve the Company's capacity to pay future dividends. The Group also has access to an undrawn credit facility at 30 June 2020 (refer note 19 (c) for further detail) and may also vary the amount of dividends paid, issue new shares or introduce a dividend reinvestment plan.

The Group is also subject to external financial requirements by virtue of holding an Australian Financial Services Licence ("AFSL"). During the year ended 30 June 2020, MAM, as the AFSL holder, 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.

##### (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, 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 cashflows forecasts, has access to an undrawn credit facility (discussed below) and liquid equity investments held in the Principal Investments Portfolio. The Board of Directors has internal policies with respect to minimum liquid assets and cash.

As at 30 June 2020, the Group had an obligation to settle trade creditors and other payables of \$34,682,000 (June 2019: \$31,793,000) within 30 days. In addition, a further obligation of \$20,179,000 (June 2019: \$19,355,000) is payable between 30-150 days for the Group's tax instalment and final income tax payment. Furthermore, the dividend of 122.0 cents per share in respect of the six months ended 30 June 2020, amounting to \$222,382,000, will be paid on 26 August 2020 (refer to note 4(a)). The Group had cash of \$437,513,000 (June 2019: \$198,188,000) and a further \$127,206,000 (June 2019: \$123,812,000) of receivables to cover these liabilities.

At 30 June 2020, the Group reported current assets of \$577,118,000 and current liabilities of \$58,709,000 resulting in a net current asset surplus of \$518,409,000. After taking into account the final and performance fee dividend for the year ended 30 June 2020 totalling \$222,382,000, this would result in a net current asset surplus of \$296,027,000. Accordingly, the Group has sufficient liquid funds and current assets to meet its current liabilities.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

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

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

The Group has access to a floating rate facility provided by a major Australian bank which may be drawn at any time up to 4 October 2020. At 30 June 2020, this facility was undrawn and the financial covenants were complied with during the year. A facility fee applies on the undrawn facility and for the year ended 30 June 2020 this amounted to \$426,000 (June 2019: \$425,000) which has been disclosed as finance costs in the Consolidated Statement of Profit or Loss. The Group has received an extension of the facility for a further three years following expiry but the Directors have not signed the extension at the date of this report.

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. Finance costs related to interest expense on lease liabilities are disclosed in note 10 (b).

#### (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 -5% (in USD) and +33% and -1% (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 could occur within the portfolio.

During the year the Group increased the price risk rate assumption to 10% (June 2019: 5%) due to the material value of investments held by the Group, the effect changes in equity prices have on the Group's net profit and the impact of COVID-19. For illustrative purposes, an increase of 10% in market prices would have had the following impacts:

	Consolidated Entity	
	30 June 2020 \$'000	30 June 2019 \$'000
<b>10% increase in market prices would result in:</b>		
- higher net change in fair value of financial assets	27,749	23,736
<b>Impact on net profit after tax/other comprehensive income and equity</b>	<b>27,749</b>	<b>23,736</b>
<b>10% increase in average value of funds under management would result in:</b>		
- higher base management fees	45,159	35,739
<b>Impact on net profit after tax and equity</b>	<b>45,159</b>	<b>35,739</b>

A decrease of 10% in each risk factor above would have an equal but opposite impact on net profit, 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.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

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

#### (d) Price Risk (continued)

##### Assumptions and explanatory notes (continued)

- Changes in market prices may impact inflows to, and outflows from, the Group's funds under management. This impact has not been estimated.

#### (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, British pound, Euros and New Zealand dollars.

For illustrative purposes, 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 after tax would have been:

Consolidated Entity								
	Increase/(decrease) in net profit				Increase/(decrease) in equity			
	USD	GBP	Other	Total	USD	GBP	Other	Total
30 June 2020	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets and liabilities</b>								
Cash and cash equivalents	(3,988)	(7)	(13)	(4,008)	3,988	7	13	4,008
Investments	(4,013)	(14)	(94)	(4,121)	4,013	14	94	4,121
Receivables	(2,434)	(832)	(18)	(3,284)	2,434	832	18	3,284
Payables	261	4	27	292	(261)	(4)	(27)	(292)
Lease liabilities	24	-	-	24	(24)	-	-	(24)
<b>30 June 2019</b>								
<b>Financial assets and liabilities</b>								
Cash and cash equivalents	(2,519)	(6)	(13)	(2,538)	2,519	6	13	2,538
Investments	(1,642)	(14)	(76)	(1,732)	1,642	14	76	1,732
Receivables	(2,441)	(706)	(10)	(3,157)	2,441	706	10	3,157
Payables	275	2	2	279	(275)	(2)	(2)	(279)

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. Investments in the Magellan Funds and the Frontier MFG and MFG UCITS Funds (refer note 12) are denominated in Australian and US dollars respectively. The underlying investment portfolios of these funds comprise entities predominantly denominated in foreign currencies and with operating exposure to global currencies. As a result, changes in their fair values are therefore influenced by movements in currencies. The sensitivity analysis disclosed above disregards the impact of the foreign currency movement on the underlying portfolios.

In addition, the Group's management and performance fees are also indirectly exposed to fluctuations in foreign currency where fees are invoiced in a different currency to the underlying investment portfolio. For the year ended 30 June 2020, approximately 87% of the Group's management and performance fees were indirectly exposed to movements in the Australian dollar relative to other currencies (June 2019: 85%).

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

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

#### (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. Term deposits are of relatively short duration and their fair value would not be materially affected by changes in interest rates.

Cash and cash equivalents held by the Group are predominantly held with Australian financial institutions and changes in the value of cash balances are sensitive to the RBA cash rate. In light of the low interest rate environment, the Group's primary bankers have confirmed that no negative interest rates will be applied to the Group's cash balances. During the year the Group's interest risk rate assumption reduced to 25 basis points (June 2019: 50 basis points), which reflects the current Reserve Bank of Australia ("RBA") cash rate. Cash and cash equivalents held by the Group are predominantly held with Australian financial institutions and changes in the value of cash balances are sensitive to the RBA cash rate. For illustrative purposes, the sensitivity on the Group's net profit and equity to a 25 basis point decrease in floating interest rates, assuming all other variables remain constant and based on the cash and cash equivalents held by the Group at reporting date, is \$845,000 for the year ended 30 June 2020 (June 2019: \$382,000). A 25 basis point increase would have an equal but opposite impact on the Group's net profit and equity.

#### (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 2020, the Group held cash and term deposits with major Australian and international banks. The credit quality of Australian banks counterparties at 30 June 2020 was rated by Standard & Poor's as being AA-, and by Moody's as being Aa3 (AA- and Aa3 respectively at 30 June 2019). The credit quality of the international bank counterparties at 30 June 2020 was rated by Moody's as A3 (A1 at 30 June 2019).

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 2020 and 2019, 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 expected credit losses were required to be recognised at 30 June 2020 (June 2019: nil). The Group also had credit exposure to SPP Participants with loans under the SPP. At 30 June 2020, the outstanding balance on the loans totalled \$18,086,016 (June 2019: \$11,908,161). At 30 June 2020, the total shortfall was nil (June 2019: 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, Magellan High Conviction Trust, Airlie Australian Share Fund and The Airlie Concentrated Share Fund. The credit quality of NT's senior debt is rated, as at 30 June 2020 by Standard and Poor's as A+ and by Moody's as A2 (A+ and A2 respectively at 30 June 2019). In acting as custodian, NT is required to comply with the relevant provisions of the Corporations Act, applicable ASIC

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

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

#### (g) Credit Risk (continued)

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.

The Group has four types of financial assets that are subject to the expected credit loss (ECL) model:

- Cash and cash equivalents;
- Term deposits carried at amortised cost;
- Trade receivables from the provision of services; and
- Loans

The expected credit losses for the above financial assets were assessed as not material during the year ended 30 June 2020.

#### (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 date. 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 comprehensive income.

The Group does not hedge translation risk.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 19. 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 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 2020</b>					
<b>Financial assets measured at fair value</b>					
Investments in quoted/listed investments	12	138,131	-	-	138,131
Investments in unlisted funds <sup>(i)</sup>	12	-	258,289	-	258,289
<b>Total financial assets measured at fair value</b>		<b>138,131</b>	<b>258,289</b>	<b>-</b>	<b>396,420</b>
<b>30 June 2019</b>					
<b>Financial assets measured at fair value</b>					
Investments in quoted/listed investments	12	125,685	-	-	125,685
Investments in unlisted funds <sup>(i)</sup>	12	-	213,377	22	213,399
<b>Total financial assets measured at fair value</b>		<b>125,685</b>	<b>213,377</b>	<b>22</b>	<b>339,084</b>

(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 was an investment in a single private equity fund that was liquidated during the year.

There were no transfers between any level during the year ended 30 June 2020 or 2019 and the Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting date. At 30 June 2020, the fair value of the level 3 assets is nil (June 2019: \$22,000) and the decrease in level 3 assets during the year is due to the liquidation of the unlisted fund.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 30 June 2020

## 20. Contingent Assets, Contingent Liabilities and Commitments

### (a) Commitments

The minimum payments in relation to non-cancellable agreements are as follows:

	Consolidated Entity	
	30 June 2020 \$'000	30 June 2019 \$'000
Within one year	33	3,165
Later than one year but no later than five years	11	12,460
More than five years	-	8,454
<b>Total</b>	<b>44</b>	<b>24,079</b>

At 30 June 2019, commitments comprised non-cancellable amounts under operating leases. From 1 July 2019, these leases have been accounted for as a right-of-use asset (refer note 9) and lease liabilities (refer note 10(b)) on the Statement of Financial Position in accordance with AASB 16. Refer to note 1(d) for further details. At 30 June 2020, commitments relate to non-cancellable amounts under short term and low value lease agreements.

### (b) Contingent Assets and Contingent Liabilities

In accordance with the terms of the deeds entered into with MGG and MHH, MFG will pay MGG and MHH an amount equal to the DRP discount. As a result, MFG has a contingent liability where MGG or MHH offer 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 MHH and the amount is currently equal to a 5% discount to the respective Net Asset Value ("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 2020, \$1,032,000 was paid or payable by the Group to in respect of MGG and MHH DRP (June 2019: \$505,000).

The Group has contingent assets in respect of performance fees carried forward at reporting date (refer to note 5(b)).

Other than the above, the Group has no material contingent assets or contingent liabilities as at 30 June 2020 (June 2019: nil).

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 21. Auditor's Remuneration

Amounts received or due and receivable by the auditors of the Group:

	Consolidated Entity	
	30 June	30 June
	2020	2019
	\$	\$
<b>Ernst &amp; Young Australia</b>		
<b>Audit services</b>		
Audit and review of the financial reports:		
- Group and controlled entities	136,000	191,500
- Magellan Funds <sup>(A)</sup>	284,600	229,300
Other assurance services <sup>(B)</sup>	141,750	169,700
	562,350	590,500
<b>Non-audit services</b>		
Taxation <sup>(C)</sup>	352,715	149,398
<b>Total remuneration of Ernst &amp; Young Australia</b>	<b>915,065</b>	<b>739,898</b>
<b>Network firms of Ernst &amp; Young Australia</b>		
<b>Audit services</b>		
Audit of the financial report - MFG Investment Fund Plc	67,552	66,535
	67,552	66,535
<b>Non-audit services</b>		
Taxation	59,383	24,339
<b>Total remuneration of network firms of Ernst &amp; Young Australia</b>	<b>126,935</b>	<b>90,874</b>
<b>Other audit firms<sup>(D)</sup></b>		
<b>Audit services</b>		
Audit of the financial report- Frontegra Strategies, LLC.	17,429	18,568
Other assurance services	2,512	51,000
	19,941	69,568
<b>Non-audit services</b>		
Taxation	1,582	66,926
<b>Total remuneration of other audit firms</b>	<b>21,523</b>	<b>136,494</b>
<b>Total auditor's remuneration</b>	<b>1,063,523</b>	<b>967,266</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, Magellan High Conviction 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 audits, audit of ICRs for the Magellan Funds, compliance reviews, accounting advice, reviews of controls and investigating accountant assurance services related to PDS issuances.

(C) Non-audit services consist of income tax return reviews for the Group \$15,400 (June 2019: \$15,200), tax advisory services \$247,315 (June 2019: \$52,498) and income tax and distribution reviews for the Magellan Funds \$90,000 (June 2019: \$81,700).

(D) Plante Moran is the appointed auditor of the Frontier Group in the United States. Non-audit services consist of income tax return reviews.

# MAGELLAN FINANCIAL GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2020

### 22. Subsequent Events

On 7 August 2020, the Group reported to the ASX that its funds under management was \$98.5 billion as at 31 July 2020.

On 3 August 2020, the Group announced a restructure proposal to simplify MAM's Global Equities retail product offering. The restructure is proposed to occur via a consolidation of the unlisted opened-ended Magellan Global Fund, the listed opened-ended Magellan Global Equities Fund and the listed closed-ended Magellan Global Trust into a single fund with two unit classes – an Open Class and a Closed Class. The units of the merged trust – the Magellan Global Fund – are intended to be quoted on ASX.

Post completion of the restructure, the enlarged Magellan Global Fund intends to undertake a one-for-four entitlement offer to its unitholders to subscribe for new Closed Class Units with an attached bonus three-year option. Unitholders will have the ability to subscribe for new Closed Class Units under the entitlement offer at the prevailing NAV per Unit and receive a valuable partnership benefit in the form of additional Closed Class Units worth 7.5% of the value of their subscription. Applicants who are allotted new Closed Class Units will also receive one option for each new Closed Class Unit issued under the entitlement offer with each option exercisable into one Closed Class Unit at an exercise price set at a 7.5% discount to the prevailing NAV per Unit at the time of exercise.

In addition to the entitlement offer above, Magellan Global Fund also proposes to issue a bonus option to Closed Class unitholders in Magellan Global Fund on the basis of one option for every two Closed Class Units held, with each option exercisable into one Closed Class Unit at an exercise price set at a 7.5% discount to the prevailing NAV per Unit at the time of exercise.

MFG will pay the full costs of implementing the restructure and compensate the Magellan Global Fund for the partnership benefits being offered under the entitlement offer and upon exercise of any options. MFG intends to fund the cost of the restructure and any partnership benefits from existing financial resources (including an undrawn corporate debt facility). It is anticipated that MFG will generate an attractive financial return from funding these partnership benefits.

Other than the above matters and the dividend in respect of the six months ended 30 June 2020 (refer to note 4(a)), 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 37 to 79 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 2020 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 2020.

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

A handwritten signature in black ink, appearing to read 'Hamish M Douglass', with a stylized flourish at the end.

**Hamish M Douglass**  
Chairman

12 August 2020



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working world**

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## **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 2020, the consolidated statement of profit or loss, consolidated statement of 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:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2020 and of its consolidated financial performance for the year ended on that date; and
- b) 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 APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (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.



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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, services and performance fees earned by Magellan Asset Management Limited (MAM), a consolidated subsidiary, though the Investment Management Agreements in place with third parties and other Magellan Funds.

For the year ended 30 June 2020, management fees were \$587,246,000 and performance fees were \$80,964,000 which equates to 84.6% and 11.7% of total revenue respectively.

Revenue from management and performance fees is earned and calculated in accordance with the Investment Management Agreements and Constitutions of the funds. Performance fees however are 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, which is at the end of the relevant performance period.

Due to the quantum of these revenue streams and the impact that the variability of market-based returns can have on the recognition and earning of performance fees, this was considered 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

Our procedures included:

- ▶ Recalculating management and services fees, on a sample basis, in accordance with contractual arrangements;
- ▶ Assessing the performance fees recognised for the period to 30 June 2020 from funds and mandates, on a sample basis, and assessing whether they met the relevant recognition criteria. This included assessing the inputs into the calculation model and examining the methodology applied in accordance with contractual arrangements; and
- ▶ Assessing the adequacy of the disclosures in Note 5 to 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 equities and investments in Magellan Funds. As at 30 June 2020, the value of these non-current financial assets, as shown in Note 12 to the financial report was \$396,420,000, which equates to 35.3% of the total assets held by the Group.

As described in Note 12 and Note 19 to the financial report, the Group's investments are classified as 'financial assets at fair value through profit or loss' ("FVTPL") in line with Australian Accounting Standards - AASB 9: Financial Instruments.

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 was a key audit matter.

### How our audit addressed the key audit matter

Our procedures included:

- ▶ Obtaining and considering the assurance reports on the controls of the Group's administrator in relation to investment management services and considering the auditor's opinion, their objectivity and the results of their procedures;
- ▶ Agreeing all investment holdings to third party sources at 30 June 2020;
- ▶ Agreeing the fair value of investments in the portfolio held at 30 June 2020, on a sample basis, to independent pricing sources for listed securities/funds. For unlisted funds, on a sample basis, we agreed the investment valuations to statements from external fund administrators; and
- ▶ Assessing the adequacy of the disclosures in Note 12 and Note 19 to the financial report in accordance with Australian Accounting Standards.

## 3. Consolidation and Equity Accounting Considerations

### Why significant

Consolidation is an area of complexity for the Group with judgements required on whether it has control of, or significant influence over its investments in Magellan Funds.

Investments may be accounted for by consolidation, equity accounting, joint ventures or as investments at fair value. The determination of the appropriate accounting depends upon the ability of the Group to exercise control or significant influence.

### How our audit addressed the key audit matter

Our procedures included:

- ▶ Evaluating the Group's assessment of control or significant influence for the investments, and the accounting treatment and presentation thereon;
- ▶ Evaluating the Group's assessment of their ability to control or have significant influence, in line with their accounting policy, to confirm which entities are required to be equity accounted,

This matter was considered a key audit matter as judgement is required in determining the appropriate accounting, particularly due to the Group's practice of seeding funds, resulting in the ownership percentage changing over time and being dependent on the rate of external investor take up.

The Group's subsidiaries and interests in other entities are disclosed in Note 12 and Note 15 of the financial report.

- consolidated, or accounted for as investments at fair value;
- ▶ Performing our own independent assessment of the impact of consolidating or equity accounting funds to determine if this would have a material impact on the financial report; and
- ▶ Assessing the adequacy of the disclosures in Note 12 and Note 15 in accordance with Australian Accounting Standards.

#### 4. Goodwill Impairment Assessment

##### Why significant

Goodwill has been recognised as a result of the Group's historical acquisitions, representing the excess of the purchase consideration over the fair value of assets and liabilities acquired. On acquisition date, the goodwill has been allocated to the applicable Cash Generating Units ("CGUs"). The group has goodwill of \$105,252,000 as at 30 June 2020.

Goodwill must be tested for impairment on at least an annual basis. The determination of recoverable amount requires judgement on the part of management in both identifying and then calculating the value of the relevant CGUs. Recoverable amounts are based on management's view of variables and market conditions such as future price and assets under management growth rates, the timing of future operating expenditure, and the most appropriate discount and long-term growth rates. As such it was considered a key audit matter.

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

Our audit procedures included the following:

- ▶ Assessing the Group's determination of the CGUs to which goodwill is allocated;
- ▶ Assessing the methodology used to calculate the recoverable amount of each CGU;
- ▶ Agreeing the projected cash flows used in the impairment models to the Board approved plan of the Group;
- ▶ Comparing the Group's implied growth rate assumption to comparable companies;
- ▶ Considering the accuracy of historical cash flow forecasts;
- ▶ Assessing the methodology and assumptions used in the calculation of the discount rate, including comparison of the rate to market benchmarks;
- ▶ Testing the mathematical accuracy of the impairment model for each CGU;
- ▶ Considering the Group's sensitivity analysis and evaluating whether any reasonable foreseeable change in assumptions could lead to a material impairment; and
- ▶ Assessing the adequacy of the disclosures in Note 17 in accordance with Australian Accounting Standards.

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

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 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly 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 relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to 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 the 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 the 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 or 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 related 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, actions taken to eliminate threats and safeguards applied.

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 21 to 34 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Magellan Financial Group Limited for the year ended 30 June 2020, 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.

A handwritten signature in blue ink that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in blue ink that appears to read 'Clare Sporle'.

Clare Sporle  
Partner  
Sydney  
12 August 2020

# MAGELLAN FINANCIAL GROUP LIMITED

## CORPORATE SUSTAINABILITY AND RESPONSIBILITY REPORT

Magellan is committed to acting responsibly and ethically in all areas of its business. Magellan seeks to engender a culture of building trust with everyone who does business with the Group.

### 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. Magellan's Responsible Investment Principles, which are available on our website, outline and summarise Magellan's approach to responsible investing, ESG integration, engagement and proxy voting.

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 most pro cyclical resources, materials and oil and gas companies). Magellan's Investment team's research reports also include a discussion of climate change risks facing companies if material and includes a company's 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 investment 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 profoundly affect 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.

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 a 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 material ESG matters. During the year ended 30 June 2020 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 131 employees, with approximately 82% 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.

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 an environmentally sustainable way. 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.

(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 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	Calendar Year 2018	Calendar Year 2019
Scope 1	0	0	0	0	0
Scope 2	97	124	134	135	139
Total GHG emissions	97	124	134	135	139
Total per employee	1.05	1.14	1.29	1.07	1.07
Total per A\$ million of revenue	0.3	0.4	0.4	0.3	0.2

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 2019 of 0.2 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 if material and includes a company's emissions intensity. If a material risk is identified, the Investment Team will incorporate cash flow impacts (either to capital expenditure or earnings margins) to reflect the cost to the company of addressing or remediating the exposure. In general, the majority of Magellan's investment universe is unlikely to be exposed to material Transition Risks, however there are some companies in the Infrastructure, Industrials and Transportation sectors which have a greater exposure to Transition Risks. These risks will be incorporated into Magellan's assessment of future cash flows when Transition Risks are assessed likely and material. Magellan aims to engage with portfolio companies where it considers a material potential environmental issue has arisen with the objective of reducing risk exposures and enhancing certainty of long-term cash flow generation.

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.

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 2020 (tonnes CO <sub>2</sub> e per \$US million revenue)
Magellan Global Fund	278.1
Magellan Global Trust	239.2
Magellan High Conviction Fund	21.2
Magellan Infrastructure Fund	520.1
Global Sustainable strategy	33.5
US Sustainable strategy	32.0
<i>MSCI World Index (as at 30 April 2020)</i>	<i>162.4</i>

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

## 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 and career development.

### COVID-19

Dr Brett Cairns' CEO Letter on page 5 of this Annual Report outlines how the COVID-19 pandemic has impacted Magellan's business and how Magellan has addressed certain challenges. Importantly, there were no staff reductions as a result of the pandemic and this was communicated to employees at the outset. Magellan recognises the importance of financial prudence in times of uncertainty and determined to freeze salaries going into the 2021 financial year and reduce discretionary bonuses for the 2020 financial year. Further details of which can be found in Magellan's Remuneration Report on page 21 of this Annual Report.

The health and safety of our employees is of paramount importance. As a result of the COVID-19 pandemic and in conjunction with our Workplace Health & Safety Policy, Magellan transitioned to working from home from mid-March 2020 and cancelled business travel as well as attendance at domestic conferences. Our employees have stayed connected via virtual communication platforms and working remotely has not changed Magellan's commitment to maintaining our high level of client service and compliance obligations. Magellan's Employee Assistance Program, a free counselling service available for employees and their families, has been promoted during this time.

Magellan plans to initiate a Return to Workplace Plan when it is safe and practical to do so.

### *Remuneration*

Magellan's Remuneration Report on page 21 of this Annual Report outlines Magellan's approach and philosophy to employee compensation. Our remuneration philosophy is centred on fair compensation for performance and contribution that achieves business outcomes and is underpinned by four principles:

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

Alongside competitive remuneration packages, 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 2020, approximately 70% of employees had an individual shareholding in the Company.

Magellan is focused on ensuring pay equity at the time of hire. Magellan also conducts an annual review of employee remuneration which compares employees in the same role and level to highlight any pay inequalities and adjusts compensation based on this review if required. Variances in compensation should reflect relative performance of employees.

### *Engagement and retention*

Magellan implements a number of other initiatives to promote staff engagement and retention. Magellan's employee engagement strategies are based on equality principles which are applied to remuneration, benefits and total rewards, training and development, health and safety and access to flexible working.

All new starters have a one-on-one meeting with Dr Brett Cairns, Magellan's CEO, to discuss Magellan's history, values and what Magellan stands for. 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. Based on Magellan's relatively small size by number of employees (131 employees as at 30 June 2020), Magellan considers that these forums are appropriate to receive transparent feedback from employees.

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.

Magellan is committed to providing a flexible and family friendly working environment. Magellan recognises the importance of family friendly working conditions and offers a range of initiatives to support its employees before and after the birth/adoption of a child. Magellan's aim is to reduce the impediments parents face in returning to work and give employees the flexibility to choose the arrangements which best suit their circumstances.

Magellan provides Paid Parental Leave up to 12 to 15 weeks (depending on the length of employment), for permanent employees who have worked for Magellan for at least 12 months continuously at the time of the birth or adoption of their child and who have or will have the responsibility for the care of that child. Employees on Paid Parental Leave are eligible for the annual remuneration review, variable incentive and SPP Offer whilst on leave. In addition, if an employee returns to work during the period of Paid Parental Leave, Magellan will continue to pay the remaining period of Paid Parental Leave in addition to their base salary and other entitlements. Magellan offers a "Keep in Touch" Program with employees who are on Paid Parental Leave.

Magellan also offers a Childcare Reimbursement of up to \$150 per day for Primary Carers for the first 26 weeks after returning to work, when returning to work within 12 months from the commencement of Paid Parental Leave. All Primary and Secondary Carers are entitled to a 12 month subscription to Juggle Street to source local nanny or babysitting options for their families.

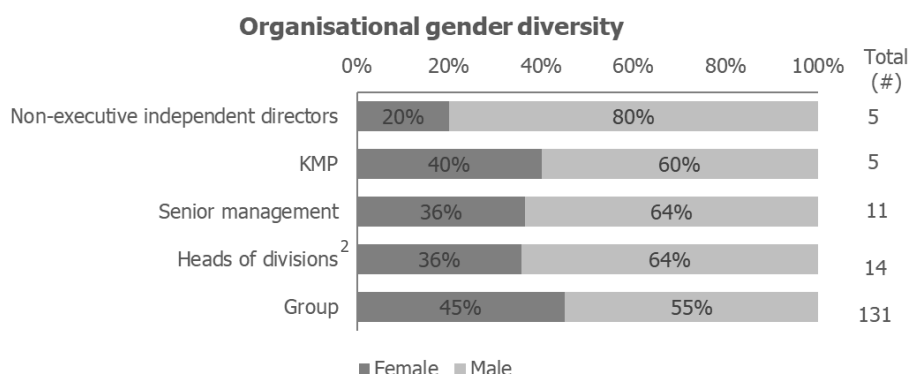
Magellan understands the importance of family and it has introduced Family Leave for all permanent employees. Under Family Leave, if Personal/Sick Leave has been used, employees can apply for Family Leave. Family Leave is paid leave so employees can take time out to care for a family member or manage a family situation. The amount of Family Leave an employee can take will be reviewed by Magellan management on a case by case basis.

At Magellan, culture is very important and the Company will continue to monitor retention rates. Under the equality principles, Magellan aims to understand the reasons for any resignations via exit interview data.

## Diversity

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, religion, sexuality, physical ability or cultural background. The policy can be found on our website: [www.magellangroup.com.au](http://www.magellangroup.com.au).

In the 2020 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 Chairman) and 40% for the overall Group. The current gender representation across the Group is shown below as at 30 June 2020.



In 2018, Magellan became a sponsor of Future IM/Pact, an industry initiative that seeks to promote diversity within the investment management industry. As part of the initiative, a dedicated website has been established to outline what is investment management, how to get started in the industry and current opportunities for industry internships, graduate positions and networking events. The website is available at: <http://www.future-impact.com.au/>. Through this initiative, Magellan hopes to promote careers in investment management to a diverse talent pool.

In 2019, Magellan completed its first Workplace Gender Equality Report. A copy of which can be found under the Shareholder Centre on our website: [www.magellangroup.com.au](http://www.magellangroup.com.au)

## Health and Safety

Magellan maintains a Work Health & Safety Policy which outlines the obligations and responsibilities of Magellan and its employees with respect to compliance with the Work Health & Safety regulation.

Magellan also undertakes annual Workplace Conduct training to ensure that all employees and the Board clearly understand what is expected from them in terms of behaviour and conduct and that the workplace remains a safe environment for all employees.

Magellan's Workplace Conduct Policy details the Group's approach in relation to harassment in the workplace, including bullying, discrimination, sexual harassment, workplace violence and vilification, and provides procedures for dealing with complaints.

## Community

Magellan believes an active contribution to community is important. Magellan does not generally make corporate donations as the Group believes it is more appropriate to focus on delivering satisfactory returns and leave it to individual shareholders to determine the charities to which they donate. Magellan prefers to focus its efforts on employee participation in fund raising initiatives.

Magellan's efforts over the past financial year include:

- Employee participation in JPMorgan Corporate Challenge;
- Employee participation in September raising funds for Cerebral Palsy; and
- Ticket sales of over \$450,000 from Magellan's Investor Evenings in February and March 2020 donated to REACH, Rural Aid & Fly High Billie.

(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 Chairman and CEO.

Magellan is also a participating fund manager in the Future Generation Global Investment Company. 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-profit organisations committed to young Australians affected by mental health issues. In the 2020 financial year, this equated to approximately \$979,513 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 the time of the IPO of the Future Generation Global Investment Company.

Magellan is also a Core Fund Manager to Hearts & Minds Investments. Hearts & Minds Investments is an ASX listed investment company and as a Core Fund Manager, Magellan provides Hearts & Minds Investments with our top three security recommendations on a quarterly basis. Hearts & Minds Investments foregoes any investment fees and instead makes a donation equal to 1.5% of net assets each year to certain charities.

# MAGELLAN FINANCIAL GROUP LIMITED

## CORPORATE INFORMATION

### **Directors**

Brett Cairns – CEO  
Hamish Douglass – Chairman and CIO  
John Eales  
Robert Fraser – Chairman of MAM  
Paul Lewis  
Hamish McLennan – Deputy Chairman  
Karen Phin

### **Company Secretary**

Marcia Venegas

### **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)

### **Auditor**

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 Shareholder Centre at <http://www.magellangroup.com.au>

# MAGELLAN FINANCIAL GROUP LIMITED

## SHAREHOLDER INFORMATION

AS AT 6 AUGUST 2020

### Distribution of Shareholders

Analysis of the numbers of shareholders by size of holding at 6 August 2020 is presented below:

Holding	Number of Holders	Number of Ordinary Shares	Percentage of Shares on Issue %
1-1,000	22,633	7,433,747	4.08
1,001-5,000	5,909	12,958,817	7.11
5,001-10,000	678	4,903,873	2.69
10,001-100,000	629	16,297,067	8.94
100,001 and over	83	140,686,716	77.18
<b>Total</b>	<b>29,932</b>	<b>182,280,220</b>	<b>100.00</b>
Number of holders with less than a marketable parcel of Ordinary Shares	229	567	

### Twenty Largest Shareholders

The names of the 20 largest shareholders of the Company as at 6 August 2020 are listed below:

Holder Name	Number of Ordinary Shares	Percentage of Shares on Issue
HSBC Custody Nominees (Australia) Limited	33,954,450	18.63
JP Morgan Nominees Australia Limited	20,784,710	11.40
Midas Touch Investments Pty Ltd	21,001,577	11.52
Magellan Equities Pty Limited	17,138,949	9.40
Citicorp Nominees Pty Limited	9,712,476	5.33
National Nominees Limited	4,486,559	2.46
Marsev Pty Limited	2,699,724	1.48
BNP Paribas Nominees Pty Ltd	1,980,302	1.09
Mr David Doyle	1,500,000	0.82
Aljamat Pty Ltd	1,310,000	0.72
BNP Paribas Noms Pty Ltd	1,242,767	0.68
Nota Bene Investments Pty Ltd	1,166,619	0.64
Jash Pty Limited	1,130,331	0.62
Emmanuel Capital Pty Ltd	1,000,000	0.55
Netwealth Investments Limited	792,222	0.43
HSBC Custody Nominees (Australia) Limited	776,235	0.43
Mr Brett William Fisher Paton & Mrs Vicki Anne Paton	770,000	0.42
Invia Custodian Pty Limited	750,000	0.41
Invia Custodian Pty Limited	750,000	0.41
Mr Philip Alan Kenneth Naylor & Mrs Andrea Naylor	650,000	0.36
<b>Total shares held by the 20 largest shareholders</b>	<b>123,596,921</b>	<b>67.80</b>
<b>Total ordinary shares on issue</b>	<b>182,280,220</b>	

# MAGELLAN FINANCIAL GROUP LIMITED

## SHAREHOLDER INFORMATION

AS AT 6 AUGUST 2020

### Substantial Shareholders

The substantial shareholders in the Company's Register of Substantial Shareholders at 6 August 2020 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>	22,212,727	12.19
Chris Mackay and associates <sup>(B)</sup>	18,615,610	10.21

<sup>(A)</sup> Date of last Appendix 3Y notice lodged on 31 July 2020

<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.