Chief Executive Officer's Letter

For the year ended 30 June 2021

Dear Shareholder,

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

Overview of Magellan

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

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

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

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

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

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

As a fund manager, our business is heavy in human capital. Although not noted in our balance sheet, people are our most valuable asset and, as our profit or loss statement shows, they are also our largest expense (apart from payments for tax). Payments to employees make up roughly 60-65% of our adjusted operating expense base. Given the nature of our business, we believe it is very important to foster a culture amongst our team where everyone is encouraged to think and act like owners of the business. We are pleased our voluntary employee share purchase plan has resulted in approximately 81% of employees being Magellan shareholders.

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

We have focused on developing the business to ensure scalability as the business grows and currently our core cost-to-income ratio is 16.9% (excluding the positive impact of performance fees).

Although our business is relatively capital light, we do believe it is essential to maintain a strong balance sheet and accordingly Magellan had $876.4 million of net tangible assets as at 30 June 2021. Our liabilities comprise of day-to-day payables and provisions for employee entitlements and tax, together with lease liabilities for our offices. We have no borrowings although for funding flexibility, we do maintain an undrawn corporate debt facility. We believe a strong balance sheet that can withstand almost any market condition is important for our clients as well as shareholders, as has been demonstrated during these recent uncertain times.

A meaningful portion of the Group's capital is invested in our strategies alongside our clients via a fund investments portfolio which is shown in our accounts under the Fund Investments business segment. Through this we invest in our funds (for example the Magellan Global Fund) and seed new investment strategies and initiatives. The Group earns revenue from Fund Investments through fund distributions and, if these investments grow over time, we may realise a capital gain (or capital loss, if these investments decline over time).

It is important to note that the earnings from our Fund Investments may fluctuate significantly from period to period and while growing, are not a core driver of the business. Further, accounting standards require us to include both realised and unrealised gains/losses in the Group's reported earnings. Given the size of our Fund Investments this brings some unwanted noise into our reported earnings at various times and as such we will endeavour to be clear in our discussions and financial accounts as to what portion of our earnings are derived from the core business and what is the result of investment gains or losses, some of which may not yet be realised.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Thirdly, as our business consists primarily of a Funds Management segment, but also a portfolio of Fund Investments and investments held under Magellan Capital Partners, it is instructive to consider each separately. Our Fund Investments portfolio can be considered in terms of its value per share, whilst the Funds Management segment can be reviewed by considering the net profit before tax of that segment, both with and without performance fees (due to their lumpy nature). Similarly, the Magellan Capital Partners segment can be considered in light of the carrying value of the investments, the dividends received, and our share of the underlying businesses' earnings.

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

Finally, a word on tax. Our effective tax rate is below the company tax rate (currently 30%) because Magellan has the benefit of being declared an Offshore Banking Unit ("OBU"). The benefit of an OBU is that assessable offshore income, net of costs, is taxed at a concessional rate of 10%. Our assessable domestic income is still taxed at the company tax rate and so our actual overall tax rate will depend on the mix of our offshore and onshore businesses. Currently our effective tax rate is 21.4%.

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

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

Overview of Results

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

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

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

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

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

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

In the period, the Group earned crystallised performance fees before tax of $30.1 million ($81.0 million for the year ended 30 June 2020). As we have discussed previously, it is important to note performance fees can, and usually do, vary significantly from period to period. Whilst this does not detract from their value, it can distort near term comparative analysis.

We therefore draw shareholders' attention to the change in profit before tax and performance fees of our Funds Management business. This increased 10% to $526.6 million ($477.0 million for the year ended 30 June 2020) which was broadly in line with the growth in average FUM.

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

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

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

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

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

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

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

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

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

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

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

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For the year ended 30 June 2021

Funds Management Segment

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

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

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

Revenues

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

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

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

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

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As a result of the acquisition of Frontier, the Group also now receives revenues relating to Frontier's third-party fund manager distribution business (excluding Magellan) which has been included in other revenue. Other revenue during the period was also impacted by a $4.6 million net foreign exchange loss.

Expenses

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

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

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

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

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

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

The following table sets out total employee numbers:

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

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

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Funds Under Management

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

The following table sets out the composition of FUM:

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

[1] Calculated as management fees (excluding performance and services fees) for the relevant period divided by the average of month end FUM over the same period.

Retail FUM

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

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

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

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

Restructure of Global Equities Retail Funds

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

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

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

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

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

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

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

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

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

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

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

Magellan Sustainable Fund and MFG Core Series

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

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

Magellan FuturePay

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

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

Chief Executive Officer's Letter

For the year ended 30 June 2021

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

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

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

Investment Performance for the Period to 30 June 2021[1]	1 Year %	3 Years % p.a.	5 Years % p.a.	Since Inception % p.a.[2]
Magellan Global Fund[3]	**10.8**	**13.2**	**14.4**	**11.9**
MSCI World NTR Index ($A)	27.5	14.4	14.6	7.7
Magellan Infrastructure Fund	**7.9**	**4.6**	**5.9**	**7.6**
Global Listed Infrastructure Benchmark ($A)[4]	17.2	3.3	4.8	5.1
Magellan High Conviction Fund	**17.4**	**12.1**	**15.2**	**15.0**
Airlie Australian Share Fund	**33.7**	**12.1**	**-**	**13.3**
S&P/ASX 200 Accum. Index	27.8	9.6	-	10.5

1 Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Annualised performance is denoted with "p.a." for the relevant period.
2 Inception date for the Magellan Global Fund and Magellan Infrastructure Fund is 1 July 2007, the inception date for Magellan High Conviction Fund is 1 July 2013 and the inception date for the Airlie Australian Share Fund is 1 June 2018.
3 Performance for the Magellan Global Fund Open Class
4 The Global Listed Infrastructure benchmark is comprised of the following: from inception to 31 December 2014 the benchmark is UBS Developed Infrastructure and Utilities NTR Index (AUD Hedged) and from 1 January 2015 onwards, the benchmark is the S&P Global Infrastructure NTR Index (AUD Hedged).

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

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

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

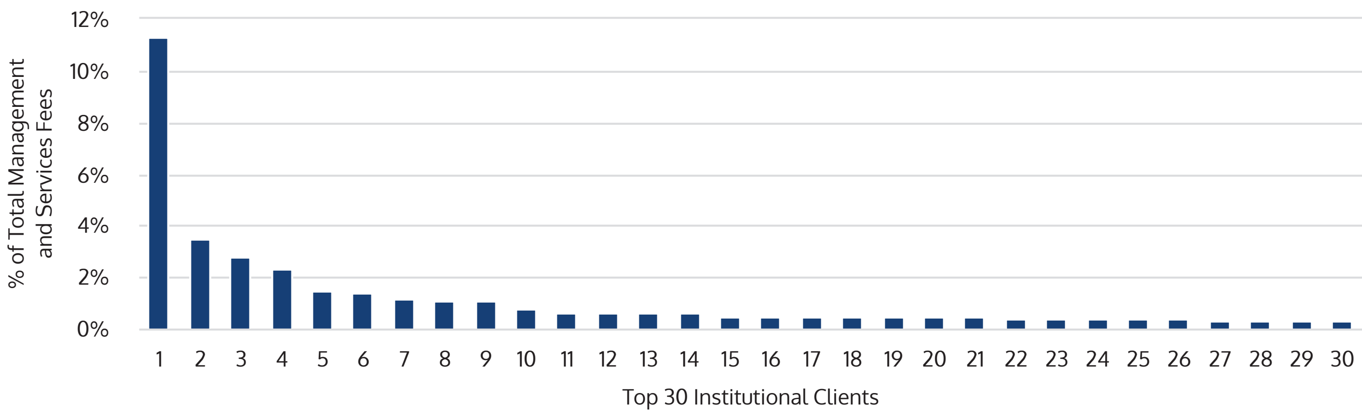
Institutional FUM

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

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

2 The number of clients includes separately managed accounts and institutional investors in local and offshore vehicles

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



Cumulative Total Management and Services Fees

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

On 31 December 2017 we closed our core global equities strategies managed by Hamish Douglass to new institutional investors[3]. We do, however, expect to see continued inflows from existing institutional clients that have reserved capacity.

Our global listed infrastructure strategies continue to see interest from institutional investors, and we believe Magellan is well positioned to grow in this space given our unique approach to defining infrastructure and the consistent long-term investment outperformance the team has achieved. We believe the theoretical capacity of our global listed infrastructure strategies is approximately US$20 billion. At 30 June 2021, the Group's infrastructure FUM was US$14.2 billion.

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

We believe both these strategies are well positioned on the back of solid track records and a thoughtful, differentiated sustainable investment approach. We estimate the theoretical capacity of the Sustainable strategies is approximately US$20 billion.

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

Fund Investments

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

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

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

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

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

The Group's Fund Investments portfolio has returned pre-tax 12.9%, 12.6% and 13.9% per annum over the last 1, 3 and 5 years to 30 June 2021 respectively. Excluding the effect of the Group's previous investment in MFF Capital Investments Limited, disposed of by way of an in-specie distribution to shareholders in February 2013, the portfolio returned pre-tax 11.5% per annum since inception from 1 July 2007. The inception date of 1 July 2007 has been chosen to reflect the first purchase date of the investments in the Magellan Global Fund and Magellan Infrastructure Fund.

Magellan Capital Partners

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

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

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

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

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

Chief Executive Officer's Letter

For the year ended 30 June 2021

Barrenjoey Capital Partners

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

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

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

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

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

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

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

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

FinClear Holdings

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

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

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

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

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

Chief Executive Officer's Letter

For the year ended 30 June 2021

Guzman y Gomez

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

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

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

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

Capital Management

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

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

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

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

Chief Executive Officer's Letter

For the year ended 30 June 2021

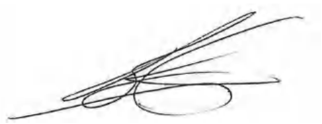
Closing Remarks

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

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

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

Yours faithfully,



Brett Cairns
CEO

17 August 2021