

**Chairman's Address
to the 2018 Annual General Meeting
Thursday 4 October 2018**

Welcome everyone to the twelfth Annual General Meeting of Magellan Financial Group Limited.

Today I will touch briefly upon some of the Company's activities over the last financial year, including the financial results, capital management and the recent dividend policy change, and also the acquisitions of Frontier Partners and Airlie Funds Management.

Before handing over to the Chief Executive Officer, Hamish Douglass, I will also make a few remarks on the important topics of our culture and the management and Board changes that were announced this morning.

The 2018 financial year has again been a busy, interesting, and we believe a very productive one for Magellan.

For the year, the Company earned \$1.549 per fully diluted share, excluding the one-off costs associated with the Magellan Global Trust ("Trust", ASX: MGG) offering, and the non-cash amortisation expenses relating to the acquisitions of Frontiers Partners ("Frontier") and Airlie Funds Management ("Airlie"). This compares with fully diluted earnings per share of \$1.141 last year (slide 1).

Fully franked dividends for the year totaled \$1.345 per share, which compares with \$0.856 last year.

The greater proportional increase in dividends (57%) versus earnings (36%) is largely the result of a change in our dividend policy.

Under the previous policy, dividends resulted from paying out in the middle of a 75%-80% range of the net after-tax profit of the funds management business. Over the years, the resulting retention of roughly 22.5% of those profits, together with growth in our principal investments, has allowed the Company to build a very strong balance sheet (slide 2).

As at 30 June 2018 the Group had net tangible assets of \$515 million, including \$445.5 million in cash and liquid assets. Following the acquisitions of Airlie and Frontier the balance sheet now includes \$105 million of goodwill and intangible assets, which brings total net assets to \$620 million.

Following a review (slide 3), the Board believes that retaining the same level of profits is no longer required, as the Group has sufficient capital to ensure both the maintenance of a very strong balance sheet in proportion to the scale of the business, and to also provide the necessary flexibility for further product development and seeding of new initiatives.

As such, it was decided to increase the dividend payout ratio to 90%-95% of the net profit after tax of the funds management business, excluding performance fees and amortisation (slide 4).

Further, it was also decided this revised policy would apply to any after tax crystallised performance fees earned during the year, which would be paid alongside the final dividend.

A consequence of increasing the pay-out ratio is that future dividends are likely to be partially franked.

This is because the Group's current average tax rate of about 22% is somewhat below the company tax rate of 30%, due to the benefit of the Group's lower taxed Offshore Banking Unit. The exact level of franking available from year to year will depend upon the Group's tax rate, which in turn is largely a function of the Company's mix of domestic and off-shore sourced earnings.

The important metric average Funds Under Management ("FUM") increased by 29% over the year to \$59.0 billion (slide 5), aided by net inflows (after distributions) of \$4.1 billion, investment performance of \$8.5 billion and \$6.3 billion associated with Airlie joining the Group.

As at 28 September 2018, FUM stood at \$74.5 billion.

Of the \$4.1 billion net inflows last year, \$1.6 billion was attributable to the completion of the MGG offering. MGG has since grown to about \$1.85 billion in FUM with over 34,000 direct unitholders.

MGG's own capital management during the year delivered the stated interim and final distributions of 3 cents per unit. Furthermore, the Trust repurchased approximately 1.9 million units under its buy-back authorisation and issued about 5.2 million units under its distribution reinvestment plan ("DRP"). Magellan contributed \$414,000 to MGG to offset the dilutionary impact associated with the 5% discounted issue price of units under the DRP.

We are very pleased our clients and their advisers are using MGG to further diversify their portfolios and we are also pleased with the first year's trading performance of the units, which has seen good liquidity and a unit price that has traded in a satisfactory range around the Trust's net asset value (slide 6).

Likewise, our Active ETFs continue to be well supported and used by both advised and self-directed investors alike. Unitholder growth continues (slide 7) with the small decline around the time of the MGG offering being recovered relatively quickly.

The combined FUM of our Active ETFs now stands at \$1.5 billion with over 24,000 unitholders. Pleasingly, according to a recent report by Class Limited, MGE now ranks in the top 6 of all ETFs held by self-managed super funds ("SMSFs").

Importantly, the same report shows the Magellan Global Fund ("MGF") ranks number one in managed funds held by SMSFs, with almost a quarter of those investing in managed funds now holding MGF.

As important as net inflows are, given the scale of Magellan, investment performance will now tend to dominate overall movements in funds under management into the future.

This year's \$8.5 billion increase in FUM due to investment performance highlights this well, and Hamish and his investment team are to be congratulated on their focus and results, in what are not straightforward market conditions and heightened levels of uncertainty.

Our investment team and processes are central to Magellan and we will discuss this further a little later.

The year also saw Frontier and Airlie join the Group. Both businesses complement our business, and we are extremely pleased and proud that they agreed to join the Magellan family.

Frontier was founded in Chicago by Bill Forsyth some 25 years ago and has been our distribution partner in the USA since 2011.

Over this time the partnership could not have been better. Bill and his colleagues are first rate and have played a very significant role in Magellan's success of developing broad and deep relationships with our institutional clients and their advisers.

With Bill as Executive Chairman of Magellan's North American business, we believe we can continue to build upon and strengthen our distribution capabilities in the large and important North American market.

Furthermore, Frontier's existing mutual fund platform and general presence across the investment manager universe provides Magellan with meaningful optionality.

Airlie, which currently manages around \$6.4 billion, was founded in 2012 by John Sevier and David Cooper, who were later joined by Matt Williams in 2016.

John and Matt are two of Australia's best fund managers, extremely well known and respected in the industry. Both have long and successful careers, including a lengthy period where they previously worked together to create a formidable investing collaboration.

We are very excited by the prospects of Airlie as they leverage Magellan's back-office and distribution capabilities to enhance outcomes for their existing clients and look to attract new investors over the coming years.

As such we are delighted to have recently launched the Airlie Australian Share Fund. This retail fund is managed by Matt Williams and Emma Goodsell and has already been accepted across most key platforms and is on many approved product lists.

Both Matt and Emma have undertaken an extensive roadshow around the country seeing over 600 advisers and clients with feedback and interest being extremely positive.

Plans are also underway to make this fund accessible via the ASX by the end of the year.

Whilst both these acquisitions bring different strategic benefits to Magellan, they have one thing in common - the quality of the people.

It is clear that those associated with Frontier and Airlie love what they do, and it is also clear that they are a wonderful cultural fit with Magellan – both critical ingredients for success in our opinion.

Indeed, it is our culture and how that evolves as we grow that is one of the most important aspects of Magellan, and it is worth discussing this in a little more detail.

Well before Magellan was established a few of us undertook the journey to Omaha to attend the Berkshire Hathaway annual general meeting. In those days, probably close to 25 years ago now,

the meeting “only” attracted a few thousand people and barely a handful from Australia made the trek.

Today, of course, the meeting is an even bigger event, attracting close to 50,000 people with many Australian groups taking the time to attend. (For the curious that’s roughly a 12% p.a. meeting attendance compound rate!)

Having had the pleasure of attending many of the Berkshire meetings since then it has been interesting to observe what has changed and importantly what things have stayed the same.

To put things in perspective, the meeting is held on a Saturday, usually the first one in May. The meeting starts at 8:30am and the doors to the venue open at 7am, although many line-up from very early in the morning to ensure a good seat.

At 8.30am a movie is played, which lasts for about an hour, then, after a few remarks, Buffett and Munger take questions until about 3pm with a break for lunch. At 3pm the formal part of the AGM is conducted.

Not much has changed over the years. The venues may have changed to keep up with the rising numbers, but the pre-dawn line-ups remain. The way questions are now asked has been modified, but the amount of time spent answering questions is the same. The order of meeting has changed to have the formal business at the end, but the movie remains front and centre at the start.

The movie itself consists of various clips, television ads for Coca-Cola and other products of Berkshire’s investee companies, together with both Buffett and Munger engaging in the occasional comedy skit. It is a mix of great self-deprecating humour, nostalgia, and a display of the extensive business interests Berkshire has amassed over the decades.

Over the years the production quality of the movie has increased markedly, and each year the content is updated and changes – except for one thing.

Every year, without fail, the movie contains a grainy clip of Buffett reading a statement to a US Congressional hearing into the mis-acts of Salomon Brothers in 1991. Buffett at the time had assumed the role of Chairman and CEO and was dealing with a crisis that almost led to the investment bank’s collapse.

Buffett’s statement, whilst short and directed at the Salomon’s events, highlights his expectations as to behavior and essentially his thoughts on the importance of a culture of always looking to do the right thing.

The clip is played every year and every year the audience bursts into applause when it is finished – and in the audience are many, if not all, of the key managers of Berkshire’s wholly owned businesses.

There are many lessons to be learned from the extraordinary success of Berkshire Hathaway and the importance of consistency is surely one of them – and never is this more important than when it comes to a firm’s culture and values.

What’s expected of a firm, and particularly of those employed by it, cannot be discussed just once. A firm’s culture ultimately is the product of an on-going dialogue of what it stands for and what is expected.

Magellan's founders, Chris and Hamish, understood this from the get go. Although somewhat topical currently, the expectation that Magellan would always put its clients first was discussed right from the outset.

Addresses to shareholders at early AGMs made mention of the aspiration to become a world class funds management business and that this could only happen if we produced results for our clients. The building of the Magellan business, the people, the processes and fixating on a relationship driven approach to distribution all centred around clients.

And this is important because in our judgement the best way we can ensure a good outcome for the owners of Magellan is to focus on our clients. After all, business starts at the customer.

Peter Drucker once noted that "the only valid purpose of a firm is to create a customer." In our view this is a very important mindset to have embedded in the business, as we firmly believe if we focus on creating relationships highly valued by our customers, our returns as owners will surely follow.

But as necessary as it is to be consistent when communicating values and cultural expectations, on its own it is not sufficient. Words alone will ring hollow if they are not also backed up by consistent action, especially when it counts.

To this end, we have been very aware to have clients' interests top of mind when considering such things as incentive structures, product development and even the capital levels of the Group.

Our incentive structures do not prioritise shareholders over unitholders and we are very watchful to ensure that second order effects do not materialise to the contrary.

Similarly, our product development has a simple starting point: what is the job to be done for the client? How can we make the client's experience better, remove friction, and build deserved trust by ensuring we always do what we say we will do?

The earlier discussion on the Group's capital and dividend policy made mention of the desire to have a very strong balance sheet in proportion to the scale of the business.

The Board's starting point in considering such balance sheet strength is the client. It simply asks what level of capital is required to demonstrably ensure that if we were to make an error that adversely affected our clients, the Group would be able to write a cheque to make those clients whole.

As an aside, such an error did occur early in Magellan's history when a mistake was made in processing a corporate action in a holding held across a number of our clients' funds.

The error stemmed from some confusion between us and our service providers and was ultimately the result of our processes - a lesson well learnt. Although the amount of money ensuing from the error was not material to the overall value of each of the client's funds, in total it was nevertheless not inconsequential at that time for our business.

Irrespective, there was never any discussion. We made each client whole.

This mindset of consistently putting our client interests first has been at the heart of Magellan since it was founded and retaining that culture as we grow and evolve is a clear priority.

The management and Board changes announced this morning reflect this attitude.

As of tomorrow, Hamish and I will effectively swap roles. Hamish will relinquish his Chief Executive Officer responsibilities to me, I will step down as Executive Chairman and Hamish will become Chairman.

Critically, Hamish will continue to be Magellan's Chief Investment Officer and the lead portfolio manager of Magellan's core global equities strategies.

The management of some \$75 billion of clients' money is the engine that drives Magellan. Allowing Hamish more opportunity to work with our outstanding investment team to further the investment outcomes of the central global equities strategies is undoubtedly in our clients', and therefore shareholders', interests.

In practice, Hamish and I having been working together over the past few years to ensure the day-to-day management of the Magellan business has not distracted from his role of managing our clients' money.

The Board and Hamish have long recognised the need to build resilience around the day-to-day management of the business and the need to provide Hamish sufficient support as he undertook both the CEO and CIO/portfolio manager roles.

My move to an executive position almost four years ago was part of that process and my move to the CEO role now will allow Hamish even more scope to concentrate on his core CIO and portfolio management responsibilities. Hamish, I and the rest of the Board consider this important for the future of Magellan, particularly as the business continues to grow.

Hamish and I will continue to jointly develop Magellan's corporate strategy. Furthermore, consistent with the transfer of his day-to-day non-investment management responsibilities, Hamish will also come off the board of our main operating and administrative subsidiary, Magellan Asset Management, allowing for our Chief Financial Officer Kirsten Morton to join.

These changes represent the evolution of Magellan and the growing business management strength that has been developed over the years.

Finally, I would like to thank the Board. As we have remarked before, the Board works extremely well together and brings an independence of diversified thought that is extremely valuable.

Each Board member is engaged, diligent and thoughtfully considers the many issues that arise like true long-term owners of the business – something that perhaps has been underrated when considering Magellan's success.

I look forward to taking on the responsibilities of CEO, and for the last time as Chairman, I will now hand over to Hamish.

Brett Cairns
Executive Chairman

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Magellan Financial Group Limited 2018 AGM Presentation

Brett Cairns | Executive Chairman



2018 Financial Results

Slide 1

	30 June 2018	30 June 2017	% change
Profit after tax (\$ millions)	211.8	196.2	8%
Profit after tax before MGG net offer costs and amortisation (\$ millions)	268.9	196.2	37%
Diluted EPS (cents per share)	122.0	114.1	7%
Diluted EPS before MGG net offer costs and amortisation (cents per share)	154.9	114.1	36%
Dividends:			
Interim and Final Dividends (cents per share)	119.6	79.9	50%
Annual Performance Fee Dividend (cents per share)	14.9	5.7	161%
Total Dividends per Share (cents per share)	134.5	85.6	57%

Balance Sheet

- Net tangible assets of \$515 million
- Cash and liquid assets of \$445.5 million¹
- No debt - undrawn debt facility sized at \$50 million

\$'000	30 June 2018	30 June 2017	30 June 2016
Cash and cash equivalents	169,095	146,243	120,362
Receivables	108,622	71,290	53,747
Financial assets	276,539	264,888	207,940
Goodwill and intangible assets	105,018	-	-
Other assets	15,669	11,560	10,330
Total assets	674,943	493,981	392,379
Payables and provisions	22,826	24,025	22,721
Income tax payable	29,702	4,863	7,032
Net deferred tax liabilities	-	15,651	7,257
Deferred lease incentives	1,982	1,831	-
Total liabilities	54,510	46,370	37,010
Net assets	620,433	447,611	355,369

¹ Calculated as cash and cash equivalents and financials assets less \$0.175 million of investments in unlisted shares
Source: Extracted from the Consolidated Statement of Financial Position included in Magellan Financial Group's audited financial statements

Ongoing Capital Requirements

- Magellan has built up significant capital over the past 12 years (net tangible assets as at 30 June 2018: \$515 million)
- The Board has undertaken a review of the ongoing capital requirements of the Group and has concluded:
 - Magellan has a very strong balance sheet
 - Our business is capital light and requires limited capital to support its business and to grow organically
 - There are numerous organic growth opportunities and Magellan has sufficient capital to support these initiatives
 - Magellan can recycle capital from its Principal Investments to seed new funds and strategies
 - Excess capital materially above what is needed to support and grow the business is unlikely to be valued by the market
 - The Board has revised the dividend policy to increase the payout ratio

Revised Dividend Policy

- Increased payout ratio to 90-95%
 - Interim and Final Dividends based on 90-95% of profit after tax of funds management segment (excluding performance fees)
 - Annual Performance Fee Dividend of 90-95% of net crystallised performance fees after tax
 - Subject to corporate, legal and regulatory considerations
- Increases the total cash dividend payout by approximately 20% per annum
- Final dividend of 90.0 cents per share comprising:
 - Dividend of 75.1 cents per share (fully franked)
 - Includes a top up amount of 8.4 cents per share to align the Interim Dividend to the new payout
 - Performance Fee Dividend of 14.9 cents per share (fully franked)
- Total dividends for the 2018 financial year up 57% to 134.5 cents per share (85.6 cents per share for 2017)
- Future dividends will likely be partially franked

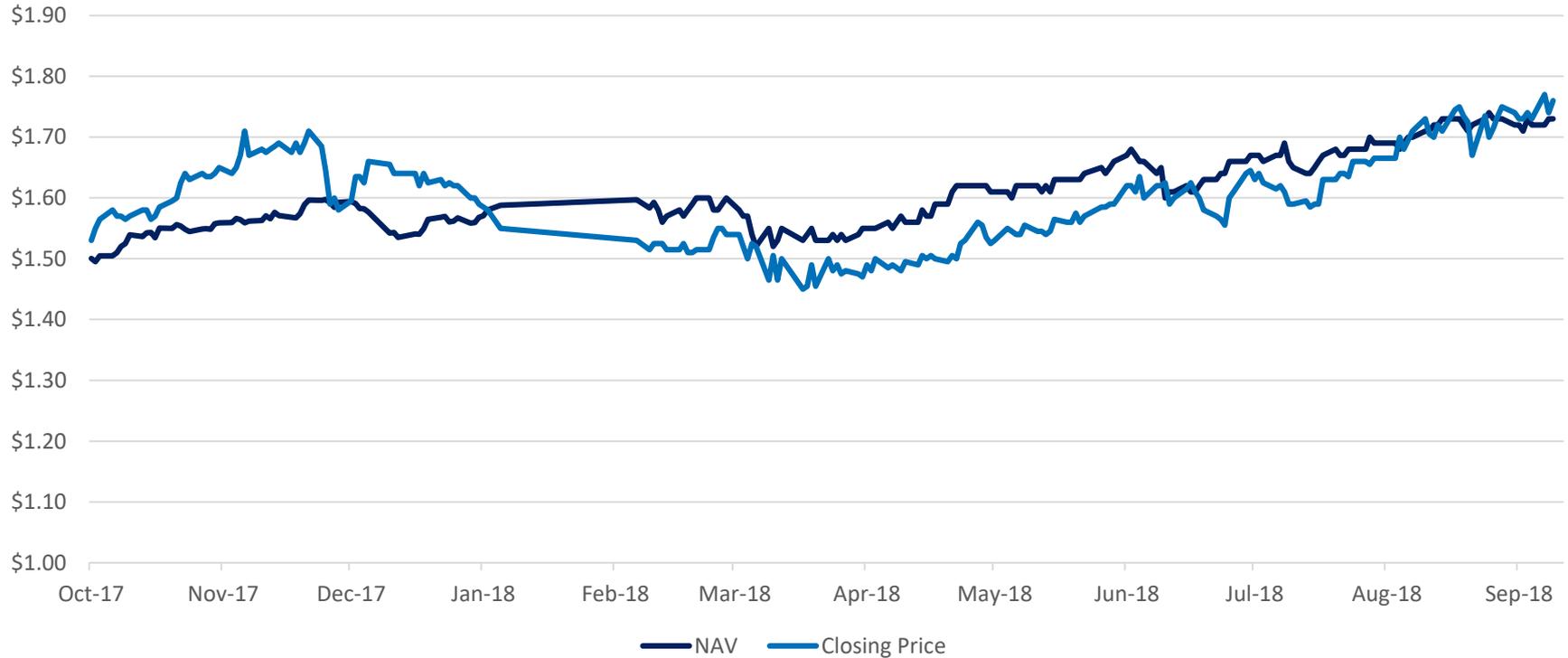
Funds Under Management

Slide 5

	30 June 2018	30 June 2017
Funds under management (\$ billions)	69.5	50.6
Average funds under management (\$ billions)	59.0	45.7
Growth in funds under management driven by:		
Net Inflows (net of distributions) (\$ billions)	4.1	3.4
Investment performance (\$ billions)	8.5	6.7
Acquisition of Airlie (\$ billions)	6.3	-

Magellan Global Trust

Trading history



Active ETF Unitholders

As at 28 September 2018

