



Annual Report

for the year ended 30 June 2019

MAGELLAN FINANCIAL GROUP LIMITED: ABN 59 108 437 592

Five year summary⁽¹⁾

		30 June 2019	30 June 2018	30 June 2017	30 June 2016	30 June 2015
Group Results						
Total Revenue	\$'000	617,387	452,598	338,268	333,805	284,912
Total Expenses	\$'000	124,050	181,988	82,141	74,104	54,603
Net Profit Before Tax	\$'000	493,337	270,610	256,127	259,701	230,309
Net Profit After Tax	\$'000	376,947	211,791	196,225	198,357	174,295
Adjusted Revenue ⁽²⁾	\$'000	577,251	452,598	338,268	333,805	284,912
Adjusted Expenses ⁽²⁾	\$'000	104,024	101,010	82,141	74,104	54,603
Adjusted Net Profit After Tax ⁽²⁾	\$'000	364,225	268,897	196,225	198,357	174,295
Effective Tax Rate	%	23.6	21.7	23.4	23.6	24.3
Funds Under Management⁽³⁾						
Average Funds Under Management	\$m	75,819	59,034	45,667	39,437	30,966
Closing Funds Under Management	\$m	86,718	69,509	50,597	40,495	36,381
Funds Under Management comprises:						
- Retail	\$m	23,216	19,182	15,159	12,041	9,809
- Institutional	\$m	63,502	50,327	35,438	28,454	26,572
Average Base Management Fee (per annum) ⁽⁴⁾	bps	62	65	66	66	66
Funds Management Business⁽²⁾						
Total Revenue	\$'000	561,326	428,705	329,188	315,268	255,889
Total Expenses	\$'000	101,537	97,275	80,908	71,483	52,589
Net Profit Before Tax	\$'000	459,789	331,430	248,280	243,785	203,300
Net Profit Before Tax and before performance fees ⁽²⁾	\$'000	376,182	291,841	226,774	196,425	160,401
Employee Expenses/ Total Expenses	%	61.8	53.4	58.5	58.8	59.4
Cost to Income Ratio (expense/revenue)	%	18.1	22.7	24.6	22.7	20.6
Cost to Income Ratio (excluding performance fees)	%	21.3	25.0	26.3	26.5	24.8
Assets						
Total Assets	\$'000	800,291	674,943	493,981	392,379	346,678
Net Assets	\$'000	734,022	620,433	447,611	355,369	303,443
Net Tangible Assets Per Share	\$	3.44	2.92	2.60	2.07	1.78
Shareholder Value						
Basic Earnings Per Share	cents	213.1	122.0	116.9	123.5	109.2
Diluted Earnings Per Share	cents	213.1	122.0	114.1	115.5	101.8
Adjusted Basic and Diluted Earnings Per Share ⁽²⁾	cents	205.9	154.9	114.1	115.5	101.8
Dividends Per Share	cents	185.2	134.5	85.6	89.3	74.9
Franking	%	75	100	100	100	100
Other Information						
Number of Employees		125	124	108	100	91
Average Number of Employees		125	116	104	96	80

(1) Where accounting classifications have changed, or where changes in accounting policy are adopted retrospectively, comparatives have been revised and may differ from results previously reported. The above Consolidated Statement of Profit or Loss and Consolidated Statement of Financial Position extracts are derived from the published financial statements. 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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MAGELLAN FINANCIAL GROUP LIMITED

Chairman's Report for the year ended 30 June 2019

Dear Investor,

I am delighted to write to you as a shareholder in Magellan Financial Group Limited ("Magellan"). Magellan's financial results for the year ended 30 June 2019 are more than satisfactory:

- Magellan's reported net profit after tax increased by 78% to \$376.9 million. Excluding amortisation relating to the acquisitions of Airlie Funds Management and Frontier Partners, the gains in our Principal Investments portfolio and the costs associated with capital raisings for our funds, Magellan's adjusted profit after tax increased by 35% to \$364.2 million.
- Total dividends (interim, final and performance fee dividends) increased by 38% to 185.2 cents per share.
- Net profit before tax and before performance fees for the Funds Management Segment increased by 29% to \$376.2 million. Including performance fees, net profit before tax for the Funds Management Segment increased by 39% to \$459.8 million.

I encourage you to read the CEO report by Brett Cairns which provides a comprehensive review of our 2018/19 financial results.

I am pleased to report that the management changes we announced in October 2018, where Brett Cairns was appointed CEO and I assumed the role of Chairman, have occurred seamlessly. Brett is doing an outstanding job as CEO and looks after all the key operational functions of Magellan. Brett has an extremely detailed understanding of our business and a vision for simplifying the way managed funds are administered for investors in Australia. I continue to look after the investment functions of Magellan in my role as Chief Investment Officer and remain focused on developing the strategy for the group in conjunction with Brett and the Board. I continue to skip to work every day and have never been happier or more engaged. I can assure you I am not going anywhere – I love what I do at Magellan.

I would also like to thank our outstanding Directors who act as a key sounding board to Brett and myself. In June we announced that Hamish McLennan was appointed Deputy Chairman of Magellan and Robert Fraser was appointed Chairman of Magellan Asset Management Limited, the Responsible Entity and main operating subsidiary of Magellan. These appointments strengthen the governance framework of both Magellan and Magellan Asset Management Limited. I thank both Hamish and Rob for agreeing to take on the additional responsibilities.

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

We also add value by providing investment insight and servicing our clients with unrelenting focus. Our client relationship and communications teams are second to none. I would encourage you to read our new investor magazine (2019 INREVIEW) which was sent to our investors recently. This is a first-class publication and I hope you enjoy reading it. If you did not receive a copy please contact our office (phone 02 9235 4888) and we would be happy to mail one to you.

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

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

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

We believe that to create long-term enduring value, the concept of a partnership with our clients is important. A partnership exists where both parties in the relationship benefit. A very good example of our partnership is the Magellan Global Trust. In October 2017 we completed the initial public offering of the Magellan Global Trust which raised \$1.57 billion. As part of this raising we offered Magellan shareholders and investors in Magellan funds the right to receive Loyalty Units that entitled them to additional units in the Trust worth 6.25% of the value of units allotted to them under the Priority Offer. The financial cost of the Loyalty Units and the full expenses of the raising totalled \$81 million. This cost was borne by Magellan.

In addition, an investor in the Magellan Global Trust has been able to reinvest distributions back into units in the trust at a 5% discount to the net asset value and participate in a unit purchase plan to buy up to \$15,000 of units at a 5% discount to the net asset value. For a Magellan investor that subscribed for \$30,000 of units under the Priority Offer for the Magellan Global Trust, subsequently participated in the distribution reinvestment plan and unit purchase plan and takes up their full priority entitlement in the upcoming Magellan High Conviction Trust raising, the aggregate additional benefit they will have received is \$6,566.

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

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

We believe that this partnership approach is a win-win outcome for investors in our funds and our shareholders. Every time you see Magellan incur an expense related to such activities in the future you should celebrate. The larger the expense the greater the quantum of potential shareholder value creation. We have only scratched the tip of an iceberg on the potential of our partnership thinking and I would envisage us making more partnership investments in the future. While we will expense these costs up front for accounting purposes, you should think of the expense as an investment in the future of the business. Importantly the Board excludes these expenses from profits when determining the amount of dividends.

We have today announced a raising for a new closed end trust to be listed on the ASX, the Magellan High Conviction Trust. As part of this raising we will have a priority offering to investors in the Magellan Global Trust, the unlisted Magellan High Conviction Fund and shareholders in Magellan. Under the priority offering and subject to the terms of the offer, eligible investors will have the right to subscribe for up to \$50,000 of units in the Magellan High Conviction Trust and will receive Loyalty Units worth 7.5% of the value of their application made under the priority offer. In addition, we are offering investors subscribing under the general public offer IPO Foundation Units worth 2.5% of the value of an application made under the general public offer. The cost of these additional units will be paid for by Magellan.

We are addressing potential concerns regarding conflicted remuneration by proceeding with an offer structure whereby we do not pay any fees to brokers or advisers to handle the offer. This has led us to proceed with the raising without appointing a broker syndicate to whom such fees would ordinarily be paid. We are passing the typical offer costs back to investors in the form of IPO Foundation Units. We hope that investors will find the offer attractive.

We are also developing a new retirement product for the Australian market. We believe with interest rates nearing zero and with the ongoing retirement of the "baby boomers" there is a large unmet client need for a new approach to investing in the retirement phase. We anticipate making a meaningful upfront contribution of approximately \$50 million. Beyond the initial upfront amount, we don't anticipate that Magellan will need to make additional capital contributions to support the product. We believe we will earn an attractive financial return from this initiative.

These are just two further examples of our partnership mindset in practice.

I would like to say thank you to all our clients who have entrusted us to manage money on their behalf, to our incredible colleagues at Magellan and of course to you as shareholders. I look forward to seeing you at the Annual General Meeting in October or at one of our investor evenings next year. The 2020 Investor Evenings will be held at the following times:

- Melbourne Friday, 21 February 2020
- Canberra Monday 24 February 2020
- Brisbane Tuesday 25 February 2020
- Adelaide Wednesday 26 February 2020
- Perth Thursday 27 February 2020
- Auckland Tuesday 3 March 2020
- Sydney Thursday and Friday, 5 and 6 March 2020

We will send you an invitation to apply for tickets to the investor evenings closer to the time.

Thank you for your ongoing support of Magellan.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Hamish M Douglass', with a long horizontal stroke extending from the end of the signature.

Hamish M Douglass
Chairman

13 August 2019

MAGELLAN FINANCIAL GROUP LIMITED

Chief Executive Officer's Annual Letter for the year ended 30 June 2019

Dear Shareholder,

I am delighted to present this report for Magellan Financial Group Limited ("the Group" or "Magellan") for the year ended 30 June 2019.

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 next section "Overview of Results", which provides a detailed discussion of results for the financial year.

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 and outflows. From time to time we may also earn performance fees if our funds and mandates achieve certain performance hurdles. These 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 biggest asset and, as our profit and loss statement shows, 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 65% 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, 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 21.3% (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 \$609.5 million of net tangible assets as at 30 June 2019. Our liabilities comprise of day-to-day payables and provisions for employee entitlements and tax, together with deferred lease incentives for our offices. We have no borrowings although for funding flexibility, we do maintain a \$50 million undrawn debt facility. We believe a strong balance sheet that can withstand almost any market condition is important for our clients as well as shareholders.

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) and are also able to seed 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.

Up until 1 July 2018, only the realised gains or losses on our Principal Investments were recorded in reported earnings, with anything unrealised being accounted for in Comprehensive Income. Since 1 July 2018 accounting standards have changed and we are now required to include unrealised gains/losses in the Group's reported earnings.

Given the size of our Principal Investments this change will bring 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 2019 the Group has net assets of \$734.0 million, of which \$124.5 million are 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 value 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, we also think a metric whereby we make certain adjustments 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 unrealised gain/losses, because they are unrealised. We also adjust for items that relate to transaction costs of strategic initiatives, for example the Magellan Global Trust (ASX: MGG) offer costs we incurred in the 2018 financial year as part of its initial public offering ("IPO") and funding of the discounts offered on the recent MGG Unit Purchase Plan ("UPP") and Distribution Reinvestment Plan ("DRP").

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 23.6%.

The remainder of this report discusses the business in more detail and the Group's financial results for the year ended 30 June 2019.

OVERVIEW OF RESULTS

We are pleased with the results the Group has achieved this year which was characterised by a 28% growth in average FUM to \$75.8 billion (average FUM of \$59.0 billion for the year ended 30 June 2018), the key driver of the Group's profitability.

For the year ended 30 June 2019, the Group reported net profit after tax of \$376.9 million, which represents an increase of 78% over the previous corresponding period (\$211.8 million for the year ended 30 June 2018).

Adjusted for unrealised or non-cash items and costs relating to strategic initiatives, the Group's net profit after tax increased by 35% to \$364.2 million for the year ended 30 June 2019 (\$268.9 million for the year ended 30 June 2018).

Adjusted financial measures in 2019 are adjusted for non-cash amortisation expense of \$4.5 million, unrealised capital gains from the Principal Investments segment of \$40.1 million and costs related to strategic initiatives of \$15.5 million.

Adjusted earnings per share increased at a slightly slower pace of 33% to 205.9 cents per share (154.9 cents per share for the year ended 30 June 2018).

In the period, the Group earned performance fees before tax of \$83.6 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 29% to \$376.2 million for the year ended 30 June 2019⁽¹⁾ (\$291.8 million for the year to 30 June 2018).

Earnings before tax from Principal Investments totalled \$53.4 million, of which \$12.8 million came from distributions, \$0.6 million from realised capital gains and \$40.1 million attributed to unrealised capital gains. Earnings from distributions and realised capital gains/losses are included in other revenue in the table below.

The Directors have declared total dividends of 185.2 cents per share for the year ended 30 June 2019. This is an increase of 38% over the 2018 financial year. In respect of the six months to June 2019, the Directors have declared a total dividend of 111.4 cents per share, franked at 75% (90.0 cents per share, 100% franked, in 2018) which will be paid on 29 August 2019. The dividend payment comprises:

- A Final Dividend of 78.0 cents per share; and
- A Performance Fee Dividend of 33.4 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 high 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⁽²⁾:

	30 June 2019 \$'000	30 June 2018 \$'000	Change %
Management and services fees	472,486	385,775	22%
Performance fees	83,631	39,772	110%
Other revenue	21,134	27,051	(22%)
Adjusted Revenue	577,251	452,598	28%
Adjusted expenses	(104,024)	(101,010)	3%
Adjusted net profit before tax	473,227	351,588	35%
Adjusted tax expense	(109,002)	(82,691)	32%
Adjusted net profit after tax	364,225	268,897	35%
Transaction costs related to strategic initiatives (after tax) ⁽³⁾	(10,856)	(55,702)	n/m
Amortisation expense of intangible assets	(4,518)	(1,404)	n/m
Net unrealised change in fair value of financial assets (after tax)	28,095	-	n/m
Total non-IFRS adjustments	12,722	(57,106)	n/m
Profit after tax	376,947	211,791	78%
Key Statistics			
Diluted earnings per share (cents per share)	213.1	122.0	75%
Adjusted diluted earnings per share (cents per share)	205.9	154.9	33%
Dividends			
Interim and Final Dividends (cents per share)	151.8	119.6	27%
Annual Performance Fee Dividend (cents per share)	33.4	14.9	124%
Total Dividends (cents per share)	185.2	134.5	38%

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

(2) 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.

(3) Includes MGG UPP costs, MGG DRP discount funding costs (current year only) and net offer costs relating to the MGG IPO.

FUNDS MANAGEMENT SEGMENT

For the year ended 30 June 2019, the Group's Funds Management segment profit before tax increased by 39% to \$459.8 million (\$331.4 million for 2018). Excluding performance fees, profit before tax grew by 29% to \$376.2 million⁽⁴⁾ (\$291.8 million for 2018). The following table summarises the profitability of the Funds Management business over the past two financial years:

	30 June 2019 \$'000	30 June 2018 \$'000	Change %
Revenue			
Management fees	467,786	381,074	23%
Performance fees	83,631	39,772	110%
Services fees	4,700	4,701	0%
Interest and other income	5,209	3,158	65%
	<u>561,326</u>	<u>428,705</u>	31%
Expenses			
Employee expense	62,770	51,935	21%
Fund administration and operational costs	15,976	14,665	9%
IT and information services expense	6,226	4,588	36%
Occupancy expense	4,298	4,276	1%
Marketing expense	3,382	11,102	(70%)
US marketing and consulting fees	-	4,206	(100%)
Other expense	8,885	6,503	37%
	<u>101,537</u>	<u>97,275</u>	4%
Profit before tax expense	<u>459,789</u>	<u>331,430</u>	39%
Profit before tax and before performance fees⁽⁴⁾	376,182	291,841	29%
Key Statistics			
Average funds under management (\$ million)	75,819	59,034	28%
Average AUD/USD exchange rate	0.7155	0.7752	(8%)
Average number of employees	125	116	8%
Employee expenses / total expenses	61.8%	53.4%	
Cost / income	18.1%	22.7%	
Cost / income, excl. performance fees ⁽⁴⁾	21.3%	25.0%	

Revenues

The key driver of revenue is FUM and this is discussed in detail in the next section. Revenues for the 12 months ended 30 June 2019 increased by 31% to \$561.3 million. This was driven by a 23% increase in total management fees revenue as a result of a 28% increase in average FUM over the period attributable to strong investment performance and net inflows.

Over the year, average Retail FUM increased by 18% and average Institutional FUM increased by 33%. Average Base Management fee for the year was 0.62% compared with 0.65% last year. The reduction in the average Base Management fee percentage is largely a result of a change in the mix of FUM, with Airlie contributing for the full year, compared with four months in the previous year.

Performance fees before tax for the year totalled \$83.6 million compared with \$39.8 million last year. For the current year, \$42.7 million of performance fees were earned in the first half, and \$40.9 million were earned in the second half. Although not reflected this year, 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 such as those associated with the IPO of the Magellan Global Trust (ASX: MGG) and funding of the discounts offered on the recent MGG UPP and the MGG DRP.

We view these amounts as investments in building FUM and underpinning our long-term partnership approach, which we discuss further in the next section, 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 21.3% compared with 25.0% for the 12 months to 30 June 2018.

Expenses increased by 4% to \$101.5 million. This increase in costs was primarily the result of a 21% increase in employee expense over the prior corresponding period to \$62.8 million (driven mainly by the full year inclusion of Airlie and Frontier and deferred staff bonus payments), a 9% increase in fund administration and operational costs reflecting an increase in FUM, and a 36% increase in IT and information services expense due to some systems improvements, data and research subscriptions and the full year adoption of Airlie and Frontier information systems costs.

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

These increases in costs were partially offset by a reduction in US marketing fees and Group marketing expenses. US marketing fees paid to Frontier ceased from 1 January 2018 because the Group acquired Frontier and the decline in marketing expenses primarily reflects our withdrawal from the partnership with Cricket Australia in March 2018 and the cessation of marketing initiatives supporting that sponsorship.

The following table sets out total employee numbers:

	30 June 2019	30 June 2018
Investment		
- Portfolio Managers/Analysts	29	26
- Dealers	3	3
	32	29
Distribution & Marketing	31	33
Other	41	38
Frontier	12	11
Airlie	9	13
Total	125	124
Average number of employees	125	116

As at 30 June 2019, the Group had 125 employees. We are pleased with the talent employed across the business and the bench strength of the management team and expect future increases in employee numbers resulting from organic growth to be modest over time reflecting scalability. Such increases, however, are unlikely to occur evenly from one year to the next as the various areas of our business reach resource constraints at different points as we grow.

We expect Funds Management segment expenses for the year ended 30 June 2020 to be in the range of \$115-\$120 million. The increase from the current year reflects growth in employee expenses (driven by anticipated new hires, deferred bonus payments and remuneration increases), marketing initiatives including increased event investment and increases in general costs reflecting FUM and unitholder growth.

It should be noted that our ultimate 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 conscience culture, our current cost to income ratio of 21.3% 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 of a 1% decline in our FUM (something which can happen from day to day merely due to market movements).

Funds Under Management

As at 30 June 2019, the Group had FUM of \$86.7 billion, split between global equities (74%), infrastructure equities (17%) and Australian equities (9%). This compares with FUM of \$69.5 billion at 30 June 2018. The increase in FUM was driven by investment performance of approximately \$13.6 billion less cash distributions (net of reinvestment) of approximately \$0.8 billion and net inflows of \$4.4 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 2019	30 June 2018	30 June 2017
Retail	23.2	19.2	15.2
Institutional	63.5	50.3	35.4
Total FUM	86.7	69.5	50.6
Retail	27%	28%	30%
Institutional	73%	72%	70%
FUM subject to Performance Fees (%)	33%	34%	38%
Institutional FUM (%)			
- Active	88%	89%	87%
- Enhanced Beta	12%	11%	13%
Breakdown of FUM (A\$ billion)			
- Global Equities	64.0	52.7	42.3
- Global Listed Infrastructure	15.2	10.3	8.3
- Australian Equities	7.5	6.5	-
Average Base Management fee (bps) per annum excluding Performance Fees ⁽⁵⁾	62	65	66

(5) Calculated using management fees (excluding services and performance fees) for the relevant period divided by the average of month end FUM over the same period.

Retail FUM

The Group's retail business is focused on retail investors in Australia and New Zealand which we target through two key channels:

- Broker advised and financial advisers; and
- Self-directed retail investors.

At 30 June 2019, the Group had total retail FUM of \$23.2 billion. We experienced total net retail inflows of \$1.5 billion for the 12 months to 30 June 2019 (including the proceeds of the MGG UPP), compared with \$1.9 billion for the previous financial year which included the proceeds from the MGG IPO of \$1.57 billion.

The Group experienced average monthly retail net inflows of approximately \$121 million over the 12 months to 30 June 2019 (including the proceeds of the MGG UPP), compared with \$23 million over the previous corresponding period (excluding the proceeds of the MGG IPO).

We continue to see strong support for our global investment strategies across all three key retail channels, with global infrastructure experiencing solid inflows during the year. Our combined active ETF unitholder base grew approximately 28% over the year to reach nearly 29,000, and our combined exchange quoted products had total FUM of \$4.2 billion as at 30 June 2019, with over 63,000 direct unitholders.

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 very experienced retail Distribution team is highly focused on our existing relationships and aims to support and partner with our adviser network by delivering clear and relevant information in a timely manner.

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 2019 ⁽⁶⁾	1 Year	3 Years	5 Years	Since Inception ⁽⁷⁾
	%	% p.a.	% p.a.	% p.a.
Magellan Global Fund	20.2	17.5	16.0	12.3
MSCI World NTR Index (\$A)	12.0	14.0	13.1	6.4
Magellan Infrastructure Fund	16.5	10.6	12.4	9.1
Global Listed Infrastructure Benchmark (\$A) ⁽⁸⁾	12.4	8.8	7.8	6.1
Magellan High Conviction Fund	13.1	17.6	16.2	16.2
Airlie Australian Share Fund	3.8	-	-	7.4
S&P/ASX 200 Accum. Index	11.5	-	-	14.0

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

Risk controls and portfolio construction considerations are important elements of Magellan's overall investment process, particularly in managing downside risks. This risk focus has been an essential element in navigating recent market conditions as Hamish Douglass and the investment team remain clearly focused on the core objective of producing satisfactory returns for our investors over the medium to long-term whilst minimising the risk of permanent capital loss.

Partnership Approach

Over the years we have noted our belief that it is important in building an enduring business with long-term value that we always maintain a mindset of partnership as, at its heart, the owners of a business are, in effect, partners with their clients. Partnerships by their very nature provide mutual benefits to those involved, and the long-term prospects of our business naturally sink or swim by the value and benefits our products and services provide our clients in exchange for the fees we earn.

(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).

We consider the successful launch of the Magellan Global Trust (ASX: MGG) in October 2017 to be a case in point. We believe there have been real tangible benefits resulting from the offer of Loyalty Units paid for by the owners of the business to those who have partnered with the business (i.e. eligible shareholders and fund unitholders), because those benefits have been mutual.

We have ensured this has been extended to the recent UPP offer by MGG. On 8 March 2019 MGG announced that it had received applications totalling approximately \$277 million under the offer, representing a significant take up of around 50%. In the context of a partnership, Magellan paid to MGG consideration equal to the 5% discount associated with the offer in order to minimise dilution. The amount of this consideration totalled \$14.6 million.

We intend to be consistent in this approach. Today we announced the intention to undertake an IPO for units in a new ASX-listed investment trust, the Magellan High Conviction Trust ("Trust")⁽⁹⁾. The Trust replicates the investment strategy of our open-ended unlisted Magellan High Conviction Fund, which has developed an outstanding track record, and offers investors the ability to invest in this strategy through a closed-ended ASX-listed investment trust.

Like the IPO of MGG, we have established a priority offering for eligible shareholders and investors in MGG and Magellan High Conviction Fund to subscribe for units in the Trust. This priority offering carries with it with a loyalty bonus in the form of additional units in the Trust equal to 7.5% of the value of their allotment under the priority offer.

Again, like the IPO of MGG, Magellan is paying for all the costs of the capital raising and the cost of the Loyalty Units.

We are also addressing potential concerns regarding conflicted remuneration by proceeding with an offer structure that does not pay any fees to brokers or advisers to handle the offer. As such, we are proceeding without appointing a broker syndicate to whom such fees would ordinarily be paid.

Furthermore, we are passing these savings back to investors by way of IPO Foundation Units for those who participate in the wholesale/general public offer. This will be paid in the form of additional units in the Trust equal to 2.5% of their allotment, again paid for by Magellan.

As with MGG, these strategic initiatives will result in a material one-off expense in the 2020 financial year which will be disclosed following the completion of the offer. As noted above, we view these amounts as investments in building FUM and underpinning our long-term partnership approach, and as such will be excluded from the Funds Management segment when calculating shareholder dividends.

We are excited by the prospects of continuing to build upon our partnerships within the retail sector which we believe will deepen and broaden our relationships and thereby add layers of resilience to our business over time.

Retirement Income

We continue to make progress developing a client solution for retirement income; however, we are not finished. This is a large and growing area and one that is not easily solved. Any solution requires a number of critical areas to be resolved with external parties (for example, regulatory and tax) and the timing of such resolutions is difficult to determine. Whilst there is a risk we may not be able to satisfactorily resolve these issues, we remain confident that a product solution will be available over the next 6-12 months.

We anticipate establishing and supporting the product with an upfront contribution of around \$50 million. This dollar value is similar to the amount we seeded the Magellan Global Equities Fund (ASX: MGE) in 2015. We do not anticipate to make any additional contributions beyond this initial amount.

Institutional FUM

At 30 June 2019, the Group had total institutional FUM of \$63.5 billion from more than 140 clients⁽¹⁰⁾. During the 12 months to 30 June 2019, we experienced institutional net inflows of \$2.9 billion, which compares with net inflows of \$2.5 billion for the previous financial year.

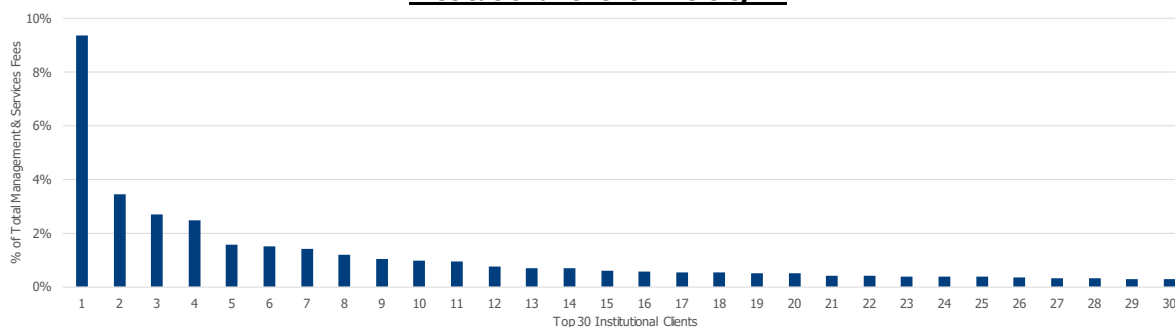
Although our institutional clients are located around the world, the Group seeks to implement a targeted approach to institutional distribution and therefore most of our institutional clients are based in North America, the UK and Australia/NZ. In February 2018, the Group acquired our North American 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.

(9) Units in the Magellan High Conviction Trust (the Trust) are to be issued by Magellan Asset Management Limited ("MAM") (ABN 31 120 593 946, AFS Licence No 304 301). MAM may vary the terms of, or withdraw the offer for units in the Trust at any time. Nothing in this letter constitutes an offer to sell, or the solicitation of an offer to buy, any financial products. Investors should consider obtaining professional investment advice and should consider the product disclosure statement (PDS) for the Trust in deciding whether to participate in the offer for units in the Trust or to continue to hold units in Trust. The PDS can be found at www.magellanhighconvictiontrust.com.au

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

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 represent more than 2% of total management and services fees revenue.

Institutional Client Diversity⁽¹¹⁾



Top Institutional Clients	5	10	20	30
%	20	26	32	36

On 31 December 2017 we closed our core global equities strategies managed by Hamish to new institutional investors⁽¹²⁾. 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 2019 the Group's infrastructure FUM was US\$10.6 billion.

We are also pleased with the development of our next generation of global equities strategies, the Sustainable strategies, which have been renamed from Low Carbon strategies.

Our Global Sustainable strategy, managed by Dom Giuliano, and our US Sustainable strategy managed by Alan Pullen, have produced excellent results, outpacing their benchmarks. Importantly the Global Sustainable strategy is nearing its three year anniversary and we are seeing increasing interest and discussions with a number of potential investors.

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.

PRINCIPAL INVESTMENTS

The Group's Principal Investments is a sub-set of the Group's balance sheet that is invested in Magellan funds, listed shares and a small number of unlisted investments. It also includes surplus cash after allowing for the Group's working capital requirements. At 30 June 2019, the Group had net Principal Investments of \$323.1 million, compared with \$280.4 million at 30 June 2018.

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 18.6%, 16.8% and 15.8% per annum over the last 1, 3 and 5 years respectively. Excluding the effect of the Group's previous investment in MFF Capital Investments Limited, which was disposed of by way of an in-specie distribution to shareholders in February 2013, the portfolio returned pre-tax 11.8% 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.

(11) Management and services fees for the 12 months to 30 June 2019 for separately managed accounts and institutional investors in local and offshore vehicles. Excludes Performance fees.

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

The following table sets out a summary of the Group's Principal Investments as at 30 June 2019.

The Group's Principal Investments

\$million	30 June 2019	30 June 2018
Cash	4.6	0.4
Magellan Unlisted Funds ⁽¹³⁾	213.4	173.4
Listed shares/funds ⁽¹⁴⁾	125.7	100.9
Other ⁽¹⁵⁾	3.8	15.1
Total	347.5	289.8
Deferred tax liability ⁽¹⁶⁾	(24.4)	(9.4)
Net Principal Investments	323.1	280.4
Net Principal Investments per share (cents)⁽¹⁷⁾	182.5	159.1

CAPITAL MANAGEMENT

As at 30 June 2019, the Group's financial position included:

- investment assets (cash and cash equivalents and financial assets) of \$539.3 million (30 June 2018: \$445.6 million). The Group's cash position at 30 June 2019 was \$198.2 million and current receivables were \$123.8 million. Dividends of \$197.3 million are due to be paid to shareholders on 29 August 2019;
- net assets of \$734.0 million (30 June 2018: \$620.4 million) which includes \$124.5 million of intangible assets following the acquisitions of Airlie and Frontier;
- net tangible assets per share of \$3.44 (30 June 2018: \$2.92); and
- total liabilities of \$66.3 million which relate predominantly to payables and provisions. The Group has no debt but has access to a debt facility of \$50 million which is currently undrawn.

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;
- ensuring flexibility for growth whether that be through new fund launches or strategic opportunities; and
- delivering capital efficiency, solid dividends and returns for shareholders.

As such, our need for and use of capital may vary from time-to-time as we consider new opportunities and seek to build diversity and resilience in the business, sensibly, over time.

A good example of this is today's launch of the Magellan High Conviction Trust and the broader partnership approach discussed above.

With this in mind, today we also announced the launch of an institutional placement to raise \$275 million which will strengthen our balance sheet and provide significant flexibility to continue to invest in growth opportunities.

CLOSING REMARKS

It has been a pleasure to be the CEO over most of the past financial year and I would like to thank our entire team for their dedication and passion. It makes a difference.

Thanks also to Hamish and the Board for their support during the year. The changing of roles with Hamish has worked extremely well and we are all looking forward to another successful year ahead.

Yours faithfully,



Brett Cairns
CEO

13 August 2019

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

(14) 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 15).

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

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

(17) Based on the aggregate of 177,087,458 ordinary shares on issue at 30 June 2019 (30 June 2018, it is based on 176,211,167 ordinary shares).

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2019

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 2019.

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 2019, dividends amounting to \$289,281,000 were paid representing 163.8 cents per ordinary share (June 2018: \$157,909,000 representing 91.7 cents per ordinary share).

On 13 August 2019, the Directors declared a total dividend of 111.4 cents per ordinary share (75% franked) in respect of the six months to 30 June 2019 (June 2018: 90.0 cents per ordinary share 100% franked). The dividend payments comprise a Final Dividend of 78.0 cents per ordinary share and a Performance Fee Dividend of 33.4 cents per share (June 2018: Final Dividend of 75.1 cents per ordinary share and a Performance Fee Dividend of 14.9 cents per ordinary share). The amount of the Final and Performance Fee Dividend expected to be paid on 29 August 2019, but not recognised as a liability as at 30 June 2019, is approximately \$197,275,000 (June 2018: \$158,591,000).

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 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 2019 was \$376,947,000 up \$165,156,000 on the prior year. The Group's adjusted net profit after tax was \$364,225,000 (June 2018: \$268,897,000) which excludes various non-IFRS adjustments as shown on the following page.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT for the year ended 30 June 2019

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 2019		30 June 2018	
	Statutory \$'000	Non-IFRS \$'000	Statutory \$'000	Non-IFRS \$'000
Management and services fees	472,486	472,486	385,775	385,775
Performance fees	83,631	83,631	39,772	39,772
Other revenue	61,270	61,270	27,051	27,051
Total revenue	617,387	617,387	452,598	452,598
Adjust for: net unrealised change in fair value of financial assets		(40,136)		-
Adjusted revenue		577,251		452,598
Total expenses	(124,050)	(124,050)	(181,988)	(181,988)
Adjust for: costs related to strategic initiatives ^(A)		15,508		79,574
Adjust for: amortisation of intangible assets		4,518		1,404
Adjusted expenses		(104,024)		(101,010)
Income tax expense	(116,390)	(116,390)	(58,819)	(58,819)
Tax expense on above adjustments		7,388		(23,872)
Adjusted income tax expense		(109,002)		(82,691)
Net Profit after income tax expense for the year	376,947		211,791	
Adjusted Net Profit after income tax expense for the year		364,225		268,897
Basic and diluted earnings per share	213.1		122.0	
Adjusted basic and diluted earnings per share		205.9		154.9

(A) Includes MGG UPP costs and MGG DRP discount funding costs (current year only) and net offer costs relating to the MGG IPO.

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.

1.4.3 Statement of Financial Position

The Group is in a strong financial position and at 30 June 2019 reported:

- Investment assets (including cash and cash equivalents and financial assets) of \$539,281,000 (June 2018: \$445,634,000) and shareholders' funds of \$734,022,000 (June 2018: \$620,433,000); and
- NTA per share of \$3.44 (June 2018: \$2.92).

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

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2019

1. Operations and Activities (continued)

1.5 Likely Developments and Expected Result of Operations

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

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

Capital Raising

On 13 August 2019, the Group announced a capital raising comprising a fully underwritten \$275 million Institutional Share Placement ("Placement") to institutional investors. The Placement will comprise an issue of 4.98 million new MFG ordinary shares at a price of \$55.20 per share. The new shares to be issued under the Placement will represent approximately 2.7% of MFG's expanded issued capital and will rank equally with existing MFG ordinary shares from the date of issue. As the new shares will be allotted after the record date for the 2019 Final and Performance Fee Dividends, the new shares will not carry an entitlement to those dividends.

Launch of Magellan High Conviction Trust

On 13 August 2019 the Group announced its intention to undertake an initial public offering of the Magellan High Conviction Trust ("MHCT"), a closed ended investment vehicle to be listed on the ASX. MHCT will replicate the Magellan High Conviction Fund investment strategy that has returned 16.6% per annum net of fees since inception on 1 July 2013 to 31 July 2019.

The offer will proceed via 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 can apply for up to 33,334 units equivalent to approximately \$50,000 and will 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 PDS. In addition, applicants under the wholesale/general public offer will 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.

The costs of these Loyalty Units and IPO Foundation Units and all costs related to the offer will be paid for by the Group. It is not practicable to estimate the cost to the Group as there is uncertainty as to the size of the offer and the MHCT net asset value per unit at the time that the Loyalty Units and IPO Foundation Units are issued. Further details of the MHCT raising will be disclosed following the completion of the offer.

Funds Under Management at 31 July 2019

On 6 August 2019, the Group reported to the ASX that its funds under management was \$89.7 billion as at 31 July 2019.

Other than the items above and the dividends disclosed in respect of the six months ended 30 June 2019 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 2019

2. Directors and Officers

2.1 Directors

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

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

(A) On 5 October 2018, Dr Cairns was appointed Chief Executive Officer of the Group. Prior to this Dr Cairns held the position of Executive Chairman.

(B) On 5 October 2018, Mr Douglass was appointed Chairman of the MFG Board. Prior to this Mr Douglass was Chief Executive Officer of the Group. Mr Douglass remains Chief Investment Officer.

(C) On 5 June 2019, Mr Fraser was appointed Chairman of the MAM Board.

(D) On 5 June 2019, Mr McLennan was appointed Deputy Chairman of the MFG Board.

2.2 Secretary

Marcia Venegas was Company Secretary from 20 March 2019 to the date of this report. Mrs Venegas replaced Geoffrey Stirton, who was Company Secretary from 1 July 2018 to 20 March 2019.

2.3 Information on Directors and Officers

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 three years with Credit Suisse Financial Products, the then derivatives bank of the Credit Suisse group. Brett has a BE (Hons), Master of Business Administration and a Doctorate of Philosophy from the University of Sydney.

Hamish Douglass

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.

John Eales AM

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

John 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 2019

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 MAM (Responsible Entity and main operating subsidiary of MFG)

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 agent 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). He was previously a Director of a number of other public companies, including Gowing Bros Limited (April 2012 – December 2016).

Paul Lewis MBE

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

Paul was Managing Partner and Chief Executive – Asia for PA Consulting Group, based in Hong Kong from 1992 – 2004, at the conclusion of which PA had offices in Hong Kong, Beijing, Tokyo, Bangalore, Singapore, Kuala Lumpur and Jakarta. Paul led major assignments in financial services – retail banking, life insurance and stock exchanges, energy, manufacturing, telecommunications, rail, air, container shipping and government. Paul also served on senior advisory panels with ministerial representation in Hong Kong, Malaysia and Indonesia, and from 2003 to 2009 was a member of British Telecom's Global Advisory Board. Paul is currently Deputy National Chairman of the Australian British Chamber of Commerce, Chair of IPscape 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 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. 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 IMF Bentham Ltd (since August 2017) and 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 2019

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 for five years. Before that, Marcia 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 2019 and the number of those meetings attended by each Director are set out below:

	Board		Audit & Risk Committee		Remuneration & Nominations Committee	
	Held while a Director	Attended	Held while a member	Attended	Held while a member	Attended
B Cairns	6	6	-	-	-	-
H Douglass	6	6	-	-	-	-
J Eales	6	6	8	8	2	2
R Fraser	6	6	8	8	2	2
P Lewis	6	6	8	7	2	2
H McLennan	6	6	8	8	2	2
K Phin	6	6	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 2019

3. 2019 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 2019. 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 2019 financial year, the KMP for the Group included the Chairman and Chief Investment Officer, the Chief Executive Officer ("CEO"), the Non-Executive Directors and the Group's Executives as set out below^(A).

Name	Position	Term as KMP
Non-Executive Directors		
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
Executive Directors		
Brett Cairns	Chairman	1 July 2018 to 4 October 2018
	CEO	5 October 2018 to 30 June 2019
Hamish Douglass	CEO & Chief Investment Officer	1 July 2018 to 4 October 2018
	Chairman & Chief Investment Officer	5 October 2018 to 30 June 2019
Group Executives (Other KMP)		
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

(A) With senior management changes in the 2019 financial year and the formation of an Executive Committee, the Board reviewed the composition of the Group Executive KMP and determined that the members of the Executive Committee were the Group Executive KMP as they had authority and responsibility for planning, directing and controlling the activities of the Group.

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 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.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2019

3. 2019 Remuneration Report (Audited) (continued)

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

The Chief Investment Officer'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 Chief Investment Officer'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 employees after tax variable incentive. As the loan is full recourse, participants are liable to repay the loan irrespective of the performance of the Group's shares.

The SPP provides participants with the opportunity to acquire a meaningful ownership 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.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2019

3. 2019 Remuneration Report (Audited) (continued)

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

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

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 Magellan Asset Management Limited for the year ended 30 June 2019:

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

The Group has reimbursed or borne expenses incurred by the Non-Executive Directors in the discharge of their duties of \$731 (June 2018: \$1,221).

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

Changes to remuneration of Non-Executive Directors from 1 July 2019

From 1 July 2019, the following changes to Non-Executive Director remuneration will be implemented:

- Non-Executive Directors' fees will increase 3% per annum. The change represents the first increase in Non-Executive Director fees since the year ended 30 June 2014. The Board determined that a small annual increase in Non-Executive Director fees is appropriate given the increasing size and complexity of the business whilst remaining in line with the Group's philosophy that Non-Executive Director fees should be modest; and
- Mr Fraser's appointment as Chair to the Magellan Asset Management Limited Board will result in an additional fee of \$25,000 per annum for this role (pro-rata payment from appointment on 5 June 2019 to 30 June 2019).

There will be no additional fee for the Deputy Chair of the Group.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT for the year ended 30 June 2019

3. 2019 Remuneration Report (Audited) (continued)

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 2019 financial year.

	Fixed remuneration (incl. of superannuation)	Variable remuneration	SPP participation
Brett Cairns	\$1,500,000	Not entitled to receive variable incentive payments in 2019	Ability to participate in SPP
Hamish Douglass	\$2,500,000	Up to 200% of fixed compensation based on the performance of the Group's Global Equity strategy over a three year period	Not entitled to participate in SPP as he owns 22.2 million shares which provide a material alignment with shareholders
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

Mr Douglass' remuneration structure

Mr Douglass is Magellan's co-founder, Chief Investment Officer and Lead Portfolio Manager of Magellan's Global Equities strategies. Previously Mr Douglass also served as CEO and in October 2018 moved to the role of Chairman of the Group's Board of Directors, with Dr Cairns moving to the role of CEO and assuming all operational responsibilities. This management change was made to allow Mr Douglass more time to focus on his key roles as Chief Investment Officer and the Lead Portfolio Manager of Magellan's Global Equities strategies. Mr Douglass' remuneration remains unchanged and the Board believes it is important for Mr Douglass' remuneration to continue to be tied to the performance of the investment strategies under his control. Mr Douglass is responsible for managing \$64.0 billion of funds under management (as at 30 June 2019). Focusing on client outcomes and achieving Magellan's investment objectives will ultimately be in shareholders' interests.

Mr Douglass' remuneration outlined below 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.

Mr Douglass' fixed remuneration (inclusive of superannuation) for the year ended 30 June 2019 was \$2,500,000 (2018: \$3,476,832).

On an annual basis, Mr Douglass is eligible to receive variable compensation being a maximum amount of up to but not exceeding 200% of his fixed compensation for that financial year. Mr Douglass' annual variable incentive is determined in relation to the performance of the investment strategies under his control over a three year period. Importantly, the three year performance period emphasises the Group's medium to long term focus for its investment strategies and the needs of clients. Achieving superior investment returns for clients over the medium to long term will ultimately be in shareholders' interests. Mr Douglass does not receive any of his variable incentive 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 2019

3. 2019 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 2019, the metrics were:

Performance Metrics	Weighting	Percentage Paid/Performance Measures	2019 outcome	
Ranking of the Global Equity Strategy in Peer Group ^(A) (rolling 3 years as at 30 June each year)	25%	The percentage paid is in the range of 0% to 100% dependent on the ranking quartile band achieved as per the below table:	Mr Douglass received 100% of this component in 2019, based on a 1st Quartile ranking	
		100%		1st Quartile
		50% to 100% (sliding scale)		Bottom of 2nd Quartile to top of 2nd Quartile
Absolute Performance (Gross Return) of the Global Equity Strategy (measured in USD) (rolling 3 years as at 30 June each year)	25%	The percentage paid is in the range of 0% to 100% dependent on the absolute performance achieved as per the below table:	Mr Douglass received 100% of this component in 2019, based on absolute performance of 19.23% p.a.	
		100%		12% p.a. or greater
		50% to 100% (sliding scale)		8% p.a. to 12% p.a.
Relative gross investment performance of the Global Equity Strategy against its Benchmark Index ^(B) (rolling 3 years as at 30 June each year)	25%	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:	Mr Douglass received 100% of this component in 2019, based on gross investment performance of 19.23% p.a. against Benchmark Index of 14.0% 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.
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%	The percentage paid is in the range of 0% to 100% dependent on the Down Market Capture achieved as per the table below:	Mr Douglass received 100% of this component in 2019, based on Down Market Capture of 72.92%	
		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 2019, Mr Douglass will receive a total variable incentive of \$5,000,000 (June 2018: \$3,162,396) payable in 36 equal monthly instalments. Mr Douglass' entitlement to variable incentive amounts is dependent on him being employed by the Group at the time of the payment and, where relevant, is also subject to the termination arrangements described in "Termination arrangements" in Section 3.5.

Dr Cairns' remuneration structure

Dr Cairns' fixed remuneration is subject to annual review and, for the year ended 30 June 2019, was increased to \$1,500,000 (inclusive of superannuation) (2018: \$1,250,000). For the year ended 30 June 2019, Dr Cairns was not entitled to a variable incentive.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT for the year ended 30 June 2019

3. 2019 Remuneration Report (Audited) (continued)

Changes to Dr Cairns' remuneration structure from 1 July 2019

As a result of Dr Cairns' appointment to the role of Chief Executive Officer in October 2018, the Board determined it was appropriate to review Dr Cairns' remuneration structure. From 1 July 2019, Dr Cairns' remuneration is outlined below:

Fixed remuneration	<ul style="list-style-type: none">Annual base salary will increase to \$1,545,000 per annum (inclusive of superannuation) effective 1 July 2019Fixed remuneration to increase by 3% each year
Variable remuneration	<ul style="list-style-type: none">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 influenceFour performance metrics for the 2020 financial year are: Delivery of Key Strategic Projects; Leadership, People and Culture; Compliance, Governance and Cybersecurity and Operational EffectivenessThe Remuneration and Nominations Committee will determine the amount to be awarded on an annual basis with regard to the determined performance metricsThe Board will, in consultation with Dr Cairns, review the performance metrics that will apply, and their respective weightings, from 1 July each year
SPP participation	<ul style="list-style-type: none">Subject to approval by shareholders, eligible to participate in a one-off SPP offer of \$5,000,000 with a tenure of 10 yearsSubject to approval by shareholders, 100% financial assistance provided by the Group on full recourse and interest free basis100% of annual awarded variable remuneration (net of tax) and all dividends earned on SPP shares will be directed to repayment of the SPP financial assistance
Review	<ul style="list-style-type: none">Arrangements relating to Dr Cairns' remuneration package to be reviewed in 3 years' time

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 standard 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. Execution of these projects without encouraging undue risks is therefore also a component of Dr Cairns' remuneration.

Remuneration structure for Other KMP

Fixed remuneration is structured as a total employment cost package, which may be received as a combination of cash, non-cash benefits and superannuation contributions. Fixed remuneration for Other KMP is reviewed annually to ensure that it is competitive and reasonable, however there are no guaranteed increases to the fixed remuneration amount.

When considering variable remuneration, the Board's primary objective is that KMP are motivated to build valuable long term client relationships and generate returns for investors in the funds managed by the Group which will ultimately deliver shareholder wealth over the long term.

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

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

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT for the year ended 30 June 2019

3. 2019 Remuneration Report (Audited) (continued)

Summary of 2019 variable remuneration outcomes

(a) Variable remuneration outcomes for 2019

The tables below outline the variable remuneration outcomes (as a % of fixed remuneration) for Executive Directors and Other KMP for the 2019 financial year and provide an overview of key achievements and business outcomes delivered by Other KMP that were considered when determining their variable remuneration for the year.

KMP	Variable remuneration outcome	Comments
Brett Cairns	n.a.	<ul style="list-style-type: none"> No entitlement to receive variable incentive payments in 2019.
Hamish Douglass	100%	<ul style="list-style-type: none"> 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 2019 The performance metrics and relative weightings of these are outlined in section 3.3
Kirsten Morton	95%	<ul style="list-style-type: none"> Completed full integration of Airlie and centralised US operations resulting in lower recurring cost base for the benefit of shareholders Well progressed on rationalisation initiatives (primarily from recent acquisitions) and simplification of supplier arrangements delivering cost and resource efficiencies Procurement review of key supplier arrangements in investment operations delivered recurring cost savings Continued enhancement of operational processes across business support and control functions with a focus on knowledge transfer, risk and costs to support the Group's strategic initiatives and maximise efficiencies
Marcia Venegas	80%	<ul style="list-style-type: none"> Enhanced the Group's Risk Management Framework including fully integrating Airlie Implemented new compliance and regulatory requirements Streamlined processes to create or increase efficiencies across risk, compliance, legal and company secretarial functions Provided risk and compliance advice on strategic initiatives and new products
Craig Wright	90%	<ul style="list-style-type: none"> Leading the project management of strategic initiatives across the Group, including the initial public offering of the Magellan High Conviction Trust and other products currently under development Overseeing the Group's IT infrastructure & security and business continuity planning Overseeing the Group's UCITS investment company based in Ireland Overseeing the establishment of a new co-mingled fund in respect of the High Conviction investment strategy to make that strategy available to institutional investors globally

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT for the year ended 30 June 2019

3. 2019 Remuneration Report (Audited) (continued)

(b) Split between cash and conditional deferred cash bonus components of 2019 variable remuneration

The below table provides a summary of variable remuneration outcomes for Executive Directors and Other KMP for the years ended 30 June 2019 and 30 June 2018. The table outlines the portion of variable remuneration awarded for each financial year that is paid in cash and the portion that is deferred over subsequent financial years.

		Variable incentive outcomes			Fixed remuneration (incl. superannuation)	Total variable remuneration awarded as % of fixed remuneration
		Cash Bonus ^(A)	Conditional Deferred Cash Bonus ^(B)	Total variable remuneration awarded		
		\$	\$	\$	\$	%
Executive Directors^(C)						
H Douglass	2019	-	5,000,000	5,000,000	2,500,000	200%
	2018	-	3,162,396	3,162,396	3,476,832	91%
Group Executives (Other KMP)						
K Morton	2019	312,462	127,863	440,325	463,500	95%
	2018	274,500	175,500	450,000	450,000	100%
M Venegas	2019	227,100	81,900	309,000	386,250	80%
	2018	181,686	99,564	281,250	375,000	75%
C Wright	2019	252,207	95,418	347,625	386,250	90%
	2018	233,250	141,750	375,000	375,000	100%
Total KMP^(D)						
		2019	791,769	5,305,181	6,096,950	3,736,000
		2018	689,436	3,579,210	4,268,646	4,676,832

^(A) 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.

^(B) 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.

^(C) Dr Cairns is not entitled to any variable incentive in 2018 or 2019.

^(D) Comparative information does not include remuneration details for executives who are no longer KMP in 2019. As a result, the amount disclosed in the 2018 Remuneration Report differs from the amount above.

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 2019 is \$12,643,169 and payable over the years ending 30 June 2020, 30 June 2021 and 30 June 2022 (June 2018: \$9,823,552 and payable over the years ended 30 June 2019, 30 June 2020 and 30 June 2021).

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 2019

3. 2019 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			Super-annuation	Total Cash Remuneration (C)	Leave Benefits		Other Benefits (E)	Total Statutory Remuneration (F)
		Salary	Cash Bonus (A)	Conditional Deferred Cash Bonus paid (B)			Short term (D)	Long term (D)		
		\$	\$	\$	\$	\$	\$	\$	\$	
Non-Executive Directors										
John Eales	2019	73,059	-	-	6,941	80,000	-	-	21,970	101,970
	2018	73,059	-	-	6,941	80,000	-	-	15,986	95,986
Robert Fraser	2019	88,339	-	-	8,392	96,731	-	-	17,363	114,094
	2018	86,758	-	-	8,242	95,000	-	-	22,379	117,379
Paul Lewis	2019	80,000	-	-	-	80,000	-	-	-	80,000
	2018	80,000	-	-	-	80,000	-	-	-	80,000
Hamish McLennan	2019	73,059	-	-	6,941	80,000	-	-	19,171	99,171
	2018	73,059	-	-	6,941	80,000	-	-	23,435	103,435
Karen Phin	2019	73,059	-	-	6,941	80,000	-	-	14,324	94,324
	2018	73,059	-	-	6,941	80,000	-	-	18,463	98,463
Executive Directors										
Brett Cairns	2019	1,479,469	-	-	20,531	1,500,000	(1,911)	-	-	1,498,089
	2018	1,229,951	-	-	20,049	1,250,000	23,645	-	-	1,273,645
H Douglass	2019	2,479,469	-	1,981,291	20,531	4,481,291	(127,063)	-	-	4,354,228
	2018	3,456,783	-	927,159	20,049	4,403,991	170,963	-	-	4,574,954
Group Executives (Other KMP)										
K Morton	2019	442,969	312,462	155,250	20,531	931,212	(1,141)	8,486	1,981	940,538
	2018	429,951	274,500	96,750	20,049	821,250	7,167	36,389	5,115	869,921
M Venegas	2019	365,719	227,100	62,438	20,531	675,788	(1,304)	-	110	674,594
	2018	354,951	181,686	29,250	20,049	585,936	(2,136)	-	888	584,688
C Wright	2019	365,719	252,207	84,918	20,531	723,375	5,763	32,254	2,858	764,250
	2018	354,951	233,250	37,668	20,049	645,918	(586)	-	6,526	651,858
Total KMP^(G)	2019	5,520,861	791,769	2,283,897	131,871	8,728,398	(125,656)	40,739	77,777	8,721,258
	2018	6,212,522	689,436	1,090,827	129,310	8,122,095	199,053	36,389	92,792	8,450,329

(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 total represents the cash amounts actually received by the Group KMP, as distinct from the accounting expense. As a result, it does not align to Australian Accounting Standards.

(D) Comprises annual leave and long service leave entitlements accrued but not taken during the year. Mr Douglass' long service leave accrual was reduced by \$168,400 on 1 July 2018 reflecting Mr Douglass' lower base salary effective 1 July 2018. Ms Morton's short-term entitlements annual leave also includes an amount of \$17,038 for annual leave paid out during the year ended 30 June 2019 (June 2018: \$16,537).

(E) 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.

(F) No non-monetary benefits or other short term benefits not otherwise disclosed above were paid during the years ended 30 June 2019 and 30 June 2018.

(G) Comparative information does not include remuneration details for executives who are no longer KMP in 2019. As a result, the amount disclosed in the 2018 Remuneration Report differs from the amount above.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the year ended 30 June 2019

3. 2019 Remuneration Report (Audited) (continued)

3.5 Employment Agreements

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

Hamish Douglass, Chairman and Chief Investment Officer

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

Fixed and variable compensation

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

Shareholding requirement

Mr Douglass' contract does not specify a shareholding ownership requirement. However as one of the founders of the business Mr Douglass and his associates hold 22,212,727 ordinary shares (2018: 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 2019

3. 2019 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 1 July 2017	Net Additions/ (disposals)	Closing balance 30 June 2018	Net Additions/ (disposals)	Closing balance 30 June 2019
Non-Executive Directors					
John Eales	24,262	53,354	77,616	-	77,616
Robert Fraser	599,109	-	599,109	-	599,109
Paul Lewis	1,725,000	(225,000)	1,500,000	-	1,500,000
Hamish McLennan	100,248	-	100,248	-	100,248
Karen Phin	89,312	-	89,312	-	89,312
Executive Directors					
Brett Cairns	1,024,523	-	1,024,523	10,000	1,034,523
Hamish Douglass ^(A)	22,203,127	9,600	22,212,727	-	22,212,727
Group Executives (Other KMP)					
Kirsten Morton	18,896	-	18,896	-	18,896
Marcia Venegas	2,126	763	2,889	-	2,889
Craig Wright	18,896	-	18,896	-	18,896

^(A) Prior years restated for ordinary shares disclosed in Appendix 3Y dated 6 August 2019.

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 2019

3. 2019 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 1 July 2017	Additions/ (disposals) (A)	Closing balance 30 June 2018	Additions/ (disposals) (A)	Closing balance 30 June 2019
Magellan Global Fund					
Directors					
Hamish Douglass ^(B)	2,014,953	38,558	2,053,512	121,007	2,174,518
Paul Lewis	505,920	15,954	521,873	35,253	557,126
Magellan Infrastructure Fund					
Directors					
Hamish Douglass ^(B)	101,174	-	101,174	-	101,174
Paul Lewis	374,782	34,939	409,721	18,909	428,629
Magellan High Conviction Fund^(C)					
Directors					
Hamish Douglass ^(B)	1,719,489	152,750	1,872,239	1,469,078	3,341,317
Group Executives (Other KMP)					
Craig Wright	-	94,932	94,932	(56,237)	38,695
Magellan Global Equities Fund					
Directors					
Brett Cairns	40,518	732	41,250	1,228	42,478
Hamish Douglass ^(B)	627,069	10,602	637,671	55,816	693,487
Group Executives (Other KMP)					
Marcia Venegas	-	3,344	3,344	-	3,344
Craig Wright	7,440	134	7,574	(7,574)	-
Magellan Global Equities Fund (Currency Hedged)					
Directors					
Brett Cairns	10,000	178	10,178	394	10,572
Hamish Douglass ^(B)	510,385	9,103	519,488	353	519,841
Magellan Infrastructure Fund (Currency Hedged)					
Group Executives (Other KMP)					
Marcia Venegas	-	3,508	3,508	45	3,553
Magellan Global Trust^(D)					
Directors					
Brett Cairns	-	72,198	72,198	12,635	84,833
Hamish Douglass ^(B)	-	14,386,425	14,386,425	579,809	14,966,234
John Eales	-	217,598	217,598	66,701	284,299
Robert Fraser	-	174,283	174,283	16,664	190,947
Paul Lewis	-	92,198	92,198	12,635	104,833
Hamish McLennan	-	72,019	72,019	12,628	84,647
Karen Phin	-	72,198	72,198	12,635	84,833
Group Executives (Other KMP)					
Kirsten Morton	-	27,625	27,625	7,615	35,240
Marcia Venegas	-	10,830	10,830	427	11,257
Craig Wright	-	36,101	36,101	(36,101)	-
Airlie Australian Share Fund					
Directors					
Karen Phin	-	-	-	19,049	19,049

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

(B) Prior years restated to include units disclosed in the Appendix 3Y dated 6 August 2019. In addition to the above holdings, Mr Douglass selected the Magellan Global Fund product via his employer superannuation account and currently has holdings of 459,428 units at a value of \$982,166 as at 30 June 2019 (June 2018: 450,260 at a value of \$821,003).

(C) Includes Class A and Class B units of the Magellan High Conviction Trust.

(D) 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.

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

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT for the year ended 30 June 2019

3. 2019 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 2019, six KMP held a loan (June 2018: seven). The terms and conditions of the loans, including repayment terms, are disclosed in note 14 of the financial statements. There are no other related party transactions with the KMPs other than those disclosed.

		SPP Shares acquired during year	Opening Loan Balance	Loans made	Loans (repaid)	Closing Loan Balance	
		Number	\$	\$	\$	Face value ^(A)	Carrying value ^(A)
						\$	\$
Directors							
John Eales	2019	-	976,243	-	(87,394)	888,850	836,413
	2018	53,354	-	999,987	(23,744)	976,243	901,837
Robert Fraser	2019	-	712,311	-	(160,116)	552,195	546,585
	2018	-	801,949	-	(89,638)	712,311	689,238
Hamish McLennan	2019	-	916,791	-	(104,747)	812,044	779,054
	2018	-	975,431	-	(58,640)	916,791	864,629
Karen Phin	2019	-	587,659	-	(132,097)	455,562	450,851
	2018	-	661,580	-	(73,921)	587,659	568,623
Group Executives (Other KMP)							
K Morton	2019	-	110,305	-	(67,342)	42,963	42,869
	2018	-	160,360	-	(50,055)	110,305	108,049
M Venegas	2019	-	25,056	-	(25,056)	-	-
	2018	-	49,166	-	(24,110)	25,056	24,946
C Wright	2019	-	126,470	-	(61,877)	64,593	64,000
	2018	-	170,049	-	(43,579)	126,470	123,020

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

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT for the year ended 30 June 2019

3. 2019 Remuneration Report (Audited) (continued)

3.9 Link Between Performance and Remuneration Paid by the Group

	2019	2018	2017	2016	2015
Total revenue (\$'000)	617,387	452,598	338,268	333,805	284,912
Total expenses (\$'000)	124,050	181,988	82,141	74,104	54,603
Net profit after tax (\$'000)	376,947	211,791	196,225	198,357	174,295
Diluted earnings per share (cents per share)	213.1	122.0	114.1	115.5	101.8
Adjusted revenue (\$'000) ^(A)	577,251	452,598	338,268	333,805	284,912
Adjusted expenses (\$'000) ^(A)	104,024	101,010	82,141	74,104	54,603
Adjusted net profit after tax (\$'000) ^(A)	364,225	268,897	196,225	198,357	174,295
Adjusted diluted earnings per share (cents per share) ^(A)	205.9	154.9	114.1	115.5	101.8
Total Dividends paid (cents per share)	185.2	134.5	85.6	89.3	74.9
Closing share price (ASX code: MFG) ^(B)	\$ 51.00	\$ 23.30	\$ 28.84	\$ 22.25	\$ 17.40
Total KMP remuneration ^(C) :					
- fixed compensation (\$) ^(D)	5,567,815	8,782,415	6,608,195	4,520,621	3,525,342
- variable compensation (\$) ^(E)	3,153,443	4,448,273	3,594,905	4,147,820	3,706,172
	8,721,258	13,230,688	10,203,100	8,668,441	7,231,514
Number of KMPs	10	12	12	10	9
% growth in net profit after tax	78%	8%	-1%	14%	110%
% growth in adjusted net profit after tax	35%	37%	-1%	14%	110%
% growth in diluted earnings per share	75%	7%	-1%	13%	108%
% growth in adjusted diluted earnings per share	33%	36%	-1%	13%	108%
% growth in total KMP remuneration	-34%	30%	18%	20%	11%
% growth in dividends paid	38%	57%	-4%	19%	96%
Total KMP remuneration as % of net profit after tax	2%	6%	5%	4%	4%

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

^(B) As at 30 June.

^(C) As reported in historical Annual Reports and has not been adjusted for changes to KMP.

^(D) Fixed compensation comprises salary, superannuation and leave benefits outlined in Table 3.4.

^(E) 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 2019

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 22 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

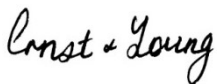
Sydney
13 August 2019

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 2019, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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



Ernst & Young



Rita Da Silva
Partner
13 August 2019

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS for the year ended 30 June 2019

	Note	Consolidated Entity	
		30 June 2019 \$'000	30 June 2018 \$'000
Revenue			
Management fees	5(a)	467,786	381,074
Performance fees	5(b)	83,631	39,772
Services fees	5(c)	4,700	4,701
Advisory fees		3,017	1,224
Dividend and distribution income		12,824	17,275
Interest income		2,907	2,701
Net change in the fair value of financial assets			
- Realised	12	577	-
- Unrealised	12	40,136	-
Net gain on sale of available-for-sale financial assets	12	-	4,011
Net foreign exchange gain/(loss)		1,809	1,840
Total revenue		617,387	452,598
Expenses			
Employee expenses		62,865	52,038
Non-Executive Director fees		420	419
Fund administration and operational costs		16,126	14,866
Information technology and information services expense		6,226	4,588
Occupancy expense		4,298	4,276
Legal and professional fees		3,447	2,474
Marketing expense		3,382	11,102
Travel and entertainment expense		2,391	1,932
US marketing/consulting fee expense		-	4,206
Auditor's remuneration	22	1,019	863
Depreciation expense		416	494
Amortisation expense	18	4,518	1,404
Foreign and withholding taxes		139	137
Transaction costs related to strategic initiatives	2(a)	15,508	80,766
Finance costs	20(c)	425	300
Other expenses		2,870	2,123
Total expenses		124,050	181,988
Net profit before income tax expense		493,337	270,610
Income tax expense	6(a)	(116,390)	(58,819)
Net profit after income tax for the year		376,947	211,791
Basic earnings per share (cents per share)	3	213.1 cents	122.0 cents
Diluted earnings per share (cents per share)	3	213.1 cents	122.0 cents

The Consolidated Statement of Profit or Loss is to be read in conjunction with the accompanying notes to the Financial Statements.

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2019

	Note	Consolidated Entity	
		30 June 2019 \$'000	30 June 2018 \$'000
Net profit after income tax for the year		376,947	211,791
Other comprehensive income			
Items previously classified as available-for-sale financial assets: ^(A)			
Net changes in the fair value		-	24,703
Net (gain)/loss on sale	12	-	(4,011)
Income tax (expense)/benefit on the above items	6(a)	-	(6,312)
Exchange differences on translation of foreign operations		1,650	933
Other comprehensive income for the year, net of tax		1,650	15,313
Total comprehensive income for the year		378,597	227,104

(A) Investments in the Principal Investments Portfolio were classified as 'financial assets at fair value through profit or loss' ("FVTPL") on 1 July 2018. Previously these investments were classified as 'available-for-sale' ("AFS") financial assets held at fair value through other comprehensive income ("FVOCI"). Refer to note 1(c) for further details.

The Consolidated Statement of 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 2019

		Consolidated Entity	
		30 June	30 June
		2019	2018
		\$'000	\$'000
	Note		
Assets			
Current assets			
Cash and cash equivalents	7(c)	198,188	169,095
Financial assets	12	2,009	1,972
Receivables	8	123,812	108,622
Loans - share purchase plan	14	3,616	3,298
Prepayments		895	1,079
Total current assets		328,520	284,066
Non-current assets			
Financial assets	12	339,084	274,567
Loans - share purchase plan	14	7,603	9,344
Property, plant and equipment	9	576	624
Net deferred tax asset	6(d)	-	1,324
Intangible assets	18	124,508	105,018
Total non-current assets		471,771	390,877
Total assets		800,291	674,943
Liabilities			
Current liabilities			
Payables	10	31,793	20,612
Provisions	11	1,802	1,247
Income tax payable		19,355	29,702
Total current liabilities		52,950	51,561
Non-current liabilities			
Net deferred tax liability	6(d)	9,151	-
Deferred lease incentives		2,114	1,982
Provisions	11	2,054	967
Total non-current liabilities		13,319	2,949
Total liabilities		66,269	54,510
Net assets		734,022	620,433
Equity			
Contributed equity	13	243,150	218,877
Available-for-sale reserve		-	55,088
Foreign currency translation reserve		2,500	850
Retained profits		488,372	345,618
Total equity attributable to members of the Group		734,022	620,433
Total equity		734,022	620,433

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 2019

Attributable to Equity Holders of the Consolidated Entity						
		Contributed Equity	Foreign currency translation reserve	Retained Profits	Available for Sale Reserve	Total Equity
2019	Note	\$'000	\$'000	\$'000	\$'000	\$'000
Equity - 1 July 2018		218,877	850	345,618	55,088	620,433
Adoption of AASB 9	1(c)	-	-	55,088	(55,088)	-
Restated equity - 1 July 2018		218,877	850	400,706	-	620,433
Net profit for the year		-	-	376,947	-	376,947
Other comprehensive income		-	1,650	-	-	1,650
Total comprehensive income for the year		-	1,650	376,947	-	378,597
Transactions with owners in their capacity as owners:						
Issue of shares:						
- for acquisition of Frontegra Asset Management, Inc.	13(a)	21,672	-	-	-	21,672
- under Share Purchase Plan ("SPP")	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
Total transactions with equity holders in their capacity as equity owners		24,273	-	(289,281)	-	(265,008)
Equity - 30 June 2019		243,150	2,500	488,372	-	734,022
2018						
Equity - 1 July 2017		115,250	(83)	291,736	40,708	447,611
Net profit for the year		-	-	211,791	-	211,791
Other comprehensive income		-	933	-	14,380	15,313
Total comprehensive income for the year		-	933	211,791	14,380	227,104
Transactions with owners in their capacity as owners:						
Issue of shares:						
- for acquisition of Airlie Funds Management Pty Limited	13(a)	97,113	-	-	-	97,113
- under SPP	13(a)	6,013	-	-	-	6,013
- transaction costs arising on share issue net of tax	13(a)	(77)	-	-	-	(77)
Dividends paid	4	-	-	(157,909)	-	(157,909)
SPP expense for the year	13(a)	578	-	-	-	578
Total transactions with equity holders in their capacity as equity owners		103,627	-	(157,909)	-	(54,282)
Equity - 30 June 2018		218,877	850	345,618	55,088	620,433

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 2019

		Consolidated Entity	
		30 June	30 June
		2019	2018
		\$'000	\$'000
	Note		
Cash flows from operating activities			
Management and services fees received		486,150	399,854
Performance fees received		80,004	30,817
Advisory fees received		3,217	-
Dividends and distributions received		152	6,285
Interest received		2,439	2,016
Finance costs paid		(425)	(212)
Tax paid		(115,794)	(59,183)
Payments to suppliers and employees (inclusive of GST)		(125,734)	(128,478)
Transaction costs related to strategic initiatives paid		(15,218)	(80,766)
Net cash inflows/(outflows) from operating activities	7(a)	314,791	170,333
Cash flows from investing activities			
Proceeds from sale of financial assets		2,147	19,419
Purchase of financial assets		(2,628)	(6,081)
Net matured term deposits		(37)	161
Payments for property, plant and equipment	9	(372)	(139)
Proceeds from sale of property, plant and equipment		4	25
Acquisition of subsidiaries, net of cash acquired		(1,632)	(8,668)
Net cash inflows/(outflows) from investing activities		(2,518)	4,717
Cash flows from financing activities			
Net proceeds from issue of shares		208	463
Proceeds from repayment of SPP loans		2,160	2,266
Dividends paid		(287,596)	(156,948)
Net cash inflows/(outflows) from financing activities		(285,228)	(154,219)
Net increase / (decrease) in cash and cash equivalents			
Effects of exchange rate movements on cash and cash equivalents		27,045	20,831
Cash and cash equivalents at the beginning of the year		2,048	2,021
Cash and cash equivalents at the end of the year	7(c)	169,095	146,243
		198,188	169,095

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 2019

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 13 August 2019 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 adoption of new standards effective as of 1 July 2018 that are described in note 1(c). 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 18;
- Deferred tax asset arising from unused tax loss - refer to note 6(d).

(c) New and Amended Accounting Standards and Interpretations Effective 1 July 2018

The Group applied, for the first time from 1 July 2018, AASB 15: *Revenue from Contracts with Customers* ("AASB 15") and AASB 9: *Financial Instruments* ("AASB 9") which require restatement of previous financial statements. The nature and effect of these changes are disclosed below.

• AASB 15: Revenue from Contracts with Customers

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

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

1. Basis of Preparation (continued)

(c) New and Amended Accounting Standards and Interpretations Effective 1 July 2018 (continued)

- AASB 15: Revenue from Contracts with Customers (continued)**

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

The Group's material performance fee agreements can have a broad range of outcomes and market volatility remains a key factor of uncertainty. Accordingly, performance fee revenue is not recognised until the uncertainty is resolved or almost resolved. To assess uncertainty and therefore the potential reversal of performance fee revenue, additional factors are now considered to determine if a portion of the Group's performance fee revenue should be recognised prior to the end of the performance fee measurement period.

- AASB 9: Financial Instruments**

AASB 9 contains new requirements for the classification, measurement and derecognition of financial assets and liabilities, replacing the recognition and measurement requirements in AASB 139: *Financial Instruments: Recognition and Measurement* ("AASB 139"). Under the new requirements the four previous categories of financial assets have been replaced with two measurement categories: fair value and amortised cost, and financial assets will only be measured at amortised cost where very specific conditions are met. Equity securities are measured at fair value through profit or loss unless an election is made at initial recognition, to present fair value changes in comprehensive income. This option is irrevocable and applies only to equity instruments which are not held for trading. AASB 9 also includes new hedge accounting requirements and an expected-loss impairment model that requires credit losses to be recognised on a more timely basis.

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

Financial impacts of adopting AASB 9 as at 1 July 2018

As a consequence of the above, the Group's retained profits increased by \$55,088,000 and the available-for-sale reserve decreased by the same amount, as shown below:

Equity (\$'000)	Effect on available-for-sale reserve (net of tax)	Effect on retained profits
Opening balance – AASB 139	55,088	345,618
Reclassify investments from available-for-sale to FVTPL	(55,088)	55,088
Opening balance – AASB 9	-	400,706

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

Financial assets (\$'000)	FVTPL	AFS	Amortised cost
Financial assets under AASB 139	-	274,567	292,331
Reclassify investments from available-for-sale to FVTPL	274,567	(274,567)	-
Opening balance – AASB 9	274,567	-	292,331

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

1. Basis of Preparation (continued)

(c) New and Amended Accounting Standards and Interpretations Effective 1 July 2018 (continued)

- **AASB 9: Financial Instruments (continued)**

Impact on comparative periods prior to 1 July 2018

In accordance with the transitional provisions of AASB 9 the Group elected not to restate comparatives. Accordingly, there was no impact on the profit or loss for the year ended 30 June 2018.

As a consequence of adopting AASB 9 from 1 July 2018 and not restating comparatives, the net unrealised change in fair value of financial assets is presented differently in the year ended 30 June 2019 compared with the prior year ended 30 June 2018. In the year ended 30 June 2019, the net unrealised change in fair value of financial assets of \$40,136,000 was recorded in profit or loss. However, for the year ended 30 June 2018 the net unrealised gain of \$16,681,000 remains in comprehensive income. This presentation difference impacts the statement of profit or loss, statement of comprehensive income, segment result and net profit used to calculate earnings per share.

The net realised change in fair value of financial assets is recorded in profit or loss in all periods presented. However, it is described as 'net change in the fair value of financial assets – realised' in the year ended 30 June 2019 and 'Net gain on sale of available-for-sale financial assets' in the year ended 30 June 2018.

Other impacts

In addition, under AASB 9, expected credit losses on financial assets are recorded either on a 12-month or lifetime basis. The Group applies the simplified approach and records lifetime expected losses on all eligible financial assets. The revised methodology for calculating impairment did not have a material impact on the financial statements.

Several other amendments and interpretations apply for the first time in the reporting period commencing 1 July 2018 but did not result in any adjustments to the amounts recognised in the financial statements or disclosures.

(d) Accounting Standards and Interpretations Issued But Not Yet Effective

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

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

The Group will adopt AASB 16 from 1 July 2019. The Group will apply the modified retrospective approach on transition and will reflect any impacts of the change of the new standard on a cumulative basis as an adjustment to the opening balance of retained earnings at 1 July 2019, the adoption date.

For practical expediency lease contracts identified and ongoing as at 1 July 2019 and which are accounted for as leases under AASB 117 will continue to be accounted for as lease contracts under AASB 16. The Group will not restate comparatives in accordance with the transitional provisions of AASB 16.

On adoption of AASB 16, the Group will recognise lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117. These liabilities will be measured at the present value of the remaining lease payments, discounted using an estimate of the borrowing rate. The weighted average borrowing rate applied to the lease liabilities on 1 July 2019 is 4.0%. The lease liability recognised as at 1 July 2019 will be \$19,279,000.

The associated right-of-use assets for premises and other leases will be measured at the amount as if the standard had always been applied, being \$15,817,000. After adjusting for amounts currently recorded on the balance sheet (representing the difference between the cumulative lease expense recognised and cash paid on these leases), this results in a net impact on retained earnings of approximately \$699,000.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

1. Basis of Preparation (continued)

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

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

In applying AASB 16 for the first time, the Group will use the following practical expedients permitted by the standard:

- A single discount rate can be applied to a portfolio of leases with reasonably similar characteristics; and
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases.

(e) 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.

(f) 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.

(g) 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.

(h) 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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

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	✓	✓
Magellan Global Trust	ASX Listed Trust - registered fund	✓	✓
Magellan Core Infrastructure Fund	Unlisted unregistered fund	✓	✓
Airlie Australian Share Fund	Unlisted registered fund	✓	✓
Airlie Concentrated Share Fund	Unlisted unregistered fund	✓	✓
	Irish fund type		IM
MFG Global Fund	UCITS ^(A)		✓
MFG Select Infrastructure Fund	UCITS ^(A)		✓
MFG Global Sustainable Fund	UCITS ^(A)		✓
	United States fund type		IM
Frontier MFG Global Equity Fund ^(B)	Open-ended mutual fund		✓
Frontier MFG Global Plus Fund ^(B)	Open-ended mutual fund		✓
Frontier MFG Core Infrastructure Fund ^(B)	Open-ended mutual fund		✓
Frontier MFG Select Infrastructure Fund ^(B)	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 Quoted Funds/Listed Trust, the Unlisted Magellan Funds, the Frontier MFG Funds, MFG Global Sustainable Fund 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 the Company's SPP loans 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 2019

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 2019	\$'000	\$'000	\$'000	\$'000
Segment revenue				
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				
- Realised	-	577	-	577
- Unrealised	-	40,136	-	40,136
Net foreign exchange gain/(loss)	1,779	(18)	48	1,809
Total segment revenue	561,326	53,524	2,537	617,387
Segment expenses				
Employee expense	62,398	-	22	62,420
Employee expense - SPP	372	-	73	445
Non-Executive Directors' fees	252	-	168	420
Other expenses	38,515	151	2,073	40,739
Total segment expenses	101,537	151	2,336	104,024
Total segment operating profit before income tax expense	459,789	53,373	201	513,363
Other comprehensive income				
Exchange differences on translation of foreign operations	1,650	-	-	1,650
Other comprehensive income for the year, before tax	1,650	-	-	1,650
Total comprehensive income for the year, before tax	461,439	53,373	201	515,013

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

	Consolidated Entity	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
Segment operating profit before income tax expense	513,363	351,588
<i>Individually significant items and amortisation of intangibles:</i>		
Amortisation of intangible assets ^(B)	(4,518)	(1,404)
Transaction costs related to strategic initiatives		
Magellan Global Trust Unit Purchase Plan costs ^(C)	(15,003)	-
Magellan Global Trust Dividend Reinvestment Plan discount funding costs ^(D)	(505)	-
Offer costs relating to Magellan Global Trust IPO ^(E)	-	(23,801)
Offer costs of issuing MGG loyalty units ^(E)	-	(56,965)
Interim distribution income from Magellan Global Trust ^(F)	-	1,192
Net profit before income tax expense	493,337	270,610
Income tax expense	(116,390)	(58,819)
Net profit for the year	376,947	211,791

(A) Includes elimination of income and expense under the transfer pricing agreements between the Company's controlled entity, 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, Frontier Partners Inc, Frontegra Strategies LLC and Frontegra Asset Management Inc. (together referred to as "Frontier Group") (refer to note 18).

(C) Relates primarily to MFG's payment to Magellan Global Trust ("MGG") to ensure unitholders who did not participate in the MGG Unit Purchase Plan ("UPP") suffer no dilution as a result of the UPP discount.

(D) Relates to MFG's payment to MGG (only with respect to the year ended 30 June 2019) to ensure unitholders who do not participate in the MGG Dividend Reinvestment Plan ("DRP") suffer no dilution as a result of any DRP discount.

(E) Relates to net offer costs incurred in relation to the MGG capital raising in the year ended 30 June 2018.

(F) Relates to the distribution declared for the half year ended 31 December 2017 on the MGG loyalty units.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

2. Segment Information (continued)

(a) Segment Financial Results (continued)

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

(A) Includes elimination of income and expense under the transfer pricing agreements between the Company's controlled entity, MAM, and US controlled entities within the Funds Management segment.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

2. Segment Information (continued)

(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
	\$'000	\$'000	\$'000	\$'000
30 June 2019				
Total assets	281,204	351,363	167,724	800,291
Total liabilities	32,902	43,580	(10,213)	66,269
Net assets	248,302	307,783	177,937	734,022
30 June 2018				
Total assets	235,301	263,238	176,404	674,943
Total liabilities	24,163	-	30,347	54,510
Net assets	211,138	263,238	146,057	620,433

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 2019

3. Earnings Per Share (EPS)

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

	Consolidated Entity	
	30 Jun 2019	30 Jun 2018
Basic EPS		
Net profit attributable to shareholders (\$'000)	376,947	211,791
Weighted average number of shares for basic EPS ('000)	176,865	173,553
Basic EPS (cents)	213.1	122.0
Diluted EPS		
Net profit attributable to shareholders (\$'000)	376,947	211,791
Weighted average number of shares for diluted EPS ('000)	176,865	173,553
Diluted EPS (cents)	213.1	122.0

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

4. Dividends

	Consolidated Entity			
	Total \$'000	Cents per Share	Franking %	Date Paid
During the year ended 30 June 2019				
Prior year final dividend paid	132,335	75.1	100%	27 August 2018
Prior year performance dividend paid	26,256	14.9	100%	27 August 2018
Total prior year final and performance fee dividend paid	158,591	90.0		
Interim dividend paid	130,690	73.8	75%	28 February 2019
Total dividends declared and paid during the year	289,281	163.8		
During the year ended 30 June 2018				
Prior year final dividend paid	71,413	41.5	100%	28 August 2017
Prior year performance dividend paid	9,808	5.7	100%	28 August 2017
Total prior year final and performance fee dividend paid	81,221	47.2		
Interim dividend paid	76,688	44.5	100%	20 February 2018
Total dividends declared and paid during the year	157,909	91.7		

(a) Dividend Declared

On 13 August 2019, the Directors declared a total dividend of 111.4 cents per ordinary share (75% franked) in respect of the six months to 30 June 2019 (June 2018: 90.0 cents per ordinary share 100% franked). The dividend comprises a Final Dividend of 78.0 cents per ordinary share and a Performance Fee Dividend of 33.4 cents per share (June 2018: Final Dividend of 75.1 cents per ordinary share and a Performance Fee Dividend of 14.9 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 \$197,275,000 are not recognised as liabilities and will be paid on 29 August 2019.

(b) Imputation Credits

	Consolidated Entity	
	30 June 2019 \$'000	30 June 2018 \$'000
Total imputation credits available for subsequent reporting periods based on a tax rate of 30% (June 2018: 30%)	56,442	62,461

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

The dividend declared by the Directors on 13 August 2019 will be partially franked out of existing franking credits, or out of franking credits arising from the payment of income tax.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

5. Revenue

Prior to the adoption of AASB 15 on 1 July 2018 (refer to note 1(c)), revenue was recognised in the Consolidated Statement of Profit or Loss as it was earned and calculated in accordance with the relevant agreement.

From 1 July 2018, 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 2019 \$'000	30 June 2018 \$'000
Magellan Global Fund	134,537	125,788
Magellan Global Fund (Hedged)	6,982	5,996
Magellan Global Equities Fund	16,415	13,042
Magellan Global Equities Fund (Currency Hedged)	1,110	833
Magellan Global Trust	25,423	15,990
Magellan Infrastructure Fund	16,302	13,706
Magellan Infrastructure Fund (Unhedged)	7,526	6,620
Magellan Infrastructure Fund (Currency Hedged)	2,662	1,437
Magellan High Conviction Fund	8,464	6,960
Magellan Core Infrastructure Fund	734	526
MFG Global Fund	18,819	16,443
Frontier MFG Funds	19,265	14,464
MFG Select Infrastructure Fund	669	434
The Airlie Concentrated Share Fund	1,028	895
Other funds and mandates	207,850	157,940
Total management fees	467,786	381,074

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

5. Revenue (continued)

(b) Performance Fees

Prior to the adoption of AASB 15 on 1 July 2018 (refer to note 1(c)), performance fees were recognised in the Consolidated Statement of Profit or Loss only when the Group's entitlement to the fee became certain, which was at the end of the relevant performance period.

From 1 July 2018, 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.

Prior to the adoption of AASB 15, performance fees were recognised in the Consolidated Statement of Profit or Loss only when the Group's entitlement to the fee became certain, which was at the end of the relevant performance period.

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:

	High watermark unit price (\$) ^(A)	Consolidated Entity	
		30 June 2019 \$'000	30 June 2018 \$'000
Based on performance relative to both market index and absolute return hurdle			
Magellan Global Fund	2.4095	13,756	18,352
Magellan Global Fund (Hedged)	1.6760	661	692
Magellan Global Equities Fund	3.6622	1,527	2,015
Magellan Global Equities Fund (Currency Hedged)	3.3103	115	101
Magellan Global Trust	1.6715	1,700	36
Magellan Infrastructure Fund	1.4295	125	2,910
Magellan Infrastructure Fund (Unhedged)	1.6275	19	2,906
Magellan Infrastructure Fund (Currency Hedged)	3.1301	4	357
Based on performance relative to absolute return hurdle			
Magellan High Conviction Fund (Class A/B)	1.8711(A)/1.1417(B)	7,240	3,666
Based on total shareholder return			
MFF Capital Investments Limited	-	1,000	1,000
Based on performance relative to a market index			
Other funds and mandates	various	57,484	7,737
Total performance fees earned		83,631	39,772

(A) The high watermark shown as at 30 June 2019 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 2019, the Group has a contingent asset in respect of Carried Forward Performance Fees that could range from nil to \$7,056,000 (30 June 2018: nil) (refer to note 21 (b)).

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

5. Revenue (continued)

(c) Services Fees

Services fees arise from providing investment research and administrative services. Services fees from MFF, a listed investment company, comprised of a fixed quarterly base fee of \$1,000,000 which amounted to \$4,000,000 in total for the year ended 30 June 2019 (30 June 2018: \$4,000,000). Additionally, in the year ended 30 June 2019, MAM provided research to an institutional mandate and earned services fees of \$700,000 (June 2018: \$701,000) under a fixed fee arrangement.

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

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

	Consolidated Entity	
	30 June	30 June
	2019	2018
	\$'000	\$'000
Australia & New Zealand	353,617	283,360
United Kingdom & Ireland	105,444	73,850
United States	73,968	53,574
Canada	5,620	5,458
Asia	17,468	9,305
Total management, services and performance fees	556,117	425,547

(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
	2019	2018
	\$'000	\$'000
Management and services fees		
- Retail	251,184	217,006
- Institutional	221,302	168,769
Performance fees		
- Retail	48,975	34,347
- Institutional	34,656	5,425
Total management, services and performance fees	556,117	425,547
Total Retail	300,159	251,353
Total Institutional	255,958	174,194
Total management, services and performance fees	556,117	425,547

(f) Interest Income

Interest income is recognised on an accruals 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 2019

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 2019 \$'000	30 June 2018 \$'000
Net profit before income tax expense		493,337	270,610
Prima facie income tax expense at 30% (2018: 30%)		(148,001)	(81,183)
Effect of amounts which are non-deductible/(assessable) in calculating taxable income:			
- effect of concessional tax rate on offshore banking unit (OBU)	6(c)	34,801	22,386
- non-assessable income and non-deductible expenses		(2,278)	595
- US state and local taxes (net of tax credits)		(1,242)	(830)
- differences in overseas tax rates		257	50
- over/(under) provision of prior year income tax		47	102
- imputed interest and expense relating to SPP		13	29
- tax effect of franked dividends/distributions received		13	32
Income tax expense reported in the Consolidated Statement of Profit or Loss		(116,390)	(58,819)
- changes in fair value of available-for-sale financial assets		-	(7,515)
- sale of available-for-sale financial assets recycled through profit or loss		-	1,203
Income tax (expense)/benefit reported in the Consolidated Statement of Comprehensive Income		-	(6,312)

(b) Components of Income Tax Expense

Income tax attributable to net profit from ordinary activities comprises:

	30 June 2019 \$'000	30 June 2018 \$'000
The major components of income tax expense are:		
Current income tax expense	(104,963)	(81,049)
Deferred income tax expense/(benefit)	(10,489)	22,908
Differences in overseas tax rates	257	50
US state and local taxes (net of tax credits)	(1,242)	(830)
Over/(under) provision of prior year income tax	47	102
Income tax expense reported in the Consolidated Statement of Profit or Loss	(116,390)	(58,819)

(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 2019, the Company's effective tax rate was 23.6% (June 2018: 21.7%), 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 2019

6. Taxation (continued)

(d) Net Deferred Tax (Liability)/Asset

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

	Consolidated Entity	
	30 June 2019 \$'000	30 June 2018 \$'000
Amounts recognised in the Consolidated Statement of Financial Position:		
- Deferred tax liabilities from changes in the fair value of financial assets	(39,737)	(26,613)
- Deferred tax assets from movements in accruals, provisions and other items	7,412	5,135
- Deferred tax assets from costs that are deductible over 5 years	7,813	5,712
Total net deferred tax (liability) relating to temporary differences	(24,512)	(15,766)
Deferred tax asset relating to unused tax loss arising on issuance of loyalty units to unitholders under MGG priority offer	15,361	17,090
Total net deferred tax (liability)/asset	(9,151)	1,324

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

	Consolidated Entity	
	30 June 2019 \$'000	30 June 2018 \$'000
Opening balance	1,324	(15,651)
(i) Movement in temporary differences		
- changes in the fair value of financial assets	(13,124)	(6,312)
- accruals, provisions and other items	2,277	106
- costs that are deductible over 5 years	2,101	5,712
- acquired deferred tax asset from subsidiaries	-	379
(ii) Movement in unused tax loss		
- capital loss on issuance of loyalty units to unitholders under MGG priority offer	(1,729)	17,090
Closing balance - net deferred tax (liability)/asset	(9,151)	1,324

Key Estimate and Judgement

At 30 June 2019, the Group's net deferred tax liability of \$9,151,000 includes a deferred tax asset of \$15,361,000 (30 June 2018: \$17,090,000) relating to the unused capital loss on the issuance of loyalty units to eligible unitholders of MGG under the priority offer. At 30 June 2019, the deferred tax asset has been recognised on the basis that it is sufficiently 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 2019

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 \$104,312,000 (June 2018: \$84,149,000) were assumed by MFG. Payments totalling \$105,957,000 (June 2018: \$64,568,000) were made to MFG from the other entities under the tax sharing and funding agreement and \$17,936,000 (June 2018: \$19,581,000) remains receivable as at 30 June 2019. Refer to note 19(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 the Consolidated Statement of 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 2019

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 2019 \$'000	30 June 2018 \$'000
Net profit after income tax expense	376,947	211,791
Adjusted for:		
Net change in fair value of financial assets		
- Realised	(577)	-
- Unrealised	(40,136)	-
Net (gain)/loss on disposal of available-for-sale financial assets	-	(4,011)
Dividends and distributions reinvested	(16,242)	(395)
Depreciation and amortisation expense	4,934	1,898
Net foreign exchange gain	(1,809)	(1,840)
Imputed interest on loans under SPP	(487)	(673)
Employee expense on loans under SPP	445	578
Net change in fair value of financial assets recorded as dividends and distribution income	(3,238)	-
(Increase)/decrease in receivables	(14,638)	(30,649)
(Increase)/decrease in prepayments	184	35
(Increase) in net deferred tax asset/increase in net deferred tax liability	10,475	(22,908)
Increase/(decrease) in payables and provisions	9,279	(5,464)
Increase/(decrease) in income tax payable	(10,347)	21,957
Effects of exchange rates on cash and cash equivalents	1	14
Net cash inflows from operating activities	314,791	170,333

(b) Non-Cash Financing and Investing Activities

	Note	Consolidated Entity	
		30 June 2019 \$'000	30 June 2018 \$'000
Issue of MFG shares for acquisition of Frontegra Asset Management Inc.	17	21,672	-
Issue of MFG shares for acquisition of Airlie Funds Management Pty Limited		-	97,113
Issue of MFG shares under the SPP		1,934	5,439
Dividends paid to SPP Participants applied as repayment against SPP loan balance	14	1,685	961
Imputed interest on SPP loans	14	487	673
Employee expense on SPP loans	14	445	578
Value of units issued to MFG in lieu of distributions for Principal Investments		16,242	395

(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 \$198,188,000 (June 2018: \$169,095,000). Term deposits with maturity dates greater than 90 days from inception date are included in financial assets (refer to note 12).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

8. Receivables

Fees receivable comprise management, services and performance fees. From 1 July 2018, 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.

Prior to the adoption of AASB 9 on 1 July 2018, receivables were initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for uncollectible amounts.

	Consolidated Entity	
	30 June 2019 \$'000	30 June 2018 \$'000
Fees receivable	115,731	93,272
Distributions receivable from Magellan Funds	7,641	14,888
Other	440	462
Total receivables	123,812	108,622

Receivables past due were \$2,652,000 at 30 June 2019 (June 2018: \$1,301,000).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

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
- Furniture and fittings 3 to 5 years
- Computer equipment 3 to 5 years

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

Consolidated Entity						
	30 June 2019			30 June 2018		
	Leasehold Improve- ments	Office Equipment, Fixture & Fittings	Total	Leasehold Improve- ments	Office Equipment, Fixture & Fittings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At cost	391	1,719	2,110	321	1,872	2,193
less: accumulated depreciation	232	1,302	1,534	263	1,306	1,569
Total property, plant & equipment	159	417	576	58	566	624
Movements:						
Carrying amount at beginning of year	58	566	624	113	764	877
Additions	128	244	372	31	108	139
Acquisition of subsidiaries	-	-	-	-	122	122
Disposals	-	(7)	(7)	(15)	(10)	(25)
Depreciation expense	(27)	(389)	(416)	(73)	(421)	(494)
Net foreign exchange differences	-	3	3	2	3	5
Carrying amount at end of year	159	417	576	58	566	624

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

10. Payables

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

	Consolidated Entity	
	30 June 2019 \$'000	30 June 2018 \$'000
Trade payables and accruals	9,366	4,981
Unsettled trades	3,843	-
Accrued employee entitlements	16,185	13,403
Taxes payable - GST and Fringe Benefits Tax	2,399	2,228
Total payables	31,793	20,612

Employee Entitlements

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

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

Maturities of Financial Liabilities

At 30 June 2019, the Group's financial liabilities comprise trade creditors and payables which mature in 1 year or less (June 2018: 1 year or less).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

11. Provisions

		Consolidated Entity	
		30 June 2019 \$'000	30 June 2018 \$'000
Employee entitlements - long service leave	(i)	1,472	1,247
Onerous lease provision	(ii)	330	-
Total current provisions		1,802	1,247
Employee entitlements - long service leave	(i)	722	698
Other employee entitlements		763	239
Onerous lease provision	(ii)	538	-
Provision for make-good	(iii)	31	30
Total non-current provisions		2,054	967

(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.

(ii) Onerous lease provision

An onerous lease provision is recognised when the expected benefits to be derived by the Group from a lease are lower than the unavoidable costs under the lease. The provision is measured at the present value of the lower of the expected cost of terminating the lease and the expected net cost of continuing with the lease. The movement in the total onerous lease provision relates to an additional provision for a premise that is in excess to the Group's needs.

(iii) Provision for make-good

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

12. Financial Assets

	Consolidated Entity	
	30 June 2019 \$'000	30 June 2018 \$'000
Current		
(i) Financial assets at amortised cost		
Term deposits ^(A)	2,009	1,972
Total current financial assets	2,009	1,972
Non-Current		
(ii) Financial assets at fair value through profit or loss^(B)		
Investments in listed shares (by domicile of primary stock exchange)		
- United States	6,285	2,714
- Europe and UK	1,234	263
Investments in quoted funds/ASX listed trust^(C)		
- Magellan Global Equities Fund	79,218	64,413
- Magellan Global Equities Fund (Currency Hedged)	21,632	18,313
- Magellan Infrastructure Fund (Currency Hedged)	13,101	11,097
- Magellan Global Trust	4,215	4,086
Total quoted/listed investments	125,685	100,886
Investments in unlisted funds^(C)		
- Magellan Global Fund	138,191	111,992
- Magellan Global Fund (Hedged)	921	784
- Magellan High Conviction Fund	39,398	32,801
- Magellan Wholesale Plus Global Fund	9,020	7,532
- Magellan Wholesale Plus Infrastructure Fund	6,330	5,451
- Frontier MFG Core Infrastructure Fund	7,245	6,026
- Frontier MFG Global Plus Fund	10,703	8,839
- MFG Global Sustainable Fund ^(D)	1,569	-
- Other	22	81
Investments in unlisted shares		
- Other	-	175
Total unlisted investments	213,399	173,681
Total non-current financial assets	339,084	274,567

(A) Comprises term deposits held with major Australian banks and pledged against bank guarantees in respect of the Group's future lease obligations. In the event the Group does not meet its lease payments, the banks have the right to apply the deposits in settlement of the amount paid by the banks under the guarantees.

(B) The Group adopted AASB 9 on 1 July 2018. At this time, the investments held by the Group in the Principal Investments portfolio were classified as 'fair value through profit or loss'. Previously these investments were classified under AASB 139 as 'available-for-sale ("AFS") financial assets held at fair value through comprehensive income'. Refer to note 1 (c) for further details.

(C) At 30 June 2019 the Group held the following investments: Magellan Global Equities Fund 5.6% (June 2018: 6.1%), Magellan Global Equities Fund (Currency Hedged) 21.4% (June 2018: 27.3%), Magellan Infrastructure Fund (Currency Hedged) 3.5% (June 2018: 6.2%), Magellan Global Trust 0.2% (June 2018: 0.2%), Magellan Global Fund 1.3% (June 2018: 1.2%), Magellan Global Fund (Hedged) 0.2% (June 2018: 0.2%), Magellan High Conviction Fund 6.9% (June 2018: 7.0%), Magellan Wholesale Plus Global Fund 1.0% (June 2018: 1.0%), Magellan Wholesale Plus Infrastructure Fund 16.7% (June 2018: 41.6%), Frontier MFG Core Infrastructure Fund 1.3% (June 2018: 1.1%), Frontier MFG Global Plus Fund 3.5% (June 2018: 1.9%) and MFG Global Sustainable Fund 4.7% (June 2018: nil).

(D) On 8 February 2019, MFG purchased US\$1,000,000 of units in MFG Global Sustainable Fund.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

12. Financial Assets (continued)

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

	Consolidated Entity	
	30 June 2019 \$'000	30 June 2018 \$'000
Current		
Opening balance	1,972	1,775
Term deposit of acquired subsidiary	-	358
Cash placed on term deposit	2,151	2,331
Matured term deposits	(2,114)	(2,492)
Closing balance	2,009	1,972
Non-current		
Opening balance	274,567	263,113
Acquisitions	22,713	8,784
Disposals	(2,147)	(18,022)
Net change in fair value		
- Realised	577	4,011
- Unrealised ^(A)	40,136	16,681
Net change in fair value recorded as dividend and distribution income	3,238	-
Closing balance	339,084	274,567

(A) The net unrealised gain on financial assets was recorded in comprehensive income in the year ended 30 June 2018 (refer to note 1(c)).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

12. Financial Assets (continued)

Financial Assets Accounting Policies (effective from 1 July 2018)

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.

Financial Assets Accounting Policies (prior to the adoption of AASB 9 on 1 July 2018)

Financial assets at fair value through profit or loss were previously classified as available-for-sale financial assets carried at fair value. Changes in the fair value of available-for-sale financial assets were recognised in the available-for-sale reserve and included in other comprehensive income until the asset was disposed or impaired. When available-for-sale financial assets were sold or impaired, cumulative gains recognised in the available-for-sale reserve were recognised in profit or loss. Cumulative losses were recognised in the available-for-sale reserve to the extent that they reversed previously recorded gains, and when previously recorded gains had been reversed in full, any impairment loss below original cost (when significant and prolonged) was recognised in profit or loss. Previously when assessing whether an available-for-sale asset was impaired, the Board considered a number of quantitative and qualitative factors, which included the current market price of the asset, research performed internally by experienced equity analysts, and, where appropriate, external research that provided guidance on the long-term underlying value of the asset.

Financial assets at amortised cost were classified as loans and receivables and carried at amortised cost using the effective interest rate method.

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

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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.

	Note	Consolidated Entity	
		30 June	30 June
		2019	2018
		\$'000	\$'000
Ordinary Shares	(a)	243,150	218,877
Total contributed equity		243,150	218,877

	Note	Consolidated Entity			
		30 June	30 June	30 June	30 June
		2019	2018	2019	2018
		Number of shares '000	Number of shares '000	\$'000	\$'000
(a) Ordinary Shares					
Opening balance		176,211	172,076	218,877	115,250
Shares issued for acquisition of Airlie ⁽ⁱ⁾		-	3,857	-	97,113
Shares issued for acquisition of FAM ⁽ⁱⁱ⁾	17	788	-	21,672	-
Shares issued under SPP ⁽ⁱⁱⁱ⁾		88	278	2,187	6,013
SPP expense for year		-	-	445	578
less: transaction costs arising on share issue net of tax		-	-	(31)	(77)
Closing balance - Ordinary Shares		177,087	176,211	243,150	218,877

- (i) In accordance with the sale agreement, the ordinary shares were placed in escrow in the name of the former shareholders. The ordinary shares will be released in equal amounts on the anniversary date of issue, being 1 March, over five years until 2023.
- (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.
- (iii) Of the 177,087,458 ordinary shares on issue at 30 June 2019, 911,016 ordinary shares are held by employees and Non-Executive Directors under the SPP (June 2018: 1,088,300). Refer to note 14 for further details.

Terms and Conditions

Ordinary shares are fully paid and entitle the holder to receive dividends declared and proceeds on winding up 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 2019

14. Share Purchase Plan

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

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

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

Repayment of a SPP loan occurs either by applying an amount equal to 25% of the Participant's after tax annual cash bonus and/or applying dividends received on their shares issued under the SPP. Dividends paid to Participants and applied as a repayment of the SPP loans amounted to \$1,686,000 for the year ended 30 June 2019 (June 2018: \$961,000).

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

Amounts recognised at 30 June 2019 in respect of the SPP loans are:

	Consolidated Entity	
	30 June 2019 \$'000	30 June 2018 \$'000
Current - SPP loans due within 1 year	3,616	3,298
Non-current - SPP loans due later than 1 year and within 10 years	7,603	9,344
Total SPP loans	11,219	12,642
SPP interest income	487	673
SPP employee expense	(445)	(578)
Net SPP income/(expense) in the Consolidated Statement of Profit or Loss	42	95

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 2019, the total value of MFG shares securing the SPP loans to all Participants applying MFG's closing share price of \$51.00 was \$46,462,000 (June 2018: \$25,357,000). Expected credit losses are provided for credit losses that result from default events that are possible within the next 12-months. 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. An impairment analysis is performed at each reporting date to measure expected credit losses.

MAGELLAN FINANCIAL GROUP LIMITED

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for the year ended 30 June 2019

14. Share Purchase Plan (continued)

The face value of the SPP loans outstanding at 30 June 2019, along with the total number of shares issued under the SPP and the share price at which they were issued are:

	Share issue price	Total number of shares issued under SPP	Consolidated Entity	
			30 June 2019	30 June 2018
SPP issue				
29 October 2013 tranche	\$10.02	186,200		
Face value of loans (\$)			-	144,000
Estimated weighted average duration of loans			-	0.2 years
Imputed interest rate			-	3.4%
22 September 2014 tranche	\$13.23	342,609		
Face value of loans (\$)			496,000	1,241,000
Estimated weighted average duration of loans			0.7 years	1.0 years
Imputed interest rate			3.0%	3.0%
13 November 2014 tranche	\$13.64	243,155		
Face value of loans (\$)			1,276,000	1,664,000
Estimated weighted average duration of loans			0.7 years	1.5 years
Imputed interest rate			2.8%	2.8%
14 September 2015 tranche	\$18.88	265,443		
Face value of loans (\$)			1,027,000	1,869,000
Estimated weighted average duration of loans			1.3 years	2.4 years
Imputed interest rate			2.2%	2.2%
16 September 2016 tranche	\$23.51	126,038		
Face value of loans (\$)			1,084,000	1,691,000
Estimated weighted average duration of loans			1.8 years	2.3 years
Imputed interest rate			1.8%	1.8%
18 November 2016 tranche	\$20.85	63,948		
Face value of loans (\$)			812,000	917,000
Estimated weighted average duration of loans			2.1 years	2.8 years
Imputed interest rate			2.1%	2.1%
18 September 2017 tranche	\$24.47	202,536		
Face value of loans (\$)			3,677,000	4,474,000
Estimated weighted average duration of loans			3.4 years	4.5 years
Imputed interest rate			2.4%	2.4%
16 November 2017 tranche	\$24.99	53,354		
Face value of loans (\$)			889,000	976,000
Estimated weighted average duration of loans			2.9 years	3.7 years
Imputed interest rate			2.2%	2.2%
13 March 2018 tranche	\$24.93	22,061		
Face value of loans (\$)			439,000	550,000
Estimated weighted average duration of loans			3.3 years	4.2 years
Imputed interest rate			2.4%	2.4%
17 September 2018 tranche	\$27.92	88,784		
Face value of loans (\$)			2,208,000	-
Estimated weighted average duration of loans			4.6 years	-
Imputed interest rate			2.3%	-
Total number of MFG ordinary shares held by Participants at end of year			911,016	1,088,300

MAGELLAN FINANCIAL GROUP LIMITED

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15. Parent Entity Information

	Parent Entity	
	30 June 2019 \$'000	30 June 2018 \$'000
Assets		
Current assets	165,377	155,089
Non-current assets	497,546	408,357
Total Assets	662,923	563,446
Liabilities		
Current liabilities	23,791	29,435
Non-current liabilities	20,485	9,129
Total Liabilities	44,276	38,564
Net Assets	618,647	524,882
Equity		
Contributed equity	243,525	219,252
Available for sale reserve	-	57,983
Retained profits	375,122	247,647
Total Equity	618,647	524,882
Net profit after income tax expense for the year	358,772	186,300
Comprehensive income after income tax expense for the year	-	14,381
Total comprehensive income for the year	358,772	200,681

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

(a) Contingent Assets and Liabilities of MFG

At 30 June 2019, MFG has no contingent assets or contingent liabilities (June 2018: nil).

(b) Commitments of MFG

MFG has committed to pay an amount to MGG, at each distribution period where a DRP is offered, to ensure unitholders in MGG suffer no dilution where a MGG unitholder participates in the DRP. Refer to note 21(b) for further details.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

16. Subsidiaries

At 30 June, the Group's subsidiaries were:

	Note	Country of incorporation/ Principal place of business	% equity interest ^(a)	
			30 June 2019	30 June 2018
Magellan Asset Management Limited ("MAM")		Australia	100	100
- Airlie Funds Management Pty Limited ("Airlie")	(b)	Australia	100	100
MGT Investment Corp Pty Limited ("MGTI")	(c)	Australia	100	100
Magellan Capital Partners Pty Limited		Australia	100	100
MFG Services LLC ("MFGS")	(d)	United States of America	100	100
Frontier North American Holdings Inc. ("FNAH")	(e)	United States of America	80	80
- Frontier Partners Inc.		United States of America	100	100
- Frontegra Strategies LLC		United States of America	100	100
- Frontegra Asset Management Inc.	(f)	United States of America	100	-
- MFG High Conviction Master Fund GP LLC		United States of America	100	-

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

All material subsidiaries have a 30 June reporting date.

- (a) The proportion of ownership interest is equal to the proportion of voting power held.
- (b) Airlie was acquired by MAM on 1 March 2018.
- (c) A special purpose vehicle formed on 9 August 2017 to subscribe for loyalty units for eligible unitholders of MGG under the priority offer. At 30 June 2019, this entity was dormant.
- (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.
- (f) Frontegra Asset Management Inc. was acquired by FNAH on 1 October 2018.

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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

16. Subsidiaries (continued)

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

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17. Business Combinations

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

The excess of consideration paid and non-controlling interest in the acquired entity over the fair value of the identifiable net assets acquired is goodwill. Goodwill and fair value adjustments arising on an acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Goodwill arising from business combinations is included in intangible assets (refer to note 18).

Frontegra Asset Management Inc

The Group's US holding company, Frontier North America Holdings Inc ("FNAH"), acquired Frontegra Asset Management Inc on 1 October 2018 for consideration of US\$19,181,000 (A\$26,509,000), comprising of cash of \$US3,500,000 (A\$4,837,000) and 787,507 MFG ordinary shares amounting to US\$15,681,000 (A\$21,672,000). The fair value of the MFG ordinary shares issued was A\$27.52 per share, being the price of MFG ordinary shares on the date of acquisition.

Frontegra Asset Management Inc is part of the Frontier Group, a privately-owned group of companies which MFG entered into an agreement to acquire on 5 February 2018 (refer to the 30 June 2018 financial statements for additional information).

In accordance with the sale agreement, 689,066 of the total ordinary shares issued were placed in escrow ("escrowed shares") on 1 October 2018. The escrowed shares will be released in equal amounts over seven years following acquisition. As a result, one seventh of the escrowed shares will be released each anniversary date, with the first anniversary date being 1 October 2019. The escrowed shares have the same rights as MFG ordinary shares, except that the escrowed shares have a trading lock placed on them, preventing them being sold.

Transaction costs of \$22,000 have been expensed as incurred and are included within legal and professional fees in the Consolidated Statement of Profit or Loss.

The cash outflow for the acquisition of Frontegra Asset Management Inc. net of cash acquired was \$1,632,000.

Frontegra Asset Management Inc. has contributed revenues of \$943,000 and net profit after tax of \$797,000 to the Group for the period since acquisition, being 1 October 2018 to 30 June 2019.

If the acquisition had occurred from the beginning of the year, the Group's revenue and net profit after tax for the full year ended 30 June 2019 would have been \$623,140,000 and \$378,298,000 respectively.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

17. Business Combinations (continued)

The fair values of the assets and liabilities of Frontegra Asset Management Inc at 1 October 2018 were:

	\$'000
Assets	
Current assets	
Cash and cash equivalents	3,205
Receivables	1,998
Prepayments	27
Intangibles - customer relationships	2,418
Total assets	7,648
Liabilities	
Payables	1,337
Total liabilities	1,337
Total identifiable net assets at fair value	6,311
Goodwill arising on acquisition	20,198
Purchase consideration	26,509

Of the \$1,998,000 receivables, the acquired trade receivables comprised \$1,689,000, representing amounts invoiced to clients. At acquisition date, no amounts were expected to be uncollectable. Goodwill of \$20,198,000 is attributable to expected synergies arising from the acquisition.

(a) Business Combinations in the Prior Year

During the year ended 30 June 2018, the following companies were acquired:

- Frontier Partners Inc on 5 February 2018;
- Airlie Funds Management Pty Limited on 1 March 2018; and
- Frontegra Strategies LLC on 2 April 2018.

The details of the companies acquired are included in the 30 June 2018 financial statements.

MAGELLAN FINANCIAL GROUP LIMITED

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18. Intangibles

Consolidated Entity				
30 June 2019				
		<u>Definite lives</u>	<u>Indefinite lives</u>	
		Customer Relationships	Goodwill	Total
	Note	\$'000	\$'000	\$'000
At cost		25,727	104,703	130,430
less: accumulated amortisation and impairment		(5,922)	-	(5,922)
Total intangible assets		19,805	104,703	124,508
Movement:				
Carrying amount at beginning of year		21,529	83,489	105,018
Acquisition of subsidiaries	17	2,418	20,198	22,616
Amortisation expense		(4,518)	-	(4,518)
Net foreign exchange differences		376	1,016	1,392
Carrying amount at end of year		19,805	104,703	124,508
30 June 2018				
		<u>Definite lives</u>	<u>Indefinite lives</u>	
		Customer Relationships	Goodwill	Total
	Note	\$'000	\$'000	\$'000
At cost		22,933	83,489	106,422
less: accumulated amortisation and impairment		(1,404)	-	(1,404)
Total intangible assets		21,529	83,489	105,018
Movement:				
Carrying amount at beginning of year		-	-	-
Acquisition of subsidiaries		22,601	82,994	105,595
Amortisation expense		(1,404)	-	(1,404)
Net foreign exchange differences		332	495	827
Carrying amount at end of year		21,529	83,489	105,018

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.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

18. Intangibles (continued)

Goodwill

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

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

Impairment

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

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.

Based on current economic conditions and the Funds Management segment performance, no reasonably possible change in a key assumption used in the determination of the recoverable amount is expected to result in impairment of goodwill amounts recognised at 30 June 2019.

Key Estimate and Judgement

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

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

MAGELLAN FINANCIAL GROUP LIMITED

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19. Related Party Disclosures

(a) Ultimate Parent Entity

Magellan Financial Group Limited is the ultimate parent entity.

(b) Transactions with Related Parties

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

(c) Key Management Personnel

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

(i) Directors

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

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

(A) On 5 October 2018, Dr Cairns was appointed Chief Executive Officer of the Group. Prior to this Dr Cairns held the position of Executive Chairman.

(B) On 5 October 2018, Mr Douglass was appointed Chairman of the MFG Board. Prior to this Mr Douglass was Chief Executive Officer of the Group. Mr Douglass remains Chief Investment Officer.

(C) On 5 June 2019, Mr Fraser was appointed Chairman of the MAM Board.

(D) On 5 June 2019, Mr McLennan was appointed Deputy Chairman of the MFG Board.

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 Key Management 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

With senior management changes in the 2019 financial year and the formation of an Executive Committee, the Board reviewed the composition of the Group Executive KMP and determined that the members of the Executive Committee were the Group Executive KMP as they had authority and responsibility for planning, directing and controlling the activities of the Group.

(iii) Remuneration of KMP

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

	Consolidated Entity	
	30 June 2019	30 June 2018 ^(A)
	\$	\$
Short term benefits		
- Salary	5,520,861	6,212,522
- Cash bonus	3,075,666	1,780,263
Post-employment benefits	131,871	129,310
Long-term benefits	40,739	36,389
Other benefits	(47,879)	291,845
Total remuneration paid to KMP	8,721,258	8,450,329

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

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 2019

19. Related Party Disclosures (continued)

(d) Transactions with Other Related Parties

The following transactions occurred with entities in the Group:

		30 June 2019	30 June 2018
	Note	\$	\$
Revenue with Controlled Entities			
Dividends	(i)	332,306,213	232,863,638
Reimbursed expenses		201,581	200,000
Expenses with Controlled Entities			
Expense reimbursements		51,509	314,468
Outstanding balances with Controlled Entities			
Receivables			
- Tax funding agreement - receivable	(ii)	17,935,731	19,581,107
- Tax funding agreement - received	(ii)	105,956,905	64,567,450
- Loan receivable		5,344	10,548
Equity contribution to Controlled Entities			
- Cash		4,837,260	59,620,935
- Non-cash		21,672,193	111,735,958
Equity returned from Controlled Entities			
- Cash		97,391	493,980
Transfer Pricing between Controlled Entities			
- Service fees		14,368,631	6,370,251
- Recharged expenses		1,528,736	345,081

- (i) Dividends from controlled entities totalling \$332,306,213 comprised \$332,127,844 paid by MAM to MFG (June 2018: \$211,878,998), \$178,369 paid by MFGS to MFG (June 2018: \$111,145) and nil paid by MGTI to MFG (June 2018: \$20,873,495).
- (ii) During the year ended 30 June 2019, MAM's and Airlie's income tax liabilities of \$104,311,529 (June 2018: \$82,486,575) were assumed by MFG, the head entity of the tax consolidated group. Payments totalling \$101,870,170 (June 2018: \$63,319,038) were received by MFG from MAM under the tax funding agreement during the year and \$17,394,661 was receivable by MFG from MAM in respect of amounts arising from the transfer of MAM's tax liability to MFG (June 2018: \$19,167,536). Payments totalling \$4,086,735 were received by MFG from Airlie under the tax funding agreement and \$541,070 was receivable by MFG from Airlie in respect of amounts arising from the transfer of Airlie's tax liability to MFG (June 2018: \$413,571).

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 2019

20. Capital and Risk Management

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

(a) Capital Management

The Group's approach to capital management remained unchanged during the year, which was to ensure that the Group continues as a going concern, it has sufficient liquidity to meet its operating requirements, it is able to support the payment of dividends to shareholders in accordance with the Group's dividend policy, and it retains the flexibility to retain capital if required for future business expansion. The Group's capital consists entirely of shareholder equity. The Group has access to a \$50 million revolving credit facility at 30 June 2019 (June 2018: \$50 million) (refer note 20(c) for further detail).

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

MAM and Airlie are subject to regulatory financial requirements by virtue of holding an Australian Financial Services Licence ("AFSL"). During the year ended 30 June 2019, both entities satisfied the liquidity requirements under their AFSL. MAM maintained the required net tangible assets of 10% of the three year average of MAM's revenues and satisfied the requirements of cash and cash equivalents which is 50% of the required net tangible assets, in accordance with ASIC Regulatory Guide 166.

(b) Financial Risk Management

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

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

(c) Liquidity Risk

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

The Group manages liquidity risk by maintaining sufficient cash reserves to cover its liabilities. Management monitors rolling forecasts of the Group's liquidity reserve (comprising the undrawn borrowing facility below) and cash and cash equivalents on the basis of expected cash flows. The Board of MFG has internal policies with respect of minimum liquid assets and cash.

As at 30 June 2019, the Group had an obligation to settle trade creditors and other payables of \$31,793,000 (June 2018: \$20,612,000) within 30 days. In addition, a further obligation of \$19,355,000 (June 2018: \$29,702,000) is payable between 30-150 days for the Group's tax instalment and final income tax payment. Furthermore, the dividend of 111.4 cents per share in respect of the six months ended 30 June 2019, amounting to \$197,275,000, will be paid on 29 August 2019 (refer to note 4(a)).

The Group had cash of \$198,188,000 (June 2018: \$169,095,000) and a further \$123,812,000 (June 2018: \$108,622,000) of receivables to cover these liabilities.

In addition, the Group has access to a \$50 million multi-currency revolving credit facility provided by a major Australian bank. This floating rate facility may be drawn in either Australian dollars or United States dollars at any time up to 31 January 2021. At 30 June 2019, this facility was undrawn. A facility fee applies on the amount of the undrawn facility. For the year ended 30 June 2019, total finance costs of \$425,000 (June 2018: \$300,000) have been expensed to the profit or loss. The facility is subject to annual review and the Group has complied with the financial covenants under this facility for the year ended 30 June 2019.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

20. Capital and Risk Management (continued)

(c) Liquidity Risk (continued)

At 30 June 2019, the Group reported current assets of \$328,520,000 and current liabilities of \$52,950,000 resulting in a net current asset surplus of \$275,570,000. After taking into account the final and performance fee dividend for the year ended 30 June 2019 totalling \$197,275,000, this would result in a net current asset surplus of \$78,295,000. Accordingly, the Group has sufficient liquid funds and current assets to meet its current liabilities.

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

(d) Price Risk

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

Over the past 10 financial years, the annual performance of the MSCI World Net Total Return Index has ranged between +31% and -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 might reasonably occur within the portfolio.

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

	Consolidated Entity	
	30 June 2019 \$'000	30 June 2018 \$'000
5% increase in market prices would result in:		
- higher net change in fair value of financial assets	11,868	9,541
Impact on net profit after tax/other comprehensive income and equity^(A)	11,868	9,541
5% increase in average value of funds under management would result in:		
- higher base management fees	17,869	14,919
Impact on net profit after tax and equity	17,869	14,919

(A) Investments in the Principal Investments Portfolio were classified as 'financial assets at fair value through profit or loss' ("FVTPL") on 1 July 2018. Previously these investments were classified as 'available-for-sale' ("AFS") financial assets held at fair value through other comprehensive income ("FVOCI"). Refer to note 1c for further details.

A decrease of 5% 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.
- Changes in market prices may impact inflows to, and outflows from, the Group's funds under management. This impact has not been estimated.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

20. Capital and Risk Management (continued)

(e) Foreign Currency Risk

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

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

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

If the Australian dollar strengthened by 10% relative to each currency to which the Group had exposure, with all other variables held constant, the impact on the net profit 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 2019	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets and liabilities								
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)
30 June 2018								
Financial assets and liabilities								
Cash and cash equivalents	(714)	(76)	-	(790)	714	76	-	790
Investments	-	-	-	-	(1,119)	(6)	(18)	(1,143)
Receivables	(1,662)	(546)	(1)	(2,209)	1,662	546	1	2,209
Payables	130	4	8	142	(130)	(4)	(8)	(142)

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

The Group also has indirect exposure to foreign currency via its investment in funds. The Magellan and Airlie Funds (in note 12) are denominated in Australian dollars and the Frontier MFG and MFG UCITS Funds are US dollar denominated. The underlying investment portfolios of these funds comprise entities predominantly denominated in foreign currencies, and with extensive operating exposure to global currency fluctuations which will drive portfolio values. Changes in their fair value are therefore influenced by movements in currencies. The sensitivity analysis disclosed above disregards the impact on the foreign currency movement on the underlying portfolios. 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 2019, approximately 85% of the Group's management and performance fees were indirectly exposed to movements in the Australian dollar relative to other currencies (June 2018: 87%).

(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.

Based on the cash and cash equivalents held by the Group at reporting date, the sensitivity on the Group's net profit and equity of a decrease of 50 basis points in floating interest rates, assuming all other variables remain constant is \$765,000 for the year ended 30 June 2019 (June 2018: \$670,000). An increase of 50 basis points in floating rate interest rates would have an equal but opposite impact on net profit and equity.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

20. Capital and Risk Management (continued)

(g) Credit Risk

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

The Group minimises concentrations of credit risk by ensuring cash balances and term deposits are held with and managed by counterparties that are reputable financial intermediaries with acceptable credit ratings determined by a recognised rating agency. In addition, credit limits are reviewed by management with reference to the counterparty's latest credit rating. For the year ended 30 June 2019, the Group held cash and term deposits with major Australian and international banks. The credit quality of Australian banks counterparties at 30 June 2019 was rated by Standard & Poor's as being AA-, and by Moody's as being Aa3 (AA- and Aa3 respectively at 30 June 2018). The credit quality of the international bank counterparty at 30 June 2019 was rated by Moody's as A1 (A1 at 30 June 2018).

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 2019 and 2018, MFG held a negligible cash balance with MLI.

The Group also manages credit risk by regularly monitoring SPP loan and receivable balances. Receivables are typically paid within 15 to 45 days after being invoiced. No expected credit losses were required to be recognised at 30 June 2019 (June 2018: nil). The Group also had credit exposure to SPP Participants with loans under the SPP. At 30 June 2019, the outstanding balance on the loans totalled \$11,908,161 (June 2018: \$13,527,453). At 30 June 2019, the total shortfall was nil (June 2018: \$92,000) 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, Airlie Australian Share Fund and The Airlie Concentrated Share Fund. The credit quality of NT's senior debt is rated, as at 30 June 2019 by Standard and Poor's as A+ and by Moody's as A2 (A+ and A2 respectively at 30 June 2018). In acting as custodian, NT is required to comply with the relevant provisions of the Corporations Act, applicable ASIC regulatory guides and Regulatory Instruments relating to registered managed investment scheme property arrangements with custodians.

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

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

- Cash and cash equivalents;
- Term deposits carried at amortised cost;
- Trade receivables from the provision of services; and
- Share purchase plan loans.

The identified impairment losses for these financial assets was not material.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

20. Capital and Risk Management (continued)

(h) Translation Risk

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

The Group does not hedge translation risk.

(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^(A) 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.

(A) Prior to 1 July 2018, the fair value of these investments was based on closing bid prices. The impact of the change was not material.

		Consolidated Entity			
	Note	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
30 June 2019					
Financial assets measured at fair value					
Investments in quoted/listed investments	12	125,685	-	-	125,685
Investments in unlisted funds	12	-	213,377	22	213,399
Total financial assets measured at fair value		125,685	213,377	22	339,084
30 June 2018					
Financial assets measured at fair value					
Investments in quoted/listed investments	12	100,886	-	-	100,886
Investments in unlisted funds (i)	12	-	173,425	81	173,506
Investments in unlisted shares (ii)	12	-	-	175	175
Total financial assets measured at fair value		100,886	173,425	256	274,567

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

20. Capital and Risk Management (continued)

(i) Fair Value Disclosures (continued)

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

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

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

(ii) Unlisted shares comprise a shareholding in an unlisted funds management business. During the year ended 30 June 2019, the investment was sold. In the prior year, as there is no active market for the shares, the Directors have valued this investment at cost after giving consideration to that company's most current unaudited net asset position.

There were no transfers between any level during the year ended 30 June 2019 or 2018 and the Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. At 30 June 2019, the fair value of the level 3 assets is \$22,000 (June 2018: \$256,000). The decrease in the fair value of level 3 assets during the year ended 30 June 2019 is primarily due to the sale of unlisted shares.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

21. Contingent Assets, Contingent Liabilities and Commitments

(a) Commitments

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

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

	Consolidated Entity	
	30 June 2019 \$'000	30 June 2018 \$'000
Within one year	3,165	2,904
Later than one year but no later than five years	12,460	11,541
More than five years	8,454	10,757
Total	24,079	25,202

(b) Contingent Assets and Contingent Liabilities

In accordance with the terms of the MFG Subscription and Commitment Deed, MFG will pay MGG to ensure that unitholders in MGG who do not to participate in the MGG Dividend Reinvestment Plan ("DRP") suffer no dilution as result of any DRP discount. As a result, MFG has a contingent liability where MGG offers a discount to the Net Trust Value per unit on units issued under the DRP in future periods. The quantum of the contingent liability is determined at each distribution date of MGG and the amount is currently equal to a 5% discount to MGG's NAV per unit multiplied by the number of units participating in the DRP. It is not practical to estimate the future cost to the Group as there is uncertainty as to the level of participation in the DRP, the NAV per unit and whether the DRP will be offered. For the year ended 30 June 2019, \$505,000 was paid or payable by the Group to MGG in respect of MGG's interim and final distributions (June 2018: \$414,000).

The Group has contingent assets in respect of performance fees carried forward at 30 June 2019 (refer to note 5(b)).

Other than the above, the Group has no material contingent assets or contingent liabilities as at 30 June 2019 (June 2018: nil).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

22. Auditor's Remuneration

Amounts received or due and receivable by the auditor's of the Group:

	Consolidated Entity	
	30 June 2019 \$	30 June 2018 \$
Ernst & Young Australia		
Audit services		
Audit and review of the financial reports:		
- Group and controlled entities	219,200	156,700
- Magellan Funds ^(A)	229,300	239,300
Other assurance services ^(B)	169,700	186,000
Advisory services	-	46,000
	618,200	628,000
Non-audit services		
Taxation ^(C)	149,398	186,450
Total remuneration of Ernst & Young Australia	767,598	814,450
Network firms of Ernst & Young Australia		
Audit services		
Audit of the financial report - MFG Investment Fund Plc	66,535	48,987
	66,535	48,987
Non-audit services		
Taxation ^(C)	24,339	-
Total remuneration of network firms of Ernst & Young Australia	90,874	48,987
Other audit firms		
Audit services		
Audit and review of the financial reports	18,568	-
Other assurance services	51,000	-
	69,568	-
Non-audit services		
Taxation	91,426	-
Total remuneration of other audit firms	160,994	-
Total auditor's remuneration	1,019,466	863,437

(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, Airlie Australian Share Fund and The Airlie Concentrated Share Fund.

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

(C) Non-audit services consist of income tax return reviews for the Group \$15,200 (June 2018: \$33,200), tax advisory services \$52,498 (June 2018: \$59,500) and income tax and distribution reviews for the Magellan Funds \$81,700 (June 2018: \$93,750).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2019

23. Subsequent Events

Capital Raising

On 13 August 2019, the Group announced a capital raising comprising a fully underwritten \$275 million Institutional Share Placement ("Placement") to institutional investors. The Placement will comprise an issue of 4.98 million new MFG ordinary shares at a price of \$55.20 per share. The new shares to be issued under the Placement will represent approximately 2.7% of MFG's expanded issued capital and will rank equally with existing MFG ordinary shares from the date of issue. As the new shares will be allotted after the record date for the 2019 Final and Performance Fee Dividends, the new shares will not carry an entitlement to those dividends.

Launch of Magellan High Conviction Trust

On 13 August 2019 the Group announced its intention to undertake an initial public offering of the Magellan High Conviction Trust ("MHCT"), a closed ended investment vehicle to be listed on the ASX. MHCT will replicate the Magellan High Conviction Fund investment strategy that has returned 16.6% per annum net of fees since inception on 1 July 2013 to 31 July 2019.

The offer will proceed via 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 can apply for up to 33,334 units equivalent to approximately \$50,000 and will 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 PDS. In addition, applicants under the wholesale/general public offer will 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.

The costs of these Loyalty Units and IPO Foundation Units and all costs related to the offer will be paid for by the Group. It is not practicable to estimate the cost to the Group as there is uncertainty as to the size of the offer and the MHCT net asset value per unit at the time that the Loyalty Units and IPO Foundation Units are issued. Further details of the MHCT raising will be disclosed following the completion of the offer.

Funds Under Management at 31 July 2019

On 6 August 2019, the Group reported to the ASX that its funds under management was \$89.7 billion as at 31 July 2019.

Other than the above matters and the dividend in respect of the six months ended 30 June 2019 (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 86 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 2019 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 2019.

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



Hamish M Douglass
Chairman

13 August 2019

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 2019, 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:

- (i) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

Key Audit Matters

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

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

including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Management and Performance Fee Revenue

Why significant	How our audit addressed the key audit matter
<p>The Group's key revenue stream is management, service 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.</p> <p>For the year ended 30 June 2019, management fees were \$467,786,000 and performance fees were \$83,631,000 which equates to 75.8% and 13.5% of total revenue respectively.</p> <p>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.</p> <p>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.</p> <p>Disclosures relating to these revenue streams are included in Note 5 to the financial report.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> ▶ Assessing the effectiveness of the controls in relation to the calculation of management, service and performance fees; ▶ Recalculating management and service fees, on a sample basis, in accordance with contractual arrangements; ▶ Assessing the performance fees recognised for the period to 30 June 2019 from funds and mandates, on a sample basis, and checking 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	How our audit addressed the key audit matter
<p>The Group has a significant investment portfolio consisting of listed equities and investments in Magellan Funds. As at 30 June 2019, the value of these non-current financial assets, as shown in Note 12 to the financial report was \$339,084,000, which equates to 42.4% of the total assets held by the Group.</p> <p>As described in Note 12 and Note 20 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.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> ▶ Assessing the effectiveness of the controls relating to the recognition and valuation of investments; ▶ Obtaining and considering the assurance reports on the controls of the Group's custodians and administrators in relation to investment management services and considering the auditor's qualifications and objectivity and results of their procedures; ▶ Agreeing all investment holdings, including cash accounts, to third party confirmations at 30 June 2019;

Why significant

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

- ▶ Agreeing the fair value of all investments in the portfolio held at 30 June 2019 to independent pricing sources for listed securities. For unlisted funds, we agreed the investment valuations to statements from external fund administrators; and
- ▶ Assessing the adequacy of the disclosures in Note 12 and Note 20 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.

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 16 of the financial report.

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, 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 16 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 \$104,703,000 as at 30 June 2019.

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 CGUs;
- ▶ Agreeing the projected cash flows used in the impairment models to the Board approved plan of the Group;

Why significant

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

- ▶ 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 evaluated whether any reasonable foreseeable change in assumptions could lead to a material impairment; and
- ▶ Assessing the adequacy of the disclosures in Note 18 in accordance with Australian Accounting Standards.

Information Other than the Financial Report and Auditor's Report

The directors are responsible for the other information. The other information comprises the information in the Company's Annual Report for the year ended 30 June 2019, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the Directors' for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on the Audit of the Remuneration Report

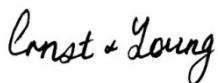
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 21 to 34 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Magellan Financial Group Limited for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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



Ernst & Young



Rita Da Silva
Partner

Sydney
13 August 2019

MAGELLAN FINANCIAL GROUP LIMITED

CORPORATE SUSTAINABILITY AND RESPONSIBILITY REPORT

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

Responsible Investment

Magellan is committed to responsible investment and became a signatory to the United Nations supported Principles of Responsible Investment ("PRI") in March 2012. The PRI is the globally recognised accord for responsible investing. Magellan's Responsible Investment Principles, which is available on our website, outlines and summarises 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 2019 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 125 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 NABERS¹ 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 CO2e)

	Calendar Year 2015	Calendar Year 2016	Calendar Year 2017	Calendar Year 2018
Scope 1	0	0	0	0
Scope 2	97	124	134	135
Total GHG emissions	97	124	134	135
Total per employee	1.05	1.14	1.29	1.07
Total per A\$ million of revenue	0.3	0.4	0.4	0.3

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 2018 of 0.3 tonnes CO2e 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 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 2019 (tonnes CO2e per \$US million revenue)
Magellan Global Fund	119.2
Magellan Global Trust	35.5
Magellan High Conviction Fund	35.8
Magellan Infrastructure Fund	656.8
Global Sustainable strategy	27.2
US Sustainable strategy	29.5
<i>MSCI World Index (as at 29 June 2018)</i>	<i>198.3</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.

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 2019, approximately 65% of employees had an individual shareholding in the Company.

Magellan is focused on ensuring pay equity at the time of hire, however, conducts an annual review of employee remuneration in the same role and level for 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 (125 employees as at 30 June 2019), 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 our employees before and after the birth/adoption of a child. Our 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 all 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 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 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.

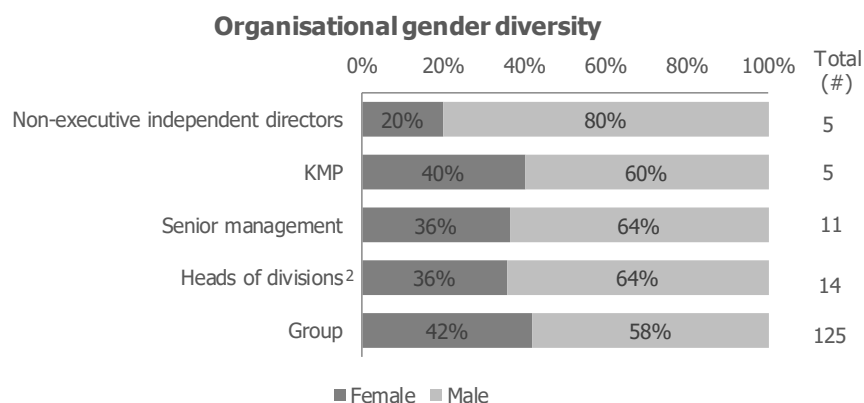
Magellan understands the importance of family and we have introduced Family Leave for all permanent employees. Under Family Leave, if Personal/Sick Leave has been used, employees can apply for Family Leave. Family Leave is paid leave so employees can take time out to care for a family member or manage 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, we aim 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.

In the 2019 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 2019.



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

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.

We also undertake an 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 our 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 appropriate to focus on delivering satisfactory returns inclusive of regular dividend payments and allowing shareholders to determine the charities to which they donate. Instead, Magellan prefers to focus its efforts on employee participation in fund raising initiatives.

Magellan's efforts over the past financial year include:

- Supporter of Rotary Club fund-raising initiative Bobbin Head Cycle Classic
- Employee participation in JPMorgan Corporate Challenge
- Employee participation in Bloomberg Square Mile
- Ticket sales from Magellan's Investor Evenings in October 2018 donated to REACH and Rural Aid.

(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 2019 financial year, this equated to approximately \$770,000 in respect of funds managed by Magellan. Magellan is a foundation member and received an initial allocation of ~10% of the assets under management at the time of the IPO of the Future Generation Global Investment Company.

During the year, Magellan became 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 Chief Investment Officer
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

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

Securities Exchange Listing

Australian Securities Exchange
ASX code (ordinary shares): MFG

Website

<http://www.magellangroup.com.au>

Corporate Governance Statement

The Corporate Governance Statement for MFG can be found at the Corporate Governance tab at <http://www.magellangroup.com.au>

MAGELLAN FINANCIAL GROUP LIMITED

SHAREHOLDER INFORMATION AS AT 8 AUGUST 2019

Distribution of Shareholders

Analysis of the numbers of shareholders by size of holding at 8 August 2019 is presented below:

Holding	Number of Holders	Number of Ordinary Shares	Percentage of Shares on Issue %
1-1,000	13,960	5,798,934	3.27
1,001-5,000	5,941	13,117,107	7.41
5,001-10,000	676	4,884,309	2.76
10,001-100,000	685	17,798,321	10.05
100,001 and over	84	135,488,787	76.51
Total	21,346	177,087,458	100.00
Number of holders with less than a marketable parcel of Ordinary Shares	153	251	

Twenty Largest Shareholders

The names of the 20 largest shareholders of the Company as at 8 August 2019 are listed below:

Holder Name	Number of Ordinary Shares	Percentage of Shares on Issue
HSBC Custody Nominees (Australia) Limited	26,996,731	15.24
JP Morgan Nominees Australia Limited	21,235,124	11.99
Midas Touch Investments Pty Ltd	21,001,577	11.86
Magellan Equities Pty Limited	16,888,949	9.54
Citicorp Nominees Pty Limited	10,264,894	5.80
National Nominees Limited	3,482,271	1.97
Marsev Pty Limited	2,699,724	1.52
Nota Bene Investments Pty Ltd	1,561,497	0.88
BNP Paribas Noms Pty Ltd	1,512,991	0.85
Mr David Doyle	1,500,000	0.85
Emmanuel Capital Pty Ltd	1,500,000	0.85
Mr Brett William Fisher Paton & Mrs Vicki Anne Paton	1,368,762	0.77
Aljamat Pty Ltd	1,310,000	0.74
Jash Pty Limited	1,130,331	0.64
Merrill Lynch (Australia) Nominees Pty Limited	899,205	0.51
PAJ Lewis Superannuation Fund Pty Ltd	750,000	0.42
PAJ Lewis Pty Ltd	750,000	0.42
Netwealth Investments Limited	745,365	0.42
Mr Philip Alan Kenneth Naylor & Mrs Andrea Naylor	700,000	0.40
William D Forsyth III and Martha J Forsyth	689,067	0.39
Total shares held by the 20 largest shareholders	116,986,488	66.06
Total ordinary shares on issue	177,087,458	

MAGELLAN FINANCIAL GROUP LIMITED

SHAREHOLDER INFORMATION AS AT 8 AUGUST 2019

Substantial Shareholders

The substantial shareholders in the Company's Register of Substantial Shareholders at 8 August 2019 are listed below:

Shareholder	Number of Ordinary Shares	Percentage of Shares on issue %
Hamish Douglass, Midas Touch Investments Pty Ltd and associates ^(A)	22,212,727	12.54
Chris Mackay and associates ^(B)	18,615,610	10.51

^(A) Date of last Appendix 3Y notice lodged on 6 August 2019

^(B) Date of the last substantial shareholder notice lodged on 22 November 2016

Voting Rights

Subject to the Company Constitution:

- a) at meetings of shareholders, each shareholder is entitled to vote in person, by proxy, by attorney or by representative;
- b) on a show of hands, each shareholder present in person, by proxy, by attorney or by representative is entitled to one vote; and
- c) 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.