

Interim Report

for the half year ended 31 December 2018

MAGELLAN FINANCIAL GROUP LIMITED: ABN 59 108 437 592

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The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, the report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Magellan Financial Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

MAGELLAN FINANCIAL GROUP LIMITED

Chief Executive Officer's Interim Letter for the half year ended 31 December 2018

Dear Shareholder,

I am delighted to present this report for Magellan Financial Group Limited ("the Group" or "Magellan") for the half year ended 31 December 2018, and for my first period as Chief Executive Officer.

In October 2018 Hamish Douglass, the previous CEO, and I effectively switched roles, with Hamish becoming Chairman. It is very important to note that Hamish continues to be the Chief Investment Officer ("CIO") of our firm and the Lead Portfolio Manager of the Group's core Global Equities strategies.

Indeed, this management change was made to allow Hamish more time to focus on these key roles. We have remarked many times that our clear focus is on our clients and achieving the investment goals we have set. Allowing Hamish more time to work with our investment team is, we believe, in our clients' interests, and as such also in the interests of our shareholders.

In practice, Hamish and I have been working together since I became Executive Chairman some 4 years ago to ensure that the day-to-day management of Magellan's business did not distract from his critical CIO/Lead Portfolio Manager activities. In many respects this management transition has been occurring over a number of years and we can report the change in roles has gone smoothly, both with our team and also our clients.

OVERVIEW OF MAGELLAN

For those who might be new to Magellan it is perhaps worth providing a brief overview of the business before discussing the detailed 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 and outflows. From time to time we may also earn performance fees if our funds and mandates achieve certain performance hurdles. These fees are lumpy and do not occur evenly from period to period.

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

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

As a fund manager, our business requires relatively little financial capital, it is, however, heavy in human capital. Although not noted in our balance sheet, people are our biggest asset and, as our profit or loss statement shows, they are also our largest expense. Payments to employees make up roughly 60% of our 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 some 60% of employees being Magellan shareholders.

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

We have focussed on developing the business to ensure scalability as the business grows and currently our core cost-to-income ratio is 20.9% (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 \$534.2 million of net tangible assets as at 31 December 2018. Our liabilities comprise of day-to-day payables and provisions for employee entitlements and tax, together with deferred lease incentives for our offices. We have no borrowings although for funding flexibility, we do maintain a \$50 million undrawn debt facility. We believe a strong balance sheet that can withstand almost any market condition is important for our clients as well as shareholders.

A meaningful portion of the Group's capital is invested in our strategies alongside our clients via our Principal Investments portfolio. This is shown in our accounts under the Principal Investment business segment.

Through the Principal Investments we invest in our funds (for example the Magellan Global Fund) and are also able to seed new strategies and initiatives. The Group earns revenue from these investments through distributions from the funds and, if these investments grow over time, we may realise a capital gain (or capital loss, if these investments decline over time). It is important to note that these earnings may fluctuate significantly from period to period and while growing, are not a core driver of the business.

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

Given the size of our Principal Investments this change will bring some unwanted noise into our reported earnings at various times and as such we will endeavour to be clear in our discussions and financial accounts as to what portion of our earnings are derived from the core business and what is the result of investment gains or losses, some of which may not yet be realised.

As at 31 December 2018 the Group has net assets of \$660.9 million, of which \$126.7 million are classified as intangible. These intangible assets arose following the purchases of Airlie Funds Management ("Airlie") and Frontier Group ("Frontier") and comprise values attributed to customer relationships and goodwill.

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

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

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

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

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

As such, we think a metric whereby we make certain adjustments for the underlying nature of the business provides valuable information. Specifically, we add back two items, being amortisation because we consider departing clients will be replaced, and unrealised gains/losses, because they are unrealised. We also adjust for items that do not reflect the ongoing performance of the business, for example the Magellan Global Trust offer costs we incurred in the 2018 financial year as part of its IPO because they were essentially one-off in nature.

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

We discuss each of these measures in the analysis below.

Finally, a word on tax. Our effective tax rate is below the company tax rate (currently 30%) because Magellan has the benefit of being declared an Offshore Banking Unit ("OBU"). The benefit of an OBU is that assessable offshore income, net of costs, is taxed at a concessional rate of 10%. Our assessable domestic income is still taxed at the company tax rate and so our actual overall tax rate will depend on the mix of our offshore and onshore business. Currently our effective tax rate is 22.6%.

The remainder of this report discusses the business in more detail and the Group's financial results for the half year ended 31 December 2018.

OVERVIEW OF RESULTS

We are pleased with the results the Group has achieved this half year which was characterised by a 35% growth in average FUM to \$72.1 billion (average FUM of \$53.6 billion for the six months ended 31 December 2017), the key driver of the Group's profitability.

For the half year ended 31 December 2018, the Group reported net profit after tax of \$173.5 million, which represents an increase of 225% over the previous corresponding period (\$53.5 million for the six months ended 31 December 2017).

Adjusted for the measures described previously, the Group's adjusted net profit after tax increased by 62% to \$176.3 million for the six months ended 31 December 2018 (\$109.2 million for the six months ended 31 December 2017).

Adjusted earnings per share increased at a slightly slower pace of 57% to 99.8 cents per share (63.4 cents per share for the six months ended 31 December 2017). This is primarily due to the acquisition of Frontier which was completed during the period, resulting in the issuance of 787,507 shares, along with shares issued in relation to the Airline acquisition in March 2018.

For the period, non-cash amortisation expense was \$2.2 million and earnings from Principal Investments totalled \$1.1 million, of which \$1.4 million came from distributions, \$0.5 million from realised capital gains, offset by a \$0.8 million unrealised capital loss. Earnings from distributions and realised capital gains/losses are included in other revenue in the table below.

In the period, the Group earned performance fees of \$42.7 million before tax. 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, which excludes Principal Investments and non-cash amortisation (the segment note on page 25 lays out the details). This increased 41% to \$182.3 million for the six months to 31 December 2018⁽¹⁾ (\$129.0 million for the six months to 31 December 2017).

The Directors have declared an Interim Dividend of 73.8 cents per share in respect of the half year ended 31 December 2018, 75% franked. This is an increase of 66% over the prior corresponding period. This comparison is slightly skewed as the prior dividend was paid under the previous lower payout dividend policy. The Interim Dividend will be paid on 28 February 2019.

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

Non-cash amortisation expense and earnings derived from Principal Investments are not included in the Funds Management segment and therefore do not impact on dividends. As previously advised to shareholders, dividends are likely to be less than 100% franked due to the combination of our high payout ratio and our below 30% tax rate. Although the board has a policy of paying out franking credits to the maximum extent possible over time, the level of franking attached to dividends may vary from period to period depending on the mix of our onshore and offshore business.

The following table summarises the Group's profitability over the past two December half years⁽²⁾:

	31 Dec 2018 \$'000	31 Dec 2017 \$'000	Change %
Management and services fees	228,136	178,918	28%
Performance fees	42,699	9,584	346%
Other revenue	5,613	7,259	(23%)
Adjusted revenue	276,448	195,761	41%
Adjusted expenses	(49,313)	(53,041)	(7%)
Adjusted net profit before tax	227,135	142,720	59%
Adjusted tax expense	(50,813)	(33,567)	51%
Adjusted net profit after tax	176,322	109,153	62%
MGG net offer costs (after tax)	-	(55,702)	
Amortisation expense of intangible assets	(2,208)	n/a	
Net unrealised change in fair value of financial assets (after tax)	(591)	n/a	
Total non-IFRS adjustments	(2,799)	(55,702)	
Net profit after tax	173,523	53,451	225%
Key Statistics			
Diluted earnings per share (cents per share)	98.2	31.0	217%
Adjusted diluted earnings per share (cents per share)	99.8	63.4	57%
Interim dividend (cents per share)	73.8	44.5	66%

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

(2) Adjusted financial measures are adjusted for non-cash (amortisation expense and unrealised gains/losses) and one-off items (Magellan Global Trust net offer costs) as discussed on page 3 of this CEO Letter. A reconciliation to the reported profit or loss statement is outlined in Section 1.3 of the Directors' Report.

FUNDS MANAGEMENT SEGMENT

For the half year ended 31 December 2018, the Group's Funds Management segment profit before tax increased by 62% to \$225.0 million (\$138.5 million for the six months to 31 December 2017). Excluding performance fees, profit before tax grew by 41% to \$182.3 million⁽³⁾ (\$129.0 million for the six months to 31 December 2017).

The following table summarises the profitability of the Funds Management business over the past two December half years:

	31 Dec 2018 \$'000	31 Dec 2017 \$'000	Change %
Revenue			
Management fees	225,783	176,567	28%
Performance fees	42,699	9,584	346%
Services fees	2,353	2,351	0%
Interest and other revenue	2,409	520	363%
	<u>273,244</u>	<u>189,022</u>	<u>45%</u>
Expenses			
Employee expense	30,888	25,368	22%
Fund administration and operational costs	7,971	6,554	22%
Information technology expense	2,624	2,062	27%
Marketing expense	1,802	6,708	(73%)
Occupancy expense	1,707	2,651	(36%)
US marketing and consulting fees	-	4,366	(100%)
Other expense	3,292	2,807	17%
	<u>48,284</u>	<u>50,516</u>	<u>(4%)</u>
Profit before tax expense	224,960	138,506	62%
Profit before tax and before performance fees⁽³⁾	182,277	129,031	41%
Key Statistics			
Average funds under management (\$ million)	72,073	53,550	35%
Average AUD/USD exchange rate	0.7244	0.7791	(7%)
Average number of employees	125	106	18%
Employee expenses / total expenses	64.0%	50.2%	
Cost / income	17.7%	26.7%	
Cost / income, excl. performance fees ⁽³⁾	20.9%	28.1%	

Revenues for the six months ended 31 December 2018 increased by 45% to \$273.2 million. This was driven by a 28% increase in total management fees revenue as a result of a 35% increase in average FUM attributable to strong investment performance, net inflows and the acquisition of Airlie in March 2018.

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.

Overall, the Funds Management business operated efficiently with a cost to income ratio (excluding performance fees) of 20.9% compared with 28.1% for the six months to 31 December 2017.

Expenses decreased by 4% to \$48.3 million. The decrease in costs was driven by a reduction in US marketing fees and Group marketing expenses. US marketing fees to Frontier ceased from 1 January 2018 because of the Group's acquisition of Frontier and the decline in marketing expenses primarily reflects our withdrawal from the partnership with Cricket Australia in March 2018 and the cessation of marketing initiatives supporting that sponsorship.

The decrease in costs was partially offset by:

- a 22% increase in employee expense over the prior corresponding period to \$30.9 million; and
- a 22% increase in fund administration and operational costs reflecting the increase in FUM.

Total Group expenses (excluding non-cash amortisation and the Magellan Global Trust Unit Purchase Plan, discussed below) are expected to be approximately \$105 million in the 2019 financial year. This compares to total Group expenses (excluding Magellan Global Trust net offer costs and non-cash amortisation) of \$101.0 million in 2018. Non-cash amortisation expense is expected to be \$4.7 million in 2019.

On 29 January 2019 we announced that the Magellan Global Trust (ASX: MGG) would offer eligible unitholders an opportunity to participate in a Unit Purchase Plan to increase their holdings by up to \$15,000 of units. The issue price of these units will be at a 5% discount applied to either the prevailing net asset value ("NAV") per unit at 28 January 2019 (i.e. \$1.5327), or to the NAV per unit at the close of the offer, whichever is lower.

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

Consistent with our approach when the Magellan Global Trust was established, Magellan will pay to Magellan Global Trust consideration equal to the 5% discount in order to minimise dilution. The amount of this consideration will depend on the ultimate take up of the offer and will be included in the Group's expenses to be reported for the 2019 financial year. The cost of this investment in building upon the Magellan Global Trust will not be included in the Funds Management segment and therefore will not affect the dividend payout.

The following table sets out total employee numbers:

	31 Dec 2018	30 June 2018
Investment		
- Portfolio Managers/Analysts	28	26
- Dealers	3	3
	31	29
Distribution & Marketing	34	33
Other	38	38
Frontier	11	11
Airlie	12	13
Total	126	124
Average number of employees	125	116

As at 31 December 2018, the Group had 126 employees. We are pleased with the talent employed across the business and the bench strength of the management team and expect future organic growth in employee numbers to be incremental.

Funds Under Management

As at 31 December 2018, the Group had FUM of \$70.8 billion, split between global equities (74%), infrastructure equities (17%) and Australian equities (9%). This compares with FUM of \$69.5 billion at 30 June 2018. The increase in FUM was driven by investment performance of approximately \$0.7 billion less cash distributions (net of reinvestment) of approximately \$0.8 billion and net inflows of \$1.4 billion. As we have previously noted, given the size of the Group's FUM, investment performance is now the key driver of FUM movement.

The following table sets out the composition of FUM:

\$million	31 Dec 2018	30 June 2018	31 Dec 2017
Retail	19,027	19,182	18,026
Institutional			
- Australia/New Zealand	11,511	11,680	5,054
- North America	13,845	13,596	12,560
- UK	21,623	20,804	18,312
- Rest of World	4,776	4,247	3,918
	51,755	50,327	39,844
Total FUM	70,782	69,509	57,870
Percentage			
Retail	27%	28%	31%
Institutional			
- Australia/New Zealand	16%	17%	9%
- North America	20%	19%	22%
- UK	30%	30%	31%
- Rest of World	7%	6%	7%
	73%	72%	69%
Total FUM	100%	100%	100%
FUM subject to Performance Fees (%)	34%	34%	39%
Institutional FUM (%)			
- Active	88%	89%	87%
- Enhanced Beta	12%	11%	13%
Breakdown of FUM (\$ million)			
- Global Equities	52,451	52,655	48,195
- Global Listed Infrastructure	11,980	10,320	9,675
- Australian Equities	6,351	6,534	-
Average Base Management fee (bps) per annum excluding Performance Fees ⁽⁴⁾	63	65	66

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

Retail FUM

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

- Broker advised and independent financial advisers;
- Bank/AMP-aligned financial advisers; and
- Self-directed retail investors.

At 31 December 2018, the Group had total retail FUM of \$19.0 billion. We experienced total net retail inflows of \$475 million for the six months to 31 December 2018, compared with \$1.9 billion for the previous corresponding period which included the proceeds from the Magellan Global Trust IPO of \$1.57 billion. The Group experienced average monthly retail net inflows of approximately \$79 million over the six months to 31 December 2018, compared with \$55 million over the previous corresponding period (excluding the proceeds of the Magellan Global Trust IPO).

Whilst we believe we are deeply penetrated in the financial advice market in global equities, we see further opportunities in the retail sector across our business, including:

- Self-directed retail channel: Those investors who tend to undertake their own investment decisions generally look to ASX listed opportunities and, perhaps as a result, are also materially underweight exposure to global equities. As such, we have developed two innovative access points to our global equities strategies on the ASX for those investors to consider – one through our open-ended Active ETFs and the other via the Magellan Global Trust, our closed ended listed investment trust. Success in this area will take time and a lot of effort in establishing our credentials and explaining the benefits of global equities diversification. Although we have made a solid start with our ASX products having a combined unitholder base of ~60,000 totalling some \$3.1 billion of FUM at 31 December 2018, there is much more we can achieve.
- Infrastructure strategy: We are pleased with the interest we are seeing from advisers in our global listed infrastructure strategy and expect this to grow over time, particularly given the high-quality investment returns that our lead Portfolio Manager, Gerald Stack and his infrastructure investment team have delivered. This strategy is also available as an Active ETF which has seen consistent inflows.
- High Conviction Fund: The Magellan High Conviction Fund has achieved an outstanding five-year track record and to date has been selectively distributed to clients. The recent addition of a new class of units aimed at a higher minimum investment and a different fee mix is proving attractive to advisers who are interested in a satellite, higher returning strategy representing our best investment ideas.
- Airlie Australian Share Fund: We are delighted with the launch of the Airlie Australian Share Fund which is managed by Matt Williams and Emma Goodsell. Although it is early days, we are pleased with the interest being shown in the fund and believe there is scope to grow the FUM materially over time, particularly as the track record develops and the fund becomes more widely known and included on additional approved product lists. We believe it is a great opportunity to be able to provide retail investors and their advisers the ability to invest with one of the most experienced teams in Australian funds management. We also expect to make the fund available via the ASX in the coming months.

Notwithstanding these opportunities, we remain extremely focussed on those clients and their advisers for whom we already manage money. Our very experienced retail Distribution team, led by Frank Casarotti, is highly focussed on our existing relationships and aim to support our adviser network by delivering clear and relevant information in a timely manner.

In October 2018, Hamish Douglass conducted his annual roadshow and feedback suggests this has been the most successful to date. This is a huge logistical exercise and our relatively small marketing and events team should be congratulated on a job extremely well done.

During the presentations Hamish discussed the impact and risks of US President Donald Trump's fiscal stimulus and the imposition of tariffs with US trading partners and how Magellan has positioned its portfolios accordingly. This year, Hamish was also joined by a special guest and adviser to Magellan, former Deputy Director of the Central Intelligence Agency (CIA) Michael Morell. Michael's breadth of experience and insights are extremely valuable and those in the audience were able to hear his views on topics ranging from the trade tensions between China and the United States, to the impact of cyber-attacks and a number of other central issues facing investors and the broader global community.

These events are important for advisers and their clients and we will continue to invest in them and focus on ensuring they are relevant and useful. We are delighted they were well received and supported with more than 2,600 advisers attending across seven cities.

This year we also we hosted two Investor Evenings in Sydney and Melbourne for advisers along with their clients, as well as extending an invitation to our shareholders and those directly invested in our funds. These events were similarly well supported and generated positive feedback. More than 1,500 people attended across the two evenings and we look forward to building on these events in the future.

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

Investment Performance for the period to 31 December 2018 ⁽⁵⁾	1 Year	3 Years	5 Years	Since Inception ⁽⁶⁾
	%	% p.a.	% p.a.	% p.a.
Magellan Global Fund	9.8	9.2	11.4	11.2
MSCI World NTR Index (\$A)	1.4	7.5	9.7	5.2
Magellan Infrastructure Fund	-0.4	7.7	11.1	7.8
Global Listed Infrastructure Benchmark (\$A) ⁽⁷⁾	-6.7	6.8	7.2	4.8
Magellan High Conviction Strategy	3.4	9.7	12.4	18.2
Airlie Australian Share Fund	-	-	-	-6.3
S&P/ASX 200 Accum. Index	-	-	-	-3.8

We are pleased with the performance achieved to date, particularly given recent volatility and market conditions.

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

Institutional FUM

At 31 December 2018, the Group had total institutional FUM of \$51.8 billion from more than 140 clients⁽⁸⁾. During the six months to 31 December 2018, we experienced institutional net inflows of \$0.9 billion, which compares with net inflows of \$1.6 billion for the six months to 31 December 2017.

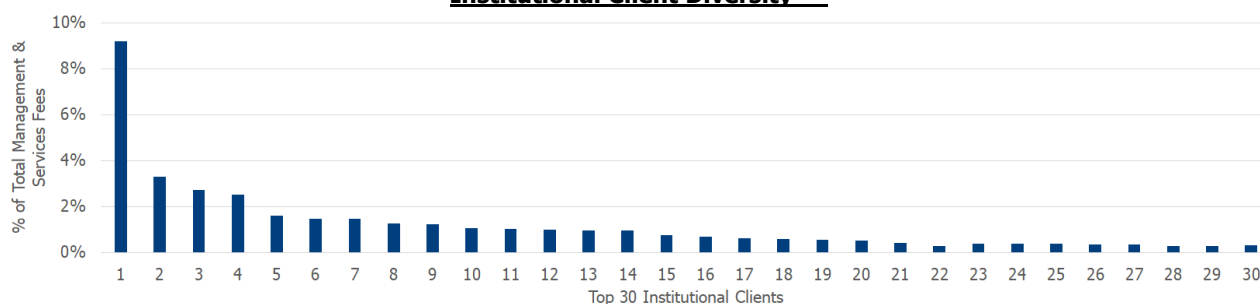
Although our institutional clients are located around the world, the Group seeks to implement a targeted approach to institutional distribution and therefore most of our institutional clients are based in North America, the UK and Australia/NZ. In February 2018, the Group acquired our North American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

At 31 December 2018, the Group managed funds on behalf of clients in:

- North America of approximately \$13.8 billion (\$13.6 billion at 30 June 2018);
- The UK⁽⁹⁾ of approximately \$21.6 billion (\$20.8 billion at 30 June 2018);
- Australia/NZ of approximately \$11.5 billion (\$11.7 billion as at 30 June 2018); and
- Rest of world of approximately \$4.8 billion (\$4.2 billion at 30 June 2018).

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

Institutional Client Diversity⁽¹⁰⁾



Cumulative Total Management and Services Fees				
Top Institutional Clients	5	10	20	30
%	19	26	34	37

(5) 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.

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

(7) 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).

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

(9) Including UK clients invested in the Group's MFG Global Fund (Irish UCITS fund offered to institutional clients in our target markets, outside Australia and the United States).

(10) Management & Services fees for the 6 months to 31 December 2018 for separately managed accounts and institutional investors in local and offshore vehicles. Excludes Performance fees.

On 31 December 2017 we closed our core global equities strategies managed by Hamish to new institutional investors⁽¹¹⁾. 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\$15 billion. At 31 December 2018 the Group's infrastructure FUM was US\$8.4 billion.

We are also pleased with the development of our next generation of global equities strategies, the Sustainable strategies, which have been renamed from Low Carbon strategies. These strategies continue to build credible investment track records and deliver a thoughtful and differentiated sustainable investment approach. This is fundamental to attracting investors and we remain pleased with the early client interest and welcomed our first client into the Global Sustainable UCITS sub-fund in July 2018. We believe the theoretical capacity of the Sustainable strategies is approximately US\$15-20 billion.

CAPITAL MANAGEMENT AND PRINCIPAL INVESTMENTS

The Board intends for the Group to maintain a strong balance sheet in proportion to the scale of the business, including a high level of liquidity to ensure our business will withstand almost any market condition or unforeseen event.

This is important as regulatory scrutiny increases, and, understandably, is also very important for our clients. We also believe it is in the best long-term interest of shareholders. Financial strength reduces risk, provides optionality and ensures we have the capacity to rectify any operating error for which we may be responsible that would adversely affect our clients.

In addition, we believe it is important as business owners to be aligned with our clients, and through a strong balance sheet we are able to achieve this in our Principal Investments.

As at 31 December 2018, the Group is in a strong financial position with:

- investment assets (cash and cash equivalents and financial assets) of \$451.4 million (30 June 2018: \$445.6 million). The Group's cash position at 31 December 2018 was \$159.8 million, with \$130.7 million due to be paid to shareholders on 28 February 2019 for the Interim Dividend;
- net assets of \$660.9 million (30 June 2018: \$620.4 million) which now includes \$126.7 million of intangible assets following the acquisitions of Airlie and Frontier;
- NTA per share was \$3.02 (30 June 2018: \$2.92); and
- total liabilities of \$30.4 million which relate predominantly to payables and provisions. The Group has no debt but has access to a debt facility of \$50 million which is currently undrawn.

The strength of the Group's capital position in addition to the fact that our business requires limited capital to support the core business and to grow organically resulted in the Board revising its dividend policy and increasing the Group's dividend payout ratio in August 2018.

The Group's Principal Investments is a sub-set of the Group's balance sheet that is invested in Magellan funds, listed shares and a small number of unlisted investments. It also includes surplus cash after allowing for the Group's working capital requirements. At 31 December 2018, the Group had net Principal Investments of \$281.0 million, compared with \$280.4 million at 30 June 2018.

Over time, we aim to earn satisfactory returns for shareholders through the sensible deployment of the Group's capital, while maintaining capital strength to underpin the business. The Board has established a pre-tax return hurdle of 10% per annum over the business cycle for the Principal Investments portfolio.

The Group's Principal Investments portfolio has returned pre-tax 7.4%, 9.0% and 11.6% per annum over the last 1, 3 and 5 years respectively. Excluding the effect of the Group's previous investment in MFF Capital Investments Limited, which was disposed of by way of an in-specie distribution to Magellan shareholders in February 2013, the portfolio returned pre-tax 10.8% per annum since inception from 1 July 2007. The inception date of 1 July 2007 has been chosen to reflect the first purchase date of the investments in the Magellan Global Fund and Magellan Infrastructure Fund.

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

The following table sets out a summary of the Group's Principal Investments as at 31 December 2018:

The Group's Principal Investments

\$million	31 Dec 2018	30 June 2018
Cash	0.4	0.4
Magellan Unlisted Funds ⁽¹²⁾	185.9	173.4
Listed shares/funds ⁽¹³⁾	103.7	100.9
Other ⁽¹⁴⁾	0.2	15.1
Total	290.2	289.8
Net deferred tax ⁽¹⁵⁾	(9.2)	(9.4)
Net Principal Investments	281.0	280.4
Net Principal Investments per share (cents)⁽¹⁶⁾	158.7	159.1

CLOSING REMARKS

I would like to thank all those who work at Magellan for their efforts and dedication. Magellan continues to grow and evolve because of the value we create for clients and shareholders, and this can only happen with a focussed, passionate and enthusiastic group of people who are, in the end, Magellan.

Lastly, I would also like to thank Hamish and the Board for their help and support. I remarked as Chairman previously that Magellan is indeed fortunate to have the Board that it does, and that is even more evident now from the point of view as the CEO.

I look forward to reporting to you again in August.

Yours faithfully,



Brett Cairns
CEO

Sydney
14 February 2019

(12) Magellan Unlisted Funds includes the Magellan Global Fund, Magellan Global Fund (Hedged), Magellan High Conviction Fund, Magellan High Conviction Fund Class B, the Frontier MFG Funds, Magellan Wholesale Plus Global Fund and Magellan Wholesale Plus Infrastructure Fund.

(13) Listed shares/funds include Global Sustainable Portfolio, Sustainable (US) Portfolio, Magellan Global Equities Fund, Magellan Global Equities Fund (Currency Hedged), Magellan Infrastructure Fund (Currency Hedged) and Magellan Global Trust excluding receivables/payables (refer to footnote 14).

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

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

(16) Based on the aggregate of 177,087,458 ordinary shares on issue at 31 December 2018 (30 June 2018, it is based on 176,211,167 ordinary shares).

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the half year ended 31 December 2018

The Directors of Magellan Financial Group Limited (the "Company" or "MFG") present their financial report for the Company and its controlled entities which together form the consolidated entity (the "Group") in respect of the half year ended 31 December 2018.

1.1 Directors

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

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

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

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

1.2 Dividends

The Directors have declared an interim dividend of 73.8 cents per ordinary share (75% franked) in respect of the half year ended 31 December 2018 (December 2017: 44.5 cents per ordinary share 100% franked). Refer to the Chief Executive Officer's Interim Letter on page 2 for further information on the change to the Company's dividend policy. The amount of the interim dividend expected to be paid on 28 February 2019, but not recognised as a liability as at 31 December 2018, is approximately \$130,691,000 (December 2017: \$76,688,000).

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 and amortisation). 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.

1.3 Review of Financial Results and Operations

1.3.1 Reconciliation of Net Profit to Adjusted Net Profit After Income Tax Expense

The Group's net profit after income tax expense ("statutory net profit") and earnings per share are prepared in accordance with Australian Accounting Standards. The Group also reports a number of non-IFRS financial measures including 'adjusted revenue', 'adjusted net profit after tax' and 'adjusted basic and diluted EPS' which are shown below. Refer to section 1.3.2 for further details on non-IFRS financial measures.

The Group's statutory net profit after income tax expense for the half year ended 31 December 2018 was \$173,523,000, up \$120,072,000 on the prior half year. The Group's adjusted net profit after income tax expense was \$176,322,000 (December 2017: \$109,153,000) excluding the following non-IFRS adjustments as shown below, as the Directors believe they are not indicative of the Group's operating performance, as they were either unrealised, had no cash impact or were one-off in nature:

- amortisation expense of \$2,208,000 on intangibles arising from the acquisitions of Airlie and Frontier Group;
- volatility arising from the unrealised gains/(losses) on investments in Principal Investments portfolio (net of tax) of \$591,000, recognised in the profit and loss in accordance with AASB 9 *Financial Instruments*; and
- net offer costs incurred in relation to the Magellan Global Trust IPO in the half year ended 31 December 2017.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the half year ended 31 December 2018

1.3 Review of Financial Results and Operations (continued)

1.3.1 Reconciliation of Net Profit to Adjusted Net Profit After Income Tax Expense (continued)

	31 Dec 2018		31 Dec 2017	
	Statutory \$'000	Non-IFRS \$'000	Statutory \$'000	Non-IFRS \$'000
Management and services fees	228,136	228,136	178,918	178,918
Performance fees	42,699	42,699	9,584	9,584
Other revenue	4,769	4,769	7,259	7,259
Total revenue	275,604	275,604	195,761	195,761
Adjust for: net unrealised change in fair value of financial assets		844		-
Adjusted revenue		276,448		195,761
Total expenses	(51,521)	(51,521)	(132,615)	(132,615)
Adjust for: amortisation expense of intangible assets		2,208		-
Adjust for: MGG net offer costs		-		79,574
Adjusted expenses		(49,313)		(53,041)
Income tax expense	(50,560)	(50,560)	(9,695)	(9,695)
Tax expense on above adjustments		(253)		(23,872)
Adjusted income tax expense		(50,813)		(33,567)
Net Profit after income tax expense for the half year	173,523		53,451	
Adjusted Net Profit after income tax expense for the half year		176,322		109,153
Basic and diluted earnings per share (i)	98.2		31.0	
Adjusted basic and diluted earnings per share (i)		99.8		63.4

(i) Based on weighted average number of ordinary shares of 176,647,000 (December 2017: 172,204,000).

1.3.2 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 significant, non-recurring, 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.

1.3.3 Statement of Financial Position

The Group is in a strong financial position and at 31 December 2018 reported:

- investment assets (cash and cash equivalents and financial assets) of \$451,402,000 (June 2018: \$445,634,000) and shareholders' funds of \$660,930,000 (June 2018: \$620,433,000); and
- NTA per share of \$3.02 (June 2018: \$2.92).

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the half year ended 31 December 2018

1.3 Review of Financial Results and Operations (continued)

1.3.3 Statement of Financial Position (continued)

Refer to the Chief Executive Officer's Interim Letter on page 2 for further information on the Group's operations, including details on the Group's results, strategy and future outlook.

1.4 Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the Group that occurred during the half year ended 31 December 2018.

1.5 Events Subsequent to the End of the Half Year

On 7 February 2019, the Group reported to the ASX that its funds under management were \$73.0 billion as at 31 January 2019.

On 29 January 2019, a Magellan Global Trust ("MGG") Unit Purchase Plan ("Offer") was announced. The Offer is an opportunity for eligible MGG unitholders to acquire up to \$15,000 of new fully paid ordinary MGG units at a 5% discount to the MGG Net Asset Value per unit ("NAV"). The Offer is expected to close on 6 March 2019. To minimise dilution, MFG will pay MGG an amount of consideration equal to the cost of the 5% discount to the NAV from which the Offer price is determined. As a result, the Group will incur a cost equal to the 5% discount to the relevant MGG NAV multiplied by the number of units issued under the Offer. It is not practicable to estimate the cost to the Group as there is uncertainty as to the level of participation in the Offer and the MGG NAV. At the maximum permitted participation level of 30% of MGG's units on issue, which is not expected, the estimated cost would be approximately \$25,000,000.

Other than the above and the interim dividend in respect of the six months ended 31 December 2018 discussed at section 1.2, 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 future financial years.

1.6 Rounding of Amounts

The Company is of a kind referred to in the *Australian Securities & Investments Commission's 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.

1.7 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 14.

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



Hamish Douglass
Chairman

Sydney
14 February 2019

MAGELLAN FINANCIAL GROUP LIMITED



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Auditor's Independence Declaration to the Directors of Magellan Financial Group Limited

As lead auditor for the review of Magellan Financial Group Limited for the half-year ended 31 December 2018, 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A stylized, handwritten signature of 'Ernst & Young' in black ink.

Ernst & Young

A stylized, handwritten signature of 'Rita Da Silva' in black ink.

Rita Da Silva
Partner
14 February 2019

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS for the half year ended 31 December 2018

		Consolidated Entity	
		31 Dec 2018	31 Dec 2017
	Note	\$'000	\$'000
Revenue			
Management fees	5(a)	225,783	176,567
Performance fees	5(b)	42,699	9,584
Services fees	5(c)	2,353	2,351
Dividend and distribution income		1,423	1,692
Interest income		1,416	1,390
Net change in the fair value of financial assets			
- Realised		451	-
- Unrealised		(844)	-
Net gain on sale of available-for-sale financial assets		-	3,839
Net foreign exchange gain		745	338
Other revenue		1,578	-
Total revenue		275,604	195,761
Expenses			
Employee expenses		30,936	25,414
Non-Executive Director fees		210	210
Fund administration and operational costs		8,047	6,682
Information technology expense		2,624	2,062
Marketing expense		1,802	6,708
Occupancy expense		1,707	2,651
Travel and entertainment expense		1,007	964
Legal and professional fees		901	759
US marketing/consulting fee expense		-	4,366
Auditor's remuneration		575	422
Depreciation expense		190	339
Amortisation expense		2,208	-
Foreign and withholding taxes		60	60
Offer costs relating to capital raising of Magellan Global Trust		-	23,801
Offer costs of issuing loyalty units		-	56,965
Finance costs		214	149
Other expenses		1,040	1,063
Total expenses		51,521	132,615
Net profit before income tax expense		224,083	63,146
Income tax expense	6	(50,560)	(9,695)
Net profit after income tax expense for the half year		173,523	53,451
Basic earnings per share (cents per share)	3	98.2 cents	31.0 cents
Diluted earnings per share (cents per share)	3	98.2 cents	31.0 cents

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

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the half year ended 31 December 2018

	Note	Consolidated Entity	
		31 Dec 2018 \$'000	31 Dec 2017 \$'000
Net profit after income tax expense for the half year		173,523	53,451
Other comprehensive income for the half year			
<i>Items that may be reclassified to profit or loss in future years, net of tax</i>			
Items previously classified as available-for-sale financial assets ^(A) :			
Net change in the fair value		-	21,350
Net (gain)/loss on sale		-	(3,839)
Income tax benefit/(expense) on the above items		-	(5,278)
Exchange differences on translation of foreign operations		1,506	(18)
Other comprehensive income for the half year, net of tax		1,506	12,215
Total comprehensive income for the half year		175,029	65,666

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

The Consolidated Statement of Comprehensive Income is to be read in conjunction with the accompanying notes to the Financial Statements.

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

		Consolidated Entity	
		31 Dec	30 Jun
		2018	2018
	Note	\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents		159,790	169,095
Financial assets	7	1,943	1,972
Receivables		99,208	108,622
Loans - share purchase plan		3,259	3,298
Prepayments		1,453	1,079
Total current assets		265,653	284,066
Non-current assets			
Financial assets	7	289,669	274,567
Loans - share purchase plan		8,701	9,344
Property, plant and equipment		564	624
Net deferred tax asset		38	1,324
Intangible assets		126,704	105,018
Total non-current assets		425,676	390,877
Total assets		691,329	674,943
Liabilities			
Current liabilities			
Payables		15,747	20,612
Provisions		1,434	1,247
Income tax payable		9,910	29,702
Total current liabilities		27,091	51,561
Non-current liabilities			
Deferred lease incentives		2,081	1,982
Provisions		1,227	967
Total non-current liabilities		3,308	2,949
Total liabilities		30,399	54,510
Net assets		660,930	620,433
Equity			
Contributed equity	9(a)	242,936	218,877
Available-for-sale reserve	1(c)	-	55,088
Foreign currency translation reserve		2,356	850
Retained profits		415,638	345,618
Total equity attributable to members of the Group		660,930	620,433
Total equity		660,930	620,433

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

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year ended 31 December 2018

		Attributable to Equity Holders of the Consolidated Entity				
		Contributed Equity	Foreign Currency Translation Reserve	Retained Profits	Available- For-Sale Reserve	Total Equity
2018	Note	\$'000	\$'000	\$'000	\$'000	\$'000
Equity - 1 July 2018		218,877	850	345,618	55,088	620,433
Adoption of AASB 9	1(c)	-	-	55,088	(55,088)	-
Restated equity - 1 July 2018		218,877	850	400,706	-	620,433
Net profit for the half year		-	-	173,523	-	173,523
Other comprehensive income for the half year		-	1,506	-	-	1,506
Total comprehensive income for the half year		-	1,506	173,523	-	175,029
Transactions with owners in their capacity as owners:						
Issue of shares:						
- to acquire Frontegra Asset Management, Inc.	10	21,672	-	-	-	21,672
- under share purchase plan (SPP)	9(a)	2,187	-	-	-	2,187
- transaction costs arising on share issue	9(a)	(31)	-	-	-	(31)
Dividends paid	4	-	-	(158,591)	-	(158,591)
SPP expense for the half year	9(a)	231	-	-	-	231
Total transactions with equity holders in their capacity as equity owners		24,059	-	(158,591)	-	(134,532)
Equity - 31 December 2018		242,936	2,356	415,638	-	660,930
2017						
Equity - 1 July 2017		115,250	(83)	291,736	40,708	447,611
Net profit for the half year		-	-	53,451	-	53,451
Other comprehensive income for the half year		-	(18)	-	12,233	12,215
Total comprehensive income for the half year		-	(18)	53,451	12,233	65,666
Transactions with owners in their capacity as owners:						
Issue of shares:						
- under share purchase plan (SPP)		5,539	-	-	-	5,539
- transaction costs arising on share issue		(16)	-	-	-	(16)
Dividends paid	4	-	-	(81,221)	-	(81,221)
SPP expense for the half year		277	-	-	-	277
Total transactions with equity holders in their capacity as equity owners		5,800	-	(81,221)	-	(75,421)
Equity - 31 December 2017		121,050	(101)	263,966	52,941	437,856

The Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes to the Financial Statements.

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS for the half year ended 31 December 2018

		Consolidated Entity	
		31 Dec 2018	31 Dec 2017
	Note	\$'000	\$'000
Cash flows from operating activities			
Management and services fees received		236,755	180,885
Performance fees received		45,547	20,141
Dividends and distributions received		123	4,901
Interest received		1,204	1,025
Finance costs paid		(213)	-
Tax paid		(68,999)	(31,315)
Payments to suppliers and employees (inclusive of GST)		(69,561)	(71,344)
Other revenue received		1,672	-
Offer costs paid		-	(80,603)
Net cash inflows/(outflows) from operating activities		146,528	23,690
Cash flows from investing activities			
Proceeds from sale of financial assets		989	17,396
Purchase of financial assets		(557)	(4,036)
Net matured term deposits classified as financial assets		28	1,744
Payments for property, plant and equipment		(96)	(70)
Proceeds from sale of property, plant and equipment		-	16
Acquisition of subsidiary, net of cash acquired	10	(1,632)	-
Net cash inflows/(outflows) from investing activities		(1,268)	15,050
Cash flows from financing activities			
Net proceeds from issue of shares		208	551
Proceeds from repayment of share purchase plan loans		1,873	1,741
Dividends paid	4 (a)	(157,611)	(80,761)
Net cash inflows/(outflows) from financing activities		(155,530)	(78,469)
Net increase / (decrease) in cash and cash equivalents		(10,270)	(39,729)
Effects of exchange rate movements on cash and cash equivalents		965	437
Cash and cash equivalents at the beginning of the half year		169,095	146,243
Cash and cash equivalents at the end of the half year		159,790	106,951

The Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes to the Financial Statements.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2018

Overview

This condensed interim financial report is for Magellan Financial Group Limited (the "Company") and its controlled entities (the "Group") for the half year ended 31 December 2018.

The Company is a for-profit entity limited by shares, incorporated and domiciled in Australia. The Company is listed on the Australian Securities Exchange (ticker code: MFG).

1. Basis of Preparation

The condensed interim report for the six months ended 31 December 2018 is a general purpose financial report and has been prepared in accordance with AASB 134: *Interim Financial Reporting*, the *Corporations Act 2001* and other mandatory professional reporting requirements. It is presented in Australian dollars (\$). This financial report was approved by the Board of Directors on 14 February 2019 and the Directors have the power to amend and reissue the financial report.

This condensed interim financial report does not include all the information and disclosures normally included in the annual financial report. Accordingly, this report should be read in conjunction with the 30 June 2018 Annual Report and any public announcements made in respect of the Group during the half year ended 31 December 2018 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

(a) Accounting Policies

The accounting policies adopted in the preparation of this financial report are consistent with those of the previous financial year and corresponding interim reporting period except for the adoption of new standards effective as of 1 July 2018 that are described in note 1(c). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(b) Critical Accounting Estimates and Judgements

In applying the Group's accounting policies, a number of estimates and assumptions have been made concerning the future. The Directors base their judgements and estimates on historical experience and various other factors they believe to be reasonable under the circumstances, but which are inherently uncertain and unpredictable. As a result, actual results could differ from those estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the 30 June 2018 Annual Report.

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

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

- **AASB 15: Revenue from Contracts with Customers**

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

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

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2018

1. Basis of Preparation (continued)

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

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

The Group's material performance fee agreements can have a broad range of outcomes and market volatility remains a key factor of uncertainty. Accordingly, performance fee revenue will not be recognised until the uncertainty is resolved or almost resolved. To assess uncertainty and therefore the potential reversal of performance fee revenue, additional factors are now considered to determine if a portion of the Group's performance fee revenue should be recognised prior to the end of the performance fee measurement period. Under AASB 15, no significant change in the quantum or timing of performance fee revenue is expected.

- AASB 9: Financial Instruments**

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

The Group adopted AASB 9 on 1 July 2018. At this time, the investments held by the Group in the Principal Investment Portfolio (refer note 7) were classified as 'financial assets at fair value through profit or loss' ("FVTPL"). Previously these investments were classified under AASB 139 as 'available-for-sale ("AFS") financial assets held at fair value through other comprehensive income' ("FVOCI"). The change in classification arises as the investments do not meet the AASB 9 criteria for classification at amortised cost because their cash flows do not represent solely payments of principal and interest. Therefore, the accumulated fair value of these investments in the 'available-for-sale' reserve, net of tax, was transferred to retained profits on 1 July 2018.

Financial impacts of adopting AASB 9 as at 1 July 2018

As a consequence of the above, the Group's retained profits increased by \$55,088,000 and the available-for-sale reserve decreased by the same amount as at 1 July 2018, as shown below:

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

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

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2018

1. Basis of Preparation (continued)

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

• AASB 9: Financial Instruments (continued)

Impact on comparative periods prior to 1 July 2018

In accordance with the transitional provisions of AASB 9 the Group elected not to restate comparatives. Accordingly, there was no impact on the profit or loss for the half year ended 31 December 2017.

As a consequence of adopting AASB 9 from 1 July 2018 and not restating comparatives, the net unrealised change in fair value of financial assets is presented differently in the half year ended 31 December 2018 compared to the half year ended 31 December 2017. In the half year ended 31 December 2018, the net unrealised change in fair value of financial assets of (\$844,000) was recorded in profit or loss. However, for the half year ended 31 December 2017 the net unrealised gain of \$13,672,000 remains in other comprehensive income. This presentation difference impacts the statement of profit or loss, statement of comprehensive income, segment result and net profit used to calculate earnings per share.

The net realised change in fair value of financial assets is recorded in profit or loss in all periods presented. However, it is described as 'net change in the fair value of financial assets - realised' in the half year ended 31 December 2018 and 'Net gain on sale of available-for-sale financial assets' in the half year ended 31 December 2017.

Other impacts

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

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

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

• AASB 16: Leases (effective 1 July 2019)

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

The Group will adopt AASB 16 from 1 July 2019. The Group expects to apply the modified retrospective approach on transition and reflect any impacts on transition to the new standard on a cumulative basis as an adjustment to the opening balance of retained earnings at 1 July 2019, the adoption date. For practical expediency, lease contracts identified and ongoing as at 1 July 2019 and which are accounted for as leases under AASB 117 will continue to be accounted for as lease contracts under AASB 16. The Group will not restate comparatives in accordance with the transitional provisions of AASB 16. Based on leases in place at 31 December 2018, the Group is expected to record leased assets of approximately \$17,500,000 and lease liabilities of approximately \$20,500,000 at the time of adopting AASB 16. At the same time, lease liabilities previously recorded under AASB 17 of approximately \$2,200,000 will be derecognised.

Subsequent to adoption, AASB 16 is not expected to result in a material impact to the profit or loss. However, AASB 16 will cause changes to the presentation of leases costs and lease related disclosures.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2018

1. Basis of Preparation (continued)

(e) Accounting Policies effective from 1 July 2018

Receivables

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

Share Purchase Plan

No amounts are past due or permanently impaired as the Share Purchase Plan ("SPP") provides that any shortfall between the SPP loan and the value of the Company's shares under the SPP is recoverable from the Participant. An impairment analysis is performed at each reporting date to measure expected credit losses. Expected credit losses are provided for credit losses that result from default events that are possible within the next 12 months.

Financial Assets

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net realised and unrealised changes in fair value recognised in profit or loss.

Revenue

Revenue from contracts with customers is recognised when control of the services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for performing those services.

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

(f) Rounding of Amounts

The Group is of a kind referred to in the *Australian Securities & Investments Commission's Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that Legislative Instrument, or in certain cases, the nearest dollar.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the half year ended 31 December 2018

2. Segment Information

The Group's business activities are organised into the following reportable operating segments for internal management purposes:

Funds Management

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

- Acting as Responsible Entity/Trustee ("RE") and/or Investment Manager ("IM") for the following funds:

	Australian fund type	RE	IM
Magellan Global Fund	Unlisted registered fund	✓	✓
Magellan Global Fund (Hedged)	Unlisted registered fund	✓	✓
Magellan Infrastructure Fund	Unlisted registered fund	✓	✓
Magellan Infrastructure Fund (Unhedged)	Unlisted registered fund	✓	✓
Magellan High Conviction Fund	Unlisted registered fund	✓	✓
Magellan Global Equities Fund	ASX Quoted registered fund	✓	✓
Magellan Global Equities Fund (Currency Hedged)	ASX Quoted registered fund	✓	✓
Magellan Infrastructure Fund (Currency Hedged)	ASX Quoted registered fund	✓	✓
Magellan Global Trust	ASX Listed Trust - registered fund	✓	✓
Magellan Core Infrastructure Fund	Unlisted unregistered fund	✓	✓
Airlie Australian Share Fund	Unlisted registered fund	✓	✓
Airlie Concentrated Share Fund	Unlisted unregistered fund	✓	✓
	Irish fund type		IM
MFG Global Fund	UCITS ^(A)		✓
MFG Select Infrastructure Fund	UCITS ^(A)		✓
MFG Global Sustainable Fund	UCITS ^(A)		✓
	United States fund type		IM
Frontier MFG Global Equity Fund ^(B)	Open-ended mutual fund		✓
Frontier MFG Global Plus Fund ^(B)	Open-ended mutual fund		✓
Frontier MFG Core Infrastructure Fund ^(B)	Open-ended mutual fund		✓
Frontier MFG Select Infrastructure Fund ^(B)	Open-ended mutual fund		✓

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

(B) Collectively, the Frontier MFG Funds.

- Investment research and administrative services provider to MFF Capital Investments Limited, and investment research provider to a mandate; and
- Investment Manager or Sub-adviser to other external wholesale client mandates.

Current tax liabilities and deferred tax assets/liabilities that arise from the operations of the funds management business are included within the corporate segment.

Principal Investments

The principal investment portfolio is comprised of the Company's investments in the ASX Quoted Funds/Listed Trust, the Unlisted Magellan Funds, the Frontier MFG Funds, a select portfolio comprising Australian and international listed companies, cash, other investments and net deferred tax assets/liabilities arising from changes in fair value of these investments.

Corporate

The corporate segment includes interest income on the Company's SPP loans and cash (including term deposits), corporate costs including Non-Executive Director fees relating to the Company's Board and Committees, all current tax liabilities and deferred tax assets/liabilities excluding those arising from changes in the fair value of financial assets which are shown in Principal Investments.

No operating segments have been aggregated to form the above reportable operating segments and inter-segment revenues and expenses (where applicable) have been eliminated on consolidation.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2018

2. Segment Information (continued)

(a) Segment Financial Results

The operating results of the Group's operating segments, excluding income tax expense, are as follows:

	Consolidated Entity			
	Funds Management (A)	Principal Investments	Corporate	Consolidated Entity
31 December 2018	\$'000	\$'000	\$'000	\$'000
Segment revenue				
Management fees	225,783	-	-	225,783
Performance fees	42,699	-	-	42,699
Services fees	2,353	-	-	2,353
Dividend and distribution income	-	1,423	-	1,423
Interest income	146	2	1,268	1,416
Net change in fair value of financial assets				
- Realised	-	451	-	451
- Unrealised	-	(844)	-	(844)
Other revenue	1,578	-	-	1,578
Net foreign exchange gain	685	37	23	745
Total segment revenue	273,244	1,069	1,291	275,604
Segment expenses				
Employee expense	30,693	-	12	30,705
Employee expense - SPP	195	-	36	231
Non-Executive Director fees	125	-	85	210
Other expenses	17,271	75	821	18,167
Total segment expenses	48,284	75	954	49,313
Total segment operating profit before income tax expense	224,960	994	337	226,291
Other comprehensive income				
Exchange differences on translation of foreign operations	1,506	-	-	1,506
Other comprehensive income for the half year, before tax	1,506	-	-	1,506
Total comprehensive income for the half year, before tax	226,466	994	337	227,797

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

	Consolidated Entity	
	31 Dec 2018 \$'000	31 Dec 2017 \$'000
Segment operating profit before income tax expense	226,291	142,720
<i>Individually significant items and amortisation of intangibles:</i>		
Amortisation of intangible assets ^(B)	(2,208)	-
Offer costs relating to capital raising of Magellan Global Trust ^(C)	-	(23,801)
Offer costs of issuing loyalty units ^(C)	-	(56,965)
Interim distribution income from Magellan Global Trust ^(D)	-	1,192
Total net offer costs	-	(79,574)
Net profit before income tax expense	224,083	63,146
Income tax expense	(50,560)	(9,695)
Net profit for the half year	173,523	53,451

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

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

(C) Relates to offer costs incurred in relation to the Magellan Global Trust IPO which are shown separately in profit or loss for the half year ended 31 December 2017.

(D) Relates to the distribution declared for the half year ended 31 December 2017 on Magellan Global Trust loyalty units.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2018

2. Segment Information (continued)

(a) Segment Financial Results (continued)

	Consolidated Entity			
	Funds Management (A)	Principal Investments	Corporate	Consolidated Entity
31 December 2017	\$'000	\$'000	\$'000	\$'000
Segment revenue				
Management fees	176,567	-	-	176,567
Performance fees	9,584	-	-	9,584
Services fees	2,351	-	-	2,351
Dividend and distribution income	-	500	-	500
Interest income	143	2	1,245	1,390
Net change in fair value of financial assets				
- Realised	-	-	-	-
- Unrealised	-	-	-	-
Net gain/(loss) on sale of available-for-sale financial assets	-	3,839	-	3,839
Net foreign exchange gain	377	(39)	-	338
Total segment revenue	189,022	4,302	1,245	194,569
Segment expenses				
Employee expense	25,126	-	11	25,137
Employee expense - SPP	242	-	35	277
Non-Executive Director fees	125	-	85	210
Other expenses	25,023	128	1,074	26,225
Total segment expenses	50,516	128	1,205	51,849
Total segment operating profit before income tax expense	138,506	4,174	40	142,720
Other comprehensive income				
Net changes in fair value of available-for-sale financial assets	-	21,350	-	21,350
Net (gain)/loss on sale of available-for-sale financial assets	-	(3,839)	-	(3,839)
Exchange differences on translation of foreign operations	(18)	-	-	(18)
Other comprehensive income for the half year, before tax	(18)	17,511	-	17,493
Total comprehensive income for the half year, before tax	138,488	21,685	40	160,213

(A) Includes elimination of income and expenses under the transfer pricing agreement between MAM and MFG Services LLC within the Funds Management segment.

(b) Segment Assets and Liabilities

The assets and liabilities of the Group's segments are as follows:

	Consolidated Entity			
	Funds Management	Principal Investments	Corporate	Total
31 December 2018	\$'000	\$'000	\$'000	\$'000
Total assets	257,390	263,853	170,086	691,329
Total liabilities	19,887	-	10,512	30,399
Net assets	237,503	263,853	159,574	660,930
30 June 2018	\$'000	\$'000	\$'000	\$'000
Total assets	235,301	263,238	176,404	674,943
Total liabilities	24,163	-	30,347	54,510
Net assets	211,138	263,238	146,057	620,433

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2018

3. Earnings Per Share (EPS)

	Consolidated Entity	
	31 Dec 2018	31 Dec 2017
Basic EPS		
Net profit attributable to shareholders (\$'000)	173,523	53,451
Weighted average number of shares for basic EPS ('000)	176,647	172,204
Basic EPS (cents)	98.2	31.0
Diluted EPS		
Net profit attributable to shareholders (\$'000)	173,523	53,451
Weighted average number of shares for diluted EPS ('000)	176,647	172,204
Diluted EPS (cents)	98.2	31.0
Reconciliation of earnings used in calculating EPS		
Net profit after income tax expense used in the calculation of basic and diluted EPS (\$'000)	173,523	53,451
Weighted average number of shares		
Weighted average number of shares used in calculating basic and diluted earnings per share ('000)	176,647	172,204

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2018

4. Dividends

(a) Dividends Declared and Paid During the Half Year

	Consolidated Entity	
	31 Dec	31 Dec
	2018	2017
	\$'000	\$'000
Fully franked final and performance fee dividend for the year ended 30 June 2018:		
- final dividend: 75.1 cents per ordinary share: paid 27 August 2018	132,335	-
- performance fee dividend: 14.9 cents per ordinary share: paid 27 August 2018	26,256	-
Fully franked final and performance fee dividend for the year ended 30 June 2017:		
- final dividend: 41.5 cents per ordinary share: paid 28 August 2017	-	71,413
- performance fee dividend: 5.7 cents per ordinary share: paid 28 August 2017	-	9,808
Total dividends declared and paid during the half year⁽ⁱ⁾	158,591	81,221

(i) Includes an amount of \$980,000 (December 2017: \$460,000) relating to the dividend entitlement of SPP holders. This amount was not paid in cash but rather applied directly against the holders' SPP loan balances.

(b) Dividend Declared

On 14 February 2019, the Directors declared an interim dividend of 73.8 cents per ordinary share (75% franked) in respect of the half year ended 31 December 2018 (December 2017: 44.5 cents per ordinary share 100% franked). The amount of the interim dividend expected to be paid on 28 February 2019, but not recognised as a liability as at 31 December 2018, is approximately \$130,691,000 (December 2017: \$76,688,000).

(c) Imputation Credits

	Consolidated Entity	
	31 Dec	30 Jun
	2018	2018
	\$'000	\$'000
Total imputation credits available for subsequent reporting periods based on a tax rate of 30% (June 2018: 30%)	43,373	62,461

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

The dividend declared by the Directors on 14 February 2019 will be partially franked out of existing franking credits, or out of franking credits arising from the payment of income tax.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2018

5. Revenue

(a) Management Fees

The management fees received/receivable during the half year were:

	Consolidated Entity	
	31 Dec	31 Dec
	2018	2017
	\$'000	\$'000
Magellan Global Fund	65,630	62,246
Magellan Global Fund (Hedged)	3,237	2,915
Magellan Global Equities Fund	7,774	6,191
Magellan Global Equities Fund (Currency Hedged)	499	385
Magellan Global Trust	11,972	4,831
Magellan Infrastructure Fund	7,640	6,590
Magellan Infrastructure Fund (Unhedged)	3,453	3,354
Magellan Infrastructure Fund (Currency Hedged)	1,092	605
Magellan High Conviction Fund	4,071	3,204
Magellan Core Infrastructure Fund	255	269
MFG Global Fund	9,494	7,981
Frontier MFG Funds	8,846	6,531
MFG Select Infrastructure Fund	242	200
Airlie Concentrated Share Fund	577	-
Other funds and mandates	101,001	71,265
Total management fees for the half year	225,783	176,567

(b) Performance Fees

Performance fees received/receivable for funds and mandates during the half year were:

		Consolidated Entity	
		31 Dec	31 Dec
		2018	2017
	High watermark unit price (\$)	\$'000	\$'000
Based on performance relative to both market index and absolute return hurdle			
Magellan Global Fund	2.1351	3,310	54
Magellan Global Fund (Hedged)	1.5212	28	168
Magellan Global Equities Fund	3.1873	209	-
Magellan Global Equities Fund (Currency Hedged)	2.9944	3	20
Magellan Global Trust	1.7015	1,700	-
Magellan Infrastructure Fund	1.2467	4	2,211
Magellan Infrastructure Fund (Unhedged)	1.7001	18	1,363
Magellan Infrastructure Fund (Currency Hedged)	2.7292	-	268
Based on performance relative to absolute return hurdle			
Magellan High Conviction Fund (Class A/B)	1.6903(A)/0.9592(B)	64	2,952
Based on total shareholder return			
MFF Capital Investments Limited	-	1,000	1,000
Based on performance relative to a market index			
Other funds and mandates	various	36,363	1,548
Total performance fees earned		42,699	9,584

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2018

5. Revenue (continued)

(c) Services Fees

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

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

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

	Consolidated Entity	
	31 Dec	31 Dec
	2018	2017
	\$'000	\$'000
Australia & New Zealand	167,725	122,647
United Kingdom & Ireland	56,915	34,113
United States	31,432	24,447
Canada	3,344	2,436
Asia	11,419	4,859
Total management, services and performance fees	270,835	188,502

(e) Management, Services and Performance Fees by Investor Type

The breakdown of management, services and performance fees by type of investor across global equities and infrastructure strategies is as follows:

	Consolidated Entity	
	31 Dec	31 Dec
	2018	2017
	\$'000	\$'000
Management and services fees		
- Retail	121,176	103,168
- Institutional	106,960	75,750
Performance fees		
- Retail	24,972	8,111
- Institutional	17,727	1,473
Total management, services and performance fees	270,835	188,502
Total Retail	146,148	111,279
Total Institutional	124,687	77,223
Total management, services and performance fees	270,835	188,502

6. Taxation

At 31 December 2018, the Group's estimated effective tax rate was 22.6% (December 2017: 15.4%), which includes taxes 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 offshore banking ("OB") income, net of costs, attracting a concessional tax rate of 10%. For the six months to 31 December 2018, the effect of the concessional tax rate of 10% was to reduce tax expense by \$17,858,000 (December 2017: \$9,249,000). The effective tax rate was 15.4% in the six months ended 31 December 2017 as OB income represented a larger proportion of the Group's total net profit, primarily due to the one-off offer costs of the Magellan Global Trust IPO.

The effective tax rate for the full financial year ending 30 June 2019 may change as it depends upon the proportion of qualifying OB income relative to total income.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2018

7. Financial Assets

	31 Dec 2018 \$'000	30 Jun 2018 \$'000
Current		
(i) Financial assets at amortised cost		
Term deposits ^(A)	1,943	1,972
Total current financial assets	1,943	1,972
Non-Current		
(ii) Financial assets at fair value through profit or loss^(B)		
Investments in listed shares (by domicile of primary stock exchange)		
- United States	2,664	2,714
- United Kingdom	30	87
- France	48	31
- Switzerland	50	43
- Netherlands	52	42
- Germany	129	26
- Other	30	34
Investments in ASX listed trust/ Quoted funds^(C)		
- Magellan Global Equities Fund	67,177	64,413
- Magellan Global Equities Fund (Currency Hedged)	18,451	18,313
- Magellan Infrastructure Fund (Currency Hedged)	10,888	11,097
- Magellan Global Trust	4,215	4,086
Total listed/quoted investments	103,734	100,886
Investments in unlisted funds^(C)		
- Magellan Global Fund	122,454	111,992
- Magellan Global Fund (Hedged)	809	784
- Magellan High Conviction Fund	34,602	32,801
- Magellan Wholesale Plus Global Fund	7,609	7,532
- Magellan Wholesale Plus Infrastructure Fund	5,315	5,451
- Frontier MFG Core Infrastructure Fund	6,116	6,026
- Frontier MFG Global Plus Fund	9,008	8,839
- Other	22	81
Investments in unlisted shares		
- Other	-	175
Total unlisted investments	185,935	173,681
Total non-current financial assets	289,669	274,567

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

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

(C) At 31 December 2018 the Group held the following % of the funds as an investment: Magellan Global Trust 0.2% (June 2018: 0.2%), Magellan Global Equities Fund 5.9% (June 2018: 6.1%), Magellan Global Equities Fund (Currency Hedged) 23.2% (June 2018: 27.3%), Magellan Infrastructure Fund (Currency Hedged) 4.8% (June 2018: 6.2%), Magellan Global Fund 1.3% (June 2018: 1.2%), Magellan Global Fund (Hedged) 0.2% (June 2018: 0.2%), Magellan High Conviction Fund 7.0% (June 2018: 7.0%), Magellan Wholesale Plus Global Fund 1.0% (June 2018: 1.0%), Magellan Wholesale Plus Infrastructure Fund 32.0% (June 2018: 41.6%), Frontier MFG Core Infrastructure Fund 1.3% (June 2018: 1.1%) and Frontier MFG Global Plus Fund 3.7% (June 2018: 1.9%).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2018

7. Financial Assets (continued)

Reconciliation

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

	Consolidated Entity	
	31 Dec	30 Jun
	2018	2018
	\$'000	\$'000
Current		
Opening balance at 1 July	1,972	1,775
Term deposit of acquired subsidiary	-	358
Cash placed on term deposit	57	2,331
Matured term deposits	(57)	(2,492)
Reclassified from/(to) cash and cash equivalents	(29)	-
Closing balance	1,943	1,972
Non-current		
Opening balance at 1 July	274,567	263,113
Acquisitions	16,485	8,784
Disposals	(990)	(18,022)
Net change in fair value		
- Realised	451	4,011
- Unrealised	(844)	16,681
Closing balance	289,669	274,567

8. Fair Value Disclosures

The Group measures its investments in the Principal Investment portfolio at fair value. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its investments measured at fair value into the following three levels prescribed under the accounting standards.

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. The fair value of these investments is based on the closing price^(A) for the security as quoted on the relevant exchange.
- Level 2: valuation techniques using market observable inputs either directly or indirectly. The Group invests in unlisted funds which in turn invest in liquid securities quoted on major stock exchanges. The fair value is estimated using the redemption price provided by the unlisted fund.
- Level 3: valuation techniques using non-market observable inputs. The Group invests in unlisted funds which typically invest in unlisted entities, and has an investment in an unlisted company. The fair value is based on a Directors' valuation.

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2018

8. Fair Value Disclosures (continued)

The table below presents the fair value hierarchy levels of the Group's financial assets:

		Consolidated Entity			
	Note	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
31 December 2018					
Financial assets measured at fair value					
Investments in listed/quoted investments	7	103,734	-	-	103,734
Investments in unlisted funds (i)	7	-	185,913	22	185,935
Total financial assets measured at fair value		103,734	185,913	22	289,669
30 June 2018					
Financial assets measured at fair value					
Investments in listed/quoted investments	7	100,886	-	-	100,886
Investments in unlisted funds (i)	7	-	173,425	81	173,506
Investments in unlisted shares (ii)	7	-	-	175	175
Total financial assets measured at fair value		100,886	173,425	256	274,567

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

(i) Investments in unlisted funds are set out in note 7. With the exception of the unlisted funds – other (discussed below), the fair value of investments in unlisted funds is determined with reference to each fund's redemption price at reporting date. They are categorised in level 2 as inputs into the redemption unit price and are directly observable from published price quotations.

The investment in the "unlisted funds – other" set out in note 7 comprises an investment in a single private equity fund. As there is no active market, the fair value is a Directors' valuation that is determined with reference to the unit price of the fund. The Directors believe the estimated fair value and the discount assumptions applied are reasonable and appropriate.

(ii) Unlisted shares comprise a shareholding in an unlisted funds management business. During the half year ended 31 December 2018, the investment was sold. In the prior year, as there was no active market for the shares, the Directors valued this investment at cost after giving consideration to that company's most current unaudited net asset position.

There were no transfers between any level during the half years ended 31 December 2018 or 2017 and the Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. At 31 December 2018, the fair value of the level 3 assets is \$22,000 (June 2018: \$256,000). The decrease in the fair value of level 3 assets during the half year ended 31 December 2018 is primarily due to the sale of unlisted shares.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2018

9. Contributed Equity

		Consolidated Entity	
	Note	31 Dec 2018 \$'000	30 Jun 2018 \$'000
Ordinary Shares	(a)	242,936	218,877
Total contributed equity		242,936	218,877

		Consolidated Entity			
		31 Dec 2018 Number '000	30 Jun 2018 Number '000	31 Dec 2018 \$'000	30 Jun 2018 \$'000
(a) Ordinary Shares					
Opening balance		176,211	172,076	218,877	115,250
Shares issued for acquisition of Airlie ⁽ⁱ⁾		-	3,857	-	97,113
Shares issued for acquisition of Frontegra Asset Management Inc. ⁽ⁱⁱ⁾		788	-	21,672	-
Shares issued under Share Purchase Plan (SPP) ⁽ⁱⁱⁱ⁾		88	278	2,187	6,013
SPP expense for the period		-	-	231	578
less: transaction costs arising on share issue		-	-	(31)	(77)
Closing balance - Ordinary Shares		177,087	176,211	242,936	218,877

- (i) In accordance with the sale agreement, the ordinary shares were placed in escrow in the name of the former shareholders. The ordinary shares will be released in equal amounts on the anniversary date of issue, being 1 March, over five years until 2023.
- (ii) In accordance with the sale agreement, 689,066 of the 787,507 ordinary shares issued were placed in escrow in the name of the former shareholder. The escrowed shares will be released in equal amounts on the anniversary date of issue, being 1 October, over seven years until 2025.
- (iii) Of the 177,087,458 ordinary shares on issue at 31 December 2018, 956,874 ordinary shares are held by employees and Non-Executive Directors under the SPP (June 2018: 1,088,300).

Terms and Conditions of Ordinary Shares

Ordinary shares are fully paid and entitle the holder to receive dividends declared and proceeds on winding up of the Company in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person, or by proxy, at a meeting of the Company.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2018

10. Business Combinations

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

The excess of consideration paid and non-controlling interest in the acquired entity over the fair value of the identifiable net assets acquired is goodwill. Goodwill and fair value adjustments arising on an acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Frontier Group

On 5 February 2018, MFG entered into an agreement to acquire 100% of the Frontier Group, a privately owned group of companies based in Chicago, USA. The Frontier Group has been Magellan's distribution partner in North America since 2011 and the acquisition represents a natural evolution of that relationship. The Frontier Group was founded in 1993 by Bill Forsyth to assist specialised fund managers penetrate the North American institutional marketplace. The Frontier Group comprises Frontier Partners Inc, a registered investment adviser that distributes investment strategies to institutional clients in North America, Frontegra Strategies LLC, a registered broker-dealer and Frontegra Asset Management Inc, an investment adviser and mutual fund platform.

The Group established a US holding company, Frontier North America Holdings Inc ("FNAH"), to acquire the Frontier Group. FNAH acquired Frontier Partners Inc on 5 February 2018 and Frontegra Strategies LLC on 2 April 2018 for cash consideration of US\$11,500,000 (A\$14,623,000). The fair values of the assets and liabilities acquired were disclosed in MFG's 30 June 2018 Annual Report.

FNAH acquired Frontegra Asset Management Inc on 1 October 2018 for consideration of US\$19,181,000 (A\$26,509,000), comprising cash of US\$3,500,000 (A\$4,837,000) and 787,507 MFG ordinary shares amounting to US\$15,681,000 (A\$21,672,000). The fair value of the MFG ordinary shares issued was A\$27.52 per share, being the price of MFG ordinary shares on the date of acquisition.

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

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2018

10. Business Combinations (continued)

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

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

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

11. Contingent Liabilities

In accordance with the terms of the MFG Subscription and Commitment Deed, the Group will pay the Magellan Global Trust ("MGG") to ensure that unitholders in MGG who do not participate in the MGG Dividend Reinvestment Plan ("DRP") suffer no dilution as result of any DRP discount. As a result, MFG has a contingent liability where MGG offers a discount to the Net Trust Value per unit on units issued under the DRP in future periods. The quantum of the contingent liability is determined at each distribution date of MGG and the amount is equal to a 5% discount to MGG's NAV per unit multiplied by the number of units participating in the DRP. It is not practicable 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 half year ended 31 December 2018, \$215,000 (December 2017: \$205,000) was paid or payable by the Group to MGG in respect of MGG's interim and final distributions.

Other than the above, the Group has no other material contingent liabilities as at 31 December 2018 (June 2018: nil).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2018

12. Subsequent Events

On 7 February 2019, the Group announced to the ASX its funds under management were \$73.0 billion as at 31 January 2019.

On 29 January 2019, a Magellan Global Trust Unit Purchase Plan ("Offer") was announced. The Offer is an opportunity for eligible MGG unitholders to acquire up to \$15,000 of new fully paid ordinary MGG units at a 5% discount to the MGG Net Asset Value per unit ("NAV"). The Offer is expected to close on 6 March 2019. To minimise dilution, MFG will pay MGG an amount of consideration equal to the cost of the 5% discount to the NAV from which the Offer price is determined. As a result, the Group will incur a cost equal to the 5% discount to the relevant MGG NAV multiplied by the number of units issued under the Offer. It is not practicable to estimate the cost to the Group as there is uncertainty as to the level of participation in the Offer and the MGG NAV. At the maximum permitted participation level of 30% of MGG's units on issue, which is not expected, the estimated cost would be approximately \$25,000,000.

Other than the above matters and the dividend in respect of the six months ended 31 December 2018 (refer to note 4(b)), the Directors are not aware of any other matter or circumstance not otherwise dealt with in this financial report that has significantly affected or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future financial years.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' DECLARATION

In the Directors' opinion,

- a) the financial statements and notes set out on pages 15 to 37 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
 - (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* 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 declarations from the Chief Executive Officer and Chief Financial Officer which mirror section 295A of the *Corporations Act 2001* and are recommended by the ASX Corporate Governance Principles and Recommendations.

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

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

Hamish Douglass
Chairman

Sydney
14 February 2019



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Independent Auditor's Review Report to the Members of Magellan Financial Group Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year 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 31 December 2018, the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not 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 31 December 2018 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

MAGELLAN FINANCIAL GROUP LIMITED



Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

A handwritten signature in black ink, reading 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink, reading 'Rita Da Silva'.

Rita Da Silva
Partner
Sydney
14 February 2019

MAGELLAN FINANCIAL GROUP LIMITED

CORPORATE INFORMATION

Directors

Brett Cairns – Chief Executive Officer
Hamish Douglass – Chairman and Chief Investment Officer
John Eales
Robert Fraser
Paul Lewis
Hamish McLennan
Karen Phin

Company Secretary

Geoffrey Stirton

Registered Office

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Securities Exchange Listing

Australian Securities Exchange
ASX code (ordinary shares): MFG

Website

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

Corporate Governance Statement

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