

**Chairman's Address
to the 2020 Annual General Meeting
Thursday 22 October 2020**

Welcome everyone to the 14th 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, and the firm's strategy.

COVID-19 has brought considerable uncertainty and market volatility in 2020. We are proud of the results that our Investment team and investment process have produced in these times. Downside protection is a key component of our investment objectives and something that we discuss with our clients in depth. We continue to manage our portfolios to protect the capital of our investors.

We are proud of how our business and people have adapted during the second half of the year. We seamlessly moved to work-from-home arrangements and, whilst our employees have faced various challenges including full time home-schooling and turning a dining room into an office (and back again) each day, it is a testament to the quality of the people we employ that we got on with the job of servicing our clients without distraction.

Overall, we believe Magellan's financial results for the year ended 30 June 2020 are more than satisfactory.

For the year:

- Magellan's net profit after tax increased by 5% to \$396.2 million;
- Magellan's adjusted net profit after tax increased by 20% to \$438.3 million. Adjusted net profit is an important measure of our underlying earnings as it excludes non-cash accounting amortisation relating to the acquisitions of Airlie Funds Management and Frontier Partners, the unrealised gains in our Principal Investments portfolio and the costs associated with capital raisings for our funds;
- Net profit before tax for the Funds Management Segment increased by 21% to \$558.0 million; and
- Total dividends (interim, final and performance fee) increased by 16% to 214.9 cents per share. We have a dividend policy of paying dividends amounting to 90-95% of the after tax profit of the Funds Management Segment.

Our team has been busy on the business development front this year.

During the financial year ended 30 June 2020, we completed the initial public offering of the Magellan High Conviction Trust, our second closed-end listed investment trust, which raised \$862 million. Consistent with our partnership approach, Magellan funded the issue of valuable bonus units to investors who participated in the offering.

We have been on a journey over the past five years to simplify and improve the efficiency of how investors can access fund management products in Australia:

- In 2015 we launched Active ETFs to enable investors to access our funds simply on the stock exchange.
- In 2017 we launched a closed-ended Listed Investment Trust (Magellan Global Trust) which enabled us to demonstrate the power of partnership benefits via funding attractive bonus units and an ongoing discounted distribution reinvestment plan.
- In June 2020, we established the next generation of Active ETFs with the launch of the Airlie Australian Share Fund with a single unit that acts as both a listed fund and an unlisted fund. We believe this will open a pathway for other managers to make their existing unlisted funds available on the stock exchange which should benefit investors who are seeking to invest in managed funds and understand the simplicity of trading on the stock exchange.
- On 3 August 2020 we announced a ground breaking restructure proposal to simplify Magellan's Global Equities retail products via a consolidation of the unlisted opened-ended Magellan Global Fund, the listed opened-ended Magellan Global Equities Fund and the listed closed-ended Magellan Global Trust. The merged Magellan Global Fund will have two unit classes – an open-ended class and closed-ended class. At current unit prices, the merged fund will have a total value of around \$16 billion (excluding the proposed capital raising) and will be the largest managed fund listed on the ASX.

The merged fund will undertake a 1 for 4 entitlement offering and bonus option issue post implementation of the merger.

Magellan is paying for the benefits being offered to investors pursuant to the entitlement offering and bonus option issue. These costs are likely to be significant and will impact reported profits in the 2020/21 financial year. Importantly, the Board excludes these expenses from profits when determining the appropriate level of dividends. As I've previously written, we firmly believe this partnership approach is a win-win outcome for investors in our funds and our shareholders. Partnership benefits increase investor engagement, promote loyalty and can attract more investors over time and provide valuable benefits to investors. We view the cost to Magellan to fund these partnership benefits as a highly attractive investment in the future of the business.

In August, we also announced a number of new product launches.

The first is the launch of the MFG Core Series. This initiative has been under development for a number of years and is consistent with our approach to think deeply about solving problems for our clients and leveraging our core competencies to address their needs. The MFG Core Series aims to offer clients who are seeking lower cost alternatives an attractive investment proposition that leverages Magellan's expertise.

The MFG Core Series comprises three funds: MFG Core International Fund, MFG Core ESG Fund and MFG Core Infrastructure Fund. The funds will offer investors more diversified portfolios of high quality companies based on Magellan's investment philosophy and proprietary research. The Core Infrastructure strategy has a very successful institutional track record, has substantial funds under management and has been available to institutional investors for the past decade. The MFG Core Series funds will charge a management fee of 0.50% which we believe will be highly appealing to investors who are seeking a lower cost alternative. We intend to launch the MFG Core Series as Active ETFs by the end of the year. This is a large and growing space and we believe that could become a material part of Magellan's funds under management over time.

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

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

I would now like to talk about the evolution of our Principal Investments segment which we believe will be an important and strategic part of Magellan moving forward. It has the potential to add to our intellectual capital, provide meaningful diversification beyond our Funds Management business and importantly generate substantial shareholder value over time. Historically our Principal Investments primarily comprised co-investments in our funds (for example the Magellan Global Fund, the Magellan Global Trust, the Magellan High Conviction Fund, the Magellan High Conviction Trust and the Magellan Infrastructure Fund) and provided capital to seed new strategies (such as the upcoming retirement product). Co-investment in our funds is an important alignment of interest between Magellan as the fund manager and our clients. We believe in eating our own cooking. We have set a pre-tax investment hurdle of 10% per annum (through the investment cycle) for our Principal Investments. At 30 June 2020 we had total net assets in our Principal Investments segment of \$373.7 million and have generated a return of 15.7% per annum over the past 10 years.

In considering a Principal Investment, beyond investing in our own fund management products, the Board applies the following tests.

Firstly, we do not want these investments to complicate our simple and scalable Funds Management business model nor distract us from delivering for our clients. To be considered in our Principal Investment segment the business needs to be fully autonomous from Magellan with an outstanding management team in place. If they need our management expertise to run or develop the business, we are unlikely to be interested. In most instances we would seek a non-controlling investment.

Secondly, we look for opportunities that can contribute to the intellectual capital of our business. The ability of an investment to contribute intellectual capital may not always be obvious to outside observers. We are not simply seeking more expertise in the funds

management industry, although we may consider investing in an investment management business under this model. For instance, intellectual capital could include experience in developing a direct retail consumer model, digital engagement expertise, experience in (or access to) other important geographic markets or technology innovation that could assist our business.

Thirdly, we are ideally seeking to make investments in high quality businesses that could make a meaningful contribution to our future earnings and increase optionality for Magellan. We may make smaller investments from time to time if they meaningfully contribute to our intellectual capital. We do not want to build a portfolio of sub-scale investments that do not move the needle. We would prefer fewer, larger investments. This is important to create long term optionality and diversification.

Lastly and importantly, we want to make investments that have the potential to create shareholder value over time via earning attractive returns on the capital we commit.

We are very pleased to have recently announced our first meaningful Principal Investment (beyond our investments in our funds) as a foundation investor in Barrenjoey Capital Partners, a newly established Australian-based full-service financial services firm.

Barrenjoey will offer Australian and international clients a full suite of financial services, including corporate and strategic advisory, equity and debt capital market underwritings, cash equities, research, prime brokerage as well as traditional fixed income services. With a partnership model that leaves the control, equity ownership and core decision making with executives, Barrenjoey can apply a nimble, aligned and entrepreneurial approach which we believe uniquely positions the business in the Australian market. Barrenjoey is led by an outstanding team of experienced executives including Guy Fowler, Brian Benari, John Cincotta, Matt Hanning and Chris Williams. We are delighted that Ken McKenzie will be joining Barrenjoey. Barrenjoey is already off to a flying start having recruited some outstanding people with more outstanding people approaching the business on a daily basis.

Barclays has also become a foundation investor with a 9.9% economic interest and will assist Barrenjoey with global product distribution, research, cross-border advisory and debt capital markets, as well as making available significant balance sheet capacity for Barrenjoey to support its clients.

We believe our investment in Barrenjoey meets all the criteria we have established for our Principal Investments.

Firstly, we have taken a non-controlling 40% economic interest and Magellan will have no day-to-day involvement in the business. Brett Cairns, our CEO, will sit on the Board to oversee our investment as a non-executive director.

Secondly, we believe that Barrenjoey has the potential to contribute meaningfully to our intellectual capital, through staff training programmes, via the exchange of ideas (which is already occurring) and potentially via the co-development of investment or business opportunities. In this sense the investment in Barrenjoey increases our ability to attract and train outstanding people and provides more optionality to considering new opportunities.

Thirdly we believe our 40% economic interest in Barrenjoey has the potential to make a meaningful financial contribution to Magellan over time. The market opportunity for Barrenjoey is large and likely to be beyond Australia and New Zealand in the longer term. We believe combining outstanding people and capital in the right ownership structure with properly aligned incentives has the potential to deliver outstanding results over time.

Lastly, we expect that we will generate attractive returns for our shareholders over time from our investment.

I note that whilst our investment in Barrenjoey of approximately \$155 million is meaningful, it is very modest in the context of the size of Magellan and our financial resources.

We are excited about the prospects for Barrenjoey and it reminds me of the early days here at Magellan. Fourteen years later and it is incredible to see what can be achieved by talented people who are aligned in a common goal, backed by a strong balance sheet and not being constrained by existing systems or processes. We would like to express our sincere thanks to the principals of Barrenjoey and Barclays for partnering with Magellan. We are truly honoured.

I would also like to briefly highlight another Principal Investment we are in the process of making. We have entered into a commitment to make a \$20 million investment in FinClear for a minority interest in the business. FinClear is a provider of technology, trading infrastructure, and ASX market-access services to wealth, stockbroking, platform, and fintech customers that require trading access and asset hosting on ASX.

The business has an outstanding management team and we will have one non-executive director on the FinClear board. Whilst this investment may not be material from a financial perspective, it does deeply add to our intellectual capital in understanding the ongoing simplification and digitalisation of the financial plumbing of the financial services industry in Australia. We have been at the forefront of innovation in this area and we believe our investment in FinClear will augment what we are doing and lead to further innovation and simplification for clients.

Thank you to all that are involved in Magellan and thank you to our shareholders for your support of the business.

I will now hand over to Brett for his CEO's review.

Hamish M Douglass
Chairman and Chief Investment Officer

Important Information

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