MAGELLAN FINANCIAL GROUP LIMITED

Chief Executive Officer's Annual Letter
for the year ended 30 June 2020

Dear Shareholder,

I am delighted to present this report for Magellan Financial Group Limited ("the Group" or "Magellan") for the year ended 30 June 2020.

OVERVIEW OF MAGELLAN

For those who might be new to Magellan this section provides a brief overview of the business. For those who are more familiar with Magellan's business, please feel free to skip to the section "Overview of Results", which provides a detailed discussion of results for the period. This year, before reviewing the results, we also discuss the impact of the COVID-19 pandemic.

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

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

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

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

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

As a fund manager, our business is heavy in human capital. Although not noted in our balance sheet, people are our most valuable asset and, as our profit and loss statement show, they are also our largest expense (apart from payments for tax). Payments to employees make up roughly 60% of our adjusted operating expense base. Given the nature of our business, we believe it is very important to foster a culture amongst our team where everyone is encouraged to think and act like owners of the business. We are pleased our voluntary employee share purchase plan has resulted in approximately 70% of employees being Magellan shareholders.

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

We have focused on developing the business to ensure scalability as the business grows and currently our core cost-to-income ratio is 19.7% (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 $925.4 million of net tangible assets as at 30 June 2020. Our liabilities comprise of day-to-day payables and provisions for employee entitlements and tax, together with lease liabilities for our offices. We have no borrowings although for funding flexibility, we do maintain an undrawn corporate debt facility. We believe a strong balance sheet that can withstand almost any market condition is important for our clients as well as shareholders, as has been demonstrated during these recent uncertain times.

A meaningful portion of the Group's capital is invested in our strategies alongside our clients via 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) including seeding 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.

Accounting standards require us to include both realised and unrealised gains/losses in the Group's reported earnings. Given the size of our Principal Investments this brings some unwanted noise into our reported earnings at various times and as such we will endeavour to be clear in our discussions and financial accounts as to what portion of our earnings are derived from the core business and what is the result of investment gains or losses, some of which may not yet be realised.

As at 30 June 2020 the Group has net assets of $1,045.9 million, of which $120.6 million is classified as intangible. These intangible assets arose following the purchases of Airlie Funds Management ("Airlie") and Frontier Group ("Frontier") and comprise values attributed to customer relationships and goodwill.

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

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

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

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

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

As such, secondly, we also think a metric whereby we make adjustments to exclude specific items provides additional meaningful information about the performance of the business, particularly in comparative analysis. Such adjustments include adding back non-cash items such as amortisation, because we consider departing clients would be replaced, and removing unrealised gain/losses, because they are unrealised. We also adjust for items that relate to transaction costs of strategic initiatives. For example the offer costs we incurred as part of the initial public offerings ("IPO") of our two closed-ended funds, the Magellan Global Trust (ASX: MGG) and the Magellan High Conviction Trust (ASX: MHH); and funding of the discounts offered on any Unit Purchase Plans ("UPP") and Distribution Reinvestment Plans ("DRP") in the closed-ended funds that may have occurred in a period.

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

We discuss each of these measures in the analysis below.

Finally, a word on tax. Our effective tax rate is below the company tax rate (currently 30%) because Magellan has the benefit of being declared an Offshore Banking Unit ("OBU"). The benefit of an OBU is that assessable offshore income, net of costs, is taxed at a concessional rate of 10%. Our assessable domestic income is still taxed at the company tax rate and so our actual overall tax rate will depend on the mix of our offshore and onshore businesses. Currently our effective tax rate is 23.1%.

The remainder of this report discusses the business in more detail, the impact on the Group of the COVID-19 pandemic and the Group's financial results for the year ended 30 June 2020.

VIRUS

To say the world has changed in an almost unimaginable way since our half year report in February 2020, is probably itself a gross understatement. The speed, breadth and outright nasty nature of the COVID-19 pandemic has highlighted many, many things, none the least of which is just how vulnerable the world now is to the network effect of such an efficient disease.

Whilst Magellan's business has thankfully not been at the front line of the virus' impact, we are still very mindful of the impact it has had on those with whom we interact: our investors and their advisers, our staff, colleagues, friends, and all their families.

Hamish's recent note to investors (which can be found on our website if you missed it) homed in on understanding the limits of our knowledge when it comes to thinking things through in relation to the pandemic – known unknowns.

We know that second and third order (and beyond) effects – those knock-on effects and their knock-on effects – are important, but we also know it is difficult to predict what might occur amongst the many possible interactions. We know we don't really know.

The best we can do in this environment is deal with what we can control and be prepared for what we cannot. In this sense, we want to act prudently and where possible, be clear to reduce uncertainty and anxiety. Further, in considering our position, we should also not lose sight that these environments often present business opportunities.

We made it clear to our team at the outset that there would be no staff reductions as a result of the pandemic. As noted above, we have long believed a strong balance sheet that can withstand almost any market condition is an important factor for our clients and therefore shareholders. Having a strong balance sheet has allowed us to be clear with our team, which in turn has allowed them to focus on our clients and the business without the additional worry of their (and their families') own livelihoods.

This has been important. Notwithstanding the disruption of uprooting our office surroundings in favour of working from home, our team has remained focussed. Our investment team assessed the many and varied risks posed by the pandemic with the clear intent of protecting investors and made suitable portfolio adjustments. The results for our clients have been positive and meaningful. Across the overall business, likewise all involved have continued to be driven and very productive.

It has been evident through this period that our team do indeed think and act like business owners – something we believe to be the upmost importance. In this context, we also asked our staff to understand the need for the business to be prudent as we elected this year to freeze salaries and generally pull back on bonuses. For some senior members of our team this has meant meaningful bonus reductions. Hamish and I have waived our bonus entitlements in full this year and the Board has also waived a scheduled fee increase.

In balancing the need for prudence with the impact on our team, we have also been aware that some households have lost an income and generally circumstances are difficult. As such we elected this year not to defer any bonus payments and to bring forward all previous earned bonus deferrals (excluding those payable to Hamish) to help the household cash flow.

These are uneasy times and I want to thank everyone for the contributions they have made to this year's results, which are discussed in detail below.

OVERVIEW OF RESULTS

During the year, the Group saw a 26% growth in average FUM over the previous corresponding period, to $95.5 billion (average FUM of $75.8 billion for the year ended 30 June 2019). We are pleased with this outcome, particularly given the severe market volatility seen around the world driven by the COVID-19 pandemic. This could not have been achieved without the performance of our investment strategies which exhibited the strong downside protection traits that are a key component of our investment objectives.

For the year ended 30 June 2020, the Group reported net profit after tax of $396.2 million, which represents an increase of 5% over the previous corresponding period ($376.9 million for the year ended 30 June 2019).

Adjusted for non-cash and unrealised items and costs relating to strategic initiatives, the Group's net profit after tax increased by 20% to $438.3 million for the year ended 30 June 2020 ($364.2 million for the year ended 30 June 2019). Adjusted financial measures for the year are adjusted for non-cash amortisation expense of $4.7 million, unrealised capital gains (net of a realised financial liability relating to strategic initiatives – see Note 16 in the Financial Statements) from the Principal Investments segment of $0.7 million (net of tax) and costs related to strategic initiatives of $38.1 million (net of tax), which primarily relate to the IPO of the Magellan High Conviction Trust ("MHH") in October 2019. Adjusted earnings per share increased by 17% to 241.5 cents per share (205.9 cents per share for the year ended 30 June 2019). The slight decline in percentage increase on a per share basis reflects the increased number of shares on issue primarily as a result of the share placement in August 2019.

In the period, the Group earned crystallised performance fees before tax of $81.0 million. As we have discussed previously, it is important to note performance fees can, and usually do, vary significantly from period to period. Whilst this does not detract from their value, it can distort near term comparative analysis.

We therefore draw shareholders' attention to the change in profit before tax and performance fees of our Funds Management business. This increased 27% to $477.0 million for the year ended 30 June 2020 ($376.2 million for the year ended 30 June 2019), slightly ahead of the 26% increase in average FUM over the period.

Earnings before tax from Principal Investments totalled $15.5 million, of which $14.6 million came from distributions, $7.1 million attributed to unrealised capital gains, offset by $5.7 million from realised capital losses and a $0.2 million net foreign exchange loss. Earnings from distributions and realised capital gains/losses are included in other revenue in the table on the next page.

The Directors have declared total dividends of 214.9 cents per share for the year ended 30 June 2020. This is an increase of 16% over the 2019 financial year. In respect of the six months to 30 June 2020, the Directors have declared a total dividend of 122.0 cents per share, franked at 75% (111.4 cents per share, 75% franked, in 2019) which will be paid on 26 August 2020. The dividend comprises:

- A Final Dividend of 91.6 cents per share; and
- A Performance Fee Dividend of 30.4 cents per share.

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

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

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

	30 June 2020 $'000	30 June 2019 $'000	Change %
Management and services fees	591,641	472,486	25%
Performance fees	80,964	83,631	(3%)
Other revenue	20,336	21,134	(4%)
Adjusted Revenue	**692,941**	**577,251**	20%
Adjusted expenses	(119,751)	(104,024)	15%
Adjusted net profit before tax	**573,190**	**473,227**	21%
Adjusted tax expense	(134,891)	(109,002)	24%
Adjusted net profit after tax	**438,299**	**364,225**	20%
Transaction costs related to strategic initiatives (after tax)[2]	(38,104)	(10,856)	n/m
Amortisation expense of intangible assets	(4,689)	(4,518)	n/m
Net unrealised change in fair value of financial assets and liabilities (after tax)[3]	708	28,095	n/m
Total non-IFRS adjustments	**(42,085)**	**12,722**	n/m
Profit after tax	**396,214**	**376,947**	5%
Key Statistics			
Diluted earnings per share (cents per share)	218.3	213.1	2%
Adjusted diluted earnings per share (cents per share)	241.5	205.9	17%
Dividends			
Interim and Final Dividends (cents per share)	184.5	151.8	22%
Annual Performance Fee Dividend (cents per share)	30.4	33.4	(9%)
Total Dividends (cents per share)	214.9	185.2	16%

FUNDS MANAGEMENT SEGMENT

For the year ended 30 June 2020, the Group's Funds Management segment profit before tax increased by 21% to $558.0 million ($459.8 million for the year ended 30 June 2019). Excluding performance fees, profit before tax grew by 27% to $477.0 million[4] ($376.2 million for the year ended 30 June 2019). The following table summarises the profitability of the Funds Management business over the past two financial years:

	30 June 2020 $'000	30 June 2019 $'000	Change %
Revenue			
Management fees	587,246	467,786	26%
Performance fees	80,964	83,631	(3%)
Services fees	4,395	4,700	(6%)
Interest and other income	2,206	5,209	(58%)
	674,811	561,326	20%
Expenses			
Employee expense	73,781	62,770	18%
Fund administration and operational costs	18,820	15,976	18%
Marketing expense	4,929	3,382	46%
Other expense	19,269	19,409	(1%)
	116,799	101,537	15%
Profit before tax expense	**558,012**	**459,789**	21%
Profit before tax and before performance fees[4]	**477,048**	**376,182**	27%
Key Statistics			
Average funds under management ($ million)	95,458	75,819	26%
Average AUD/USD exchange rate	0.6716	0.7155	(6%)
Average number of employees	128	125	2%
Employee expenses / total expenses	63.2%	61.8%	
Cost / income	17.3%	18.1%	
Cost / income, excl. performance fees	19.7%	21.3%	

(1) Adjusted financial measures are adjusted for non-cash items (amortisation expense and unrealised gains/losses) and transaction costs related to strategic initiatives. A reconciliation to the reported profit and loss statement is outlined in Section 1.4 of the Directors' Report.
(2) Includes net transaction costs relating to the MHH IPO, and DRP discount funding costs for MGG and MHH for the year ended 30 June.
(3) Net of a realised financial liability relating to strategic initiatives – see Note 16 in the Financial Statements.
(4) Adjusts for the current period performance fee impact on revenue and expenses for the 12 month period.

Revenues

The key driver of revenue is FUM and this is discussed in detail in the next section. Revenues for the year ended 30 June 2020 increased by 20% to $674.8 million over the period. This was driven by a 26% increase in total management fee revenue as a result of a 26% increase in average FUM over the period attributable to strong investment performance and net inflows.

Over the year, average Retail FUM increased by 27% and average Institutional FUM increased by 26%. The average annualised Base Management fee for the year was 0.62%, unchanged from 2019.

Performance fees before tax for the year totalled $81.0 million compared with $83.6 million in the prior corresponding period. Performance fees can, and very often do, vary significantly from period to period.

As a result of the acquisition of Frontier, the Group also now receives revenues relating to Frontier's third-party fund manager distribution business (excluding Magellan) which has been included in other revenue.

Expenses

In considering the operating expenses of the Funds Management segment we exclude costs relating to strategic initiatives, for instance the IPOs of our closed-ended funds, the Magellan Global Trust (ASX: MGG) in October 2017 and the Magellan High Conviction Trust (ASX: MHH) in October 2019, and funding of the discounts offered on UPPs and DRPs in these two funds.

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

Overall, the Funds Management business operated efficiently with a cost to income ratio (excluding performance fees) of 19.7% compared with 21.3% for the year ended 30 June 2019.

Expenses increased by 15% to $116.8 million over the previous corresponding period (in line with our expectations that Fund Management segment expenses would be in the range $115-$120 million).

As noted above, given current uncertainties, we have elected to freeze salaries, pull back on current year bonus payments and bring forward previously earned, but deferred, bonus payments to this year. These changes have been reflected in this year's recorded expenses. We expect next year's Funds Management segment expenses to be in the range $110-$115 million, reflecting amongst other things, generally lower costs related to items such as travel and the effect of bringing forward bonus deferrals.

Ultimately the level of our expenses for the year will depend on a number of market related variables such as foreign exchange rates, FUM levels and unitholder activity. Although we pay close attention to our costs and have a cost conscious culture, our current cost to income ratio of 19.7% means incremental changes in expenses will not be a material driver of profitability. For example, a $5 million increase in our expenses has roughly the same impact on profits as would an annualised revenue reduction resulting from a 0.85% decline in our FUM (something which can happen from day to day merely due to market movements).

The following table sets out total employee numbers:

	30 June 2020	30 June 2019
Investment		
- Portfolio Managers/Analysts	31	29
- Dealers	3	3
	34	32
Distribution & Marketing	34	31
Other (including Finance, Risk & Compliance, Admin)	44	41
Frontier	11	12
Airlie	8	9
Total	**131**	**125**
Average number of employees	128	125

As at 30 June 2020, the Group had 131 employees. We are pleased with the talent employed across the business and the bench strength of the management team. We expect future increases in employee numbers resulting from organic growth to be modest, reflecting scalability. Such increases are unlikely to occur evenly from one year to the next as the various areas of our business reach resource constraints at different points in time as we grow.

Funds Under Management

As at 30 June 2020, the Group had FUM of $97.2 billion, split between global equities (77%), infrastructure equities (16%) and Australian equities (7%). This compares with FUM of $86.7 billion at 30 June 2019. The increase in FUM was driven by investment performance of approximately $5.4 billion and net inflows of $5.7 billion less cash distributions (net of reinvestment) of approximately $0.7 billion. As we have previously noted, given the size of the Group's FUM, investment performance is the key driver of FUM movement.

The following table sets out the composition of FUM:

$billion	30 June 2020	30 June 2019	30 June 2018
Retail	26.8	23.2	19.2
Institutional	70.4	63.5	50.3
Total FUM	**97.2**	**86.7**	**69.5**
Retail (%)	28%	27%	28%
Institutional (%)	72%	73%	72%
FUM subject to Performance Fees (%)	34%	33%	34%
Breakdown of FUM ($billion)			
- Global Equities	74.3	64.0	52.7
- Global Listed Infrastructure	15.9	15.2	10.3
- Australian Equities	7.0	7.5	6.5
Average Base Management fee (bps) per annum excluding Performance Fees[5]	62	62	65

Retail FUM

The Group's retail business is focused on retail investors in Australia and New Zealand who we target through two key channels: broker advised and financial advisers, and self-directed retail investors.

At 30 June 2020, the Group had total retail FUM of $26.8 billion. We experienced total net retail inflows of $2.9 billion for the 12 months to 30 June 2020 (including the proceeds of the MHH IPO), compared with $1.5 billion for the previous financial year.

The Group experienced average monthly retail net inflows of approximately $169 million over the 12 months to 30 June 2020 (excluding the proceeds of the MHH IPO), compared with $121 million over the previous corresponding period.

We were very pleased with the support from both existing and new investors for the IPO of MHH, which raised $862 million. In line with our partnership approach, Magellan funded all the costs associated with the raising including the Loyalty Units and IPO Foundation Units that were offered to investors as part of the IPO. Net costs relating to the offer totalled $53.4 million for the period (see Note 16 in the Financial Statements). As previously noted, we view these costs as investments in building FUM and underpinning our long-term partnership approach, and as such exclude them from the Funds Management segment when calculating shareholder dividends.

During the period, we were pleased to make the Airlie Australia Share Fund available on the ASX. Importantly, this is not a new fund or a new class of units. Rather, the existing units of the unquoted fund are now available for purchase or sale on the ASX, along with the existing application and redemption processes directly with the Responsible Entity. This effectively represents the convergence of listed and unlisted open-ended funds into a single entity and single unit and we believe brings significant simplification and other benefits to our clients as well as Magellan.

We now have four Active ETFs quoted on an exchange with total FUM of $2.6 billion as at 30 June 2020, with over 42,000 direct unitholders. Over the past year we have welcomed, on average, 55 new unitholders every day into our Active ETFs. During the period we also saw greater flows into our fully currency hedged products as the Australian dollar fell.

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

A key component of this was our 2020 Investor Evenings which occurred in February and March 2020. Magellan's Chairman and Chief Investment Officer, Hamish Douglass, visited seven cities in Australia and New Zealand and presented to approximately 10,000 people, providing an update on global markets and investments. Magellan paid for the full cost of these events with 100% of the monies raised from ticket sales going to three very deserving charities – REACH, Rural Aid and Fly High Billie. We were delighted to help raise over $450,000 across all the events for these truly worthwhile organisations.

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

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

Investment Performance for the period to 30 June 2020[6]	1 Year	3 Years	5 Years	Since Inception[7]
	%	% p.a.	% p.a.	% p.a.
Magellan Global Fund	**9.0**	**15.3**	**12.0**	**12.0**
MSCI World NTR Index ($A)	4.8	10.6	9.3	6.3
Magellan Infrastructure Fund	**-8.9**	**4.3**	**7.7**	**7.6**
Global Listed Infrastructure Benchmark ($A)[8]	-16.2	-1.4	2.6	4.2
Magellan High Conviction Fund	**6.1**	**12.6**	**11.2**	**14.7**
Airlie Australian Share Fund	**1.6**	**-**	**-**	**4.6**
S&P/ASX 200 Accum. Index	-7.7	-	-	3.0

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

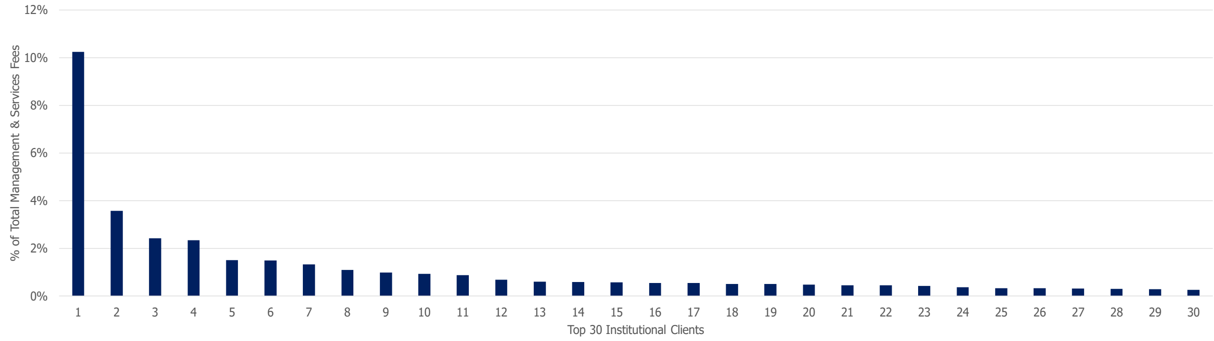
Institutional FUM

At 30 June 2020, the Group had total institutional FUM of $70.4 billion from around 140 clients[9]. During the 12 months to 30 June 2020, we experienced institutional net inflows of $2.8 billion, which compares with net inflows of $2.9 billion for the previous financial year.

Although our institutional clients are located around the world, the Group seeks to implement a targeted approach to institutional distribution and therefore most of our institutional clients are based in North America, the UK and Australia/NZ. In February 2018, the Group acquired our North American distribution partner, Frontier. We view North America as a key market for our institutional distribution activities and we are delighted to have Bill Forsyth, Frontier's founder and Chairman, leading this activity.

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

Institutional Client Diversity[10]



Top Institutional Clients	5	10	20	30
%	20	26	32	35

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$16-17 billion. At 30 June 2020 the Group's infrastructure FUM was US$11.0 billion.

(6) Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Annualised performance is denoted with "p.a." for the relevant period.
(7) Inception date for the Magellan Global Fund and Magellan Infrastructure Fund is 1 July 2007, the inception date for Magellan High Conviction Fund is 1 July 2013 and the inception date for the Airlie Australian Share Fund is 1 June 2018.
(8) The Global Listed Infrastructure benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure and Utilities NTR Index (AUD Hedged) and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure NTR Index (AUD Hedged).
(9) The number of clients includes separately managed accounts and institutional investors in local and offshore vehicles.
(10) Management and services fees for the 12 months to 30 June 2020 for separately managed accounts and institutional investors in local and offshore vehicles. Excludes Performance fees.
(11) U.S. mutual fund will remain open with some allocated capacity.

We are also pleased with the development of our next generation of global equities strategies, the Sustainable strategies. Our Deputy CIO Dom Giuliano manages the Global Sustainable strategy, and our US Sustainable strategy is managed by Alan Pullen. Both strategies have recently passed their three year anniversaries.

We believe both these strategies are well positioned on the back of solid track records and a thoughtful, differentiated sustainable investment approach. We estimate the theoretical capacity of the Sustainable strategies is approximately US$20 billion. Good performance coupled with increasing track record length has led to favourable discussions with potential investors and recent commitments which we expect to be funded by the end of the calendar year.

PRINCIPAL INVESTMENTS

The Group's Principal Investments is a sub-set of the Group's balance sheet and is invested in Magellan funds, listed shares and a small number of unlisted investments. At 30 June 2020, the Group had net Principal Investments of $373.7 million, compared with $323.1 million at 30 June 2019.

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 6.5%, 13.6% and 11.4% per annum over the last 1, 3 and 5 years to 30 June 2020 respectively. Excluding the effect of the Group's previous investment in MFF Capital Investments Limited, disposed of by way of an in-specie distribution to shareholders in February 2013, the portfolio returned pre-tax 10.9% 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.

The following table sets out a summary of the Group's Principal Investments as at 30 June 2020.

The Group's Principal Investments

$million	30 June 2020	30 June 2019
Cash	1.4	4.6
Magellan Unlisted Funds[12]	258.3	213.4
Listed shares/funds[13]	137.8	125.7
Other[14]	7.4	3.8
Total	**404.9**	**347.5**
Deferred tax liability[15]	(31.2)	(24.4)
Net Principal Investments	**373.7**	**323.1**
Net Principal Investments per share (cents)[16]	**205.0**	**182.5**

CAPITAL MANAGEMENT

As at 30 June 2020, the Group's financial position included:

- investment assets (cash and cash equivalents and financial assets) of $836.0 million (30 June 2019: $539.3 million). The Group's cash position at 30 June 2020 was $437.5 million and current receivables were $136.4 million. Dividends of $222.4 million are due to be paid to shareholders on 26 August 2020;
- net assets of $1,045.9 million (30 June 2019: $734.0 million) which includes $120.6 million of intangible assets following the acquisitions of Airlie and Frontier;
- net tangible assets per share of $5.08 (30 June 2019: $3.44); and
- total liabilities of $77.9 million which relate predominantly to payables, provisions and lease liabilities. The Group has no debt but has access to an undrawn debt facility.

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

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

(12) Magellan Unlisted Funds as outlined in Note 12 of the Financial Statements.
(13) Listed shares/funds include seed portfolios and Magellan's listed funds (as outlined in Note 12 of the Financial Statements) excluding receivables/payables (refer to footnote 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 182,280,222 ordinary shares on issue at 30 June 2020 (at 30 June 2019, it is based on 177,087,458 ordinary shares)

OTHER

There has been much work put into developing a range of initiatives over the past few years, some of which are now coming to fruition. Most notably these are:

Restructure of Global Equities retail funds
On 3 August 2020 we announced the restructure of three of our retail funds into a single trust with two unit classes, one open-ended and the other closed-ended. If implemented, the restructure will consolidate the progress Magellan has made over a number of years to provide retail investors with a more efficient investment experience coupled with greater access and choice – firstly with the launch of Active ETFs in 2015, then with partnership benefits within closed-ended funds in 2017 and most recently, the next generation of Active ETFs in 2020.

We believe the consolidation of these funds into a single trust with an open-ended unit class and a closed-ended unit class is another positive step for investors. We have long recognised and understood that some investors prefer the characteristics and outcomes of investing in open-ended funds whereas others prefer closed-ended structures for the different characteristics and outcomes that they bring. However, each of these structures has also had its own inefficiencies and drawbacks – for example, open-ended structures have largely been confined to the unlisted space with the associated burden of the application and redemption process, and closed-ended investors have historically had to fund establishment costs and importantly also deal with the prospect of large and persistent trading price discounts to net asset value.

By building on the changes we have already made, we believe bringing both open and closed-ended units together into a single trust should provide investors with valuable efficiencies. In particular, establishing open and closed-ended unit classes over the same investment portfolio should help create an improved trading environment for the closed-ended unit class given the removal of any "basis risk" between the two securities.

We are excited by this development and look forward to discussing this further during the implementation process.

Retirement Income
The expected pre 30 June 2020 launch of our retirement income solution has unfortunately been delayed by the pandemic (yet another knock-on effect). Notwithstanding COVID-19 we have made further progress, securing an important and necessary private binding tax ruling from the ATO. We continue to work with the remaining regulators with a view to launching the product once all necessary approvals have been obtained.

MFG Core Series
Today we announced the development of the MFG Core Series for retail investors – a series of diversified investment strategies that build upon the investment processes of our Investment team. The MFG Core Series will initially comprise three funds: MFG Core International Fund, MFG Core ESG Fund, and MFG Core Infrastructure Fund. We plan to make each of these open-ended funds available as an Active ETF, accessible via the Chi-X exchange and by direct application, by the end of the year.

The MFG Core Series has been under development for several years and extends the successful approach that has been applied by our Core Infrastructure fund (and mandates) for institutional clients over the past 10 years. This approach actively constructs diversified portfolios of high-quality companies leveraging Magellan's research, and manages them using a proprietary process.

The MFG Core Series will be offered at a management fee of 0.5% p.a. We believe it provides an attractive lower cost investment alternative for those wishing to gain an expose to Magellan's research and investment expertise but are not necessarily seeking our full actively managed portfolio services.

Magellan Sustainable Fund
We are on track to make our Global Sustainable strategy, managed by Dom Giuliano, available to retail investors via an Active ETF by the end of the year.

Finally, we continue to assess and work on a number of different opportunities and proposals with the view to strengthening and diversifying Magellan's business over time.

CLOSING REMARKS

These are truly uncomfortable times given what is unfolding here and around the world. It is uncomfortable in part because of the broad uncertainty that exists. The ease in which we can construct various scenarios as to the future of the virus, the economy and markets, is unfortunately not matched by the confidence we have in handicapping the likelihood of their occurrence. This is not a time to throw caution into the wind.

Despite this uneasy reality, Magellan's business is well positioned, and we do not intend to stand still. Being cautious does not necessarily equate to inaction, particularly given it is in difficult times where many opportunities are born.

The strength of our position is in no short measure due to our team. There is a clear passion for the firm that runs through Magellan's business and this dedication and focus is fundamental to our clients' outcomes and thus shareholder returns.

Thank you again to our entire team and thanks also to Hamish and the Board for their support during another interesting year.

Yours faithfully,

Brett Cairns
CEO

12 August 2020