Magellan Financial Group Limited

Annual Report 2021

ABN 59 108 437 592

Five year summary

		30 June 2021	30 June 2020	30 June 2019	30 June 2018	30 June 2017
Group Results						
Total Revenue	$'000	715,012	693,952	617,387	452,598	338,268
Total Expenses	$'000	336,048	178,874	124,050	181,988	82,141
Net Profit Before Tax	$'000	337,243	515,078	493,337	270,610	256,127
Net Profit After Tax	$'000	265,156	396,214	376,947	211,791	196,225
Adjusted Revenue and Other Income[1]	$'000	699,072	692,941	577,251	452,598	338,268
Adjusted Expenses[1]	$'000	111,339	119,751	104,024	101,010	82,141
Adjusted Net Profit Before Associates[1]	$'000	454,441	438,299	364,225	268,897	196,225
Adjusted Net Profit After Tax[1]	$'000	412,659	438,299	364,225	268,897	196,225
Effective Tax Rate	%	21.4	23.1	23.6	21.7	23.4
Funds Under Management[2]						
Average Funds Under Management	$m	103,680	95,458	75,819	59,034	45,667
Closing Funds Under Management	$m	113,902	97,184	86,718	69,509	50,597
Funds Under Management comprises:						
Retail	$m	30,883	26,769	23,216	19,182	15,159
Institutional	$m	83,019	70,415	63,502	50,327	35,438
Average Base Management Fee (per annum)[3]	bps	61	62	62	65	66
Average AUD/USD Exchange Rate	$	0.7469	0.6716	0.7155	0.7752	0.7538
Funds Management Business[1]						
Total Revenue	$'000	663,608	674,811	561,326	428,705	329,188
Total Expenses	$'000	106,918	116,799	101,537	97,275	80,908
Net Profit Before Tax	$'000	556,690	558,012	459,789	331,430	248,280
Net Profit Before Tax and Performance Fees[1]	$'000	526,616	477,048	376,182	291,841	226,774
Employee Expenses / Total Expenses	%	65.8	63.2	61.8	53.4	58.5
Cost to Income Ratio (expense/revenue)	%	16.1	17.3	18.1	22.7	24.6
Cost to Income Ratio (excluding performance fees)	%	16.9	19.7	21.3	25.0	26.3
Assets						
Total Assets	$'000	1,216,166	1,123,873	800,291	674,943	493,981
Net Assets	$'000	989,434	1,045,927	734,022	620,433	447,611
Net Tangible Assets Per Share	$	4.77	5.08	3.44	2.92	2.60
Shareholder Value						
Basic Earnings Per Share	cents	144.6	218.3	213.1	122.0	116.9
Diluted Earnings Per Share	cents	144.6	218.3	213.1	122.0	114.1
Adjusted Basic and Diluted Earnings Per Share[1]	cents	225.0	241.5	205.9	154.9	114.1
Total Dividends Per Share comprises:	cents	211.2	214.9	185.2	134.5	85.6
Interim and Final Dividends Per Share	cents	199.7	184.5	151.8	119.6	79.9
Performance Fee Dividend Per Share	cents	11.5	30.4	33.4	14.9	5.7
Franking	%	75	75	75	100	100
Other Information						
Number of Employees		139	131	125	124	108
Average Number of Employees		135	128	125	116	104

[1] Adjustments are made for strategic, non-cash or unrealised items to provide additional meaningful information (refer to section 1.4.2 of the Directors' Report and note 2 in the financial statements for the breakdown of these items).
[2] As reported in the Group's funds under management ("FUM") announcements published on the Australian Securities Exchange ("ASX").
[3] 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.

Where accounting classifications have changed, or where changes in accounting policy are adopted retrospectively, comparatives have been revised and may differ from results previously reported. The above Consolidated Statement of Profit or Loss and Comprehensive Income and Consolidated Statement of Financial Position extracts are derived from the published financial statements. This table includes non-IFRS information as defined in section 1.4.2 of the Directors' Report.

The annual financial report has been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001*. MFG has also released information to the ASX in compliance with the continuous disclosure requirements of the ASX Listing Rules and these announcements are available at www.asx.com.au (MFG's ASX code: MFG).

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Chairman's Report

For the year ended 30 June 2021

Dear Shareholder,

I am delighted to write to you as a fellow shareholder in Magellan Financial Group Limited ("Magellan"). Overall, we believe Magellan's financial results for the year ended 30 June 2021 are satisfactory:

- Average funds under management increased 9% to $103.7 billion.
- Reported net profit after tax was $265.2 million (compared with $396.2 million for year ended 30 June 2020).
- Net profit before tax of the Funds Management Segment was $556.7 million (compared with $558.0 million for the year ended 30 June 2020). Excluding performance fees, net profit before tax of the Funds Management Segment increased by 10% to $526.6 million.
- Total dividends of 211.2 cents per share (compared with 214.9 cents per share for year ended 30 June 2020).

I am pleased to inform you that we have established a dividend reinvestment plan ("MFG DRP") to allow shareholders to reinvest dividends at a 1.5% discount to the market price. The establishment of the MFG DRP is a fair and efficient way to retain a modest amount of additional capital whilst at the same time maintaining our dividend policy of paying out 90-95% of the profits from our funds management business. The Directors consider it is in the interests of shareholders to retain a modest amount of additional capital to ensure we have a strong balance sheet with ample liquidity. The directors are targeting to retain around 25%-30% of dividends on an annual basis for at least the next few years via the MFG DRP. If participation by shareholders results in a take up below this level the Directors will consider having the MFG DRP partially underwritten.

I encourage you to read the CEO report by Brett Cairns which provides a comprehensive review of our 2020/21 financial results.

We have often outlined that the most important driver of ongoing value creation for Magellan is to take care of our clients and deliver on our investment objectives. This will always be our priority. A recent example was the announcement on 1 July 2021 to transition the closed-ended Magellan High Conviction Trust to an open-ended fund. The units in the Magellan High Conviction Trust have been trading at a meaningful discount to the underlying net asset value for an extended period of time and it was considered in the best interests of investors to transition the Magellan High Conviction Trust to an open-ended fund to effectively eliminate the trading discount.

As shareholders in Magellan Financial Group you may ask why we decided to give up "permanent" capital in a closed-ended structure to enable unitholders to have direct liquidity at the net asset value. The simple answer is that it is the right thing to do for the investors in the fund. Only by putting our clients' interests first will we retain their trust and goodwill. It takes years and years to earn this trust and when there is a fork in the road, you need to choose which direction you want to take. For us this choice was clear and easy. Pleasingly, we have received very positive feedback from many investors in the fund following the announcement.

As I look back on the last 12 months, I can't help but think what a significant year it has been at Magellan. In some respect it has been a challenging year. While our Airlie Australian Equities and Infrastructure Equities strategies have had a stellar year, our Global Equity strategy (for which I am primarily responsible) has had a more difficult year, measured by relative performance versus the market over the past 12 months. This is in part due to our caution leading into the announcement of the vaccine result in early November 2020 and the defensive nature of the Global Equity strategy.

Given the importance of our Global Equity strategy to Magellan's funds under management and revenues, it is important for shareholders to understand the objectives of the strategy and its investment track record.

The Global Equity strategy has two fundamental investment objectives:

- To achieve superior risk-adjusted investment returns (our objective, which is not a guarantee, is to achieve a minimum average return of 9% per annum net of fees over the medium to long term); and
- To minimise the risk of a permanent capital loss.

If we achieve these objectives over time, we believe our clients invested in the strategy will be happy. The concept of minimising the risk of a permanent capital loss is integral to how we manage money.

Our investment philosophy is to build a conservative and relatively concentrated portfolio of outstanding companies – ones that possess sustainable competitive advantages – and to purchase securities in these businesses when their share prices are attractive compared with our assessment of their intrinsic value. We believe buying a concentrated portfolio of high-quality companies purchased at appealing prices will deliver investors superior risk-adjusted investment returns over the medium to long term while minimising the risk of a permanent capital loss. We will never make investment decisions to outperform the equity market in the short term.

Chairman's Report

For the year ended 30 June 2021

We believe our skill is judging where the earnings of a business will be in three, five and 10 years and not how a company's share price will perform relative to the equity market in the short term.

The investment track record of the Magellan Global Fund, Magellan's flagship retail fund that follows the Global Equity strategy, has consistently achieved our investment objectives over the past 14 years. Since inception on 1 July 2007, the fund has delivered a return of 11.9% per annum in Australian dollars net of fees, meaningfully exceeding our return objective of 9% per annum. If an investor had invested A$10,000 in the fund on 1 July 2007 it would have grown to A$48,343 by 30 June 2021 (including reinvested dividends). As a comparison, if an investor had invested in a MSCI World Index fund over the same period, it would have grown only to about A$28,165, a return that equates to 7.7% per annum.

Our investment results have been achieved with meaningfully lower risk of capital losses compared with the index. In terms of downside participation (measuring how the strategy performs versus the index during market decline), our Magellan Global Fund has suffered 45% of the market's decline, measured on a three-month rolling basis. This has, in part, been due to our cap on the amount of risk we allow the Global Equity strategy to take. We set a maximum risk cap for the portfolio at 80% of the combined volatility and stock 'downside risk' compared with the world equity market. This capping of risk has shown its worth over time. Unsurprisingly, this risk cap has been a significant constraint on the strategy over the past year when higher-risk cyclical stocks boomed on news of successful vaccine trial results. We believe our conservative approach of capping risk and investing in a concentrated portfolio of high-quality companies that have been purchased at attractive prices is prudent and is likely to continue to deliver superior returns with lower risk over time.

Our Magellan Global Fund is often compared with the return of global equity markets (measured usually against the MSCI World Index) over short periods. It is important to appreciate that the composition of our portfolio is nothing like that of the general stock market. We typically only hold about 25 investments whereas the MSCI World Index comprises about 1,600 companies. In the short term, you should therefore expect our portfolio to sometimes materially outperform or underperform the stock market. Our investment style means we would generally expect in the short term to outperform falling global equity markets if there is a material market downturn and underperform a very strong equity market rally.

While we judge the Magellan Global Fund's return over time predominantly against our after-fee return objective of 9% per annum and its performance in falling markets, it is relevant to judge the performance of the Magellan Global Fund against the MSCI World Index over a reasonable time frame. A standard industry benchmark is to measure returns versus the market on a three-year-rolling basis, measured monthly. Since the fund's inception in mid-2007, there have been 133 months of three-year returns. We are satisfied that our Magellan Global Fund has delivered an average three-year return of 14.4% per annum over these 133 monthly periods, which has outperformed the MSCI World Index by 4.2% per annum on average over the same three-year periods. The Magellan Global Fund has outperformed the MSCI World Index on a three-year rolling basis 88% of the time, or 117 times out of 133. On the 16 occasions when the fund underperformed the MSCI World Index, it delivered an average annual return of 12.3% and underperformed the index by just 0.4% per annum on average. In fact, the worst three-year return relative to the MSCI World Index was in June 2016 when the fund recorded a three-year annual return of 13.1%, which lagged the MSCI World Index by only 1.5% per annum.

All our team members have worked incredibly hard and we have completed a number of important strategic projects this year.

Firstly, we completed the restructure of our global equities retail funds and associated capital raising and bonus option issue. Investors can now access Magellan's flagship Global Equity strategy, the Magellan Global Fund, either through an open-ended unit class or a closed-ended unit class depending on their preferences.

Secondly, we launched a number of new funds in the Australian retail market. At Magellan, we are very focused on thinking deeply about solving problems for our clients and leveraging our core competencies to address their needs. We believe all our new products are uniquely positioned to address different issues our clients face and are proud to introduce new portfolio managers to the market, highlighting the incredible depth of our investment team.

MFG Core Series

The MFG Core Series (comprising three funds: MFG Core International Fund, MFG Core ESG Fund and MFG Core Infrastructure Fund) utilises our research process and aims to offer clients who are seeking lower cost alternatives an attractive investment proposition that leverages Magellan's expertise. The MFG Core Series offers investors more diversified portfolios of high-quality companies based on Magellan's investment philosophy and proprietary research that are actively constructed and managed systematically. The MFG Core Series is priced at a management fee of 0.50% which we believe will appeal to investors who are wanting attractive lower cost investment funds.

Chairman's Report

For the year ended 30 June 2021

Magellan Sustainable Fund

The Magellan Sustainable Fund managed by Magellan's Deputy Chief Investment Officer, Dom Giuliano, applies a thoughtful and proprietary approach to ESG including climate change. We are delighted to be able to offer our Sustainable strategy to retail investors which offers a high conviction, global equities portfolio with meaningfully lower carbon factor risk than global markets.

Magellan FuturePay

In June we launched Magellan **Future***Pay*, our retirement income product that was under development for a number of years. **Future***Pay* uses a unique approach to manage sequencing risk to offer investors a predictable monthly income, whilst also the potential to benefit from capital growth and daily access to your savings.

Magellan Capital Partners

Finally, we have made a number of investments outside our Funds Management business. These investments form part of our new business segment, Magellan Capital Partners, and are investments in what we believe to be high quality businesses, run by highly talented management teams. These investments have the potential to add to our intellectual capital, provide meaningful diversification beyond our Funds Management business and importantly generate substantial shareholder value over time. The investments we made in the 2021 financial year are a 40% economic interest in Barrenjoey Capital Partners Group Holdings Pty Limited ("Barrenjoey Capital Partners" or "Barrenjoey"), a 15% interest (fully diluted) in FinClear Holdings Limited ("FinClear") and a 12% shareholding (fully diluted) in Guzman y Gomez (Holdings) Limited ("GYG").

All of these initiatives I have outlined above are investments for the future. Investments that we believe, can add meaningful additional earnings streams, create a more robust business and ultimately create shareholder value over time.

Our full year financial results for the year ended 30 June 2021 reflect the start up losses and costs, but not the potential long term financial benefits, of both the new fund initiatives and investments. Our reported profits include transaction costs of $220.2 million ($154.1 million after tax) in relation to strategic initiatives (such as the Magellan Global Fund Partnership Offer and options issue, the restructure of the Magellan Global Fund and the launch of Magellan **Future***Pay*) and our share of the after-tax losses of $41.8 million from our investments in Barrenjoey, GYG and FinClear. This is predominantly attributed to Barrenjoey which is currently incurring large start-up costs as their executives build out the team, onboard clients and set up the required infrastructure.

Does this concern us in any way?

Not in the slightest. These costs were anticipated, and we are confident both in the prospects for each of these investments and that they will add to building a stronger Magellan over time. At Magellan, we do not focus on short term earnings or performance and that will not be changing.

Paul Lewis has informed us that he intends to retire from the Board as a non-executive director on 30 September 2021. Paul joined the Board in 2006 and has provided invaluable advice to the Company over the past 14 years. Paul has also chaired the Remuneration and Nominations Committee and has been a director of Magellan Asset Management Limited. On behalf of all our employees and shareholders, I would like to thank Paul for everything he has done for Magellan.

I would like to thank all our colleagues at Magellan for all their dedication and hard work this year.

Thank you for your ongoing support of Magellan.

Yours sincerely,

Hamish M Douglass
Chairman

Sydney
17 August 2021

Chief Executive Officer's Letter

For the year ended 30 June 2021

Dear Shareholder,

I am delighted to present this report for Magellan Financial Group Limited ("the Group" or "Magellan") for the year ended 30 June 2021.

Overview of Magellan

For those who might be new to Magellan this section provides a brief overview of the business, which will be updated from time to time as the business develops. For those who are more familiar with Magellan's business, please feel free to skip to the section "Overview of Results", which provides a detailed discussion of results for the period.

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

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

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

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

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

As a fund manager, our business is heavy in human capital. Although not noted in our balance sheet, people are our most valuable asset and, as our profit or loss statement shows, they are also our largest expense (apart from payments for tax). Payments to employees make up roughly 60-65% 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 81% of employees being Magellan shareholders.

The remaining 35-40% of adjusted operating expenses include such things as marketing and distribution costs, funds administration costs including custody and registry, information technology expenses, legal and professional fees, rent and so on. About half of these expenses are variable in nature with some moving in line with changes in FUM (and therefore revenue) and others being a function of the number of investors and their activity (statement communications for example). The other half of these non-employee related costs result from the day-to-day running of the business, such as office tenancies and information technology expenses which tend to be fixed in nature.

We have focused on developing the business to ensure scalability as the business grows and currently our core cost-to-income ratio is 16.9% (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 $876.4 million of net tangible assets as at 30 June 2021. Our liabilities comprise of day-to-day payables and provisions for employee entitlements and tax, together with lease liabilities for our offices. We have no borrowings although for funding flexibility, we do maintain an undrawn corporate debt facility. We believe a strong balance sheet that can withstand almost any market condition is important for our clients as well as shareholders, as has been demonstrated during these recent uncertain times.

A meaningful portion of the Group's capital is invested in our strategies alongside our clients via a fund investments portfolio which is shown in our accounts under the Fund Investments business segment. Through this we invest in our funds (for example the Magellan Global Fund) and seed new investment strategies and initiatives. The Group earns revenue from Fund Investments through fund distributions 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 the earnings from our Fund Investments may fluctuate significantly from period to period and while growing, are not a core driver of the business. Further, accounting standards require us to include both realised and unrealised gains/losses in the Group's reported earnings. Given the size of our Fund Investments this brings some unwanted noise into our reported earnings at various times and as such we will endeavour to be clear in our discussions and financial accounts as to what portion of our earnings are derived from the core business and what is the result of investment gains or losses, some of which may not yet be realised.

We also make selective investments external to our funds which are shown in our accounts under the Magellan Capital Partners business segment. These investments need to meet a number of key criteria and over time we hope will add to our firm's intellectual capital, provide meaningful diversification and optionality, and generate attractive returns for our shareholders.

It is worth spending a few moments broadly discussing how investments are recorded in our accounts.

When we hold an investment in shares, or fund units, these financial instruments are accounted for under one of three different methods depending on the assessed level of power or influence we hold over that underlying investment entity (the investee).

At one end of the spectrum, if we are deemed to have control over the investee, our investment gets consolidated into our accounts. Our 100% owned funds management business Magellan Asset Management falls into this camp, but we do not need to hold 100% of an investment to be considered to have control. When an investment is consolidated, the investee's full revenue, expenses, assets and liabilities are recorded in our accounts. To the extent we do not hold 100% of the investment, the portion we do not own is shown in our accounts as a minority (or non-controlling) interest.

At the other end of the spectrum, where we are considered not to have control or significant influence over the investee, we do not recognise the investee's revenues, expenses, assets or liabilities in our accounts. Instead, we account for the fair value of our holding as a separate financial asset in our balance sheet. Changes in the fair value of those holdings are then recorded in our Groups' earnings as fair value gains or losses, whether they are realised or unrealised. Any dividends or distributions we receive from these investments are also accounted for in our profit or loss statement. Our Fund Investments usually fall into this camp.

There is also a middle ground. Where we are considered to have significant influence over the investee, but not control, accounting standards require the investment to be equity accounted. In this case the investment is recorded as a separate asset on the balance sheet (usually described as an Associate). Then, in each period, our proportional share of the investee's net profit or loss is recorded as a separate item in our profit or loss statement, and so is incorporated into the Group's reported earnings. If the investee reports a net profit, our share of it, less any dividends we receive, is added to the carrying value of the investment on our balance sheet. If the investee reports a net loss, our share of it gets deducted from the carrying value on our balance sheet, but only to the extent that value is not less than zero. If cumulative losses were to exceed the investment's carrying value, the excess losses would then not be recorded in our reported earnings, because effectively we cannot lose more than what we have invested. Instead, the accumulation of the excess losses is noted, and we would only be able to record our share of any future profits once the profits exceeded those accumulated losses. Finally, if we were to sell an equity accounted investment, we would book a profit to the extent the proceeds exceeded the investment carrying value, or a loss to the extent it fell short.

Our investments in Magellan Capital Partners are currently equity accounted. It is important to note in this regard that while we incorporate our share of the underlying investments' profits or losses in our reported earnings, these do not impact our cash flow. Only dividends received from these investments add to our cash flow.

As at 30 June 2021 the Group has net assets of $989.4 million, of which $113.1 million is classified as intangible. These intangible assets arose following the purchases of Airlie Funds Management ("Airlie") and Frontier Group ("Frontier") and comprise values attributed to customer relationships and goodwill.

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

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

It is important to note that while these amortisation and impairment expenses (if any) reduce our reported earnings, they are not cash items. Furthermore, in the case of customer relationships, the amortisation over set periods implicitly assumes customers leave by those times and are not replaced, an assumption that we do not expect 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 it is also important to be mindful of the inherent assumptions and assorted items which are included in that measure.

As such, secondly, we also think a metric whereby we make adjustments to exclude specific items provides additional meaningful information about the performance of the business, particularly in comparative analysis. Such adjustments include adding back non-cash items such as amortisation, because we consider departing clients would be replaced, and removing unrealised gain/losses, because they are unrealised. We also adjust for items that relate to transaction costs of strategic initiatives. For example, the offer costs we incurred as part of the initial public offerings ("IPO") of our closed-ended funds, the costs associated with the restructure of our global equities retail funds, and funding of the discounts offered on any capital raisings, including Unit Purchase Plans ("UPP") and Distribution Reinvestment Plans ("DRP").

Thirdly, as our business consists primarily of a Funds Management segment, but also a portfolio of Fund Investments and investments held under Magellan Capital Partners, it is instructive to consider each separately. Our Fund Investments portfolio can be considered in terms of 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). Similarly, the Magellan Capital Partners segment can be considered in light of the carrying value of the investments, the dividends received, and our share of the underlying businesses' earnings.

Each of these measures is discussed in the Overview of Results section and the accounts 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 21.4%.

The federal government has announced its intention to abolish the OBU regime from 1 July 2023. Once abolished, the concessional 10% rate will no longer be available and all our assessable earnings will be taxed at the company tax rate. Whilst this will reduce our after-tax earnings and cashflow, because we will be paying more tax, it will also increase the franking credits available to shareholders, and so the level of franking attached to dividends will likely increase.

The remainder of this report discusses the business in more detail and the Group's financial results for the year ended 30 June 2021.

Overview of Results

The 2021 financial year has been a very busy and productive one for Magellan. We completed a number of important strategic initiatives that we believe will add meaningfully to Magellan's value, diversity and resilience over time. These measured steps not only build on our core business by focussing on our clients' needs, but also provide the prospect of further business opportunity. Whilst these initiatives are likely to take time to reach their full potential, we firmly believe they have a high probability of adding to shareholder value well into the future.

These initiatives include the launch of a suite of new funds – the MFG Core Series, the Magellan Sustainable Fund and Magellan **Future***Pay* – and our investments made in Magellan Capital Partners. These are discussed in more detail later.

As important as these new initiatives are, we remain fixated on our existing core business. The Group saw a 9% growth in average FUM over the previous corresponding period, to $103.7 billion (average FUM of $95.5 billion for the year ended 30 June 2020). We are pleased with this outcome, particularly given the uncertainty surrounding markets and the headwind of a rising Australian dollar.

For the year ended 30 June 2021, the Group reported net profit after tax of $265.2 million, which represents a decrease of 33% over the previous corresponding period ($396.2 million for the year ended 30 June 2020).

Chief Executive Officer's Letter

For the year ended 30 June 2021

Adjusted for non-cash and unrealised items and costs relating to strategic initiatives, the Group's net profit after tax decreased by 6% to $412.7 million for the year ended 30 June 2021 ($438.3 million for the year ended 30 June 2020). Adjusted financial measures for the year are adjusted for non-cash amortisation expense of $4.5 million, unrealised capital gains from the Fund Investments segment of $11.2 million (net of tax) and costs related to strategic initiatives of $154.1 million (net of tax), which primarily relate to the restructure of our global equities retail funds that completed in December 2020 and the associated Partnership Offer and Bonus MGF Option Issue that completed in March 2021. Adjusted earnings per share decreased by 7% to 225.0 cents per share (241.5 cents per share for the year ended 30 June 2020).

It is important to note that adjusted earnings include our share of the after-tax losses incurred by the investments in Magellan Capital Partners, which were $41.8 million. Whilst these losses have been incurred in some of the underlying businesses as they invest and build out their operations, they are non-cash items to Magellan.

In the period, the Group earned crystallised performance fees before tax of $30.1 million ($81.0 million for the year ended 30 June 2020). 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 10% to $526.6 million ($477.0 million for the year ended 30 June 2020) which was broadly in line with the growth in average FUM.

Fund Investments made a profit of $50.5 million before tax. This included distributions of $15.1 million, $19.9 million of realised capital gains and $15.9 million of unrealised capital gains. Earnings from distributions and realised capital gains/losses are included in other revenue in the table on the next page.

The Directors have declared total dividends of 211.2 cents per share in respect of the year ended 30 June 2021. This compares with 214.9 cents per share in the 2020 financial year. In respect of the six months to 30 June 2021, the Directors have declared a total dividend of 114.1 cents per share, franked at 75% (122.0 cents per share, 75% franked, in 2020) which will be paid on 23 September 2021. The dividend comprises:

- a Final Dividend of 102.6 cents per share (91.6 cents per share for the six months to 30 June 2020); and
- a Performance Fee Dividend of 11.5 cents per share (30.4 cents per share for the six months to 30 June 2020).

The Company's policy is to pay Interim and Final Dividends of 90% to 95% of the net profit after tax of the Group's Funds Management business excluding performance fees. Net profit after tax of the Funds Management business excludes amortisation of intangibles and costs related to strategic initiatives. In addition to the Interim and Final Dividends, the Group will pay an annual Performance Fee Dividend of 90% to 95% of the net crystallised performance fees after tax. Any Performance Fee Dividend will be paid annually alongside the Final Dividend.

The payment of dividends by the Group will be subject to corporate, legal and regulatory considerations.

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

The Directors have established a dividend reinvestment plan ("MFG DRP") to enable shareholders to reinvest all or part of their dividends at a small discount to the market price with no brokerage charges, and to provide the Company with additional funding flexibility. The MFG DRP will be in operation for the Final and Performance Fee Dividend declared for the six months ended 30 June 2021. The MFG DRP issue price will be set at a 1.5% discount to the volume weighted average price over the pricing period. We believe this will be attractive to many shareholders, a number of which have expressed interest in the establishment of a DRP over many years. Shareholders will be sent an election notice in the coming days and will have until 7 September 2021 to elect to participate in the DRP for the Final and Performance Fee Dividend for all or part of their shareholding.

Chief Executive Officer's Letter

For the year ended 30 June 2021

The following table summarises the Group's profitability over the past two financial years[1]:

	30 June 2021 $'000	30 June 2020 $'000	Change %
Management and services fees	**635,407**	591,641	7%
Performance fees	**30,074**	80,964	(63%)
Other revenue and income	**33,591**	20,336	65%
Adjusted revenue and other income	**699,072**	**692,941**	1%
Adjusted expenses	**(111,339)**	(119,751)	(7%)
Adjusted net profit before tax	**587,733**	**573,190**	3%
Adjusted tax expense	**(133,292)**	(134,891)	(1%)
Adjusted net profit after tax and before associates	**454,441**	**438,299**	4%
Share of after tax profit/(loss) of associates	**(41,782)**	-	n/m
Adjusted net profit after tax	**412,659**	**438,299**	(6%)
Transaction costs related to strategic initiatives (after tax)[1]	**(154,113)**	(38,104)	304%
Amortisation expense of intangible assets	**(4,548)**	(4,689)	(3%)
Net unrealised change in fair value of financial assets and liabilities (after tax)	**11,158**	708	1,476%
Total non-IFRS adjustments	**(147,503)**	**(42,085)**	
Statutory net profit after tax	**265,156**	**396,214**	(33%)
Key statistics			
Diluted earnings per share (cents per share)	**144.6**	218.3	(34%)
Adjusted diluted earnings per share (cents per share)	**225.0**	241.5	(7%)
Dividends			
Interim and final dividends (cents per share)	**199.7**	184.5	8%
Annual performance fee dividend (cents per share)	**11.5**	30.4	(62%)
Total dividends (cents per share)	**211.2**	214.9	(2%)

1 Comprises the cost of funding the discounts under the MGF Partnership Offer, the Bonus MGF Option Issue and the Magellan High Conviction Trust, Magellan Global Trust and Magellan Global Fund DRPs, transaction costs related to the MGF restructure and contributions to Magellan FuturePay under the commitment made by MFG. In the prior period, transaction costs primarily related to the initial public offering of the Magellan High Conviction Trust.

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

Chief Executive Officer's Letter

For the year ended 30 June 2021

Funds Management Segment

For the year ended 30 June 2021, the Group's Funds Management segment profit before tax was $556.7 million ($558.0 million for the year ended 30 June 2020). Excluding performance fees, profit before tax grew by 10% to $526.6 million ($477.0 million for the year ended 30 June 2020). The following table summarises the profitability of the Funds Management business over the past two financial years:

	30 June 2021 $'000	30 June 2020 $'000	Change %
Revenue			
Management fees	**631,367**	587,246	8%
Performance fees	**30,074**	80,964	(63%)
Services fees	**4,040**	4,395	(8%)
Interest and other revenue	**(1,873)**	2,206	(185%)
	663,608	674,811	(2%)
Expenses			
Employee expense	**70,405**	73,781	(5%)
Fund administration and operational costs	**19,589**	18,820	4%
IT and information services expense	**7,147**	6,738	6%
Marketing expense	**1,620**	4,929	(67%)
Other expense	**8,157**	12,531	(35%)
	106,918	116,799	(8%)
Net profit before tax	**556,690**	558,012	(0%)
Net profit before tax and performance fees[1]	**526,616**	477,048	10%
Key statistics			
Average funds under management ($ million)	**103,680**	95,458	9%
Average AUD/USD exchange rate	**0.7469**	0.6716	11%
Average number of employees	**135**	128	5%
Employee expenses / total expenses	**65.8%**	63.2%	
Cost / income	**16.1%**	17.3%	
Cost / income, excl. performance fees[1]	**16.9%**	19.7%	

[1] Adjusts for the current period performance fee impact on revenue and expenses for the 12-month period.

Revenues

The key driver of revenue is FUM and this is discussed in detail in the next section. Revenues for the year decreased by 2% to $663.6 million. This was driven by an 8% increase in total management fee revenue as a result of a 9% increase in average FUM over the period, offset by a decline in performance fees. Performance fees before tax for the year totalled $30.1 million compared with $81.0 million in the prior corresponding period. Performance fees can, and very often do, vary significantly from period to period.

Given a large portion of our overall FUM is invested in offshore markets and is typically unhedged for currency movements, our FUM, and therefore revenue, is inversely affected by movements in the Australian dollar.

As at 30 June 2021, 84% of FUM was exposed to currency movements, with the US dollar representing most of the exposure at 63% of FUM. The strong growth in the Australian dollar during the year has thus had a negative impact on FUM and revenue, with the average AUD/USD exchange rate across the period appreciating 11% compared with the 2020 financial year. Overall, the increase in the average of Australian dollar exchange rates across the period compared with last year resulted in a decrease in revenue of approximately $51 million which corresponds to a negative impact on growth in revenue earned from management fees of approximately 8%. In the absence of the rise of the Australian dollar, growth in management fees would have been around 16%. Of course, the Australian dollar can be volatile and, in some periods, we will experience a benefit when the Australian dollar falls and in other periods we will be negatively impacted when the Australian dollar rises, as was the case in the past 12 months.

Over the period, average Retail FUM increased by 9% and average Institutional FUM increased by 8%, compared with the prior corresponding period. The average annualised Base Management fee for the year was 0.61%.

Chief Executive Officer's Letter

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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. Other revenue during the period was also impacted by a $4.6 million net foreign exchange loss.

Expenses

In considering the operating expenses of the Funds Management segment we exclude costs relating to strategic initiatives, for instance the IPOs of our closed-ended funds, the restructure of our global equities retail funds in December 2020, and funding of the discounts offered under any capital raisings (for example UPPs, DRPs and the Partnership Offer) in our closed-ended funds.

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

Overall, the Funds Management business operated efficiently with a cost to income ratio (excluding performance fees) of 16.9% compared with 19.7% for the year ended 30 June 2020.

Expenses decreased by 8% to $106.9 million over the previous corresponding period, somewhat better than our earlier expectations that Funds Management segment expenses would be at the lower end of the $110-115 million range. The generally lower level of expenses for the year reflects some impacts of COVID-19 (for example, lower levels of salary increases, lower levels of marketing and travel) and the fact that previously deferred bonus amounts which would have ordinarily been brought to account this year were paid out last year as part of our response to the virus.

For the 2022 financial year, we expect Funds Management segment expenses to be in the range of $125-130 million. The increase in expected expenses is largely driven by bringing into account deferred bonuses as our deferred remuneration arrangements are reset, and some salary increases driven by expected modest new hires and increases in salaries.

Ultimately the level of our expenses each year will depend on a number of market related variables such as foreign exchange rates, FUM levels and unitholder activity. Although we pay close attention to our costs and have a cost-conscious culture, our current cost to income ratio of 16.9% means incremental changes in expenses will not be a material driver of profitability. For example, a $5 million increase in our expenses has roughly the same impact on profits as would an annualised revenue reduction resulting from a 0.75% decline in our FUM (something which can happen from day-to-day merely due to market movements).

The following table sets out total employee numbers:

	30 June 2021	30 June 2020
Investment		
Portfolio Managers/Analysts	**34**	31
Dealers	**3**	3
	37	34
Distribution & Marketing	**34**	34
Other (including Finance, Risk & Compliance, Admin)	**48**	44
Frontier	**11**	11
Airlie	**9**	8
Total	**139**	131
Average number of employees	**135**	128

As at 30 June 2021, the Group had 139 employees. We are pleased with the talent employed across the business and we continue to add to bench strength of the management team. We expect future increases in employee numbers resulting from organic growth to be modest, reflecting scalability. Such increases are unlikely to occur evenly from one year to the next as the various areas of our business reach resource constraints at different points in time as we grow.

Chief Executive Officer's Letter

For the year ended 30 June 2021

Funds Under Management

As at 30 June 2021, the Group had FUM of $113.9 billion, split between global equities (75%), infrastructure equities (17%) and Australian equities (8%). This compares with FUM of $97.2 billion at 30 June 2020. The increase in FUM was driven by investment performance of approximately $13.2 billion and net inflows of $4.5 billion less cash distributions (net of reinvestment) of approximately $1.0 billion.

The following table sets out the composition of FUM:

	30 June 2021	30 June 2020
Retail	**30.9**	26.8
Institutional	**83.0**	70.4
Total FUM ($billion)	**113.9**	97.2
Retail (%)	**27%**	28%
Institutional (%)	**73%**	72%
FUM subject to performance fees (%)	**34%**	34%
Breakdown of FUM ($billion)		
Global equities	**85.4**	74.3
Global listed infrastructure	**19.0**	15.9
Australian equities	**9.5**	7.0
Average base management fee (bps) per annum excluding performance fees[1]	**61**	62

[1] Calculated as management fees (excluding performance and services 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 whom we target through two key channels: broker advised and financial advisers, and self-directed retail investors.

At 30 June 2021, the Group had total retail FUM of $30.9 billion. We experienced total net retail inflows of $1.9 billion for the 12 months to 30 June 2021 (including the proceeds of the Partnership Offer), compared with $2.9 billion (including the proceeds of the Magellan High Conviction Trust IPO) for the previous financial year.

The Group experienced average monthly retail net inflows of approximately $95 million over the 12 months to 30 June 2021 (excluding the proceeds of the Partnership Offer), compared with $169 million (excluding the proceeds of the Magellan High Conviction Trust IPO) over the previous financial year.

During the period we undertook several important new initiatives in the retail business that are outlined below:

Restructure of Global Equities Retail Funds

During the period we completed the restructure of our global equities retail funds. The restructured Magellan Global Fund now has funds under management of $17.9 billion as at 30 June 2021 and two unit classes – an open-ended unit class (ASX: MGOC / APIR: MGE0001AU) and a closed-ended unit class (ASX: MGF).

We believe the simplified single trust with an Open Class Unit and a Closed Class Unit is a positive step for investors and consolidates a number of the initiatives we have undertaken that began with the development of the Active ETF in 2015.

We have long recognised and understood that some investors prefer the characteristics and outcomes of investing in open-ended funds whereas others prefer closed-ended structures for the different characteristics and outcomes that they bring.

However, each of these structures has its own inefficiencies and drawbacks – for example, open-ended structures have largely been confined to the unlisted space with the associated burden of the application and redemption process and closed-ended investors have historically had to fund establishment costs and importantly also deal with the prospect of large and persistent trading price discounts to net asset value.

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By building on the changes we have already made, we believe bringing both open and closed-ended units together into a single trust should provide investors with valuable efficiencies. Establishing open and closed-ended unit classes over the same investment portfolio should help create an improved trading environment over time for the closed-ended unit class given the removal of any "basis risk" between the two securities; and open-ended class units can now be purchased and sold seamlessly either via the ASX and/or directly with the fund. Indeed, since the restructure was implemented on 8 December 2020, around 900 unitholders of open-ended units have elected to move their holdings from SRN to HIN, something that prior to the restructure could only have been achieved via a sale and purchase of units between different funds which would have led to an unnecessary tax crystallisation event.

Following the successful implementation of the restructure, we were also very pleased with the support from investors for the Magellan Global Fund Partnership Offer completed in March 2021. Applications from more than 30,000 unitholders were received for approximately $726 million. Including the additional Closed Class Units funded by Magellan, the raising totalled approximately $780 million. Investors who participated in the Partnership Offer received valuable partnership benefits comprising:

- additional Closed Class Units worth 7.5% of their subscription; and
- one MGF Option for each Closed Class Unit allotted under the Offer. Each MGF Option is exercisable into one Closed Class Unit with the exercise price set at a 7.5% discount to the Estimated NAV per Closed Class Unit at the time of exercise. The MGF Options are quoted on ASX and have a three-year term.

Consistent with our partnership approach, these Partnership Benefits are funded by Magellan and not by the Magellan Global Fund or its unitholders.

Separately, Closed Class Unitholders were also issued with bonus MGF Options under the Bonus MGF Option Issue on a one-for-two basis. These MGF Options have the same terms as the MGF Options issued under the Partnership Offer, with Magellan again funding the exercise discount.

As with previous capital raisings with partnership benefits, these strategic initiatives resulted in a material expense in the year ended 30 June 2021, with the Group recognising an after-tax expense of approximately $148 million. This comprised $38 million associated with the issue of additional Closed Class Units under the Partnership Offer and $110 million associated with the MGF Options. Accounting standards are conservative and dictate that a liability be recognised in the financial statements by assuming that all MGF Options are exercised over the three-year option term and calculating the related 7.5% discount amount, and then fully expensing this amount upfront. Over time, the liability will then move in line with changes in the closed-ended class unit price and when MGF Options are ultimately exercised. Any increase in the liability will be recorded as an additional expense in our profit or loss, and a decrease in the liability will result in a gain.

We view these costs as investments in building FUM and therefore do not include them in our Funds Management operating expenses and they are excluded when calculating shareholder dividends.

Magellan Sustainable Fund and MFG Core Series

We were pleased to launch the Magellan Sustainable Fund on the Chi-X securities exchange during the period (CXA: MSUF / APIR: MGE4669AU). The sustainable strategy continues to build its track record and we are delighted to be able to make this differentiated approach to portfolio construction available to retail investors.

During the period, we also launched the MFG Core Series on the Chi-X securities exchange. The MFG Core Series comprises three funds: MFG Core International Fund (CXA: MCSG / APIR: MGE3851AU), MFG Core ESG Fund (CXA: MCSE / APIR: MGE8722AU) and MFG Core Infrastructure Fund (CXA: MCSI / APIR: MGE9182AU). These funds are available for retail investors at a 0.50% management fee. We believe these funds provide an attractive lower cost investment alternative for those wishing to gain an exposure to Magellan's research and investment expertise but are not necessarily seeking our full actively managed portfolio services.

Magellan FuturePay

We were also very pleased to launch Magellan **Future***Pay* in early June 2021, on the Chi-X securities exchange (CXA: FPAY / APIR: MGE9989AU). **Future***Pay* seeks to deliver investors a predictable monthly income by investing in high quality, low volatility investment strategies and utilising a unique reserving strategy that can provide income support in periods of market underperformance. These investment characteristics are valuable to many investors, particularly those in retirement, and we are pleased with the initial positive feedback with **Future***Pay* already attracting over 125 unitholders.

These new funds will take time to build a track record, join approved product lists and potentially make their way into model portfolios, all necessary elements to attracting long-term FUM. We are very patient in this regard and have no targets or expectations for the short term, however, we do believe that each fund uniquely addresses a market need and are well positioned for the future.

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We now have nine Active ETFs quoted on an exchange with total FUM of $16.3 billion as at 30 June 2021, with some 60,000 unitholders holding directly on the unit registers either via an SRN or HIN. When combined with our listed closed-ended funds of $4.3 billion, our total direct unitholder base (that is, those holding directly on the register) is approximately 130,000 investors.

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

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 2021[1]	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception % p.a.[2]
Magellan Global Fund[3]	**10.8**	**13.2**	**14.4**	**11.9**
MSCI World NTR Index ($A)	27.5	14.4	14.6	7.7
Magellan Infrastructure Fund	**7.9**	**4.6**	**5.9**	**7.6**
Global Listed Infrastructure Benchmark ($A)[4]	17.2	3.3	4.8	5.1
Magellan High Conviction Fund	**17.4**	**12.1**	**15.2**	**15.0**
Airlie Australian Share Fund	**33.7**	**12.1**	**-**	**13.3**
S&P/ASX 200 Accum. Index	27.8	9.6	-	10.5

1 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.
2 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.
3 Performance for the Magellan Global Fund Open Class
4 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).

Overall, we are pleased with the performance achieved to date by our investment strategies. The Airlie Australian Share Fund has now passed its three year track record and its performance to date is a testament to the Airlie Investment Team and the fund's portfolio managers, Matt Williams and Emma Fisher. Whilst the Global Equity strategy has had a more difficult year when measured by relative performance versus the market over the past 12 months, it continues to achieve its two fundamental investment objectives:

- to achieve superior risk-adjusted investment returns (our objective, which is not a guarantee, is to achieve a minimum average return of 9% per annum net of fees over the medium to long term); and
- to minimise the risk of a permanent capital loss.

I encourage you to read Hamish's Chairman's Report for a detailed review of the performance of the Magellan Global Fund.

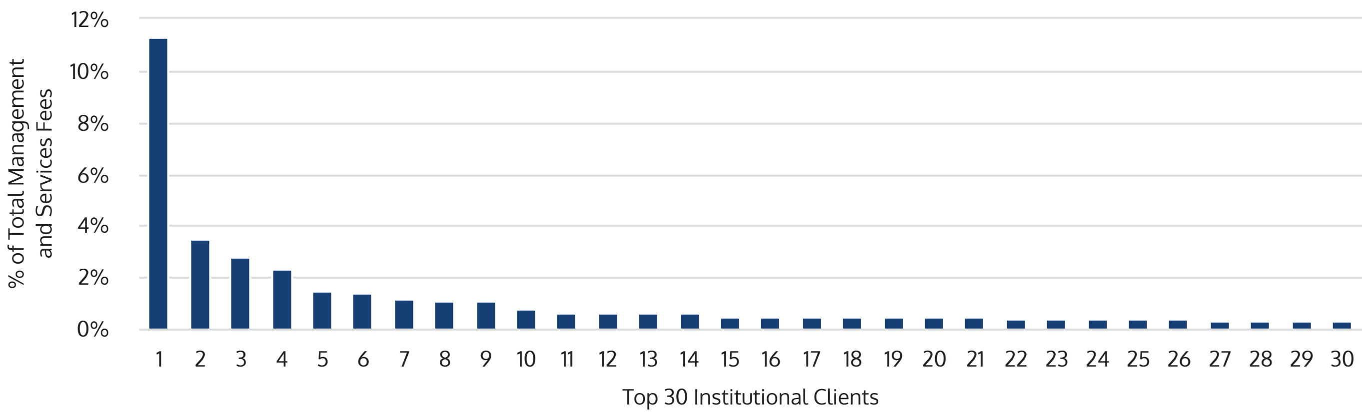
Institutional FUM

At 30 June 2021, the Group had total institutional FUM of $83.0 billion from around 130 clients[2]. During the 12 months to 30 June 2021, we experienced institutional net inflows of $2.6 billion, which compares with net inflows of $2.8 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.

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



Cumulative Total Management and Services Fees

Top Institutional Clients	5	10	20	30
%	21	27	32	36

On 31 December 2017 we closed our core global equities strategies managed by Hamish Douglass to new institutional investors[3]. 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$20 billion. At 30 June 2021, the Group's infrastructure FUM was US$14.2 billion.

We are also pleased with the continued development of our next generation of global equities strategies, the Sustainable strategies. Our Deputy CIO Dom Giuliano manages the Global Sustainable strategy, and our US Sustainable strategy is managed by Alan Pullen. Both strategies have recently passed their four-year anniversaries and continue to gather investor interest, with the Global Sustainable strategy securing another institutional client during the period and in the process of finalising further mandates.

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.

[3] U.S. mutual fund will remain open with some allocated capacity.

Chief Executive Officer's Letter

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Fund Investments

The Group's Fund Investments is a sub-set of the Group's balance sheet and largely comprises investments in our funds and seed portfolios for new strategies and initiatives. As at 30 June 2021, the Group had net Fund Investments of $407.5 million, compared with $373.7 million at 30 June 2020.

The following table sets out a summary of the Group's Fund Investments as at 30 June 2021.

$million	30 June 2021	30 June 2020
Cash	**0.5**	1.4
Investments in:		
Magellan funds[1]	**441.5**	388.3
Net seed portfolios	**10.6**	7.8
Other[2]	**0.3**	7.4
Total	**452.9**	404.9
Net deferred tax liability[3]	**(45.4)**	(31.2)
Net Fund Investments	**407.5**	**373.7**
Net Fund Investments per share (cents)[4]	**221.7**	**205.0**

[1] Investments are set out in note 8 of the financial statements.
[2] Comprises receivables and payables.
[3] Arises from changes in the fair value of financial assets offset by the deferred tax asset relating to unused tax losses.
[4] Based on 183,793,753 ordinary shares on issue at 30 June 2021 (30 June 2020: 182,280,222 ordinary shares).

We aim to earn satisfactory returns on our Fund Investments portfolio over time while maintaining capital strength to underpin the Group's business. The Board has established a pre-tax return hurdle of 10% per annum over the business cycle for the Fund Investments portfolio.

The Group's Fund Investments portfolio has returned pre-tax 12.9%, 12.6% and 13.9% per annum over the last 1, 3 and 5 years to 30 June 2021 respectively. Excluding the effect of the Group's previous investment in MFF Capital Investments Limited, disposed of by way of an in-specie distribution to shareholders in February 2013, the portfolio returned pre-tax 11.5% 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.

Magellan Capital Partners

During the period we made three investments in our Magellan Capital Partners segment:

- In September 2020 we made a $156 million investment for a 40% non-diluting economic interest (5% voting interest) in Barrenjoey Capital Partners which is a newly established full-service financial services firm;
- In October 2020 we invested $20 million for a circa 15% (fully diluted) interest in FinClear Holdings Limited which is a provider of technology, infrastructure and ASX market-access services; and
- In December 2020 we announced an investment in Guzman y Gomez (Holdings) Limited ("GYG"), an Australian based quick service restaurant chain specialising in made to order, clean, authentic and fresh Mexican food and followed on with a smaller additional investment in March 2021. Our investment totals $103 million for a 12% shareholding (fully diluted).

We believe these investments have the potential to add to our intellectual capital, provide meaningful optionality and diversification prospects and importantly, generate substantial shareholder value over time. We carefully consider any investment opportunity and there are four important criteria that the Board uses in its assessment:

1. High quality management teams: we do not want to be distracted from our clients and therefore we do not want to be operationally involved in these investments. We look for high quality management teams and seek to oversee our investment through non-executive Board representation;
2. High quality companies with meaningful scale in their sector;
3. Companies that can contribute to the intellectual capital of Magellan and provide meaningful optionality; and
4. Attractive financial returns for shareholders.

Our share of the underlying earnings for these investments totalled a loss of $41.8 million for the year, largely driven by the start-up costs of Barrenjoey Capital Partners. The following is an update on each of the businesses within Magellan Capital Partners:

Chief Executive Officer's Letter

For the year ended 30 June 2021

Barrenjoey Capital Partners

By any measure Barrenjoey has enjoyed a very strong start as a new firm. The business now employees around 250 people and has assembled an extremely high-quality team. The year has seen the establishment of many of the key systems and processes needed to operate a full-service financial services firm, including licences, technology, governance structures and operating systems. Pleasingly, this complex rollout has been achieved with a required investment and across a timeframe that has been in line or ahead of expectations.

Importantly, Barrenjoey has appropriately taken a conservative approach to write off costs wherever possible in establishing the platform, rather than capitalising them, and this is reflected in our share of those start-up losses.

The Corporate Finance and Cash Equities businesses of Barrenjoey commenced client servicing activities during the latter part of the financial year and have already achieved impressive initial results.

For example, Corporate Finance has acted on a very broad array of M&A and capital markets transactions including the recent IPOs of PEXA and Noble Oak, advising Seven Group on its innovative bid for Boral and advising Morrison & Co and the Future Fund on the acquisition of a 49% interest in the Telstra Towers business.

The Cash Equities business commenced in June 2021 with the business performing well in excess of internal expectations. The team is providing first class solutions to the firm's institutional client base and gaining meaningful traction and market share.

Recently, Barrenjoey also commenced publishing company research and the Research Coverage group is expected to be covering in excess of 80 ASX listed entities by the end of the calendar year. Likewise, the Fixed Income and Equities Financing businesses are well advanced and expected to go live progressively during the upcoming year.

And perhaps most pleasingly, the Barclays partnership is proving very beneficial for Barrenjoey's clients, with demonstrated financing and underwriting support.

We are extremely pleased with the progress Barrenjoey has made as it establishes itself. What has been achieved to date is very impressive and even though a number of businesses are yet to come online, there is clear momentum and revenue generation potential for the coming year. Overall the business is developing ahead of expectations.

FinClear Holdings

FinClear offers a suite of trading and administrative functions for any business providing financial advice or wealth management services, be that an adviser, stockbroker, or fintech.

Since we completed our investment last year, FinClear has continued to grow its business, bringing on-board a number of established clients such as Praemium, an ASX listed provider of managed accounts with over $40 billion of funds under administration, as well as new fintech clients such as Superhero and Stake, who offer retail investors a low-cost brokerage model that has proved highly attractive overseas.

In early July 2021, FinClear completed the acquisition of Pershing Securities Australia, a competing execution and clearing business, on highly attractive terms. The acquisition is expected to bring significantly greater operating scale and allow FinClear to expand its service offering, particularly to larger stockbroker clients.

As a result, the listed securities hosted on FinClear's HIN platform have increased from $7 billion to $130 billion, on a combined basis, and FinClear will now service around 250 wholesale intermediary clients and over 300,000 active end client accounts.

This provides a significant platform on which to build out FinClear's product offering and innovate as the next generation of technologies (such as distributed ledgers) become available with the vision of providing investors with a simple, convenient and frictionless investment experience.

Chief Executive Officer's Letter

For the year ended 30 June 2021

Guzman y Gomez

GYG has had an excellent year with the company further deepening its brand, expanding its restaurant locations and exceeding its budgeted earnings for the year by almost 50%, notwithstanding the turbulence created by revolving lockdowns in many key market areas. Sales in Australia totalled $418 million with global sales for the year being $445 million.

Despite the lockdowns, GYG has broadly benefited from the COVID-impacted conditions in Australia as it has fostered consumers to trial and very often repeat, their food offerings. This has been particularly true of its convenience-focussed drive-thru restaurants (which have excellent unit economics) and has also resulted in meaningful growth in GYG's customer network through word of mouth referral. GYG has supported this with some highly effective multi-channel marketing which focused consumers on the authenticity and freshness of its food.

GYG achieved its new restaurant opening target for the year and now has 157 corporate-owned and franchised restaurants. Each restaurant opened grows the customer network and creates a larger and larger sales flywheel as consumption of GYG becomes more convenient and more frequent. As such, we are very excited by the Company's ability to grow through new restaurant openings over the coming years.

Magellan has deep investment experience in the Quick Service Restaurant ("QSR") space, having held investments across a number of companies in our funds for many years. We believe the GYG business has a tremendous long-term growth outlook which is uniquely combined with a highly skilled, deeply experienced and passionate management team and board. We are excited to be a shareholder not just for the likely compelling financial returns, but also for the learnings we will inevitably receive along GYG's growth journey. We believe there is much we can learn to add to our intellectual capital including expanding our investment knowledge in the QSR space and enhancing the development of Magellan's retail business more broadly.

Capital Management

As at 30 June 2021, the Group's financial position included:

- investment assets (cash and cash equivalents, financial assets and investments in associates) of $902.9 million (30 June 2020: $836.0 million). The Group's cash position at 30 June 2021 was $211.6 million and current loans and receivables were $118.4 million. Dividends of $209.7 million (before any take up in the MFG DRP) are due to be paid to shareholders on 23 September 2021;
- net assets of $989.4 million (30 June 2020: $1,045.9 million) which includes $113.1 million of intangible assets following the acquisitions of Airlie and Frontier;
- net tangible assets per share of $4.77 (30 June 2020: $5.08); and
- total liabilities of $226.7 million which relate predominantly to the Group's financial commitments in regard to the MGF Options but also include payables, provisions and lease liabilities. The Group has no debt and has access to an undrawn debt facility.

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

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

Chief Executive Officer's Letter

For the year ended 30 June 2021

Closing Remarks

Our team deserves a great deal of praise and thanks for all the hard work and diligence over the past year. As the above outlines, much has been achieved and most of it whilst juggling the many curve balls thrown up by the virus. Not an easy task, but one our team has handled superbly.

As always, many thanks also to Hamish and the Board for all their support, guidance, and energy over the past year. Our Board has worked extremely well together in considering the many issues that arose over the year and have contributed significantly to the many outcomes that have been achieved.

I would particularly also like to thank Paul Lewis who is retiring from the Board on 30 September 2021 after 14 years as a non-executive director. Paul and I joined the Magellan Board pretty much at the same time as the firm was just beginning. I have fond memories of those early board meetings as the firm was finding its feet where we cheekily used to ask management at the time if they had any thoughts about when we might see some revenue. Thankfully things have improved somewhat since then and Magellan's success is surely linked to Paul's invaluable input and advice along that journey. On behalf of everyone involved at Magellan, thanks Paul.

Yours faithfully,

Brett Cairns
CEO

17 August 2021

Directors' Report

For the year ended 30 June 2021

The Directors present their report together with the financial statements of Magellan Financial Group Limited (the "Company" or "MFG") and its controlled entities, which together form the Group, for the year ended 30 June 2021.

1. Operations and Activities

1.1. Company Overview

The Company is a listed public company 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 ("ASX")under ASX Code: MFG.

The Company's principal place of business is Level 36, 25 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 investment opportunities 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 2021, dividends amounting to $400,743,000 were paid representing 219.1 cents per ordinary share (June 2020: $366,614,000 representing 204.3 cents per ordinary share).

On 17 August 2021, the Directors declared a total dividend of 114.1 cents per ordinary share (75% franked) in respect of the six months to 30 June 2021 (June 2020: 122.0 cents per ordinary share 75% franked). The dividend payments comprise a Final Dividend of 102.6 cents per ordinary share and a Performance Fee Dividend of 11.5 cents per share (June 2020: Final Dividend of 91.6 cents per ordinary share and a Performance Fee Dividend of 30.4 cents per ordinary share). The amount of the Final and Performance Fee Dividend expected to be paid on 23 September 2021, but not recognised as a liability as at 30 June 2021, is approximately $209,709,000 (June 2020: $222,382,000).

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-International Financial Reporting Standards ("non-IFRS") financial measures including "adjusted revenue and other income", "adjusted net profit before associates", "adjusted net profit after tax" and "adjusted basic and diluted EPS" which are shown on the next page. 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 2021 was $265,156,000, down $131,058,000 on the prior year. The Group's adjusted net profit after tax was $412,659,000 (June 2020: $438,299,000) which takes into account various non-IFRS adjustments as shown on the following page.

	30 June 2021		30 June 2020	
	Statutory $'000	Non-IFRS $'000	Statutory $'000	Non-IFRS $'000
Management and services fees	**635,407**	635,407	591,641	591,641
Performance fees	**30,074**	30,074	80,964	80,964
Other revenue and income	**49,531**	49,531	21,347	21,347
Total revenue and other income	**715,012**	**715,012**	693,952	693,952
Adjust for: net unrealised change in fair value of financial assets and liabilities		(15,940)		(7,091)
Adjust for: realised change in fair value of financial liabilities		-		6,080
Adjusted revenue and other income		699,072		692,941
Total expenses	**(336,048)**	**(336,048)**	(178,874)	(178,874)
Adjust for: transaction costs related to strategic initiatives[1]		220,161		54,434
Adjust for: amortisation of intangible assets		4,548		4,689
Adjusted expenses		(111,339)		(119,751)
Income tax	**(72,087)**	**(72,087)**	(118,864)	(118,864)
Adjust for: tax expense on above adjustments		(61,266)		(16,027)
Adjust for: tax expense on undistributed associate profit		61		-
Adjusted income tax		(133,292)		(134,891)
Adjusted net profit before associates		454,441		438,299
Share of after-tax profit/(loss) of associates	**(41,721)**	(41,721)	-	-
Adjust for: tax expense on undistributed associate profit		(61)		-
Net profit after tax	**265,156**		396,214	
Adjusted net profit after tax		412,659		438,299
Basic and diluted earnings per share	**144.6**		218.3	
Adjusted basic and diluted earnings per share		225.0		241.5

[1] Comprises the cost of funding the discounts under the MGF Partnership Offer, the Bonus MGF Option Issue and the Magellan High Conviction Trust, Magellan Global Trust and Magellan Global Fund DRPs, transaction costs related to the MGF restructure and contributions to Magellan FuturePay under the commitment made by MFG. In the prior period, transaction costs primarily related to the initial public offering of the Magellan High Conviction Trust.

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 2021 reported:

- investment assets (cash and cash equivalents, financial assets and investments in associates) of $902,878,000 (June 2020: $835,950,000) and shareholders' funds of $989,434,000 (June 2020: $1,045,927,000); and
- NTA per share of $4.77 (June 2020: $5.08).

On 19 February 2021, MFG extended the maturity of its debt facility to February 2024 and increased the borrowing capacity to $160,000,000. The Group may use the facility to finance the partnership benefits it has undertaken to fund as part of the MGF Partnership Offer. In addition, this facility can be used to fund the various commitments made by the Group in respect of Magellan FuturePay.

Refer to the Chief Executive Officer's Annual Letter on page 7 for further information on the Group's operations, including details on the Group's results, strategy and future outlook.

1.5. Likely Developments and Expected Results 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 during the year ended 30 June 2021 other than as disclosed in this report or the financial statements.

1.7. Events Subsequent to the End of the Financial Year

Other than the items below and the dividend disclosed in respect of the six months ended 30 June 2021 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.

Dividend Reinvestment Plan

In August 2021, the Directors established a dividend reinvestment plan ("MFG DRP") to enable MFG shareholders to reinvest all or part of their dividends at a small discount to the market price with no brokerage charges, and to provide the Company with additional funding flexibility. The MFG DRP will be in operation for the 2021 Final and Performance Fee Dividend. The MFG DRP issue price is a 1.5% discount to the volume weighted average price of MFG shares over the pricing period. MFG shareholders will be sent an election notice and have until 7 September 2021 to elect to participate in the MFG DRP for the 2021 Final and Performance Fee Dividend. Shares will be issued under the MFG DRP on 30 September 2021. Further details are available in the ASX announcement dated 17 August 2021.

Transition of Magellan High Conviction Trust to Active Exchange Traded Fund

On 1 July 2021, the Group announced its intention to transition Magellan High Conviction Trust ("MHH") from a closed-ended listed investment trust to an open-ended Active Exchange Traded Fund ("ETF"). Since that date, MHH has lodged a request to be removed from the official list of the Australian Securities Exchange ("ASX") with effect from Monday 30 August 2021 and a unitholder meeting to approve the transition is scheduled for Wednesday 25 August 2021.

Subject to ASX approval, it is anticipated MHH will commence trading on the ASX as a managed fund under Schedule 10A of the ASX Operating Rules (AQUA Rules) on Tuesday 31 August 2021 under the ASX ticker code 'MHHT'. Following the transition, investors will continue to be able to transact through the ASX however it is expected that they may be able to do so at a tight spread to the NAV per unit of the fund. Any costs relating to the transition will be paid for by the Group. Further details are available in MHH's ASX announcement dated 2 August 2021.

Funds Under Management

On 9 August 2021, the Group reported to the ASX that its funds under management was $117.0 billion as at 31 July 2021.

1.8 Auditor

Ernst & Young continues in office in accordance with section 327 of the *Corporation Act 2001* and a copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 46.

Non-Audit Services

The Audit & Risk Committee has reviewed details of the amounts paid and payable for non-audit services provided by the Group's auditors, Ernst & Young and Plante Moran, to the Group during the year ended 30 June 2021.

The Directors, in accordance with advice received from the Audit & Risk Committee, are satisfied that the provision of non-audit services by the auditors 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 did not impact the impartiality and objectivity of the auditor;
- the Board's own review conducted in conjunction with the Audit & Risk Committee concluded that the auditor independence was not compromised, having regard to the Board's policy with respect to the engagement of auditors; and
- none of the non-audit services provided by Ernst & Young or Plante Moran during the year had the characteristics of management, decision making, self review, advocacy or joint sharing of risks.

For details regarding non-audit services provided by the auditors, fees paid to the auditors along with auditor tenure, refer to note 24 to the financial statements.

1.9 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.

2. Directors and Officers

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

		Appointed
Hamish Douglass	Chairman and Chief Investment Officer	21 November 2006
Brett Cairns	Chief Executive Officer	22 January 2007
John Eales	Non-Executive Director	1 July 2017
Robert Fraser	Non-Executive Director and Chairman of MAM[1]	23 April 2014
Colette Garnsey	Non-Executive Director	30 November 2020
Paul Lewis	Non-Executive Director	20 December 2006
Hamish McLennan	Non-Executive Director and Deputy Chairman	1 March 2016
Karen Phin	Non-Executive Director	23 April 2014

[1] Magellan Asset Management Limited ("MAM").

Secretaries

The Company Secretary is jointly held by Marcia Venegas and Mariana Kolaroski. Ms Venegas was appointed to the position in 2019 and Ms Kolaroski on 23 April 2021.

Information on Directors and Officers

Hamish Douglass

Chairman and Chief Investment Officer

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

Brett Cairns

Chief Executive Officer

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

John Eales AM

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

John graduated from the University of Queensland in 1991 and enjoyed a 10 year international sporting career with the Australian rugby team from 1991, captaining the Wallabies from 1996 until 2001.

John has served as an executive, adviser, director and investor in a number of listed and unlisted private organisations. John co-founded the Mettle Group in 2003 – a corporate consultancy which was acquired by Chandler Macleod in 2007.

John is currently Chairman of Trajan Group (since March 2021) and also serves on the Boards of Flight Centre Travel Group (since September 2012), FUJIFILM Data Management Solutions Pty Ltd and Executive Health Solutions. He continues to serve as a consultant to major Australian companies, including Westpac. John has been a regular columnist in both the Australian Financial Review and The Australian over the last 20 years and is the author of two books, Learning from Legends Sport and Learning from Legends Business. He is the Chair of the World Rugby Hall of Fame Selection Panel and on the Rugby Australia Bid Advisory Committee for the Rugby World Cup 2027.

He was made a Member of the Order of Australia in 1999 for services to the community and rugby and is a Patron of the Melanoma Foundation, Hearts in Union and the Champagnat Trust.

John holds a Bachelor of Arts from the University of Queensland and is a graduate of the Australian Institute of Company Directors.

Robert Fraser

Non-Executive Director – Chairman of the Audit & Risk Committee and member of the Remuneration & Nominations Committee, Chairman of Magellan Asset Management Limited (Responsible Entity and main operating subsidiary of 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, equity capital markets and corporate governance. He is presently the Managing Director of TC Corporate Pty Limited, the corporate advisory division of Taylor Collison Limited stockbrokers of which he is a Director and principal. Robert has Bachelor of Economics and Bachelor of Laws (Hons) degrees from the University of Sydney and is also qualified as a licensed business broker and licensed real estate agent. Robert currently serves as a Non-Executive Director 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).

Colette Garnsey OAM

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

Colette has over 40 years of experience in retail, marketing and distribution and played a key role in the development and growth of the Australian retail industry using her established experience in branding, consumer insights, digital and marketing.

Colette serves as a Director of Australian Wool Innovation Limited (since November 2011 and Chairman from November 2018 to March 2021), Flight Centre Travel Group (since February 2018), Seven West Media Limited (since December 2018), Laser Clinics Australia (since November 2020) and Loreto Normanhurst (since January 2021).

Colette has previously held senior roles with David Jones, Pacific Brands and Premier Investments. She has also held directorial and advisory positions for government boards and not-for-profit enterprises, including the CSIRO (1997 to 2001), Australian Government Innovation Council (2010 to 2012), Federal Trade and Investment Ministers (2014 to 2018), Australian Fashion Week (1998 to 2009) and the Melbourne Fashion Festival (2006 to 2013).

Colette was awarded the Medal of the Order of Australia in 2012 for services to business and professional organisations. She holds an Executive MBA from the Graduate School of Business at Stanford University.

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 to 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. He was previously Chair of the NAB Private Advisory Board, NAB Business Advisory Board, Optal Limited 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 for services to bilateral trade.

Hamish McLennan

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

Hamish McLennan has over 30 years of experience in the media industry. He is currently Chairman of REA Group Limited (appointed February 2012 and Chairman since April 2012), a global online real estate advertising company, Chairman of HT&E Limited (appointed October 2018), an Australian media and entertainment company, and Chairman of Rugby Australia (appointed June 2020). Hamish is also a Non-Executive Director of the tech firm Claim Central Consolidated (since January 2020) and an independent director of Scientific Games, a US gaming and lottery company (since November 2020). He was previously Executive Vice President, Office of the Chairman, News Corporation, and Global Chairman & CEO of Young & Rubicam (Y&R) in New York, part of WPP, the world's largest communications services group. Mr McLennan joined Young & Rubicam in 2002 as Chairman and CEO of Y&R Brands Australia/New Zealand, one of the largest marketing services groups in Australasia, and led the firm's global business operations from 2006 to 2011. He was also previously Executive Chairman and Chief Executive Officer (March 2014 to July 2015) and Chief Executive Officer and Managing Director (February 2013 to March 2014) of Australian media company Ten Network Holdings Limited. He has previously served on the Boards of Directors for the United Negro College Fund (UNCF) and the US Ad Council.

Directors' Report

For the year ended 30 June 2021

Karen Phin

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

Karen has over 20 years of 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 to 2009, she worked at UBS where she was also a Managing Director and established and led the Capital Management Group. Prior to joining Citigroup, Karen spent 12 months at ASIC as a Senior Specialist in the Corporations group. Karen is currently a Non-Executive Director of Omni Bridgeway Ltd (since August 2017), Non-Executive Director of ARB Corporation Limited (since June 2019) and is a member of the Takeovers Panel and the Ascham School Council of Governors. Karen has a Bachelor of Arts/Law (Honours) from the University of Sydney and is a graduate of the AICD.

Marcia Venegas

Company Secretary

Marcia was appointed Company Secretary of the Company on 20 March 2019. Marcia also holds the role of Chief Risk Officer and Head of Risk, Compliance and Legal. Prior to joining MFG in November 2015, Marcia was Chief Compliance Officer at Platinum Asset Management in Sydney and held senior roles including Chief Compliance Officer at Dodge & Cox in the US. Marcia brings more than 20 years of 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.

Mariana Kolaroski

Company Secretary

Mariana was appointed Company Secretary of the Company on 23 April 2021. Mariana is a lawyer with over 13 years of experience and specialised in corporate law and mergers and acquisitions. Mariana also holds the role of Deputy Chief Legal Officer. Prior to joining MFG in April 2021, Mariana was Special Counsel at Minter Ellison where she advised on major corporate transactions, corporate law, and corporate governance. During this time, she also gained valuable in-house experience, having completed a number of client secondments with large Australian corporations. Mariana holds a Bachelor of Law and a Bachelor of Commerce from the University of New South Wales.

Directors' Meetings

The number of meetings of the Board and Board Committees held during the year ended 30 June 2021 and the number of those meetings attended by each Director are set out below:

	Board		Audit & Risk Committee		Remuneration & Nominations Committee	
	Held	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Hamish Douglass	11	11	-	-	-	-
Brett Cairns	11	11	-	-	-	-
John Eales	11	10	9	9	2	2
Robert Fraser	11	11	9	9	2	2
Colette Garnsey	5	5	5	5	1	1
Paul Lewis	11	11	9	9	2	2
Hamish McLennan	11	9	9	8	2	2
Karen Phin	11	11	9	9	2	2

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.

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.

3. 2021 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 2021. 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 2021 financial year, the KMP for the Group included the Chairman and Chief Investment Officer ("CIO"), the Chief Executive Officer ("CEO"), the Non-Executive Directors and the Group's Executives as set out below.

Name	Position	Term as KMP
Non-Executive Directors		
John Eales	Director	Full Year
Robert Fraser	Director	Full Year
Colette Garnsey	Director	30 November 2020 to 30 June 2021
Paul Lewis	Director	Full Year
Hamish McLennan	Director	Full Year
Karen Phin	Director	Full Year
Executive Directors		
Hamish Douglass	Chairman & CIO	Full Year
Brett Cairns	CEO	Full Year
Group Executives (Other KMP)		
Kirsten Morton	Chief Financial Officer	Full Year
Marcia Venegas	Company Secretary and Head of Risk, Compliance and Legal	Full Year
Craig Wright	Head of Magellan Capital & Advisory	Full Year

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

3.1. Remuneration Philosophy and Principles

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

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

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

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

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

Variable Remuneration

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

With the exception of the Chairman & CIO and certain portfolio managers, the variable incentive amount is discretionary and is determined by reference to an employee's individual performance and contribution, and the overall performance of the Group. Other than for the Chairman & CIO, 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 and can be higher in exceptional circumstances.

The Chairman & CIO's variable incentive is capped at 200% of his fixed remuneration and is dependent upon the performance of the investment strategies, measured over three years, for which he has primary responsibility. The Board believes that aligning the basis of the Chairman & CIO's variable incentive to investment performance provides an important calibration with the Group's clients and is in the best long-term interest of shareholders.

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

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

- A discretionary component in the range of 0-100% of fixed remuneration or higher in certain circumstances; and
- A performance component in the range of 0-200% of fixed remuneration dependent upon the performance of the investment strategies for which they are responsible, which is generally calculated over a three year period, or a lesser term where a three year period is not available or appropriate.

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, dependent upon ongoing employment.

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 upon an employee's own financing of this loan. The full recourse loan is compulsorily repaid via dividends paid on associated shares plus 25% (or other amount as permitted by the SPP rules) of the relevant employee's after tax variable incentive. As the loan is full recourse, participants are liable to repay the loan irrespective of the performance of the Group's shares.

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

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 11 to the financial statements.

3.2. Remuneration of Non-Executive Directors

The Board periodically reviews and determines the remuneration of the Non-Executive Directors. The Board's remuneration policy is designed to attract and retain appropriately experienced, skilled and qualified personnel in order to achieve the Group's objectives. The remuneration of the Non-Executive Directors is not linked to the performance or earnings of the Group.

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

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

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

The following table outlines the Non-Executive Directors' fees (inclusive of superannuation) for the Board and Committees of both the Group and MAM for the year ended 30 June 2021 and the proposed fees for the year ended 30 June 2022.

	Position	30 June 2021	30 June 2022
MFG Board (Group)	Non-Executive Director	72,100	76,491
MFG Audit & Risk Committee	Chairman	25,750	27,318
	Member	10,300	10,927
MFG Remunerations & Nominations Committee	Chairman/Member	-	-
MAM Board	Chairman	25,750	27,318

The Group has reimbursed or borne expenses incurred by the Non-Executive Directors in the discharge of their duties of $nil (June 2020: $876).

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

3.3. Remuneration of Executive Directors and Other KMP

The below table provides a summary of Executive Directors and Other KMP remuneration structures for the 2021 financial year.

	Fixed remuneration (incl. superannuation)	Variable remuneration	SPP participation
Hamish Douglass	$2,500,000	Up to 200% of fixed remuneration based on the performance of the Group's Global Equity strategy over a three year period	Not entitled to participate in SPP as he owns 22.2 million shares which provide a material alignment with shareholders
Brett Cairns	$1,545,000	Up to 50% of fixed remuneration based on performance metrics set by the Board	Ability to participate in SPP
Other KMP	Market-based base salary	Generally up to 100% of fixed remuneration based on individual performance / contribution and the overall performance of the Group	Ability to participate in SPP

Mr Douglass' Remuneration Structure

Mr Douglass is Magellan's co-founder, Chairman, CIO and Lead Portfolio Manager of Magellan's Global Equities strategies. The Board believes it is important for Mr Douglass' remuneration to be tied to the performance of the investment strategies under his control. Mr Douglass is responsible for managing $85.3 billion of funds under management (as at 30 June 2021). Focusing on client outcomes and achieving superior investment returns for clients over the medium to long term will ultimately be in shareholders' interests.

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

Mr Douglass' annual variable incentive is determined in relation to the performance of the Global Equity Strategy over a three year period, that being the current year and the two preceding years. Importantly, the three year performance period emphasises the Group's medium to long term focus for its investment strategies and the needs of clients. 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.

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 2021, the metrics were:

Performance metrics	Weighting	Percentage paid/ Performance measures		2021 Outcome
Ranking of the Global Equity Strategy in Peer Group *(rolling 3 years as at 30 June each year)*[1]	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 achieved 63.0% of this component in 2021 based on a 2nd Quartile ranking
		100%	1st Quartile	
		50% to 100% (sliding scale)	Bottom of 2nd Quartile to top of 2nd Quartile	
		0%	3rd and 4th Quartile (bottom 50%)	
Absolute Performance (Gross Return) of the Global Equity Strategy (measured in USD) *(rolling 3 years as at 30 June each year)*	25%	The percentage paid is in the range of 0% to 100% dependent on the absolute performance achieved as per the below table:		Mr Douglass achieved 100% of this component in 2021 based on gross investment performance of 15.37% p.a.
		100%	12% p.a. or greater	
		50% to 100% (sliding scale)	8% p.a. to 12% p.a.	
		0%	Less than 8% p.a.	
Relative gross investment performance of the Global Equity Strategy against its Benchmark Index *(rolling 3 years as at 30 June each year)*[2]	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 achieved 57.6% of this component in 2021 based on gross investment performance of 15.37% p.a. against Benchmark Index of 14.99% p.a.
		100%	Achieves Benchmark Index + 2.5% p.a. or greater	
		50% to 100% (sliding scale)	Achieves Benchmark Index to Benchmark Index + 2.5% p.a.	
		0%	Achieves less than Benchmark Index p.a.	
Down Market Capture of the Global Equity Strategy (measured in USD) against its Benchmark Index *(rolling 3 years as at 30 June each year)*	25%	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 achieved 100% of this component in 2021 based on Down Market Capture of 63.16%.
		100%	Achieves Down Market Capture less than 75%	
		50% to 100% (sliding scale)	Achieves Down Market Capture of 75% to less than 100%	
		0%	Achieves Down Market Capture greater or equal to 100%	

1 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).

2 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 2021, Mr Douglass is entitled to total variable incentive of $4,007,037 payable in 36 equal monthly instalments (June 2020: $5,000,000, waived in full by Mr Douglass due to COVID-19). Mr Douglass' entitlement to variable incentive amounts is dependent on him being employed by the Group at the time of payment and, where relevant, is also subject to the termination arrangements described in Section 3.5.

Changes to Mr Douglass' Remuneration Structure from 1 July 2021

Mr Douglass' remuneration was due for review effective 1 July 2021. Following the review, Mr Douglass has entered into a new remuneration agreement for a period of five years which will be due for review on 1 July 2026. The following changes to Mr Douglass' remuneration will take place from 1 July 2021:

- Fixed remuneration (inclusive of superannuation) to increase from $2,500,000 to $2,731,000. This equates to approximately a 3% per annum compound increase since it was fixed on 1 July 2018;
- From 1 July each year, fixed remuneration (inclusive of superannuation) will increase by 3%. This is in line with the 3% annual increase applied to Non-Executive Director fees and the Group's CEO's remuneration; and
- Variable remuneration will not change and will remain up to 200% of fixed remuneration, awarded in relation to the performance of the investment strategies managed by Mr Douglass. The Board believes it is important for Mr Douglass' remuneration to be tied to the performance of his investment strategies as achieving superior investment outcomes for clients over the medium to long term will ultimately be in shareholders’ interests. For the year ending 30 June 2022, the variable metrics will not change.

Dr Cairns’ Remuneration Structure

Dr Cairns’ fixed remuneration (inclusive of superannuation) for the year ended 30 June 2021 was $1,545,000 (2020: $1,545,000). Effective 1 July 2021, Dr Cairns' fixed remuneration will increase to $1,639,091, being an increase of 3% for year ended 30 June 2021 – which was waived, and a 3% increase commencing 1 July 2021.

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

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

As CEO, Dr Cairns is not responsible for managing client money and, therefore, the Board believes it would be inappropriate for incentives to be based on investment performance. Dr Cairns is responsible for ensuring the Group operates to the highest standards and to ensure operational areas that underpin the Group’s reputation and confidence of clients in the Group such as compliance, cybersecurity and fund operations are managed appropriately. Further, the Group’s employees are key to the success of the Group and achievement of the Group’s strategy and the ability to foster and retain key talent and protect the Group’s cultural values is a priority for the business. Dr Cairns is also integral to a number of strategic projects that if successful, could create significant shareholder value. For the year ended 30 June 2021, the Board determined the four performance metrics were: Delivery of Key Strategic Projects, Leadership, People and Culture, Compliance, Governance and Cybersecurity and Operational Effectiveness.

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

Performance Metrics	2021 Achievements
Delivery of Key Strategic Projects	• Successful launch of new funds including Magellan FuturePay, MFG Core Series and Magellan Sustainable Fund • Design and delivery of the restructure of Magellan's retail global equities funds and associated Partnership Offer and Bonus MGF Option Issue • Completion of equity investments in Barrenjoey Capital Partners, FinClear and Guzman y Gomez
Leadership, People and Culture	• Cohesive and stable team maintained, with all key employees retained • Effective return-to-work program including flexible working approach • Implemented a number of initiatives supporting Magellan's culture, safety and wellbeing including Employee Assistance Program with Life Street, update to Parental Leave Policy and flexible working practices for all employees
Compliance, Governance and Cybersecurity	• No significant regulatory issues identified or unresolved during the year • Security of Group's IT network maintained
Operational Effectiveness	• Effective technology solutions established to improve productivity and client solutions • Group continued to operate efficiently with cost to income ratio (excluding performance fees) of the Funds Management Business of 16.9% for the year ended 30 June 2021

In respect of the year ended 30 June 2021, the Remuneration and Nominations Committee awarded Dr Cairns a variable incentive of $772,500 (50% of fixed remuneration) (June 2020: $772,500, waived in full by Dr Cairns due to COVID-19).

The after-tax amount of Dr Cairns' awarded variable incentive will be credited toward repayment of his SPP loan.

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. Last year due to COVID-19, Magellan took a cautious and prudent approach, including freezing salaries that would normally have been reviewed in June. In December 2020, taking into consideration the improved outlook and the Group's continued growth, it was determined that from 1 January 2021 salaries for all employees, excluding Magellan's Chairman & CIO and CEO, would be increased by 4%.

When considering variable remuneration, the Board's primary objective is that KMP are motivated to achieve high performance over areas where they have direct influence, while maintaining the Group's reputation and mitigating risk. The core of the Group's culture is to put our clients first. If these objectives are met, the interests of shareholders will also be satisfied.

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

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

Summary of 2021 Variable Remuneration Outcomes

Variable Remuneration Outcomes for 2021

The table below outlines the variable remuneration outcomes (as a % of fixed remuneration) for Executive Directors and Other KMP for the 2021 financial year and provides 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
Hamish Douglass	160%	• 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 2021 • The performance metrics and relative weightings are outlined in section 3.3
Brett Cairns	50%	• Based on performance metrics relating to the long term success of the business and the Group operations over which Dr Cairns has direct influence outlined in section 3.3
Kirsten Morton	95%	• Delivered on the succession plan relating to the finance team • Expanded coverage and capabilities of operations to support the strategic initiatives implemented in FY21 and concluded the integration of US businesses into the Group • Following the launch and consolidation of funds in FY21, performed benchmarking of fees/services and updated where required to realise cost synergies from scalability. Also performed additional oversight of material suppliers and third party providers in light of varying COVID-19 risks globally • Maintained sound relationships with tax regulators and successfully concluded streamlined assurance tax reviews • Proactively enhanced tax risk management frameworks covering the Group and funds in response to evolving global tax regulatory landscape • Implemented a financial reporting technology solution and commenced a finance data project to improve capabilities, processes and maintain a sustainable cost overhead structure in light of growing regulation and legislation requirements
Marcia Venegas	100%	• Enhanced the Group's Compliance and Risk Management Frameworks to provide reasonable assurance that the Group's risk and compliance functions continue to remain effective • Upgraded key risk systems across the Group to ensure the risk function is delivered efficiently and effectively • Provided risk and compliance advice on strategic initiatives, new products, fund restructures and managed shareholder and investor inquiries • Regular and constructive engagement with regulators, including participation in industry bodies • Strengthened the resiliency of the risk, compliance, legal and company secretarial functions across the Group to ensure business continuity • Implemented and substantially progressed key regulatory changes for example, modern slavery and design and distribution obligations
Craig Wright	125%	• Project management and structuring of strategic initiatives across the Group, including the restructure of Magellan's Global Equities retail funds and associated capital raisings, being the Magellan Global Fund Partnership Offer and the Bonus MGF Option Issue and new fund launches of MFG Core Series, Magellan Sustainable Fund and Magellan FuturePay • Project management, structuring and negotiation of Magellan Capital Partners' investments in Barrenjoey Capital Partners, FinClear Holdings and Guzman y Gomez • Negotiation of a new corporate debt facility relating to the Global Equities restructure • Overseeing the Group's IT infrastructure & security and business continuity planning through the COVID-19 pandemic • Overseeing Magellan's involvement in the Group's UCITS investment company based in Ireland and co-mingled private fund in respect of the High Conviction investment strategy to make that strategy available to institutional investors globally • Given the number of projects of strategic importance completed within a condensed timeframe, an exceptional bonus of 125% was awarded to Mr Wright

Split Between Cash and Conditional Deferred Cash Bonus Components of 2021 Variable Remuneration

The below table provides a summary of variable remuneration outcomes for Executive Directors and Other KMP for the years ended 30 June 2021 and 30 June 2020. The table outlines the portion of variable remuneration awarded for each financial year that is paid in cash and the portion that is deferred over subsequent financial years. In 2020, no awarded variable remuneration was subject to a deferral period due to COVID-19.

		Variable Incentive Outcomes				
		Cash Bonus	Conditional Deferred Cash Bonus	Total Variable Remuneration Awarded	Fixed Remuneration (incl. Super)	Total Variable Remuneration Awarded as % of Fixed Remuneration
		$[1]	$[2]	$	$[3]	%
Executive Directors						
Hamish Douglass[4]	2021	-	4,007,037	4,007,037	2,500,000	160%
	2020	-	-	-	2,500,000	0%
Brett Cairns[4]	2021	772,500	-	772,500	1,545,000	50%
	2020	-	-	-	1,545,000	0%
Group Executives (Other KMP)						
Kirsten Morton	2021	332,837	138,834	471,671	496,496	95%
	2020	308,228	-	308,228	477,400	65%
Marcia Venegas	2021	313,549	128,451	442,000	442,000	100%
	2020	216,300	-	216,300	425,000	51%
Craig Wright	2021	385,376	167,124	552,500	442,000	125%
	2020	243,338	-	243,338	425,000	57%
Total KMP	**2021**	**1,804,262**	**4,441,446**	**6,245,708**	**5,425,496**	
	2020	767,866	-	767,866	5,372,400	

1 Cash Bonus represents the portion of Group Executives' awarded variable remuneration that is paid in cash post the release of the Group's Annual Report.
2 Conditional Deferred Cash Bonus represents the portion of Group Executives' awarded variable remuneration for the financial year that is deferred and is paid in cash in 36 equal monthly instalments in future financial years, subject to continued employment with the Group. In the 2020 financial year, no component of the awarded variable remuneration was deferred due to COVID-19.
3 Fixed remuneration as at 30 June 2021.
4 Dr Cairns and Mr Douglass waived 100% of their awarded bonus for the 2020 financial year due to COVID-19.

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 2021 is $14,929,795 and payable over the years ending 30 June 2022, 30 June 2023 and 30 June 2024 (June 2020: nil). Refer to note 13 in the financial statements for the cumulative total of conditional deferred cash bonuses unpaid at 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.

3.4. Details of Remuneration

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

		Short Term Benefits						Leave Benefits			
		Salary	Cash Bonus	Conditional Deferred Cash Bonus paid	Brought Forward Deferred Cash Bonus	Superannuation	Total Cash Remuneration	Short Term	Long Term	Other Benefits	Total Statutory Remuneration
		$	$[1]	$[2]	$[3]	$	$[4]	$[5]	$[5]	$[6]	$[7]
Non-Executive Directors											
John Eales	2021	75,251	-	-	-	7,149	82,400	-	-	29,328	111,728
	2020	75,251	-	-	-	7,149	82,400	-	-	33,598	115,998
Robert Fraser	2021	123,600	-	-	-	-	123,600	-	-	16,088	139,688
	2020	118,238	-	-	-	5,362	123,600	-	-	17,435	141,035
Colette Garnsey[8]	2021	44,186	-	-	-	4,198	48,384	-	-	-	48,384
Paul Lewis	2021	82,400	-	-	-	-	82,400	-	-	-	82,400
	2020	82,400	-	-	-	-	82,400	-	-	-	82,400
Hamish McLennan	2021	75,251	-	-	-	7,149	82,400	-	-	26,703	109,103
	2020	75,251	-	-	-	7,149	82,400	-	-	29,857	112,257
Karen Phin	2021	75,251	-	-	-	7,149	82,400	-	-	13,273	95,673
	2020	75,251	-	-	-	7,149	82,400	-	-	14,384	96,784
Executive Directors											
Hamish Douglass	2021	2,478,306	-	2,720,799	-	21,694	5,220,799	136,464	-	-	5,357,263
	2020	2,478,997	-	3,500,473	-	21,003	6,000,473	41,329	-	-	6,041,802
Brett Cairns	2021	1,523,306	772,500	-	-	21,694	2,317,500	34,964	25,317	145,117	2,522,898
	2020	1,523,997	-	-	-	21,003	1,545,000	19,121	139,687	91,294	1,795,102
Group Executives (Other KMP)											
Kirsten Morton	2021	465,254	332,837	-	-	21,694	819,785	29,545	10,084	4,563	863,977
	2020	456,397	308,228	152,151	143,742	21,003	1,081,521	2,298	8,988	1,549	1,094,356
Marcia Venegas	2021	411,806	313,549	-	-	21,694	747,049	12,352	38,201	7,284	804,886
	2020	403,997	216,300	89,738	87,788	21,003	818,826	(511)	-	1,344	819,659
Craig Wright	2021	411,806	385,376	-	-	21,694	818,876	649	8,714	4,908	833,147
	2020	403,997	243,338	116,724	110,862	21,003	895,924	5,811	10,128	5,331	917,194
Total KMP	**2021**	**5,766,417**	**1,804,262**	**2,720,799**	**-**	**134,115**	**10,425,593**	**213,974**	**82,316**	**247,264**	**10,969,147**
	2020	5,693,776	767,866	3,859,086	342,392	131,824	10,794,944	68,048	158,803	194,792	11,216,587

1 The cash bonus amount includes the current year cash bonus.
2 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.
3 The brought forward deferred cash bonus is the deferred cash bonuses due to be paid in future financial years that were brought forward as a result of changes to remuneration in 2020 due to COVID-19 and were paid in cash after the release of the Group's 2020 annual results.
4 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.
5 Comprises annual leave and long service leave entitlements accrued but not taken during the year. Ms Morton's short-term entitlements also includes an amount of $nil for annual leave paid out during the year ended 30 June 2021 (June 2020: $17,554).
6 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.
7 No non-monetary benefits or other short term benefits not otherwise disclosed above were paid during the years ended 30 June 2021 and 30 June 2020.
8 Ms Garnsey was appointed on 30 November 2020 and remuneration for the year ended 30 June 2021 is shown for the period 30 November 2020 to 30 June 2021.

3.5. Employment Agreements

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

Hamish Douglass, Chairman and CIO

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

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

Shareholding requirement
Mr Douglass' contract does not specify a shareholding ownership requirement. However as one of the founders of the business Mr Douglass and his associates hold 22,212,727 ordinary shares (2020: 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.

3.6. Shareholdings

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

	Closing balance 30 June 2019	Net additions/ (disposals)	Closing balance 30 June 2020	Net additions/ (disposals)	Closing balance 30 June 2021
Non-Executive Directors					
John Eales	77,616	-	77,616	-	77,616
Robert Fraser	599,109	-	599,109	(99,109)	500,000
Colette Garnsey[1]	-	-	-	2,030	2,030
Paul Lewis	1,500,000	-	1,500,000	(150,000)	1,350,000
Hamish McLennan	100,248	5,000	105,248	-	105,248
Karen Phin	89,312	-	89,312	-	89,312
Executive Directors					
Hamish Douglass	22,212,727	-	22,212,727	-	22,212,727
Brett Cairns	1,034,523	103,092	1,137,615	13,000	1,150,615
Group Executives (Other KMP)					
Kirsten Morton	18,896	-	18,896	6,748	25,644
Marcia Venegas	2,889	1,805	4,694	8,308	13,002
Craig Wright	18,896	-	18,896	5,836	24,732

[1] Ms Garnsey was appointed as a Director on 30 November 2020 and the balance as at 30 June 2020 represents the number of ordinary shares held by her and her associates as at the date of her appointment.

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

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:

	Closing balance 30 June 2019	Net additions/ (disposals)[1]	Closing balance 30 June 2020	Net additions/ (disposals)[1]	Closing balance 30 June 2021[2]
Magellan Global Fund - Open Class Units[3]					
Hamish Douglass	2,174,518	83,059	2,257,577	1,163,549	3,421,126
Brett Cairns	-	-	-	70,416	70,416
Paul Lewis	557,126	24,198	581,324	31,696	613,020
Marcia Venegas	-	-	-	5,545	5,545
Magellan Global Fund - Closed Class Units[4]					
Hamish Douglass	-	-	-	21,869,659	21,869,659
Brett Cairns	-	-	-	142,270	142,270
John Eales	-	-	-	388,435	388,435
Robert Fraser	-	-	-	260,893	260,893
Paul Lewis	-	-	-	1,048,196	1,048,196
Hamish McLennan	-	-	-	115,655	115,655
Karen Phin	-	-	-	115,909	115,909
Kirsten Morton	-	-	-	45,674	45,674
Marcia Venegas	-	-	-	93,390	93,390
Craig Wright	-	-	-	69,791	69,791
MGF Options expiring 1 March 2024[5]					
Hamish Douglass	-	-	-	12,829,522	12,829,522
Brett Cairns	-	-	-	96,598	96,598
John Eales	-	-	-	235,377	235,377
Robert Fraser	-	-	-	158,092	158,092
Paul Lewis	-	-	-	696,197	696,197
Hamish McLennan	-	-	-	70,083	70,083
Karen Phin	-	-	-	70,237	70,237
Kirsten Morton	-	-	-	26,702	26,702
Marcia Venegas	-	-	-	11,394	11,394
Craig Wright	-	-	-	42,291	42,291
Magellan High Conviction Trust[6]					
Hamish Douglass	-	14,294,964	14,294,964	1,438,079	15,733,043
Brett Cairns	-	181,594	181,594	5,607	187,201
John Eales	-	218,196	218,196	6,738	224,934
Robert Fraser	-	252,566	252,566	7,797	260,363
Paul Lewis	-	1,485,530	1,485,530	10,523	1,496,053
Hamish McLennan	-	36,319	36,319	1,121	37,440
Karen Phin	-	120,471	120,471	2,243	122,714
Kirsten Morton	-	21,791	21,791	673	22,464
Marcia Venegas	-	3,632	3,632	88,431	92,063
Craig Wright	-	72,638	72,638	2,243	74,881
Magellan Global Equities Fund (Currency Hedged)					
Hamish Douglass	519,841	277	520,118	366	520,484
Brett Cairns	10,572	309	10,881	615	11,496
Magellan Infrastructure Fund (Currency Hedged)					
Marcia Venegas	3,553	108	3,661	174	3,835

	Closing balance 30 June 2019	Net additions/ (disposals)[1]	Closing balance 30 June 2020	Net additions/ (disposals)[1]	Closing balance 30 June 2021[2]
Magellan Infrastructure Fund					
Hamish Douglass	101,174	-	101,174	-	101,174
Paul Lewis	428,629	13,206	441,835	918,376	1,360,211
Magellan High Conviction Fund[7]					
Hamish Douglass	3,341,317	40,783	3,382,101	89,853	3,471,954
Paul Lewis	-	-	-	889,714	889,714
Craig Wright	38,695	847	39,542	(39,542)	-
Airlie Australian Share Fund					
Brett Cairns	-	20,000	20,000	989	20,989
John Eales	-	-	-	16,685	16,685
Paul Lewis	-	-	-	415,755	415,755
Karen Phin	19,049	-	19,049	-	19,049
Magellan FuturePay					
Brett Cairns	-	-	-	20,000	20,000
Magellan Global Equities Fund[3]					
Hamish Douglass	693,487	319	693,806	(693,806)	-
Brett Cairns	42,478	1,240	43,718	(43,718)	-
Marcia Venegas	3,344	98	3,442	(3,442)	-
Magellan Global Trust[3]					
Hamish Douglass	14,966,234	510,336	15,476,570	(15,476,570)	-
Brett Cairns	84,833	2,983	87,816	(87,816)	-
John Eales	284,299	9,995	294,294	(294,294)	-
Robert Fraser	190,947	6,713	197,660	(197,660)	-
Paul Lewis	104,833	2,638	107,471	(107,471)	-
Hamish McLennan	84,647	2,976	87,623	(87,623)	-
Karen Phin	84,833	2,983	87,816	(87,816)	-
Kirsten Morton	35,240	1,239	36,479	(36,479)	-
Marcia Venegas	11,257	396	11,653	(11,653)	-

1 Includes the reinvestment of June and December distributions in the years ended 30 June 2019 and 30 June 2020 respectively

2 In addition to the above holdings, Mr Douglass selected the Magellan Global Fund product via his employer superannuation account and currently has holdings of 474,987 units at a value of $1,197,014 as at 30 June 2021 (June 2020: 467,196 units at a value of $1,072,963)

3 As a result of the restructure of the retail global equity funds completed in December 2020, KMP's interests in Magellan Global Equities Fund and Magellan Global Trust were acquired by the Magellan Global Fund by way of two trust schemes. KMP were issued Open Class Units and Closed Class Units in the Magellan Global Fund respectively on the same terms as the other members of the funds.

4 As a result of the restructure of the retail global equity funds completed in December 2020, KMP's interests in Magellan Global Equities Fund and Magellan Global Trust were acquired by the Magellan Global Fund by way of two trust schemes. KMP were issued Open Class Units and Closed Class Units in the Magellan Global Fund respectively on the same terms as the other members of the funds. If KMP were eligible and participated in the Magellan Global Fund Partnership Offer in the year ended 30 June 2021, additions include units issued under that offer on 1 March 2021 at $1.7383 per new unit. These units were issued on the same terms as other investors in the Partnership Offer.

5 If KMP were eligible and participated in the Magellan Global Fund Partnership Offer and Bonus MGF Option Issue, in the year ended 30 June 2021 additions include MGF Options issued under these offers. These MGF Options were issued on the same terms as other investors in the Partnership Offer and Bonus MGF Option Issue.

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

7 Includes Class A and Class B units of the Magellan High Conviction Fund.

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

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 2021, eight KMP held a loan (June 2020: six). The terms and conditions of the loans, including repayment terms, are disclosed in note 11 of the financial statements. There are no other related party transactions with the KMP other than those disclosed.

		SPP shares acquired during year	Opening loan balance	Loans made	Loans (repaid)	Closing loan balance	
		number	$	$	$	Face value[1]	Carrying value[2]
Directors							
Brett Cairns[3]	2021	-	4,904,190	-	(225,875)	4,678,315	3,816,185
	2020	103,092	-	4,999,962	(95,772)	4,904,190	3,789,323
John Eales	2021	-	779,848	-	(116,899)	662,949	562,617
	2020	-	888,850	-	(109,002)	779,848	635,551
Robert Fraser	2021	-	352,490	-	(214,172)	138,318	135,723
	2020	-	552,195	-	(199,705)	352,490	333,105
Hamish McLennan	2021	-	681,398	-	(140,110)	541,288	482,529
	2020	-	812,044	-	(130,646)	681,398	583,350
Karen Phin	2021	-	290,804	-	(176,693)	114,111	111,970
	2020	-	455,562	-	(164,758)	290,804	274,812
Group Executives (Other KMP)							
Kirsten Morton	2021	6,748	-	329,992	(2,605)	327,387	245,857
	2020	-	42,963	-	(42,963)	-	-
Marcia Venegas	2021	5,367	48,763	299,962	(8,071)	340,654	263,725
	2020	1,305	-	49,975	(1,212)	48,763	44,381
Craig Wright	2021	5,836	-	299,981	(3,474)	296,507	221,637
	2020	-	64,593	-	(64,593)	-	-

1 The face value represents the loan balance due to be repaid to the Company.
2 The carrying value represents the loan balance as required by the accounting standards (for further detail, refer to note 11 in the financial statements).
3 Following approval at the Company's 2019 AGM, the Company issued an SPP loan totalling $5,000,000 to Dr Cairns on 14 November 2019 which resulted in the issuance of 103,092 MFG ordinary shares at $48.50 per share on the same day.

3.9. Link Between Performance and Remuneration Paid by the Group

		2021	2020	2019	2018	2017
Group Results						
Total revenue	$'000	715,012	693,952	617,387	452,598	338,268
Total expenses	$'000	336,048	178,874	124,050	181,988	82,141
Net profit after tax	$'000	265,156	396,214	376,947	211,791	196,225
Adjusted revenue[1]	$'000	699,072	692,941	577,251	452,598	338,268
Adjusted expenses[1]	$'000	111,339	119,751	104,024	101,010	82,141
Adjusted net profit before associates[1]	$'000	454,441	438,299	364,225	268,897	196,225
Adjusted net profit after tax[1]	$'000	412,659	438,299	364,225	268,897	196,225
Funds Management Business						
Net profit before tax	$'000	556,690	558,012	459,789	331,430	248,280
Net profit before tax and performance fees	$'000	526,616	477,048	376,182	291,841	226,774
Shareholder Value						
Diluted EPS	cps	144.6	218.3	213.1	122.0	114.1
Adjusted diluted EPS[1]	cps	225.0	241.5	205.9	154.9	114.1
Total dividends paid	cps	211.2	214.9	185.2	134.5	85.6
Closing share price (ASX code: MFG)[2]	$	53.86	58.01	51.00	23.30	28.84
KMP Remuneration						
Total KMP remuneration:[3]						
fixed compensation[4]	$	6,196,822	6,052,451	5,567,815	8,782,415	6,608,195
variable compensation[5]	$	4,772,325	5,164,136	3,153,443	4,448,273	3,594,905
		10,969,147	11,216,587	8,721,258	13,230,688	10,203,100
Number of KMP		11	10	10	12	12
Growth rates						
Net profit after tax	%	-33%	5%	78%	8%	-1%
Adjusted net profit after tax	%	-6%	20%	35%	37%	-1%
FM net profit before tax	%	0%	21%	39%	33%	18%
FM net profit before tax and performance fees	%	10%	27%	29%	29%	15%
Diluted EPS	%	-34%	2%	75%	7%	-1%
Adjusted diluted EPS	%	-7%	17%	33%	36%	-1%
Total KMP remuneration	%	-2%	29%	-34%	30%	18%
Dividends paid	%	-2%	16%	38%	57%	-4%
Total KMP remuneration as % of net profit after tax	%	4%	3%	2%	6%	5%

1 Adjusted financial measures are adjusted for non-cash items (amortisation expense and unrealised gains/losses) and transaction costs related to strategic initiatives.
2 As at 30 June.
3 As reported in historical Annual Reports and has not been adjusted for changes to KMP.
4 Fixed compensation comprises salary, superannuation and leave benefits outlined in Table 3.4.
5 Variable compensation comprises cash bonuses and other benefits outlined in Table 3.4.

Directors' Report

For the year ended 30 June 2021

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

Hamish M Douglass
Chairman

Sydney
17 August 2021

Building a better
working world

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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 2021, 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

Ernst & Young

Clare Sporle
Partner
17 August 2021

Consolidated Statement of Profit or Loss and Comprehensive Income

For the year ended 30 June

	Note	2021 $'000	2020 $'000
Revenue			
Management fees	5	**631,367**	587,246
Performance fees	5	**30,074**	80,964
Services fees	5	**4,040**	4,395
Advisory fees		**1,632**	2,472
Dividend and distribution income		**15,122**	14,570
Interest income		**1,766**	3,724
Net change in the fair value of financial assets and liabilities:			
Realised		**19,917**	(5,700)
Unrealised		**15,940**	7,091
Net foreign exchange (loss)/gain		**(4,846)**	(810)
Total revenue and other income		**715,012**	693,952
Expenses			
Employee expenses		**70,513**	73,900
Non-Executive Director fees		**505**	456
Fund administration and operational costs		**19,810**	19,034
Information, technology and data		**7,147**	6,738
Marketing		**1,620**	4,929
Professional services fees		**3,068**	5,798
Travel and entertainment		**347**	1,615
Depreciation and amortisation		**7,071**	7,104
Foreign and withholding taxes		**416**	324
Transaction costs related to strategic initiatives	2	**220,161**	54,434
Finance costs		**2,768**	1,158
Other expenses		**2,622**	3,384
Total expenses		**336,048**	178,874
Share of after tax profit/(loss) of associates	9	**(41,721)**	-
Net profit before tax		**337,243**	515,078
Income tax expense	6	**(72,087)**	(118,864)
Net profit after tax		**265,156**	396,214
Other comprehensive income for the year			
Exchange differences on translation of foreign operations		**(3,484)**	882
Other comprehensive income for the year, net of tax		**(3,484)**	882
Total comprehensive income for the year		**261,672**	397,096
Basic earnings per share (cents per share)	3	**144.6**	218.3
Diluted earnings per share (cents per share)	3	**144.6**	218.3

The Consolidated Statement of Profit or Loss and Comprehensive Income should be read in conjunction with the Notes to the Financial Statements.

Consolidated Statement of Financial Position

As at 30 June

	Note	2021 $'000	2020 $'000
Current assets			
Cash and cash equivalents		**211,577**	437,513
Loans and receivables	11	**118,389**	136,428
Financial assets	8	**1,650**	2,017
Prepayments		**1,342**	775
Other assets		**817**	385
Total current assets		**333,775**	577,118
Non-current assets			
Loans and receivables	11	**21,191**	13,567
Financial assets	8	**452,523**	396,420
Associates	9	**237,128**	-
Property, plant and equipment		**619**	585
Right-of-use assets	12	**11,497**	13,666
Intangible assets	10	**113,062**	120,552
Net deferred tax asset	6	**41,110**	-
Other assets		**5,261**	1,965
Total non-current assets		**882,391**	546,755
Total assets		**1,216,166**	1,123,873
Current liabilities			
Payables	13	**36,553**	34,389
Financial liabilities	14	**157,547**	293
Provisions	15	**1,983**	1,437
Income tax payable		**11,576**	20,179
Lease liabilities	12	**2,275**	2,411
Total current liabilities		**209,934**	58,709
Non-current liabilities			
Net deferred tax liability	6	**-**	1,250
Provisions	15	**4,473**	3,110
Lease liabilities	12	**12,325**	14,877
Total non-current liabilities		**16,798**	19,237
Total liabilities		**226,732**	77,946
Net assets		**989,434**	1,045,927
Equity			
Contributed equity	17	**607,849**	525,271
Reserves		**344,987**	360,307
Retained earnings		**36,598**	160,349
Total equity		**989,434**	1,045,927

The Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Financial Statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June

	Note	Contributed Equity $'000	Profits Reserve $'000	Foreign Currency Translation Reserve $'000	Retained Earnings $'000	Total Equity $'000
Opening balance at 1 July 2020		**525,271**	**356,925**	**3,382**	**160,349**	**1,045,927**
Net profit for the year		**-**	**-**	**-**	**265,156**	**265,156**
Other comprehensive income for the year		**-**	**-**	**(3,484)**	**-**	**(3,484)**
Total comprehensive income for the year		**-**	**-**	**(3,484)**	**265,156**	**261,672**
Issue of shares:						
To acquire shares in Barrenjoey Capital Partners	17	**66,033**	**-**	**-**	**-**	**66,033**
Under share purchase agreements ("SPA")	17	**16,411**	**-**	**-**	**-**	**16,411**
Transaction costs, net of tax	17	**(81)**	**-**	**-**	**-**	**(81)**
Dividends paid	17	**-**	**(400,743)**	**-**	**-**	**(400,743)**
SPA expense for the year	17	**215**	**-**	**-**	**-**	**215**
Transfer (from retained earnings)/to profits reserve	23	**-**	**388,907**	**-**	**(388,907)**	**-**
Closing balance at 30 June 2021		**607,849**	**345,089**	**(102)**	**36,598**	**989,434**
Opening balance at 1 July 2019		243,150	-	2,500	488,372	734,022
Adoption of AASB 16		-	-	-	(698)	(698)
Restated opening balance at 1 July 2019		243,150	-	2,500	487,674	733,324
Net profit for the year		-	-	-	396,214	396,214
Other comprehensive income for the year		-	-	882	-	882
Total comprehensive income for the year		-	-	882	396,214	397,096
Issue of shares:						
Under institutional placement	17	275,000	-	-	-	275,000
Under SPA	17	10,533	-	-	-	10,533
Transaction costs, net of tax	17	(3,723)	-	-	-	(3,723)
Dividends paid	17	-	-	-	(366,614)	(366,614)
SPA expense for the year	17	311	-	-	-	311
Transfer (from retained earnings)/to profits reserve	23	-	356,925		(356,925)	-
Closing balance at 30 June 2020		525,271	356,925	3,382	160,349	1,045,927

The Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements.

Consolidated Statement of Cash Flows

For the year ended 30 June

	Note	2021 $'000	2020 $'000
Cash flows from operating activities			
Management and services fees received		**659,980**	616,590
Performance fees received		**48,639**	92,303
Advisory fees received		**1,835**	2,957
Dividends and distributions received		**18,046**	10,964
Interest received		**882**	3,113
Finance cost payments		**(2,685)**	(1,158)
Tax payments		**(122,849)**	(124,153)
Payments to suppliers and employees		**(139,922)**	(148,386)
Payments of transaction costs related to strategic initiatives		**(62,595)**	(54,197)
Net cash from operating activities	7	**401,331**	398,033
Cash flows from investing activities			
Proceeds from sale of financial assets and liabilities		**81,744**	5,749
Purchases of financial assets and liabilities		**(98,104)**	(61,374)
Purchases of associates		**(212,816)**	-
Purchases of property, plant and equipment		**(272)**	(263)
Net returns/(placements) of cash on term deposits		**367**	(5)
Net repayments from/(loans to) third party		**7,500**	(7,500)
Net cash used in investing activities		**(221,581)**	(63,393)
Cash flows from financing activities			
Proceeds from share issuances, net of transaction costs		**(115)**	270,554
Proceeds from repayment of share purchase plan loans		**749**	1,427
Dividend payments	18	**(398,523)**	(364,641)
Lease payments		**(2,632)**	(1,939)
Net cash used in financing activities		**(400,521)**	(94,599)
Net increase/(decrease) in cash and cash equivalents		**(220,771)**	240,041
Effects of exchange rate changes on cash and cash equivalents		**(5,165)**	(716)
Cash and cash equivalents at the beginning of the year		**437,513**	198,188
Cash and cash equivalents at the end of the year		**211,577**	437,513

The Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements.

Notes to the Financial Statements

For the year ended 30 June 2021

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") are described in the segment information in note 2 . This financial report was authorised for issue in accordance with a resolution of the Directors on 17 August 2021 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 the measurement of 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.

1.1. 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 accounting policy set out in note 9 regarding investments in associates and the adoption of the revised Conceptual Framework ("Conceptual Framework") on 1 July 2020. The Conceptual Framework included amendments to the definition and recognition criteria for assets, liabilities, income and expenses, guidance on measurement and derecognition, and other relevant financial reporting concepts and resulted in no impact on the Group.

The Group has not early adopted any accounting standard, interpretation or amendment that has been issued but is not yet effective at reporting date. No accounting standards, interpretations or amendments that have been issued are expected to have a material impact on the Group's financial statements.

1.2. 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:

- Recoverability of the deferred tax asset arising from unused tax losses (refer to note 6);
- Determination of significant influence over associates for which the Group holds less than a 20 percent voting interest (refer to note 9);
- Estimation of useful lives and impairment of intangible assets including goodwill (refer to note 10);
- Impact of the proposed abolition of the Offshore Banking Unit regime on tax balances (refer to note 6); and
- Classification of interests held in funds for which the Group provides management services (refer to note 19).

Impacts of COVID-19

Despite the pandemic continuing throughout the 2021 reporting period, there have been no additional risks or adverse impacts on the Group or its financial results arising from COVID-19 including recent localised outbreaks in Australia. The Group's operations and services continued to operate effectively and were responsive to any recalibration necessary to meet government requirements. Whilst there remains volatility in both equity and currency markets, the Group's funds under management increased by 17% during the year and increased a further 3% to $117.0 billion since 30 June 2021.

In addition, the Group has not recorded any impairment of its goodwill or equity accounted investments during the year, nor has it experienced any recovery issues with its management, services and performance fees receivable. The Group maintained solvency throughout the year with strong cash reserves ($211.6 million as at 30 June 2021), access to liquid investments ($452.5 million as at 30 June 2021) and an undrawn credit facility which more than covered the Group's obligations and regulatory capital requirements.

1.3. 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 foreign exchange gains/(losses).

1.4. 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.

1.5. Expenses

Expenses are recognised in the Consolidated Statement of Profit or Loss and Comprehensive Income on an accruals basis at the fair value of the consideration paid or payable for services rendered. Certain costs, such as depreciation of property, plant and equipment and amortisation of intangible assets, are charged evenly over the useful life of the asset.

Employee expenses include salaries, wages, allowances and annual and long service leave, together with the cost of other benefits provided to employees such as bonuses and share purchase loans. The Group makes some performance awards to employees that are deferred over a specified vesting period. The cost of such awards are charged to the Consolidated Statement of Profit or Loss and Comprehensive Income over the vesting period.

Information regarding the Directors' remuneration is included in the Remuneration Report commencing on page 29.

1.6. 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 Consolidated Statement of Profit or Loss and Comprehensive Income 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.

1.7. Structured Entities

Structured entities are those entities that have been designed so that voting or similar rights are not the dominant factor in deciding who has control, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements.

The Group has determined that the funds for which it acts as Responsible Entity or Investment Manager (as set out in note 2) and the funds in which it invests (as set out in note 8) are not structured entities. In making this assessment the decision-making rights of the Group, as Responsible Entity or Investment Manager, as well as the various rights afforded to investors in the funds, including the right to remove the Investment Manager and redeem holdings have been taken into consideration.

2. Segment Information

The Group's business activities are organised into the reportable operating segments listed below for internal management purposes. During the year, management commenced reporting financial information in respect of an additional segment, Magellan Capital Partners. Comparatives have not been restated, as this segment has no prior period financial information.

Funds Management

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

- Providing investment research and administrative services to certain clients;
- Providing investment management and sub-advisory services under client mandates; and
- Acting as Responsible Entity/Trustee ("RE") and/or Investment Manager ("IM") for the following funds (collectively the "Magellan Funds"):

Australian funds	RE	IM
Magellan Global Fund[1]	✓	✓
Magellan Global Fund (Hedged)	✓	✓
Magellan Global Equities Fund (Currency Hedged)	✓	✓
Magellan Infrastructure Fund	✓	✓
Magellan Infrastructure Fund (Unhedged)	✓	✓
Magellan Infrastructure Fund (Currency Hedged)	✓	✓
Magellan High Conviction Fund	✓	✓
Magellan High Conviction Trust	✓	✓
MFG Core Infrastructure Fund[4,5]	✓	✓
MFG Core International Fund[5]	✓	✓
MFG Core ESG Fund[5]	✓	✓
Magellan Sustainable Fund	✓	✓
Magellan FuturePay[6]	✓	✓
FuturePay Support Trust		✓
Airlie Australian Share Fund[7]	✓	✓
Airlie Concentrated Share Fund[7]	✓	✓

International funds	IM
MFG Global Fund[2]	✓
MFG Select Infrastructure Fund[2]	✓
MFG Global Sustainable Fund[2]	✓
Frontier MFG Global Equity Fund[3]	✓
Frontier MFG Global Plus Fund[3]	✓
Frontier MFG Core Infrastructure Fund[3]	✓
Frontier MFG Select Infrastructure Fund[3]	✓
Frontier MFG Global Sustainable Fund[3]	✓
MFG High Conviction Master Fund	✓

1 Magellan Global Equities Fund ("MGE") and Magellan Global Trust ("MGG") were acquired by Magellan Global Fund as part of the global equities restructure (refer to note 4).
2 Funds authorised under the European Communities (Undertakings for Collective Investment in Transferable Securities ("UCITS")).
3 Collectively, the Frontier MFG Funds.
4 Formerly, Magellan Core Infrastructure Fund.
5 Collectively, the Core Series Funds which were launched on 15 December 2020.
6 The fund launched on 2 June 2021.
7 Collectively, the Airlie Funds

Fund Investments

The Fund Investments (previously referred to as Principal Investments) segment comprises the Group's direct investment in Magellan Funds and a select portfolio of listed Australian and international equities.

Magellan Capital Partners

The Magellan Capital Partners segment comprises a portfolio of selective investments in businesses in which the Group has a strategic interest.

Corporate

The Corporate segment principally comprises the Group's treasury management activities, corporate development and strategy activities and the costs associated with governance and corporate management. The combined income tax consequences of the Group are reported in the Corporate segment, with the exception of deferred income tax arising from changes in the value of fund investments and associates, which are reported in the relevant segment.

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.

Segment Financial Results

30 June 2021	Funds Management $'000[1]	Fund Investments $'000	Magellan Capital Partners $'000	Corporate $'000	Total $'000
Segment revenue					
Management fees	631,367	-	-	-	**631,367**
Performance fees	30,074	-	-	-	**30,074**
Services fees	4,040	-	-	-	**4,040**
Advisory fees	1,632	-	-	-	**1,632**
Dividend and distribution income	-	15,122	-	-	**15,122**
Interest income	1,059	1	227	479	**1,766**
Net change in the fair value of financial assets and liabilities:					
Realised	-	19,917	-	-	**19,917**
Unrealised	-	15,940	-	-	**15,940**
Net foreign exchange (loss)/gain	(4,564)	(282)	-	-	**(4,846)**
Total segment revenue and other income	663,608	50,698	227	479	**715,012**
Segment expenses					
Employee expenses	70,405	-	-	108	**70,513**
Non-Executive Director fees	313	-	-	192	**505**
Other expenses	36,200	228	-	3,893	**40,321**
Total segment expenses	106,918	228	-	4,193	**111,339**
Share of after tax profit/(loss) of associates	-	-	(41,721)	-	**(41,721)**
Total segment operating profit before tax	556,690	50,470	(41,494)	(3,714)	**561,952**
Other comprehensive income					
Exchange differences on translation of foreign operations	(3,484)	-	-	-	**(3,484)**
Other comprehensive income for the year, before tax	(3,484)	-	-	-	**(3,484)**
Total comprehensive income for the year, before tax	553,206	50,470	(41,494)	(3,714)	**558,468**

[1] Includes elimination of income and expense under the transfer pricing agreements between MFG's wholly-owned subsidiary, Magellan Asset Management Limited ("MAM"), and US controlled entities, within the Funds Management segment.

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

	Note	30 June 2021 $'000	30 June 2020 $'000
Total segment operating profit before tax		**561,952**	574,201
Add back:			
Amortisation of intangible assets[1]		**(4,548)**	(4,689)
Transaction costs related to strategic initiatives:			
Magellan Global Fund Partnership Offer and MGF Options Issue	4	**(211,718)**	-
Restructure of Magellan Global Fund	4	**(5,981)**	-
Commitment to Magellan FuturePay	4	**(1,062)**	-
Dividend Reinvestment Plan discounts relating to Magellan Funds[2]		**(1,400)**	(1,032)
Magellan High Conviction Trust ("MHH") initial public offering		**-**	(53,402)
Total transaction costs related to strategic initiatives		**(220,161)**	(54,434)
Statutory net profit before tax for the year		**337,243**	515,078
Income tax expense		**(72,087)**	(118,864)
Statutory net profit after tax for the year		**265,156**	396,214

[1] Amortisation expense relates to intangible assets recorded on acquisition of Airlie Funds Management ("Airlie") and Frontier Partners Inc, Frontegra Strategies LLC and Frontegra Asset Management Inc (collectively, the "Frontier Group").
[2] Reflects amounts paid (or payable) by MFG to MHH, MGG and MGF to ensure there is no net asset value per share dilution of unitholders who choose not to participate in the funds' Dividend Reinvestment Plans as a result of the discount offered to participants under the plans.

Segment Financial Results (continued)

30 June 2020	Funds Management $'000[1]	Fund Investments $'000	Corporate $'000	Total $'000
Segment revenue				
Management fees	587,246	-	-	587,246
Performance fees	80,964	-	-	80,964
Services fees	4,395	-	-	4,395
Advisory fees	2,472	-	-	2,472
Dividend and distribution income	-	14,570	-	14,570
Interest income	309	12	3,403	3,724
Net change in the fair value of financial assets and liabilities:				
Realised	-	(5,700)	-	(5,700)
Unrealised	-	7,091	-	7,091
Net foreign exchange (loss)/gain	(575)	(235)	-	(810)
Total segment revenue and other income	674,811	15,738	3,403	693,952
Segment expenses				
Employee expenses	73,781	-	119	73,900
Non-Executive Director fees	283	-	173	456
Other expenses	42,735	222	2,438	45,395
Total segment expenses	116,799	222	2,730	119,751
Share of after tax profit/(loss) of associates	-	-	-	-
Total segment operating profit before tax	558,012	15,516	673	574,201
Other comprehensive income				
Exchange differences on translation of foreign operations	882	-	-	882
Other comprehensive income for the year, before tax	882	-	-	882
Total comprehensive income for the year, before tax	558,894	15,516	673	575,083

[1] Includes elimination of income and expense under the transfer pricing agreements between MAM and US controlled entities, within the Funds Management segment.

Segment Assets and Liabilities

	Funds Management $'000	Fund Investments $'000	Magellan Capital Partners $'000	Corporate $'000	Total $'000
30 June 2021					
Financial assets	1,650	452,523	-	-	**454,173**
Associates	-	-	237,128	-	**237,128**
Other assets	296,645	(46,439)	(76)	274,735	**524,865**
Total liabilities	(55,740)	(462)	-	(170,530)	**(226,732)**
Net assets	**242,555**	**405,622**	**237,052**	**104,205**	**989,434**
30 June 2020					
Financial assets	2,017	396,420	-	-	398,437
Other assets	304,327	8,787	-	412,322	725,436
Total liabilities	(54,605)	(39,518)	-	16,177	(77,946)
Net assets	**251,739**	**365,689**	**-**	**428,499**	**1,045,927**

3. Earnings Per Share

Basic earnings per share ("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 shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

	30 June 2021	30 June 2020
Basic and diluted EPS		
Net profit attributable to shareholders ($'000)	265,156	396,214
Weighted average number of shares for basic and diluted EPS ('000)	183,379	181,521
Basic and diluted EPS (cents)	**144.6**	218.3

4. Strategic Initiatives During the Year

Global Equities Restructure

During the period, MAM completed the restructure of three global equities retail funds – Magellan Global Fund, Magellan Global Equities Fund and Magellan Global Trust – into a single trust, being the Magellan Global Fund ("MGF"). The restructured MGF now has two unit classes on issue – the Open Class Units and the Closed Class Units – with total funds under management of $17.9 billion as at 30 June 2021.

Total restructure costs of $5,981,000 were recognised as an expense in the Consolidated Statement of Profit or Loss and Comprehensive Income for the year ended 30 June 2021.

In January 2021, MAM launched the Magellan Global Fund Partnership Offer ("Partnership Offer"), allowing eligible MGF unitholders to subscribe for $1 of Closed Class Units for every $4 of MGF Units held. Unitholders who participated in the Partnership Offer also received partnership benefits comprising:

- additional Closed Class Units worth 7.5% of their subscription; and
- one MGF option ("MGF Partnership Options") for each Closed Class Unit allotted under the Partnership Offer.

The Partnership Offer completed on 23 February 2021 and raised approximately $726 million. This resulted in the issue of 449.4 million new MGF Closed Class units at $1.7383 per unit and 449.4 million MGF Partnership Options on 1 March 2021.

In addition to the Partnership Offer, MAM issued eligible Closed Class Unitholders in MGF with 620.1 million MGF Options on a one-for-two basis ("Bonus MGF Options"). These Bonus MGF Options were issued on 1 March 2021 and have the same terms as the MGF Partnership Options issued under the Partnership Offer.

Under both the MGF Partnership Options and Bonus MGF Options issues (together referred to as "MGF Options"), a total of 1,069,524,485 MGF Options were allotted to eligible unitholders on 1 March 2021. MGF Options are quoted on the ASX: MGFO and have a three-year term. Each MGF Option is exercisable into one Closed Class Unit with the exercise price set at a 7.5% discount to the Estimated Net Asset Value ("NAV") per Closed Class Unit at the time of exercise. MGF Options became exercisable by holders daily on 1 June 2021 and can be exercised up to 1 March 2024.

The 7.5% discount associated with the additional 449.4 million Closed Class Units and 1.070 billion MGF Options is funded by the Group and not by MGF or its unitholders. For the year ended 30 June 2021, the Group recognised a total expense of $211,718,000 comprising $54,502,000 ($38,151,000 after tax) for the discount associated with the additional Closed Class Units issued in March 2021 and $157,216,000 ($110,051,000 after tax) for the estimated cost to MFG of funding the discount associated with the future exercise of all MGF Options.

Accounting standards are conservative with regard to the MGF Options and the estimated cost to the Group has been recognised as a financial liability in the Statement of Financial Position (refer to note 14) and assumes all MGF Options are exercised over the three-year option term. Over time, the financial liability will move in line with changes to the NAV per Closed Class Unit and reduce when MGF Options are exercised or ultimately forfeited. Any increase in the liability will be recorded as an additional expense, and any decrease as a gain, in the Consolidated Statement of Profit or Loss and Comprehensive Income. At reporting date, 867,251 MGF Options had been exercised amounting to $123,000.

A reconciliation of the financial liability recorded as at 30 June 2021 in respect of the Group's obligation to fund the MGF Options discount is below:

	30 June 2021 $'000
Initial recognition of liability to fund MGF Options discount	**137,220**
Net increase in liability resulting from NAV changes	**19,996**
Expense recognised in the Consolidated Statement of Profit or Loss and Comprehensive Income	**157,216**
Exercise of options during the year	**(123)**
Closing balance of liability in the Consolidated Statement of Financial Position	**157,093**

The MGF Options, should they be exercised by holders, will increase MFG's funds under management and deliver increased management fees to the Group into the future.

Magellan FuturePay

Magellan FuturePay ("FuturePay") was launched and commenced trading on the Chi-X securities exchange ("Chi-X") on 2 June 2021. Investment in FuturePay can be made through Chi-X (ticker: FPAY) or directly with the fund (APIR: MGE9989AU).

FuturePay is an actively managed fund that aims to deliver investors a predictable monthly income that grows with inflation, driven by returns and capital growth, with a focus on downside protection. This is underpinned by a reserving strategy and ongoing income support, together with daily access to capital. To underpin the objective of delivering investors a predictable monthly income that grows with inflation, FuturePay makes a small contribution from the capital it receives from investors to the FuturePay Support Trust ("Support Trust"), a separate pool of assets managed for the benefit of FuturePay investors. These amounts are not paid to unitholders who redeem out of FuturePay, rather these amounts remain pooled in the Support Trust. Together with FuturePay, the Support Trust operates to provide the capital reserving and income support function. This is further supplemented by a finance facility provided by MFG.

MAM is the Responsible Entity of FuturePay and Investment Manager of the Support Trust. The Support Trust is overseen by a wholly owned trustee company, Magellan FuturePay Pty Limited, that is responsible for determining when the Support Trust will make support payments to FuturePay.

MFG has committed to provide FuturePay with the following support:

- Up to $50,000,000 to assist with the initial capitalisation of the Support Trust. MFG's contribution will be made incrementally when there is a net issuance of units in FuturePay. At 30 June 2021, MFG's contributions amounted to $1,062,000 which has been recognised as an expense in the Consolidated Statement of Profit or Loss and Comprehensive Income. Measurement of the remaining balance of MFG's initial capitalisation amount is dependent on the issuance of units in FuturePay; and

- A finance facility ("Reserve Facility") equal to 2% of FuturePay's funds under management and capped at $100,000,000. FuturePay may utilise this facility to pay the target monthly income distribution to unitholders where assets in the Support Trust are low during poor market conditions. Where the facility is drawn, repayment is made to MFG in months when FuturePay's investment portfolio outperforms and the assets in the Support Trust have been replenished. Interest is payable monthly to MFG on outstanding amounts. As at 30 June 2021, the Reserve Facility is undrawn.

In addition, MFG seeded FuturePay with a $10,000,000 investment on 26 May 2021 (refer to note 8).

Further information relating to FuturePay, the Support Trust and support provided by MFG is available in the Product Disclosure Statement and at www.magellanfuturepay.com.au.

5. Revenue

The Group's primary source of revenue is fee income from investment management activities. Fee income includes management, services and performance fees.

Management Fees

Management fees are based on an agreed percentage of the value of funds under management. Management fee revenue, determined in accordance with Investment Management Agreements for mandates and Constitutions for managed funds, is recognised as the service is provided and at the amount the Group is entitled to receive.

	30 June 2021 $'000	30 June 2020 $'000
Magellan Global Fund[1]	**193,516**	156,861
Magellan Global Fund (Hedged)	**20,349**	11,220
Magellan Global Equities Fund (Currency Hedged)	**4,063**	1,924
Magellan Infrastructure Fund	**25,178**	22,236
Magellan Infrastructure Fund (Unhedged)	**9,877**	10,537
Magellan Infrastructure Fund (Currency Hedged)	**7,509**	5,583
Magellan High Conviction Fund	**8,966**	8,733
Magellan High Conviction Trust	**14,450**	10,175
Magellan Global Equities Fund[1]	**9,567**	21,929
MFG Core Infrastructure Fund	**1,538**	1,629
Magellan Global Trust[1]	**12,810**	31,569
MFG Global Fund	**18,957**	20,226
MFG Select Infrastructure Fund	**2,285**	2,081
MFG High Conviction Master Fund	**808**	690
Frontier MFG Funds	**26,277**	24,089
Airlie Funds	**1,116**	856
Other funds and mandates	**274,101**	256,908
Total management fees	**631,367**	587,246

[1] On 27 November 2020, Magellan Global Equities Fund and Magellan Global Trust were acquired by Magellan Global Fund as part of a global equities restructure (refer to note 4).

Services Fees

Services fees arise from providing investment research and administrative services to MFF Capital Investments Limited as well as research and advisory services under other mandates. Services fees are recognised as the relevant service is provided and it is probable that the fee will be collected.

Performance Fees

Performance fees may be earned from certain funds and mandates. The Group's entitlement to a performance fee is dependent on outperformance of certain hurdles over an agreed performance measurement period. These hurdles may be index relative (including in some cases a fixed percentage above an index), absolute return or both absolute return and index relative. In addition, 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. The high-water mark is the NAV per unit at the end of the most recent measurement period for which the Group was entitled to a performance fee, less any income (including capital distributions) since the last performance period. Performance measurement periods vary across funds and mandates and are typically one, three, six or 12 month periods. The measurement period for all Magellan funds is six months ending 30 June and 31 December each year.

Performance fee arrangements give rise to variable consideration and fees are only recognised where it is highly probable that a significant reversal of such revenue will not occur in future periods, being when any uncertainty related to outperformance is resolved. Performance fees are therefore typically recognised at the end of the performance period.

Notes to the Financial Statements

For the year ended 30 June 2021

	High watermark unit price ($)[1]	30 June 2021 $'000	30 June 2020 $'000
Based on performance relative to both market index and absolute return hurdle			
Magellan Global Fund (Open/Closed Class)	2.4206/1.7385	**103**	3,107
Magellan Global Fund (Hedged)	1.5435	**48**	74
Magellan Global Equities Fund (Currency Hedged)	3.0466	**-**	5
Magellan Infrastructure Fund	1.3987	**-**	219
Magellan Infrastructure Fund (Unhedged)	1.4765	**-**	40
Magellan Infrastructure Fund (Currency Hedged)	3.0614	**-**	51
Based on performance relative to absolute return hurdle			
Magellan High Conviction Fund (Class A/B)	2.1980(A)/1.3474(B)	**7,945**	5,106
Magellan High Conviction Trust	1.7334	**9,968**	5,612
MFG High Conviction Master Fund	-	**225**	1,191
Based on performance relative to a market index			
Other funds and mandates	various	**11,785**	65,559
Total performance fees		**30,074**	80,964

[1] The high watermark as at 30 June 2021 and adjusted for distributions.

Management, Services and Performance Fees by Investor Type

	30 June 2021 $'000	30 June 2020 $'000
Management and services fees		
Retail	347,168	319,824
Institutional	288,239	271,817
Performance fees		
Retail	18,063	48,708
Institutional	12,011	32,256
Total management, services and performance fees	**665,481**	672,605
Total Retail	365,231	368,532
Total Institutional	300,250	304,073
Total management, services and performance fees	**665,481**	672,605

Management, Services and Performance Fees by Geographic Location

	30 June 2021 $'000	30 June 2020 $'000
Australia & New Zealand	**416,174**	426,662
United Kingdom & Europe	**142,372**	133,118
North America	**87,715**	95,855
Asia	**19,220**	16,970
Total management, services and performance fees	**665,481**	672,605

Dividend and Distribution Income

Dividend and distribution income is recognised when it is declared and the Group's right to receive payment is established.

Interest Income

Interest income is recognised on an accrual basis.

Notes to the Financial Statements

For the year ended 30 June 2021

6. Taxation

Reconciliation of Income Tax Expense

	30 June 2021 $'000	30 June 2020 $'000
Net profit before tax	**337,243**	515,078
Prima facie income tax expense at 30% (2020: 30%)	**(101,173)**	(154,523)
Effect of amounts which are non-deductible/(assessable) in calculating taxable income:		
Concessional tax rate on offshore banking unit ("OBU")	**42,444**	42,025
Share of losses of associates	**(12,593)**	-
Non-assessable income and non-deductible expenses	**(1,996)**	(4,556)
US state and local taxes (net of tax credits)	**(423)**	(1,189)
Differences in overseas tax rates	**(120)**	(93)
Imputed interest and expense relating to SPP loans	**72**	(45)
Franked dividends and distributions received	**2**	-
(Under)/over provision of prior year income tax	**1,700**	(483)
Income tax expense	**(72,087)**	(118,864)

Components of Income Tax Expense

	30 June 2021 $'000	30 June 2020 $'000
Current income tax (expense)/benefit	**(115,569)**	(123,272)
Deferred income tax expense/(benefit)	**42,325**	6,173
Differences in overseas tax rates	**(120)**	(93)
US state and local taxes (net of tax credits)	**(423)**	(1,189)
(Under)/over provision of prior year income tax	**1,700**	(483)
Income tax expense	**(72,087)**	(118,864)

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.

In March 2021, the *Treasury Laws Amendment (2021 Measures No. 2) Bill 2021* proposed to abolish the OBU regime. This will remove the concessional tax rate of 10% applying to certain Group income and expenses from 1 July 2023. This change does not result in any immediate financial impact on the Group but is likely to result in the Group paying higher income tax in Australia, which in turn will increase the franking credits available to frank the Group's dividend to shareholders. The Group anticipates that the concessional tax rate will apply up to, and including, 30 June 2023.

For the year ended 30 June 2021, the Company's effective tax rate was 21.4% (June 2020: 23.1%), 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 concessional tax rate during the year ended 30 June 2021 is a benefit of $42,444,000 in the income tax expense recognised in the Consolidated Statement of Profit or Loss and Comprehensive Income (30 June 2020: $42,025,000).

Reconciliation of Net Deferred Tax Asset/(Liability)

		Charged to		
	30 June 2021 $'000	Equity $'000	Profit $'000	30 June 2020 $'000
Financial assets held at fair value	**(47,242)**	-	(8,040)	(39,202)
Accruals and provisions	**56,958**	-	47,794	9,164
Investment in associates	**(77)**	-	(77)	-
Business-related costs deductible over 5 years	**29,580**	35	8,759	20,786
Unused tax losses from issuance of loyalty units under MGG priority offer	**1,891**	-	(6,111)	8,002
Net deferred tax asset/(liability)	**41,110**	35	42,325	(1,250)

At 30 June 2021, deferred tax assets of $12,593,000 (June 2020: nil) relating to the Group's share of post-tax losses from associates have not been recognised in the Consolidated Statement of Financial Position.

Key Estimate and Judgement

At 30 June 2021, the Group's net deferred tax asset of $41,110,000 includes $1,891,000 (30 June 2020: $8,002,000) relating to the unused capital loss on the issuance of loyalty units to eligible unitholders of MGG under the MGG priority offer. At 30 June 2021, the deferred tax asset has been recognised on the basis that it is probable that the capital loss will be offset against capital gains that are expected to be realised from the Fund Investments Portfolio.

Tax Consolidation

MFG and its wholly owned Australian subsidiaries have formed a tax consolidated group for income tax purposes. The entities in the tax consolidated group are party to a tax sharing agreement, which limits the joint and several liability of the subsidiaries in the case of a default of MFG. These entities are also party to a tax funding agreement under which each subsidiary has agreed to compensate MFG for the amount of tax calculated as though the subsidiary were 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 were a standalone taxpayer in its own right. The subsidiary tax balances are transferred to MFG via inter-company transactions and recognised as related party tax payables or receivables.

During the financial year, income tax liabilities of $123,447,000 (June 2020: $126,609,000) were assumed by MFG of which $16,006,000 remained receivable from other entities under the tax funding agreement as at reporting date (June 2020: $12,596,000).

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

Income Tax

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

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.

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.

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Deferred Tax

Deferred tax balances represent amounts that will become payable or recoverable in future accounting periods. They arise when there are temporary differences between the tax bases of the Group's assets and liabilities and the related accounting values. Deferred tax is not recognised if it arises from the initial recognition of goodwill, from 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, associates and foreign operations when the timing of reversal can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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 relate 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 at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax legislation that has been enacted or substantively enacted at reporting date.

7. Reconciliation of Operating Cash Flows

The below table provides a reconciliation of net profit after tax, which is based on accounting rules, to operating cash flows.

	30 June 2021 $'000	30 June 2020 $'000
Net profit after tax	**265,156**	396,214
Adjustments for non-cash items of profit or loss:		
Net change in the fair value of financial assets and liabilities:		
Unrealised	**(15,940)**	(7,091)
Recorded as dividend and distribution income	**(1,356)**	(2,793)
Share of loss of associates	**41,721**	-
Depreciation and amortisation expense	**7,071**	7,104
Net foreign exchange loss/(gain)	**4,846**	810
Non-cash charges related to SPP loans	**(240)**	150
Adjustments for which cash effects are investing activities:		
Realised changes in the fair value of financial assets and liabilities	**(19,917)**	5,700
Dividends and distributions reinvested	**(2,605)**	(1,062)
Adjustments for operating asset and liability movements:		
(Increase)/decrease in receivables	**13,137**	(3,814)
(Increase)/decrease in prepayments	**(577)**	271
(Increase)/decrease in net deferred tax asset	**(42,325)**	(6,306)
Increase/(decrease) in payables and provisions	**160,967**	8,028
Increase/(decrease) in income tax payable	**(8,603)**	824
Effects of exchange rates on cash and cash equivalents	**(4)**	(2)
Net cash from operating activities	**401,331**	398,033

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. Term deposits with maturities greater than 90 days from inception date are classified as financial assets (refer to note 8).

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For the year ended 30 June 2021

8. Financial Assets

	30 June 2021 $'000	30 June 2020 $'000
Term deposits - at amortised cost[1]	**1,650**	2,017
Total current financial assets	**1,650**	2,017
Investments - fair value through profit or loss		
Magellan Funds[2]		
Magellan Global Fund - Open Class[3]	**211,704**	144,551
Magellan Global Fund - Closed Class[3]	**42,589**	-
Magellan Global Fund (Hedged)	**1,069**	927
Magellan Global Equities Fund (Currency Hedged)	**25,067**	21,823
Magellan Infrastructure Fund (Currency Hedged)	**12,323**	11,903
Magellan High Conviction Fund[4]	**19,176**	40,533
Magellan High Conviction Trust[5]	**33,424**	4,770
MFG Core International Fund[6]	**11,670**	-
MFG Core ESG Fund[7]	**11,514**	-
Magellan Sustainable Fund[8]	**5,520**	-
Magellan FuturePay[9]	**10,879**	-
Magellan Wholesale Plus Global Fund	**10,890**	9,796
Magellan Wholesale Plus Infrastructure Fund	**6,204**	5,742
Frontier MFG Core Infrastructure Fund	**7,591**	7,180
Frontier MFG Global Plus Fund	**13,058**	11,734
Frontier MFG Global Sustainable Fund	**16,959**	15,157
MFG Global Sustainable Fund	**1,821**	1,630
Frontier Caravan Emerging Markets Fund[10]	**-**	21,039
Magellan Global Equities Fund[11]	**-**	84,076
Magellan Global Trust[11]	**-**	7,401
Total investments in Magellan Funds	**441,458**	388,262
Seed portfolios - securities by domicile of primary stock exchange		
United States	**9,595**	6,320
Europe and United Kingdom	**908**	1,243
Asia	**451**	476
Australia	**111**	119
Total investments in seed portfolios	**11,065**	8,158
Total non-current financial assets	**452,523**	396,420

1 Held with a major Australian bank and pledged against bank guarantees in respect of the Group's lease obligations. Should the Group fail to make its lease payments, the bank can apply the deposits in settlement of the amount paid to the lessor under the guarantees.

2 At 30 June 2021, MFG held the following investments: Magellan Global Fund Open Class 1.4% and Closed Class 1.4% (June 2020: nil), Magellan Global Fund (Hedged) 0.1% (June 2020: 0.1%), Magellan Global Equities Fund (Currency Hedged) 7.2% (June 2020: 9.9%), Magellan Infrastructure Fund (Currency Hedged) 1.5% (June 2020: 1.9%), Magellan High Conviction Fund 4.0% (June 2020: 8.6%), Magellan High Conviction Trust 3.7% (June 2020: 0.6%), MFG Core International Fund 84.5% (June 2020: nil), MFG Core ESG Fund 84.6% (June 2020: nil), Magellan Sustainable Fund 70.9% (June 2020: nil), Magellan FuturePay 63.6% (June 2020: nil), Magellan Wholesale Plus Global Fund 1.1% (June 2020: 1.0%), Magellan Wholesale Plus Infrastructure Fund 4.2% (June 2020: 7.3%), Frontier MFG Core Infrastructure Fund 1.1% (June 2020: 1.2%), Frontier MFG Global Plus Fund 2.9% (June 2020: 2.6%), Frontier MFG Global Sustainable Fund 99.1% (June 2020: 99.0%) and MFG Global Sustainable Fund 3.9% (June 2020: 100.0%).

3 On 8 December 2020, Magellan Global Fund acquired all units in Magellan Global Equities Fund and Magellan Global Trust as part of a restructure (refer note 4). At 30 June 2021, MFG held 8,379,927 MGF Options.

4 MFG sold 12,276,911 units for $24,959,000 during the year.

5 MFG purchased 17,950,036 units for $26,347,000 during the year.

6 MFG seeded the fund with $10,000,000 which was made on 15 July 2020 and 9 December 2020.

7 MFG seeded the fund with $10,000,000 on 9 December 2020 and acquired a further $100 of units during the year.

8 MFG seeded the fund with $5,000,000 on 9 December 2020.

9 MFG seeded the fund with $10,000,000 on 26 May 2021 and acquired a further $2,332 of units during the year.

10 MFG received a return of capital of $22,254,000 (US$16,778,000) following the fund liquidation on 15 December 2020.

11 On 8 December 2020, MFG's units in Magellan Global Equities Fund and Magellan Global Trust were acquired by Magellan Global Fund as part of a restructure (refer to note 4).

Reconciliation of Financial Assets Carrying Value

	30 June 2021 $'000	30 June 2020 $'000
Current		
Opening balance at 1 July	**2,017**	2,009
Cash placed on term deposit	**2,384**	2,379
Matured term deposits	**(2,751)**	(2,371)
Closing balance	**1,650**	2,017
Non-current		
Opening balance at 1 July	**396,420**	339,084
Acquisitions	**100,612**	52,437
Disposals	**(81,822)**	(5,344)
Net change in fair value		
Realised	**19,916**	388
Unrealised	**16,041**	7,062
Recorded as dividend and distribution income	**1,356**	2,793
Closing balance	**452,523**	396,420

Classification and Measurement

Financial assets are recognised initially at fair value on the date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets are measured at amortised cost when their contractual cash flows represent solely payments of principal and interest and they are held within a business model designed to collect cash flows. This classification typically applies to the Group's receivables, loans and term deposits. The carrying value of financial assets at amortised cost is adjusted for impairment under an expected credit loss model (refer to note 21).

All other financial assets are measured at fair value through profit or loss with future changes in the value of such assets recognised in the Consolidated Statement of Profit or Loss and Comprehensive Income. The change in fair value of financial assets does not include dividend and distribution income.

Financial assets are classified as non-current assets unless management intends to dispose of the assets within 12 months of reporting date.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group no longer holds substantially all the risks and rewards of ownership.

Securities Lending

The Group has securities lending arrangements with financial institution counterparties through which the Group's Open Class Units in MGF may be lent on a fully collateralised basis. As at 30 June 2021, none of the Group's units were on loan (June 2020: nil).

9. Associates

Associates are entities in which the Group has an investment and over which it has significant influence, but not control, through participation in financial and operating policy decisions. The Group accounts for associates using the equity method.

Under the equity method, investments are initially recognised in the Consolidated Statement of Financial Position at cost and adjusted thereafter to recognise the Group's share of the associate's profit or loss and other comprehensive income. The Group's share of the associate's profit or loss and other comprehensive income is included in the Consolidated Statement of Profit or Loss and Comprehensive Income. Dividends received from an associate are accounted for as a reduction to the carrying value of the investment.

At each reporting date, the Group applies judgement to determine whether there is any indication that the carrying value of associates may be impaired. If an associate is deemed to be impaired, the carrying value is reduced to the investment's recoverable amount. This reduction is recognised as an impairment charge in the Consolidated Statement of Profit or Loss and Comprehensive Income.

		Ownership interest		Investment carrying value	
Associate	**Industry**	**2021 %**	**2020 %**	**30 June 2021 $'000**	**30 June 2020 $'000**
Barrenjoey Capital Partners Group Holdings Pty Ltd ("Barrenjoey")[1]	Financial services	**40**	-	**114,480**	-
Guzman y Gomez (Holdings) Ltd ("GYG")[2,3]	Consumer services	**13**	-	**102,904**	-
FinClear Holdings Ltd ("FinClear")[4,3]	Financial services	**17**	-	**19,744**	-
				237,128	-

[1] Barrenjoey is a newly-launched Australian-based financial services firm providing corporate and strategic advisory, capital market underwriting, research, prime brokerage and fixed income services. The Group's voting interest in Barrenjoey is 4.99%.

[2] GYG is an is an Australian-based quick service restaurant chain specialising in made to order, clean, authentic and fresh Mexican food. The Group's voting interest in GYG is equal to its ownership interest.

[3] Ownership interest reflects the Group's current entitlement and excludes the impact of any potential dilution arising from unexercised options.

[4] FinClear is an Australian-based provider of technology, trading infrastructure and exchange market-access services to wealth, stockbroking, platform and fintech customers. The Group's voting interest in FinClear is equal to its ownership interest.

Key Judgement

Through representation on the board of directors of each associate, the Group participates in financial and operating policy decisions. As a result, the Group is deemed to have significant influence despite holding less than 20% of the voting rights of the entities.

Associates' Financial Information

The tables below provide summarised financial information of the Group's associates aggregated on an industry classification basis. The information reflects the amounts presented in the financial statements of the associates and not the Group's share of those amounts (except where indicated). As required by the equity method, amounts have been amended to reflect adjustments made by the Group, including fair value adjustments and modifications for differences in accounting policies.

Summarised Statement of Financial Position

	Financial services		Consumer services		Total	
	30 June 2021 $'000	**30 June 2020 $'000**	**30 June 2021 $'000**	**30 June 2020 $'000**	**30 June 2021 $'000**	**30 June 2020 $'000**
Current assets	**196,521**	-	**80,922**	-	**277,443**	-
Non-current assets	**24,500**	-	**125,502**	-	**150,002**	-
Current liabilities	**(108,164)**	-	**(38,506)**	-	**(146,670)**	-
Non-current liabilities	**(10,646)**	-	**(100,454)**	-	**(111,100)**	-
Net assets	**102,211**	-	**67,464**	-	**169,675**	-
Group's interest in net assets	**35,340**	-	**8,611**	-	**43,951**	-
Goodwill and transaction costs	**98,884**	-	**94,293**	-	**193,177**	-
Investment carrying amount	**134,224**	-	**102,904**	-	**237,128**	-

Summarised Statement of Profit or Loss and Comprehensive Income

	Financial services		Consumer services		Total	
	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000	30 June 2021 $'000	30 June 2020 $'000
Revenue	**18,516**	-	**59,504**	-	**78,020**	-
Profit or loss from continuing operations	**(105,823)**	-	**2,009**	-	**(103,814)**	-
Other comprehensive income	**-**	-	**-**	-	**-**	-
Total comprehensive income	**(105,823)**	-	**2,009**	-	**(103,814)**	-
Group's share of associates' profit/(loss)	**(41,973)**	-	**252**	-	**(41,721)**	-
Dividends received from associates	**-**	-	**-**	-	**-**	-

Transactions with Associates

The Group has entered into a facility agreement to provide Barrenjoey with up to $50,000,000 of unsecured working capital finance. During the year ended 30 June 2021, $15,000,000 was drawn and then subsequently repaid. Interest received on the facility for the year ended 30 June 2021 amounted to $86,000 (June 2020: nil). The facility was entirely undrawn at 30 June 2021.

10. Intangibles

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

			30 June 2021			30 June 2020
	Customer relationships $'000	Goodwill $'000	Total $'000	Customer relationships $'000	Goodwill $'000	Total $'000
At cost	**25,381**	**102,840**	**128,221**	25,911	105,252	131,163
less: accumulated amortisation and impairment	**(15,159)**	-	**(15,159)**	(10,611)	-	(10,611)
Total intangible assets	**10,222**	**102,840**	**113,062**	15,300	105,252	120,552
Movements:						
Opening balance at 1 July	**15,300**	**105,252**	**120,552**	19,805	104,703	124,508
Amortisation expense	**(4,548)**	**-**	**(4,548)**	(4,689)	-	(4,689)
Net foreign exchange differences	**(530)**	**(2,412)**	**(2,942)**	184	549	733
Closing balance	**10,222**	**102,840**	**113,062**	15,300	105,252	120,552

Customer Relationships

Customer relationships reflect existing agreements with clients and relationships with unitholders in the case of the Magellan Funds. They are definite life assets with useful lives based on the following expected client attrition profile:

- Airlie - 5 years
- Frontier Group - 7 years

Customer relationship assets are recognised at fair value at the date of acquisition and amortised to profit or loss on a straight-line basis over the useful lives stated above.

Goodwill

Goodwill arises when consideration paid for a business exceeds the fair value of the identifiable net assets acquired or liabilities assumed at the date of acquisition. The Group's goodwill represents the value of expected synergies from the acquisitions of Airlie and the Frontier Group, as well as the value of their respective workforces. Goodwill has an indefinite life. It is initially recognised at cost at the date of a business acquisition and subsequently measured at cost less any accumulated impairment.

Impairment

Goodwill is tested for impairment annually 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 of the Group has been allocated to one cash generating unit ("CGU"), being the Funds Management segment ("FM CGU"). The recoverable amount of the FM CGU has been determined by taking a value-in-use approach which calculates the net present value of the CGU's estimated future pre-tax cash flows.

Key Estimates and Judgements

Judgement is used to assess the estimated useful life of intangible assets, the presence of indicators of impairment and the recoverable amount of goodwill and customer relationship assets.

Determination of the recoverable amount of goodwill requires the application of significant judgement when making assumptions about the future cash flows of the FM CGU, including the reasonableness of applied growth and discount rates.

In the Group's goodwill impairment testing, estimated future cash flows are based on financial budgets approved by the Board of Directors for a period of one year. Cash flows for the five years beyond the approved budget period are extrapolated using a growth rate of 4% (June 2020: 6%) based on external forecasts of long-term global equity market returns. A perpetuity growth rate of 2.5% (June 2020: 2.5%) is used to derive a terminal value and a pre-tax discount rate of 12% (June 2020: 12%) is applied to net cash flows.

In forecasting cash flows over the assessment period, the current economic conditions, impacts arising from covid-19 and the Funds Management segment performance were considered. Management is of the view that no reasonably possible change to a key assumption would cause the recoverable amount of goodwill to fall short of the carrying amount. As such there is no impairment of goodwill at 30 June 2021.

11. Loans and Receivables

	30 June 2021 $'000	30 June 2020 $'000
Current		
Fees receivable	**113,717**	119,495
Distributions receivable from Magellan Funds	**279**	7,333
Other receivables	**126**	378
Loans issued under share purchase agreements	**4,267**	1,722
Loan to third party	**-**	7,500
	118,389	136,428
Non-current		
Loans issued under share purchase agreements	**21,191**	13,567
Total loans and receivables	**139,580**	149,995

Fees Receivable

Fees receivable comprise uncollected management, performance and services fees. These amounts are initially recognised at the fair value of the amounts to be collected. An impairment analysis is performed at each balance date to determine whether a loss allowance should be recognised for 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.

Receivables of $2,550,000 were past due at 30 June 2021 (June 2020: $14,599,000). Based on the credit quality of the Group's clients (including Magellan Funds) and no historical credit losses, there were no provisions for expected credit losses recognised during the year (June 2020: nil).

Share Purchase Agreements

The Group has a Share Purchase Plan (the "Plan" or "SPP") for its employees and Non-Executive Directors ("Participants") through which MFG provides Participants with financial assistance to purchase MFG shares. The Plan exists 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. Any outstanding balance at the end of the SPP loan term must be repaid by the Participant. A Participant who ceases to be employed must repay the total amount owing under the SPP loan within three months of cessation, or such longer period as determined by the Board.

Shares purchased under the SPP are issued at the volume weighted average price of traded shares on the five business days prior to the offer date. This issue price is deemed to be fair market value of the shares at the offer date.

Shares purchased under the 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 has unrestricted access to their shares.

Repayment of SPP loans occurs by applying an amount equal to 25% (or other amount permitted under the SPP rules) of the Participant's after-tax annual cash bonus as well as dividends received from the shares issued under the SPP.

Reconciliation of SPP Loans

	30 June 2021		30 June 2020	
	Number of shares	SPP loans $'000	Number of shares	SPP loans $'000
Opening balance at 1 July	**950,469**	**15,289**	911,016	11,219
Loan issuances[1]	**312,720**	**12,010**	210,877	7,027
Imputed interest income	**-**	**1,128**	-	443
Repayments - cash	**-**	**(749)**	-	(1,427)
Repayments - dividends (refer to note 18)	**-**	**(2,220)**	-	(1,973)
Shares released on loan termination	**(66,744)**	**-**	(171,424)	-
Closing balance	**1,196,445**	**25,458**	950,469	15,289

[1] In the current financial year, SPP loans were issued in October 2020, December 2020 and March 2021 based on MFG share issue prices of $55.89, $59.24 and $44.29, respectively.

Classification and Measurement

SPP loans are initially recognised at fair value, which is determined by discounting loans to their net present value using an interest rate reflective of the risk of the underlying asset at the time the loan is granted and an estimated repayment schedule. Subsequently, the loans are carried at amortised cost using the effective interest rate method and adjusted for changes in the projected repayment schedule. Changes in the carrying value of the SPP loans are recognised within interest income in the Consolidated Statement of Profit or Loss and Comprehensive Income.

The cost of providing the interest free loans to Participants is recognised as interest expense on a straight-line basis over the expected life of the SPP loan. This expense is included within employee expenses in the Consolidated Statement of Profit or Loss and Comprehensive Income. During the year ended 30 June 2021, $888,000 was recognised within employee expenses (June 2020: $593,000).

Both the change in the carrying value of the SPP loans recorded in interest income and the cost of providing the interest free loan to Participants recorded as interest expense are non-cash items and therefore not included 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 interest expense within employee expenses will exactly offset each other.

The total value of MFG ordinary shares securing the SPP loans to Participants applying MFG's closing share price at 30 June 2021 of $53.86 was $64,441,000 (June 2020: $55,137,000). An impairment analysis is performed at each reporting date to determine whether to recognise a loss allowance for potential loan defaults. No loss allowance has been recognised at reporting date as no amounts are past due or deemed to be impaired.

12. Leases

The Group's lease arrangements primarily comprise operating leases of office space typically for fixed periods of up to 10 years.

At commencement of a lease, the Group records a lease liability in the Consolidated Statement of Financial Position reflecting the present value of future contractual payments to be made over the lease term, discounted at the Group's incremental borrowing rate, unless an interest rate is stated within the lease. A right-of-use ("ROU") asset is also recorded at the value of the lease liability plus any initial direct costs incurred to obtain the leased asset.

Interest is accrued on the lease liability, and recognised within finance costs in the Consolidated Statement of Profit and Loss and Comprehensive Income, whilst the liability balance is reduced as lease payments are made. The ROU asset is depreciated on a straight-line basis over the shorter of the leased asset's useful life or the lease term.

The liability is remeasured upon the occurrence of certain events, such as a change in the lease term or the lease payments. The amount of any liability remeasurement is adjusted against the value of the ROU asset.

Payments associated with short term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short term leases have a term of 12 months or less and low-value assets comprise small items of technology and office equipment.

	30 June 2021		30 June 2020	
	ROU assets $'000	Lease liabilities $'000	ROU assets $'000	Lease liabilities $'000
Opening balance at 1 July	**13,666**	**17,288**	15,817[1]	19,279[1]
Additions and remeasurements	**138**	**135**	-	-
Lease terminations	**-**	**(323)**	-	
Lease payments	**-**	**(3,107)**	-	(2,734)
Depreciation expense	**(2,285)**	**-**	(2,158)	-
Interest expense	**-**	**634**	-	732
Net foreign exchange differences	**(22)**	**(27)**	7	11
Closing balance	**11,497**	**14,600**	13,666	17,288

[1] Reflects the transition adjustment recognised at adoption of AASB 16 on 1 July 2019.

The Group's lease payments are contractually due in the following time periods:

	30 June 2021				30 June 2020			
	Within 1 year $'000	Within 2 to 5 years $'000	Beyond 5 years $'000	Total $'000	Within 1 year $'000	Within 2 to 5 years $'000	Beyond 5 years $'000	Total $'000
Lease liabilities	**2,817**	**11,716**	**1,809**	**16,342**	3,068	11,561	4,838	19,467

Notes to the Financial Statements

For the year ended 30 June 2021

13. Payables

Payables represent liabilities for goods and services received prior to the end of the year which remain unpaid at 30 June.

	30 June 2021 $'000	30 June 2020 $'000
Trade payables and accruals	**10,321**	10,076
Accrued employee entitlements	**23,510**	22,019
Taxes payable - GST and Fringe Benefits Tax	**2,716**	2,280
Unsettled trades	**6**	14
Total payables	**36,553**	34,389

Trade Payables and Accruals

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.

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 is recognised for annual cash bonuses paid within three months of reporting date, where the Group is contractually obliged or where there is past practice that has created a constructive obligation to pay the bonus under the employee bonus plan. Where the conditional deferred cash bonus is paid in 12 or 36 equal instalments (depending on the employee) in the following financial year or years and is conditional on the employee being employed at the time of payment, the bonus paid each month is expensed in the Consolidated Statement of Profit or Loss and Comprehensive Income as incurred. In the previous year, a liability was recognised in the Statement of Financial Position for the unpaid conditional deferred cash bonus amounts brought forward, which were paid in September 2020.

The cumulative total of conditional deferred cash bonuses payable by the Group to Key Management Personnel ("KMP") and employees in future years is a contingent liability. At 30 June 2021, the contingent liability is $16,596,000 (June 2020: $4,387,000) and subject to the vesting conditions being met. Of this amount, $7,902,000 would be payable during the year ending 30 June 2022 and $8,694,000 would be payable during the years ending 30 June 2023 and 2024.

14. Financial Liabilities

	30 June 2021 $'000	30 June 2020 $'000
Financial liabilities - fair value through profit or loss		
Partnership benefits relating to Magellan Global Fund restructure (refer to note 4)	**157,093**	-
Other financial liabilities	**454**	293
Total financial liabilities	**157,547**	293

Classification and Measurement

Financial liabilities are recognised initially at fair value on the date at which the Group becomes a party to the contractual provisions of the instrument. These liabilities are subsequently measured at fair value through profit or loss if they are held for trading purposes or designated as such upon initial recognition. Changes in the value of such liabilities are recognised in the Consolidated Statement of Profit or Loss and Comprehensive Income.

All other financial liabilities are measured at amortised cost.

Financial liabilities are classified as current unless the Group has the unconditional right to defer settlement beyond 12 months from the reporting date.

15. Provisions

Provisions are liabilities for which there is uncertainty about the timing or amount of settlement and therefore usually require the use of estimates. Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that settlement will require an outflow of resources embodying economic benefits. Provisions are recorded at the Group's best estimate of the cost of settling the obligation. Any differences between those estimates and the actual settlement amounts are recognised in the Consolidated Statement of Profit or Loss and Comprehensive Income as additional charges when the Group has underestimated the actual amounts settled and as credits when the Group has overestimated them.

	30 June 2021 $'000	30 June 2020 $'000
Employee entitlements - long service leave	**1,983**	1,419
Other	**-**	18
Total current provisions	**1,983**	1,437
Employee entitlements - long service leave	**1,475**	1,314
Other employee entitlements	**2,947**	1,706
Other	**51**	90
Total non-current provisions	**4,473**	3,110

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.

16. Capital Management

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

The Group's capital consists of contributed equity and a profits reserve which preserves the Company's capacity to pay future dividends.

The Board regularly reviews the Group's free cash flow generation, cash and cash equivalents, investments, tax and other financial factors. The Group also has access to a revolving credit facility which remains fully undrawn as at 30 June 2021 (refer to the Liquidity Risk discussion in note 21). In order to maintain an optimal capital structure, the Board may:

- vary the amount of dividends paid to shareholders;
- issue new shares;
- utilise a dividend reinvestment plan;
- increase or decrease borrowings; or
- redeem and/or sell investments.

The Group is also subject to regulatory capital requirements by virtue of an Australian Financial Services Licence ("AFSL") held by MAM. Under the AFSL, MAM must hold a minimum level of net tangible assets and cash and cash equivalents. During the 2021 financial year MAM complied with its licensing requirements at all times.

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17. Contributed Equity

	30 June 2021		30 June 2020	
	Number of shares '000	Contributed equity $'000	Number of shares '000	Contributed equity $'000
Opening balance	**182,280**	**525,271**	177,087	243,150
Shares issued as purchase consideration for shares in Barrenjoey	**1,201**	**66,033**	-	-
Shares issued under SPA	**313**	**16,411**	211	10,533
Shares issued under institutional placement[1]	**-**	**-**	4,982	275,000
Expense for SPA	**-**	**215**	-	311
Transaction costs of share issues and placement, net of tax	**-**	**(81)**	-	(3,723)
Closing balance[2]	**183,794**	**607,849**	182,280	525,271

[1] On 14 August 2019, 4,981,885 ordinary shares were issued at a price of $55.20 upon completion of the institutional share placement.
[2] Includes 1,196,445 ordinary shares held by employees and Non-Executive Directors under the SPP (June 2020: 950,469). Refer to note 11 for further details.

Ordinary shares are fully paid and entitle the holder to receive declared dividends and proceeds on winding up of the Company in proportion to the number of and amounts paid up on shares held. An ordinary share also entitles the holder to one vote, either in person, or by proxy, at a meeting of the Company shareholders. The Company does not have authorised capital and the Company's shares have no par value.

18. Dividends

	Cents per share	Franking %[1]	Total $'000	Date Paid
During the year ended 30 June 2021				
Prior year final dividend paid	**91.6**	75%	**166,969**	26 August 2020
Prior year performance fee dividend paid	**30.4**	75%	**55,413**	26 August 2020
Total prior year final and performance fee dividend paid	**122.0**		**222,382**	
Interim dividend paid	**97.1**	75%	**178,361**	25 February 2021
Total dividends declared and paid during the year[2]	**219.1**		**400,743**	
During the year ended 30 June 2020				
Prior year final dividend paid	78.0	75%	138,128	29 August 2019
Prior year performance fee dividend paid	33.4	75%	59,147	29 August 2019
Total prior year final and performance fee dividend paid	111.4		197,275	
Interim dividend paid	92.9	75%	169,339	27 February 2020
Total dividends declared and paid during the year[2]	204.3		366,614	

[1] At the corporate tax rate of 30%.
[2] Includes dividends of $2,220,000 which were not paid in cash but rather applied directly against the balances of Share Purchase Plan loans (June 2020: $1,973,000) (refer to note 11).

Dividend Declared

On 17 August 2021, the Directors declared a total dividend of 114.1 cents per ordinary share (75% franked at the corporate tax rate of 30%) in respect of the six months to 30 June 2021 (June 2020: 122.0 cents per ordinary share 75% franked). The dividend comprises a Final Dividend of 102.6 cents per ordinary share and a Performance Fee Dividend of 11.5 cents per share (June 2020: Final Dividend of 91.6 cents per ordinary share and a Performance Fee Dividend of 30.4 cents per ordinary share).

A dividend payable to shareholders of the Company 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 for the six months to 30 June 2021 totalling approximately $209,709,000 are not recognised as liabilities and will be paid on 23 September 2021.

Imputation Credits

The Group has a total of $46,375,000 imputation credits available for subsequent reporting periods based on a tax rate of 30% (June 2020: $61,728,000 at a 30% tax rate). The amount comprises the balance of the imputation account 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 17 August 2021 will be partially franked out of existing franking credits, or out of franking credits arising from the payment of income tax.

19. Subsidiaries

	Country of incorporation/ Principal place of business	% equity interest[1]	
		30 June 2021	**30 June 2020**
Magellan Asset Management Limited	Australia	**100**	100
Magellan FuturePay Pty Limited[2]	Australia	**100**	100
Magellan Capital Partners Pty Limited	Australia	**100**	100
Magellan Capital Partners No. 2 Pty Limited[3]	Australia	**100**	-
Magellan Capital Partners No. 3 Pty Limited[3]	Australia	**100**	-
MFG Services LLC[4]	United States of America	**100**	100
Frontier North American Holdings Inc.[5]	United States of America	**80**	80
Frontier Partners Inc.	United States of America	**100**	100
Frontegra Strategies LLC	United States of America	**100**	100
Frontegra Asset Management Inc.	United States of America	**100**	100
MFG High Conviction Master Fund GP LLC	United States of America	**100**	100

1 The proportion of ownership interest is equal to the proportion of voting power held.
2 Magellan FuturePay Pty Limited (formerly MRTF Pty Limited) is the corporate trustee of FuturePay Support Trust.
3 Magellan Capital Partners No. 2 Pty Limited and Magellan Capital Partners No. 3 Pty Limited have share capital consisting solely of ordinary shares that are held wholly and directly by MFG, which also holds all the voting rights.
4 MFG Services LLC ("MFGS") is a service company and provides MAM with investment research and distribution services.
5 Frontier North American Holdings Inc. ("FNAH") is the US holding company of the Frontier Group. FNAH is 20% owned by a former shareholder of the Frontier Group. MFG has a call option over the remaining 20% of the issued share capital of FNAH, the acquirer of the Frontier Group and a controlled entity of MFG. The minority shareholder of FNAH, Mr Bill Forsyth, holds a put option over his interest in the issued share capital of FNAH. The options can be exercised by either party during the period 1 January 2026 to 31 March 2026, at an exercise price based on a multiple of annualised average earnings for a specified period. In addition to the above, MFG holds a further call option to purchase the remaining 20% of the issued share capital of FNAH for $1. This option can be triggered at any time prior to 31 December 2025 in certain circumstances. At the date of this report, the Group has no expectation that this call option would be triggered. The Group has determined that it has a present ownership interest in the non-controlling interest of FNAH.

Inset names indicate that shares are held by the company immediately above. All material subsidiaries have a 30 June reporting date. Transactions between MAM and foreign entities are subject to transfer pricing arrangements.

The Group's investments in other entities are set out in notes 8 and 9.

Key Judgement

Certain subsidiaries of the Group provide fiduciary and/or investment management services to funds in which the Group holds an economic interest. Such interests are not considered to be interests in controlled entities and consequently have been recognised in the Consolidated Statement of Financial Position as financial assets held at fair value through profit or loss. This classification involves the use of judgement in assessing whether the Group controls each relevant fund, including consideration of the nature and significance of various factors such as the exposure of the Group to variability of returns, compensation to which Group entities are entitled, the scope of the Group entities' decision-making authority and the rights held by third parties to remove the Group entities as Responsible Entity/Trustee or Investment Manager.

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, liabilities, income and expenses of a subsidiary are included from the date the Group gains control until the date control ceases. 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.

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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 translation are recognised in comprehensive income and accumulate in the foreign currency translation reserve within 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 Profit or Loss and Comprehensive Income.

20. Related Parties

Magellan Financial Group Limited is the ultimate parent entity of the Group. The related parties of the Group include its subsidiaries, associates, KMP, close family members of KMP and any entity controlled by those entities.

Transactions with Related Parties

Management and performance fees from investment funds managed by subsidiaries of the Group are set out in note 5.

Transactions with associates are set out in note 9.

Other transactions that occurred between entities of the Group are fully eliminated on consolidation of the Group and are:

	30 June 2021 $	30 June 2020 $
Revenue recognised by parent entity		
Dividends[1]	**495,474,363**	385,414,562
Reimbursed expenses	**253,208**	231,750
Expenses recognised by parent entity		
Expense reimbursements	**20,304**	22,081
Equity contributions to subsidiaries		
Cash	**205,010,913**	-
Non-cash	**66,032,707**	-
Transactions between subsidiaries at international transfer prices		
Service fees	**24,639,738**	23,073,055
Recharged expenses	**267,382**	307,687

[1] Dividends to MFG from MAM totalled $495,000,000 and $474,363 paid by MFGS (June 2020: $385,414,562 from MAM and nil from MFGS).

All transactions with related parties are conducted on standard commercial terms and conditions. Receivable and payable balances at year end are unsecured and will be settled in cash. No guarantees have been given or received between entities in the Group.

KMP Remuneration

	30 June 2021 $	30 June 2020 $
Short-term benefits		
Salary	**5,766,417**	5,693,776
Cash bonus	**4,525,061**	4,969,344
Post-employment benefits	**134,115**	131,824
Long-term benefits	**82,316**	158,803
Other benefits	**461,238**	262,840
Total remuneration paid to KMP	**10,969,147**	11,216,587

The KMP of the Group are listed in section 3 of the Remuneration Report and the remuneration of each KMP is included in section 3.4 of the Remuneration Report.

21. Financial Instrument Risk Management

The Group's operating and investing activities expose it to various forms of financial instrument risk including:

- the risk that money owed to the Group will not be received (*credit risk*);
- the risk that the Group may not have sufficient cash available to pay its creditors as they fall due (*liquidity risk*); and
- the risk that the value of financial assets and liabilities will fluctuate as a result of movements in factors such as market prices, interest rates and foreign exchange rates (*market risk*).

The Board has an approved risk management framework including policies, procedures and limits and uses different methods to measure and manage these risks that are discussed in detail throughout this note.

The Group's primary exposure to financial instrument risk is derived from the financial instruments that it holds as principal. In addition, due to the nature of the business, the Group's exposure extends to the impact on investment management and other fees that are determined as a percentage of funds under management and are therefore impacted by the financial instrument risk exposures of the Group's clients. This note deals only with the primary exposure of the risks from the Group's holding of financial instruments and not the secondary exposure impacting the Group's revenue.

The investment portfolios of funds managed by MAM are monitored on a daily basis in accordance with the investment objectives and mandates of those funds. Further details of the risk management objectives and policies applied in respect of the Group's managed funds can be found in their product disclosure statements ("PDS") and in the case of the Frontier MFG Funds, in their prospectuses.

Credit Risk

Credit risk refers to the risk that a counterparty will fail to meet its contractual obligations resulting in financial loss to the Group. Market prices generally take counterparty credit into account and therefore the risk of loss is implicitly provided for in the carrying value of financial assets and liabilities held at fair value.

The Group's maximum exposure to credit risk is the carrying amount of all cash and cash equivalents, financial assets, receivables and SPP loans recognised in the Consolidated Statement of Financial Position as well as the value of any undrawn loan commitments which are accessible to counterparties at reporting date.

Additionally, MAM in its capacity as Trustee and Responsible Entity of the Magellan Funds (as set out in note 2) has appointed The Northern Trust Trust Company ("NT") as custodian. NT is required to comply with the relevant provisions of the *Corporations Act 2001*, applicable ASIC regulatory guides and Regulatory Instruments relating to registered managed investment scheme property arrangements with custodians. As at 30 June 2021, the credit quality of NT's senior debt is rated by Standard and Poor's as A+ and by Moody's as A2 (June 2020: A+ and A2 respectively).

Cash and Cash Equivalents

The Group minimises its credit risk by ensuring cash and term deposits are held with high credit quality financial institutions as determined by a recognised rating agency. As at 30 June 2021, the Group's cash and term deposits were held with major Australian and international banks rated no lower than AA- by Standard & Poor's or Aa3 by Moody's (June 2020: AA- and Aa3, respectively).

Financial Assets

The Group mitigates its credit risk by ensuring the majority of its financial assets are held with Magellan Funds for which MAM is the Trustee or Responsible Entity.

MFG has 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 2021 and 2020, MFG held a negligible cash balance with MLI.

Loans and Receivables

The Group manages credit risk by regularly monitoring receivables and SPP loan balances.

Fee receivables arise as a result of the Group's investment management activities and are typically paid between 15 and 45 days of being invoiced. These counterparties generally do not have an independent credit rating and the Group assesses credit quality taking into account each debtor's financial position, past experience and other available credit risk information. Historically, default levels have been insignificant and unless a client has withdrawn its funds, there is an ongoing relationship between the Group and the client.

SPP loans are secured by the MFG shares issued to the Participant under the SPP. The Group's credit exposure is therefore limited to any shortfall represented by the difference between the face value of SPP loans and the value of the MFG shares securing those loans for each Participant. At 30 June 2021, the total SPP loan shortfall was $57,000 (June 2020: nil). As the SPP loans are full recourse, the Group is entitled to recover any shortfall from the Participant.

At 30 June 2021, the estimated weighted average duration of SPP loans, including those that were issued and extended, was 0.3 years to 7.5 years (June 2020: 0.8 years to 4.6 years).

Undrawn Loan Commitments

The Group has committed to provide Barrenjoey with up to $50,000,000 of working capital finance under an unsecured revolving facility that matures in September 2023.

The Group has also extended a funding facility to Magellan FuturePay. The size of the facility is 2% of the FUM of Magellan FuturePay subject to a cap of $100,000,000. As at 30 June 2021, the Magellan FuturePay FUM was $15,945,000 and accordingly the total capacity of the facility was $319,000.

Liquidity Risk

Liquidity risk is the risk that the Group may not be able to meet its financial obligations in a timely manner or may be forced to sell financial assets at a value which is less than their worth.

The Group manages liquidity risk by monitoring rolling cash flow forecasts in order to maintain sufficient cash reserves to meet future obligations and regulatory capital requirements. Additionally, the Group has access to an undrawn credit facility (discussed below) and liquid equity investments held in the Fund Investments portfolio.

As at 30 June 2021, the Group had an obligation to settle trade creditors and other payables of $36,553,000 (June 2020: $34,389,000) within 30 days (refer to note 13). A further obligation of $11,576,000 (June 2020: $20,179,000) is payable between 30-150 days for the Group’s tax instalment and final income tax payment. Furthermore, $209,709,000 will be paid on 23 September 2021 in respect of the Final and Performance Fee dividend (refer to note 18). The Group had cash of $211,577,000 (June 2020: $437,513,000) and a further $114,122,000 (June 2020: $127,206,000) of receivables to cover these liabilities.

The Group's reported current assets of $333,775,000 and current liabilities of $209,934,000 result in a net current asset surplus of $123,841,000. Accordingly, the Group has sufficient liquid funds and current assets to meet its current liabilities.

The Group has access to a $160,000,000 floating rate facility provided by a major Australian bank which may be drawn at any time up to 19 February 2024. During the year, the borrowing capacity under the facility was increased with a view to ensuring the Group has sufficient access to finance to meet its obligations under the MGF Partnership Offer and commitment to Magellan FuturePay (refer to note 4). As a result of the increase in the borrowing capacity a one off establishment fee of $480,000 was paid and recognised within finance costs in the Consolidated Statement of Profit or Loss and Comprehensive Income. Commitment fees apply when the facility is undrawn. For the year ended 30 June 2021, these commitment fees amounted to $2,135,000 (June 2020: $426,000) and were recognised within finance costs.

At 30 June 2021, the facility was undrawn and all financial covenants were complied with during the year.

Market Risk

The value of the Group's financial assets and liabilities is exposed to movements in market prices, foreign exchange rates and interest rates.

Price Sensitivity

The value of investments held in the Fund Investments portfolio (refer to note 8) changes as a result of movements 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. Additionally, certain financial liabilities held by the Group change as a result of movements in the estimated unit prices of the funds to which they relate.

Over the past 10 financial years, the annual performance of the MSCI World Net Total Return Index has ranged between +39% 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 Fund Investments portfolio does not attempt to mirror the global indices, however this wide range of historic movements in the indices provides an indication of the magnitude of equity price movements that could occur within the portfolio.

For illustrative purposes, an increase of 10% in market prices would have had the following impact on the recorded value of the Group's financial instruments:

	30 June 2021 $'000	30 June 2020 $'000
Financial assets at fair value through profit or loss	**31,677**	27,749
Financial liabilities at fair value through profit or loss	**(12,493)**	-
Impact on net profit after tax/other comprehensive income and equity	**19,184**	27,749

A decrease of 10% in market prices would have an equal but opposite impact on net profit, comprehensive income and equity.

Foreign Exchange Sensitivity

The Group holds the following types of financial assets and liabilities for which fair value changes arise as a result of movements in foreign exchange rates:

- Cash and term deposits denominated in a foreign currency;
- Financial assets denominated in a foreign currency (refer to note 8) as well as related dividend/distribution receivables and outstanding settlements for sales/purchases;
- Management and performance fees receivable denominated in a foreign currency; and
- Payables denominated in a foreign currency.

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

For illustrative purposes, if the Australian dollar strengthened by 10% relative to each currency to which the Group had an exposure, with all other variables held constant, the impact on net profit after tax and equity would have been:

	30 June 2021 Increase(decrease)			30 June 2020 Increase(decrease)		
	USD $'000	GBP $'000	Other $'000	USD $'000	GBP $'000	Other $'000
Cash and cash equivalents	**(548)**	**(7)**	**(15)**	(3,988)	(7)	(13)
Financial assets	**(3,503)**	**(16)**	**(82)**	(4,013)	(14)	(94)
Receivables	**(674)**	**(907)**	**(28)**	(2,434)	(832)	(18)
Payables	**312**	**4**	**21**	261	4	27
Lease liabilities	**15**	**-**	**8**	24	-	-
Total impact on net profit after tax and equity	**(4,398)**	**(926)**	**(96)**	(10,150)	(849)	(98)

A decrease of 10% in the Australian dollar relative to each currency would have an equal but opposite impact on net profit after tax and equity.

The Group has indirect exposure to foreign currency via its investment in funds that are denominated in both Australian dollars, such as the Group's Australian funds, and US dollars, such as the Group's international funds (refer to note 2). This is because the underlying investment portfolios of these funds comprise equities predominantly denominated in foreign currencies and with operating exposure to global currencies. As a result, the fair values of these funds are influenced by currency movements. The sensitivity analysis disclosed above disregards the indirect impact of the foreign currency movement on the underlying fund portfolios.

In addition to its investments, 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 funds under management. As at 30 June 2021, approximately 84% of the Group's funds under management was exposed to movements in the Australian dollar relative to other currencies (June 2020: 87%).

Interest Rate Sensitivity

The Group's primary exposure to interest rate movements relates to its cash and term deposits. Term deposits are of relatively short duration and their fair value would not be materially affected by changes in interest rates.

Cash and cash equivalents held by the Group are predominantly held with Australian financial institutions and the value of cash balances is sensitive to the RBA cash rate. In light of the low interest rate environment, the Group's primary bankers have confirmed that negative interest rates will not be applied to the Group's cash balances.

The Group does not hold any financial assets or liabilities for which a change in value as a result of interest rate movements would impact on the Group's recorded net profit or equity.

Fair Value Disclosures

The Group measures its investments in the Fund Investments portfolio at fair value. To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies financial assets and liabilities 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 of 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 unobservable inputs such as is required where the Group invests in unlisted funds which in turn invest in unlisted entities.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2021				
Magellan Fund investments[1]	364,690	76,768	-	**441,458**
Seed portfolios	11,065	-	-	**11,065**
Financial liabilities at fair value through profit or loss	(454)	(157,093)	-	**(157,547)**
Total financial assets and liabilities at fair value	**375,301**	**(80,325)**	**-**	**294,976**
30 June 2020				
Magellan Fund investments[1]	129,973	258,289	-	388,262
Seed portfolios	8,158	-	-	8,158
Financial liabilities at fair value through profit or loss	(293)	-	-	(293)
Total financial assets and liabilities at fair value	**137,838**	**258,289**	-	**396,127**

1 Fair value is determined by reference to the fund's redemption unit price at reporting date and is categorised in level 2 as inputs into the redemption unit price are directly observable from published price quotations.

During the year ended 30 June 2021, the investment in Magellan Global Fund was transferred from level 2 to level 1 as the investment was quoted on the ASX following the completion of a restructure in December 2020 (refer to note 4). There were no other transfers between any fair value hierarchy levels during the years ended 30 June 2021 or 2020. The Group's policy is to recognise transfers into and out of hierarchy levels as at the end of the reporting period.

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

22. Commitments and Contingent Assets and Liabilities

Commitments

As detailed in note 4, the Group has committed up to $50,000,000 to assist Magellan FuturePay capitalise the FuturePay Support Trust of which $1,062,000 has been recognised as at 30 June 2021. The Group has also extended loan commitments to certain related parties, which remain undrawn at reporting date (refer to note 21).
All other commitments relate to non-cancellable payments under short term and low value lease agreements as set out below:

	30 June 2021 $'000	30 June 2020 $'000
Within one year	**24**	33
Later than one year but no later than five years	**7**	11
More than five years	**-**	-
Total	**31**	44

Contingent Assets and Liabilities

In addition to contingent balances noted in other sections of this financial report, the Group has contingent assets and liabilities in respect of the following items:

- *Dividend Reinvestment Plans of Magellan Funds*: In accordance with the terms of the deeds entered into with MGF and MHH, the Group has agreed to pay those funds an amount equal to the DRP discount. As a result, the Group has a contingent liability where MGF or MHH offer a discount to the Net Trust Value per unit on units issued under the DRP in future periods. The quantum of the contingent liability is determined at each distribution date of MGF and MHH and the amount is currently equal to a 7.5% and 5% discount respectively to the 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 2021, $1,400,000 was paid (or payable) by the Group in respect of the DRP discounts relating to Magellan Funds (refer to note 2).

- *FuturePay Support Trust*: The Group is one of the nominated beneficiaries of the FuturePay Support Trust. As a beneficiary, the Group is entitled to receive distributions of trust income and property, however those distributions are at the discretion of the Trustee of the FuturePay Support Trust. Further, the management fee earned by MAM in respect of Magellan FuturePay will be reduced where distributions of FuturePay Support Trust income are made to the Group. At 30 June 2021 and up to the date of this report, no distributions have been received or accrued by the Group or declared by the FuturePay Support Trust.

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23. Parent Entity Information

	30 June 2021 $'000	30 June 2020 $'000
Assets		
Current assets	**186,948**	355,278
Non-current assets	**937,304**	570,311
Total assets	**1,124,252**	925,589
Liabilities		
Current liabilities	**170,939**	21,584
Non-current liabilities	**-**	12,926
Total liabilities	**170,939**	34,510
Net assets	**953,313**	891,079
Equity		
Contributed equity	**608,224**	525,646
Reserves	**345,089**	356,925
Retained profits	**-**	8,508
Total equity	**953,313**	891,079
Net profit after income tax expense for the year	**380,399**	356,925
Total comprehensive income for the year	**380,399**	356,925

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.

Profits Reserve

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

	30 June 2021		30 June 2020	
	Retained earnings $'000	Profits reserve $'000	Retained earnings $'000	Profits reserve $'000
Opening balance at 1 July	**8,508**	**356,925**	375,122	-
Net profit for the year	**380,399**	**-**	356,925	-
Transfer (from retained earnings)/to profits reserve	**(388,907)**	**388,907**	(356,925)	356,925
Dividends paid	**-**	**(400,743)**	(366,614)	-
Closing balance	**-**	**345,089**	8,508	356,925

Contingent Asset and Liabilities

At 30 June 2021, MFG has the following contingent assets and liabilities, which are further detailed in note 22:

- *Dividend Reinvestment Plans of Magellan Funds*: A contingent liability to pay an amount to MHH and MGF, at each distribution period where a DRP is offered, to ensure the interests of unitholders in MHH and MGF who choose not to participate in the respective DRP are not diluted.
- *FuturePay Support Trust*: A contingent asset in respect of potential distributions of trust income and property at the discretion of the trustee of the FuturePay Support Trust.

Notes to the Financial Statements

For the year ended 30 June 2021

24. Auditor Remuneration and Independence

	30 June 2021 $	30 June 2020 $
Australia - Ernst & Young		
Fees for audit and review of statutory financial reports of:		
MFG Group and controlled entities	**235,652**	136,000
Magellan Funds in Australia[1]	**258,900**	273,100
	494,552	409,100
Fees for regulatory audits required to be performed by the auditor	**8,800**	8,800
Fees for other audit related assurance services[2]	**79,200**	105,200
Fees for other assurance services[3]	**118,500**	27,750
Fees for other services:		
Taxation compliance services[4]	**135,100**	98,700
Taxation advisory services	**18,500**	247,315
	153,600	346,015
Total Australia	**854,652**	896,865
Overseas - Ernst & Young, Plante Moran		
Fees for audit of statutory financial report of:		
Frontegra Strategies LLC	**29,252**	17,429
Magellan Funds in Ireland[1]	**65,412**	67,552
	94,664	84,981
Fees for audit related assurance services[2]	**-**	2,512
Fees for other services:		
Taxation compliance services[4]	**-**	1,582
Taxation advisory services[5]	**63,153**	59,383
	63,153	60,965
Total overseas	**157,817**	148,458
Total auditor remuneration	**1,012,469**	**1,045,323**
Percentage of total auditor remuneration paid as non-audit fees to the Group's auditors	**40.9%**	51.7%

1 Relates to non-consolidated funds where a Group entity is a Responsible Entity, Trustee or Investment Manager.
2 Comprises various audits (ICR audits, debt covenant audit, compliance plan review, GS007 controls review) required under legislation, regulation or contractual arrangements where the Board determines the auditor is best placed to undertake those audits.
3 Comprises investigating accountant assurance services relating to PDS issuances for the restructure of the Magellan Global Fund in December 2020, along with a minor fee for a Board education session.
4 Comprises review of income tax returns for both the Group and the Magellan Funds and review of annual unitholder distributions of the Magellan Funds.
5 Comprises assistance with the UK and German tax calculations and lodgements for MFG Investment Fund plc.

Independence and Non-Audit Services

The Group's external auditors are Ernst & Young and Plante Moran and the Audit & Risk Committee ("the Committee") has responsibility for monitoring the independence and objectivity of the external auditors. All auditors confirmed their independence during 2021 and prior to issuing their opinions on financial reports. In addition, no Committee member has a connection with the external auditors.

A key factor in ensuring auditor independence is the Committee's consideration of the non-audit services performed by the auditors. The Committee preserves independence and objectivity by maintaining a policy on the engagement of non-audit services provided by an auditor and restricts the auditor to providing services that are closely related to the audit. Every audit and non-audit service is considered and approved in writing by the Committee, or the Committee's Chairman acting as a delegate. This is based on a written recommendation from management. There is no delegation of approval provided to management for any engagement provided by the auditor. Particular consideration is also given to where the Group's auditor also performs services for its associates and/or key third party providers, for example fund administrators and custodians. Where this occurs, the Group ensures the signing audit partner is not common to both parties. Approval is provided before work commences and reported to the Committee at the next scheduled meeting along with details regarding the nature of service, quantum of fee and projected total non-audit fees for the financial year. This is undertaken in addition to the auditor confirming that no prohibited non-audit services have been provided.

The Committee considers there may be circumstances where the auditor may hold specific expertise, know-how or company knowledge which provides a compelling benefit to the Group through its appointment. In the current and prior financial year, non-audit services provided by Ernst & Young were routine tax services, namely the review of the Group's income tax returns and annual distributions of the Magellan Funds, adhoc assistance with lodging foreign withholding tax registrations in Taiwan and routine tax surveillance reviews. The view was that Ernst & Young's appointment in fact offered greater risk management by providing a higher level of detection of risks or errors given its holistic and detailed understanding of the Group and current issues along with the tax partner being an industry leader.

Other non-audit services not required by regulation mainly comprise of assurance services in respect of a review of controls and compliance plan and an audit of the indirect cost ratios for the Magellan Funds. The Committee considered these services were most appropriately performed by Ernst & Young as they support the statutory audits as well as provide the external auditor with relevant insights on aspects of the Group's Australian business and are not considered to present a risk to auditor independence.

It is important to note that the Magellan Funds do not incur audit or non-audit fees and therefore unitholders of the Magellan Funds do not incur this additional cost. Rather those fees are paid by the Responsible Entity of the Funds, MAM, a wholly owned entity of the Group. As a result, this significantly increases non-audit fees reported by the Group and these will continue to increase in future years when new funds are launched or the negotiated fee rate increases.

Subject to the Group's external auditors maintaining independence, the Committee considers it is most important to ensure that the highest level of risk management is provided to the Group and, where possible, that the services are delivered efficiently for the benefit of the Group's shareholders. The Committee does not view auditor independence is a binary matter and therefore does not believe a fixed 50% threshold of non-audit fees exceeding total audit fees is the only relevant consideration when determining if non-audit services are excessive and, by inference, whether auditor independence is at risk.

Oversight of External Auditors

A key part of the Committee's work consists of overseeing the relationship with the Group's external auditors including safeguarding independence, approving non-audit fees and their appointment.

Ernst & Young was appointed external auditor of the Australian entities and Irish funds in 2008. The external audit was last put out to tender in 2018, which aligned to the auditor's 10 year anniversary, and Ernst & Young was reappointed auditor as it scored highest across all requirements and the Board was satisfied that appropriate safeguards were in place to ensure the required independence of Ernst & Young. The next external audit tender will take place within 10 years of their appointment. Ms Clare Sporle has served as lead audit partner since August 2019. In accordance with the *Corporations Act 2001*, the next rotation of the lead partner is planned to occur after the completion of the 30 June 2024 financial year audit.

In 2012, Plante Moran was appointed auditor of a US subsidiary, Frontegra Strategies Inc., and an audit tender will occur in 2022, in line with the 10 year anniversary.

As there is no contracted tenure with the Group's external auditors, an audit tender can be called at any time.

25. Subsequent Events

Other than the items in this note and the dividend disclosed in respect of the six months ended 30 June 2021 (refer to note 18), 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 results of those operations or the state of affairs of the Group in subsequent financial periods.

Dividend Reinvestment Plan

In August 2021, the Directors established a dividend reinvestment plan ("MFG DRP") to enable MFG shareholders to reinvest all or part of their dividends at a small discount to the market price with no brokerage charges, and to provide the Company with additional funding flexibility. The MFG DRP will be in operation for the 2021 Final and Performance Fee Dividend. The MFG DRP issue price is a 1.5% discount to the volume weighted average price of MFG shares over the pricing period. MFG shareholders will be sent an election notice and have until 7 September 2021 to elect to participate in the MFG DRP for the 2021 Final and Performance Fee Dividend. Shares will be issued under the MFG DRP on 30 September 2021. Further details are available in the ASX announcement dated 17 August 2021.

Notes to the Financial Statements

For the year ended 30 June 2021

Transition of Magellan High Conviction Trust to Active Exchange Traded Fund

On 1 July 2021, the Group announced its intention to transition MHH from a closed-ended listed investment trust to an open-ended Active Exchange Traded Fund ("ETF"). Since that date, MHH has lodged a request to be removed from the official list of the Australian Securities Exchange ("ASX") with effect from Monday 30 August 2021 and a unitholder meeting to approve the transition is scheduled for Wednesday 25 August 2021.

Subject to ASX approval, it is anticipated MHH will commence trading on the ASX as a managed fund under Schedule 10A of the ASX Operating Rules (AQUA Rules) on Tuesday 31 August 2021 under the ASX ticker code 'MHHT'. Following the transition, investors will continue to be able to transact through the ASX however it is expected that they may be able to do so at a tight spread to the NAV per unit of the fund. Any costs relating to the transition will be paid for by the Group. Further details are available in MHH's ASX announcement dated 2 August 2021.

Funds Under Management

On 9 August 2021, the Group reported to the ASX that its funds under management was $117.0 billion as at 31 July 2021.

Directors' Declaration

For the year ended 30 June 2021

In the Directors' opinion,

a. the financial statements and notes set out on pages 47 to 83 are in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the 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 that 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 year ended 30 June 2021.

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

Hamish M Douglass
Chairman

Sydney
17 August 2021

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Independent auditor's report to the members of Magellan Financial Group Limited

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 2021, the consolidated statement of profit or loss and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

a. Giving a true and fair view of the consolidated financial position of the Group as at 30 June 2021 and of its consolidated financial performance for the year ended on that date; and

b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key audit matters

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

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.

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1. Management and performance fee revenue

Why significant

The Group's key revenue streams are management, services and performance fees earned by Magellan Asset Management Limited (MAM), a consolidated subsidiary, through the Investment Management Agreements in place with third parties and other Magellan Funds.

For the year ended 30 June 2021, management fees were $631,367,000 and performance fees were $30,074,000 which equates to 88.3% and 4.2% of total revenue respectively.

Revenue from management and performance fees is earned and calculated in accordance with the Investment Management Agreements and Constitutions of the funds. Performance fees however are dependent on the portfolio outperforming certain hurdles and are only recognised in the statement of profit or loss and comprehensive income when MAM's entitlement to the fee is highly probable, which is at the end of the relevant performance period.

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

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

How our audit addressed the key audit matter

Our procedures included:

- Recalculating management and services fees, on a sample basis, in accordance with contractual arrangements;
- Assessing the performance fees recognised for the period to 30 June 2021 from funds and mandates, on a sample basis, and assessing whether they met the relevant recognition criteria. This included assessing the inputs into the calculation model and examining the methodology applied in accordance with contractual arrangements; and
- Assessing the adequacy of the disclosures in Note 5 to the financial report in accordance with Australian Accounting Standards.

2. Investment existence and valuation

Why significant

The Group has a significant investment portfolio consisting of listed equities and investments in Magellan Funds. As at 30 June 2021, the value of these non-current financial assets, as shown in Note 8 to the financial report was $452,523,000, which equates to 36.7% of the total assets held by the Group.

How our audit addressed the key audit matter

Our procedures included:

- Obtaining and considering the assurance reports on the controls of the Group's administrator in relation to investment management services and considering the auditor's opinion, their objectivity and the results of their procedures;

As described in Note 8 and Note 21 to the financial report, the Group's investments are classified as 'financial assets at fair value through profit or loss' ("FVTPL") in line with AASB 9 *Financial Instruments*. Pricing, exchange rates and other market drivers can have a significant impact on the value of these financial assets and the financial report, therefore the valuation of the investment portfolio was a key audit matter.	▸ Agreeing all investment holdings to third party sources at 30 June 2021; ▸ Agreeing the fair value of investments in the portfolio held at 30 June 2021, on a sample basis, to independent pricing sources for listed securities/funds. For unlisted funds, on a sample basis, we agreed the investment valuations to statements from external fund administrators and 30 June 2021 redemption prices; and ▸ Assessing the adequacy of the disclosures in Note 8 and Note 21 to the financial report in accordance with Australian Accounting Standards.

3. **Consolidation and equity accounting considerations**

Why significant	How our audit addressed the key audit matter
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 and investments in unlisted entities. Investments may be accounted for by consolidation, equity accounting, 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, and the new investments the Group made during the year. The Group's investments in Magellan Funds, associates, subsidiaries and other entities are disclosed in Note 8, Note 9, and Note 19 of the financial report.	Our procedures included: ▸ Evaluating the Group's assessment of control or significant influence for the investments, and the accounting treatment and presentation thereon; ▸ 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; ▸ Testing the appropriateness of the equity accounting for the Group's investments in associates; ▸ Evaluating the Group's assessment of impairment indicators relating to their investments in associates; and ▸ Assessing the adequacy of the disclosures in Note 8, Note 9, and Note 19 in accordance with Australian Accounting Standards.

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4. **Goodwill impairment assessment**

Why significant	How our audit addressed the key audit matter
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 $102,840,000 as at 30 June 2021. 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.	Our audit procedures included the following: ▸ Assessing the Group's determination of the CGUs to which goodwill is allocated; ▸ Assessing the methodology used to calculate the recoverable amount of each CGU; ▸ Agreeing the projected cash flows used in the impairment models to the Board approved plan of the Group; ▸ Comparing the Group's implied growth rate assumption to comparable companies; ▸ Considering the accuracy of historical cash flow forecasts; ▸ Assessing the methodology and assumptions used in the determination of the discount rate, including comparison of the rate to market benchmarks; ▸ Testing the mathematical accuracy of the impairment model for each CGU; ▸ Considering the Group's sensitivity analysis and evaluating whether any reasonable foreseeable change in assumptions could lead to a material impairment; and ▸ Assessing the adequacy of the disclosures in Note 10 in accordance with Australian Accounting Standards.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2021 annual report, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

For 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 disclosures 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 communications.

Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 29 to 44 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Magellan Financial Group Limited for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

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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

Ernst & Young

Clare Sporle
Partner
Sydney
17 August 2021

Corporate Sustainability and Responsibility Report

For the year ended 30 June 2021

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

Responsible Investment

Magellan is committed to responsible investment and became a signatory to the United Nations supported Principles of Responsible Investment ("PRI") in March 2012. The PRI is the globally recognised accord for responsible investing. Magellan's Responsible Investment Principles, which are available on our website, outline and summarise Magellan's approach to responsible investing, ESG integration, engagement and proxy voting.

Environmental, Social and Governance ("ESG") issues are considered to be a natural component of Magellan's investment process, as gaining a robust understanding of these issues is a key part to assessing the outlook for future cash flow generation and risks facing investors. Magellan's investment process seeks to identify high quality companies, which naturally filters out most companies from sectors that typically come with material ESG issues (eg Magellan's investment universe excludes most pro cyclical resources, materials and oil and gas companies). Magellan's Investment Team's research reports also include a discussion of climate change risks facing companies, if material, and includes a company's emissions intensity. Magellan maintains an ESG Policy, which outlines how ESG issues are incorporated into Magellan's investment analysis framework and investment process.

In September 2016, Magellan launched the first of a series of Sustainable investment strategies that implement a proprietary low carbon overlay. Magellan believes it is highly likely that the world will move further towards addressing climate change risks by reducing carbon emissions. Climate change is therefore an increasingly important issue for global companies and investors, with the potential to profoundly affect business models through government regulation (eg carbon pricing), technology and changes in consumption patterns. These factors directly and indirectly impact the relative cost of companies' products and services, customer demand, and pricing power. Magellan's Sustainable strategies provide investors with a high quality, attractive risk-adjusted 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 2021, Magellan engaged with many portfolio companies on a number of material ESG topics.

In addition, our Australian Equities business, Airlie Funds Management, also maintain a set of Responsible Investment Principles, an ESG Policy and a Proxy Voting Policy which outline how the Airlie Investment Team integrate ESG risks and opportunities into their investment decision making and how they act as responsible owners by engaging with portfolio companies and voting proxies. Consideration of ESG issues is a component which is implicit to Airlie's investment philosophy and selection process, in that Airlie's aim is to incorporate material ESG issues in the same balanced way it does other key risks which impact investment performance. These policies can be found on their website: www.airliefundsmanagement.com.au.

Environment

Magellan understands the importance of mitigating its impact on the environment and is committed to environmental sustainability. Magellan welcomes the reporting framework of the Task Force on Climate-related Financial Disclosures (TCFD) and looks to align its reporting to this framework, whilst recognising that certain requirements are yet to crystalise.

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 139 employees, with approximately 83% of employees based in the head office in Sydney, Magellan has a relatively small environmental footprint and the Board has determined that this risk is not material to Magellan's operations. Environmental risk is reviewed annually by senior management as part of the firm's risk management framework.

There are three main areas where Magellan's environmental footprint lies – premises, energy and travel. Magellan aims to ensure that, where possible, business operations are conducted in an environmentally sustainable way. For example, Magellan's head office is a 4.5 star NABERS[4] rated office building. Magellan also continues to build awareness amongst its employees and focus on areas where it can make an impact, including recycling and minimising printing.

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

Greenhouse Gas ("GHG") emissions by Scope (metric tonnes CO2e)

	Calendar Year 2016	Calendar Year 2017	Calendar Year 2018	Calendar Year 2019	Calendar Year 2020
Scope 1	0	0	0	0	0
Scope 2	124	134	135	139	122
Total GHG emissions	124	134	135	139	122
Total per employee	1.14	1.29	1.07	1.07	0.90
Total per A$ million of revenue	0.4	0.4	0.3	0.2	0.2

As outlined in the table above, Magellan's GHG emissions are relatively small, particularly on a per employee and per A$ million of revenue basis. Magellan's Scope 1 & 2 emissions intensity for calendar year 2020 of 0.2 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 reducing risk exposures and enhancing certainty of long-term cash flow generation.

Further, within the Airlie investment process, when making an assessment of the company-specific risks and opportunities associated with climate change, Airlie considers factors such as emissions intensity, Physical and Transition Risks as well as the company's climate change mitigation activities within Airlie's assessment of business quality, as well as incorporating these risks and opportunities as part of the valuation process.

The development of Magellan's Sustainable strategies offers investors the opportunity to invest in a high quality, attractive risk-adjusted return focused portfolio with materially lower carbon factor risk than global markets.

[4] NABERS is a national rating system that measures the environmental performance of Australian buildings, tenancies and homes. NABERS is managed nationally by the NSW Department of Planning, Industry and Environment, on behalf of Federal, state and territory governments.

Corporate Sustainability and Responsibility Report

For the year ended 30 June 2021

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 2021 (tonnes CO2e per $US million revenue)
Magellan Global Fund	206.6
Magellan Sustainable Fund	23.7
Magellan High Conviction Fund	12.1
Magellan Infrastructure Fund	715.0
Airlie Australian Share Fund	117.0
MFG Core International Fund	85.7
MFG Core ESG Fund	27.9
MFG Core Infrastructure Fund	1,181.9
Magellan FuturePay	616.5
US Sustainable strategy	30.9

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 29 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 2021, approximately 81% of employees had an individual shareholding in the Company.

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

Engagement and Retention

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

All new starters have a one-on-one meeting with Dr Brett Cairns, Magellan's CEO, to discuss Magellan's history, values and what Magellan stands for. Middle and senior management seek regular feedback from employees and Magellan also undertakes annual performance reviews with all employees to discuss performance against a set of internal performance objectives, to identify development areas as well as any training requirements. Based on Magellan's relatively small size by number of employees (139 employees as at 30 June 2021), Magellan considers that these forums are appropriate to receive transparent feedback from employees.

Magellan strongly believes that staff engagement and satisfaction go well beyond direct financial compensation. Magellan's annual leave policy encourages staff to take their full statutory requirement over each annual period by providing an additional week of leave if they do so.

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

During the year, Magellan updated its Parental Leave Policy. Magellan increased Paid Parental Leave to up to 15 to 18 weeks (depending on the length of employment), for permanent employees who have worked for Magellan for at least 12 months continuously at the time of the birth or adoption of their child and who have the responsibility for the care of that child. Employees will receive superannuation payments on both their paid and unpaid portion of Parental Leave for the first 12 months of Parental Leave. Employees on Paid Parental Leave are eligible for the annual remuneration review, variable incentive and SPP Offer whilst on leave. In addition, if an employee returns to work during the period of Paid Parental Leave, Magellan will continue to pay the remaining period of Paid Parental Leave in addition to their base salary and other entitlements. Magellan offers a "Keep in Touch" Program with employees who are on Paid Parental Leave.

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

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

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

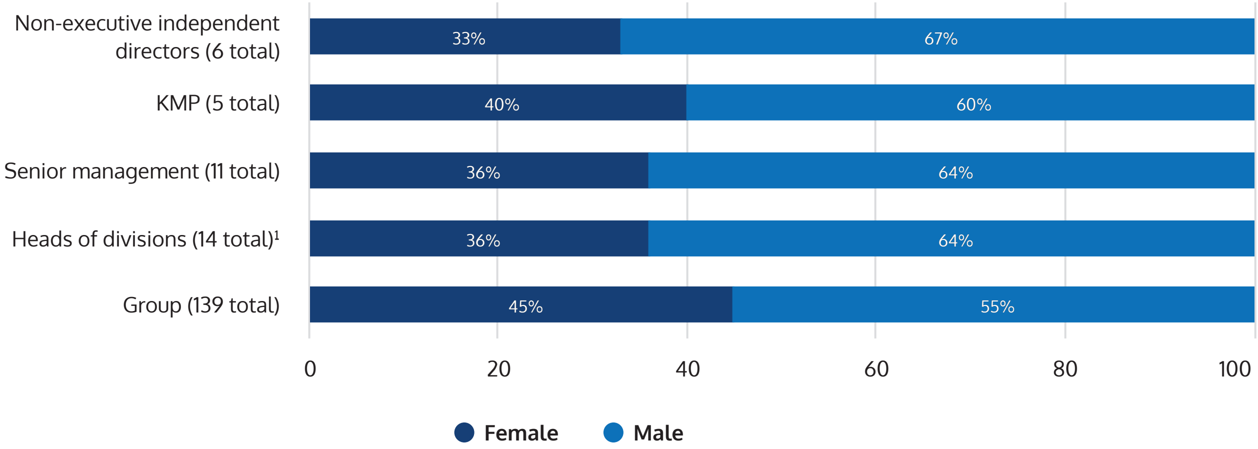
Diversity

Magellan is committed to workplace diversity and recognises the value of attracting and retaining employees with different backgrounds, knowledge, experience and abilities. Magellan maintains a Workplace Diversity and Inclusion Policy that outlines the Group's commitment to diversity and inclusion 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.

Corporate Sustainability and Responsibility Report

For the year ended 30 June 2021

In the 2021 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 2021.



[1] Heads of division refers to employees who are responsible for a division or function within the organisation. This statistic includes Senior Management, excluding the Chairman and CEO.

Magellan welcomed Colette Garnsey to the Board in November 2020. During the year Magellan's two female non-executive directors hosted a Women at Magellan lunch to foster mentoring, networking and promotion of women in our business.

Magellan is exploring an internship program to attract more diverse talent and promote careers in financial services, with an initial focus on women.

Each year Magellan completes the 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

The health and safety of our employees is of paramount importance. As a result of the COVID-19 pandemic and in conjunction with our Work Health & Safety Policy, Magellan transitioned to working from home from mid-March 2020 and cancelled business travel as well as attendance at domestic conferences. Our employees have stayed connected via virtual communication platforms and working remotely has not changed Magellan’s commitment to maintaining our high level of client service and compliance obligations. Magellan’s Employee Assistance Program, a free counselling service available for employees and their families, has been promoted during this time. To further support employee wellbeing, Magellan has signed up to The Resilience Project corporate program. This digital program focuses on helping employees develop mental health strategies during uncertain times, using evidence based practices in resilience including gratitude, empathy and mindfulness.

In late 2020, Magellan began to initiate a Return to Workplace Plan. Magellan recognises individual employees have different preferences about working from home and working from the office, but also believes there is great importance for the company's culture of working together in the office. Magellan therefore has initiated a flexible working approach for all employees, whereby employees are asked to be in the office on Wednesday and Thursday and, in agreement with their manager, can choose to work from home or in the office for the remaining days of the week. Of course, employees are asked to work from home during any governmental public health orders or guidance.

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

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

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

Community

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

Magellan's efforts over the past financial year includes employee participation in Steptember raising funds for Cerebral Palsy.

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 2021 financial year, this equated to approximately $1.0 million in respect of funds managed by Magellan. Magellan is a foundation member and received an initial allocation of ~10% of the assets under management at the time of the IPO of the Future Generation Global Investment Company.

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

Cybersecurity and Privacy

The cybersecurity threat environment is constantly evolving and managing cyber risk is one of Magellan's highest priorities. To protect client information and corporate data, Magellan employs the leading cyber security solutions and maintains a formal information security governance framework. Complementing the data protection and monitoring mechanisms we have in place, Magellan is continuously assessing its multi-layered protection measures against the ever-changing threat environment.

Magellan established an Information Technology Risk Committee ("ITRC") in early 2017 as a key governance body to enhance the governance and oversight of Magellan's information technology risk management activities. The committee comprises Magellan's CEO and other key executives within Magellan and meets quarterly to discuss cybersecurity risks, controls, policies, regulatory requirements, and any changes to the environment that might affect our overall cybersecurity posture. Magellan's Board is provided with the minutes of these meetings and any analysis undertaken.

Magellan's cybersecurity defence framework is aligned to the Australian Cyber Security Centre's 'Essential Eight framework' and we have implemented all Essential Eight strategies. Magellan has also mapped its approach to the National Institute of Standards and Technology (NIST) cyber security framework. All client data is held in ISO27001 certified data centres located within Australia. Magellan applies the principle of role-based least privilege with respect to data and systems access to ensure staff can only access the minimal data set required to perform their role. Privileges are regularly re-certified.

As an independent assessment of our cybersecurity protection, we engage an external consulting firm specialising in IT security to conduct annual 'penetration testing' of our environment. We maintain a Cybersecurity Incident Response Plan that is tested annually and contains defined security roles, responsibilities, and procedures to follow if an event should ever occur.

As part of our Cybersecurity Program, all employees are required to complete cybersecurity awareness training upon joining the firm as part of their induction process and on an annual basis thereafter. This ensures staff are aware of cyber-attack techniques and that they always follow security best practices. We also perform periodic social engineering tests on employees using simulated email phishing and telephone-based phishing, to test the efficacy of our cyber-awareness training.

Third party risk management is a key component of Magellan's information security program. All third-party relationships undergo a rigorous security risk assessment as part of the due diligence process before being engaged. This includes an assessment of their cybersecurity posture and data privacy/data access controls. We repeat the technology focused due diligence process for all critical third-party service providers on an annual basis.

Modern Slavery

During the year, Magellan published its first Modern Slavery Statement. The Statement can be found under the Shareholder Centre of Magellan's website: www.magellangroup.com.au. All staff completed training on modern slavery in July 2021.

Corporate Information

As at 17 August 2021

Directors

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

Company Secretaries

Marcia Venegas
Mariana Kolaroski

Registered Office

Level 36, 25 Martin Place, Sydney NSW 2000
Telephone: +61 2 9235 4888
Email: info@magellangroup.com.au

Website

www.magellangroup.com.au

Securities Exchange Listing

Magellan Financial Group Limited shares are listed on the Australian Securities Exchange (ASX: MFG)

Corporate Governance Statement

The Corporate Governance Statement for MFG can be found at the Shareholder Centre at www.magellangroup.com.au

Auditor

Ernst & Young
200 George Street, Sydney NSW 2000

Share Registry

Boardroom Pty Limited
Level 12, 225 George Street, Sydney NSW 2000
Telephone: +61 2 9290 9600
Email: enquiries@boardroomlimited.com.au

InvestorServe is Boardroom's free, self-service website where shareholders can manage their interests online. The website enables shareholders to:

- view share balances
- change address details
- view payment and tax information
- update payment instructions
- update communication instructions

Shareholders can register their email address at boardroomlimited.com.au to receive shareholder communications electronically.

Shareholder Information

As at 12 August 2021

Distribution of Shareholders

Analysis of the number of shareholders by size of holding at 12 August 2021 is below:

Holdings	Number of Holders	Number of Ordinary Shares	Percentage of Shares on Issue
1-1,000	36,636	12,343,476	6.71
1,001-5,000	8,468	18,066,434	9.83
5,001-10,000	874	6,297,982	3.43
10,001-100,000	697	17,807,312	9.69
100,001 and over	88	129,278,549	70.34
Total	**46,763**	**183,793,753**	**100.00**
Number of holders with less than a marketable parcel of ordinary shares	336	1,445	

Twenty Largest Shareholders

The names of the 20 largest shareholders of the Company as at 12 August 2021 are:

Holder Name	Number of Ordinary Shares	Percentage of Shares on Issue
HSBC Custody Nominees (Australia) Limited	30,698,481	16.70
Midas Touch Investments Pty Ltd	21,001,577	11.43
Magellan Equities Pty Limited	16,729,408	9.10
JP Morgan Nominees Australia Limited	15,962,555	8.69
Citicorp Nominees Pty Limited	8,776,183	4.78
Marsev Pty Limited	2,579,724	1.40
BNP Paribas Nominees Pty Ltd	2,323,989	1.26
National Nominees Limited	2,226,582	1.21
BNP Paribas Noms Pty Ltd	2,044,971	1.11
Mr David Doyle	1,500,000	0.82
Aljamat Pty Ltd	1,310,000	0.71
Jash Pty Limited	1,130,331	0.61
Nota Bene Investments Pty Ltd	1,075,000	0.58
Netwealth Investments Limited	891,664	0.49
Emmanuel Capital Pty Ltd	880,000	0.48
Invia Custodian Pty Limited	750,000	0.41
BNP Paribas Nominees Pty Ltd Hub24 Custodial Services Ltd	748,035	0.41
Mr Philip Alan Kenneth Naylor & Mrs Andrea Naylor	650,000	0.35
Invia Custodian Pty Limited	600,000	0.33
DSBH Pty Limited	570,091	0.31
Total shares held by the 20 largest shareholders	112,448,591	61.18
Total ordinary shares on issue	**183,793,753**	

Shareholder Information

As at 12 August 2021

Substantial Shareholders

Substantial shareholders in the Company as at 12 August 2021 are below:

Shareholder	Number of Ordinary Shares	Percentage of Shares on Issue
Hamish Douglass, Midas Touch Investments Pty Ltd and associates[1]	22,212,727	12.08
Chris Mackay, Magellan Equities Pty Ltd and associates[2]	17,522,248	9.53

[1] Date of last Appendix 3Y notice lodged on 23 July 2021.
[2] Date of the last substantial shareholder notice lodged on 2 October 2020.

Voting Rights

Under the Company's Constitution, the voting rights attaching to ordinary shares at a meeting of shareholders are:

1. each shareholder is entitled to vote in person, by proxy, by attorney or by representative;
2. on a show of hands, each shareholder present in person, by proxy, by attorney or by representative is entitled to one vote; and
3. 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.