



Interim Report

for the half year ended 31 December 2019

MAGELLAN FINANCIAL GROUP LIMITED: ABN 59 108 437 592

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The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, the report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Magellan Financial Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

MAGELLAN FINANCIAL GROUP LIMITED

Chief Executive Officer's Interim Letter for the half year ended 31 December 2019

Dear Shareholder,

I am delighted to present this report for Magellan Financial Group Limited ("the Group" or "Magellan") for the half year ended 31 December 2019.

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 next 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 and outflows. From time to time we may also earn performance fees if our funds and mandates achieve certain performance hurdles. These fees are lumpy and do not occur evenly from period to period.

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

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

As a fund manager, our business is heavy in human capital. Although not noted in our balance sheet, people are our biggest asset and, as our profit and loss statement shows, 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 72% 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, 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 18.8% (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 \$890 million of net tangible assets as at 31 December 2019. 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 a \$50 million undrawn debt facility. We believe a strong balance sheet that can withstand almost any market condition is important for our clients as well as shareholders.

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

time). It is important to note that these earnings may fluctuate significantly from period to period and while growing, are not a core driver of the business.

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

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

As at 31 December 2019 the Group has net assets of \$1,012.1 million, of which \$122.1 million are classified as intangible. These intangible assets arose following the purchases of Airlie Funds Management ("Airlie") and Frontier Group ("Frontier") and comprise values attributed to customer relationships and goodwill.

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

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

It is important to note that while these amortisation and impairment expenses (if any) reduce our reported earnings, they are not cash items. Furthermore, in the case of customer relationships, the amortisation over set periods implicitly assumes customers leave by those times and are not replaced, an assumption from a management point of view 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, 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 22.3%.

The remainder of this report discusses the business in more detail and the Group's financial results for the half year ended 31 December 2019.

OVERVIEW OF RESULTS

We are pleased with the results the Group has achieved this half year which was characterised by a 29% growth in average FUM over the previous corresponding period, to \$92.8 billion (average FUM of \$72.1 billion for the six months ended 31 December 2018), the key driver of the Group's profitability.

For the half year ended 31 December 2019, the Group reported net profit after tax of \$195.7 million, which represents an increase of 13% over the previous corresponding period (\$173.5 million for the six months ended 31 December 2018).

Adjusted for non-cash and unrealised items and costs relating to strategic initiatives, the Group's net profit after tax increased by 23% to \$216.8 million for the six months ended 31 December 2019 (\$176.3 million for the six months ended 31 December 2018). Adjusted financial measures for the half year are adjusted for non-cash amortisation expense of \$2.3 million, unrealised capital gains (net of an increase in unrealised financial liabilities) from the Principal Investments segment of \$18.9 million (net of tax) and costs related to strategic initiatives of \$37.7 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 20% to 119.9 cents per share (99.8 cents per share for the six months ended 31 December 2018).

In the period, the Group earned crystallised performance fees before tax of \$41.7 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 30% to \$237.4 million for the half year ended 31 December 2019⁽¹⁾ (\$182.3 million for the six months to 31 December 2018).

Earnings before tax from Principal Investments totalled \$28.1 million, of which \$1.1 million came from distributions, \$0.2 million from realised capital gains, \$30.5 million attributed to unrealised capital gains, offset by a \$0.2 million net foreign exchange loss and a \$3.4 million increase in our financial liabilities relating to MHH Loyalty Units and IPO Foundation Units (see Note 10 in the Financial Statements). Earnings from distributions and realised capital gains/losses are included in other revenue in the table below.

The Directors have declared an Interim Dividend of 92.9 cents per share in respect of the half year ended 31 December 2019, 75% franked. This is an increase of 26% over the prior corresponding period. The Interim Dividend will be paid on 27 February 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 high payout ratio and our below 30% tax rate. Although the Board has a policy of paying out franking credits to the maximum extent possible over time, the level of franking attached to dividends may vary from period to period.

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

	31 Dec 2019 \$'000	31 Dec 2018 \$'000	Change %
Management and services fees	288,246	228,136	26%
Performance fees	41,683	42,699	(2%)
Other revenue	7,138	5,613	27%
Adjusted revenue	337,067	276,448	22%
Adjusted expenses	(56,036)	(49,313)	14%
Adjusted net profit before tax	281,031	227,135	24%
Adjusted tax expense	(64,270)	(50,813)	26%
Adjusted net profit after tax	216,761	176,322	23%
Transaction costs related to strategic initiatives (after tax) ⁽³⁾	(37,736)	-	n/m
Amortisation expense of intangible assets	(2,330)	(2,208)	n/m
Net unrealised change in fair value of financial assets and liabilities (after tax)	18,983	(591)	n/m
Total non-IFRS adjustments	(21,083)	(2,799)	n/m
Net profit after tax	195,678	173,523	13%
Key Statistics			
Diluted earnings per share (cents per share)	108.2	98.2	10%
Adjusted diluted earnings per share (cents per share)	119.9	99.8	20%
Interim dividend (cents per share)	92.9	73.8	26%

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

(2) Adjusted financial measures are adjusted for non-cash 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 1.3 of the Directors' Report.

(3) Includes net transaction costs relating to MHH IPO, and DRP discount funding costs for MGG and MHH for the half year ended 31 December 2019.

FUNDS MANAGEMENT SEGMENT

For the half year ended 31 December 2019, the Group's Funds Management segment profit before tax increased by 24% to \$279.0 million (\$225.0 million for the six months to 31 December 2018). Excluding performance fees, profit before tax grew by 30% to \$237.4 million⁽⁴⁾ (\$182.3 million for the six months to 31 December 2018). The following table summarises the profitability of the Funds Management business over the past two December half years:

	31 Dec 2019 \$'000	31 Dec 2018 \$'000	Change %
Revenue			
Management fees	285,896	225,783	27%
Performance fees	41,683	42,699	(2%)
Services fees	2,350	2,353	(0%)
Interest and other revenue	3,983	2,409	65%
	<u>333,912</u>	<u>273,244</u>	22%
Expenses			
Employee expense	36,184	30,888	17%
Fund administration and operational costs	9,117	7,971	14%
IT and information services expense	2,928	2,624	12%
Marketing expense	1,438	1,802	(20%)
Other expense	5,234	4,999	5%
	<u>54,901</u>	<u>48,284</u>	14%
Profit before tax expense	<u>279,011</u>	<u>224,960</u>	24%
Profit before tax and before performance fees⁽⁴⁾	237,358	182,277	30%
Key Statistics			
Average funds under management (\$ million)	92,770	72,073	29%
Average AUD/USD exchange rate	0.6848	0.7244	(5%)
Average number of employees	128	125	2%
Employee expenses / total expenses	65.9%	64.0%	
Cost / income	16.4%	17.7%	
Cost / income, excl. performance fees ⁽⁴⁾	18.8%	20.9%	

Revenues

The key driver of revenue is FUM and this is discussed in detail in the next section. Revenues for the six months ended 31 December 2019 increased by 22% to \$333.9 million over the previous corresponding period. This was driven by a 27% increase in total management fees revenue as a result of a 29% increase in average FUM over the previous corresponding period attributable to strong investment performance and net inflows.

Over the year, average Retail FUM increased by 28% and average Institutional FUM increased by 29%. Average annualised Base Management fee for the half year was 0.62% compared with 0.63% in the prior corresponding period.

Performance fees before tax for the half year totalled \$41.7 million compared with \$42.7 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 such as those associated with strategic initiatives such as 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 18.8% compared with 20.9% for the six months to 31 December 2018.

Expenses increased by 14% to \$54.9 million over the previous corresponding period. This increase in costs reflects increases in employee expenses (17% to \$36.2 million) and fund administration and operational costs (14% to \$9.1 million).

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

The following table sets out total employee numbers:

	31 Dec 2019	30 June 2019
Investment		
- Portfolio Managers/Analysts	31	29
- Dealers	3	3
	34	32
Distribution & Marketing	34	31
Other	42	41
Frontier	11	12
Airlie	9	9
Total	130	125
Average number of employees	128	125

As at 31 December 2019, the Group had 130 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, such as the increase over the current period, to be modest reflecting scalability. Such increases, however, are unlikely to occur evenly from one year to the next as the various areas of our business reach resource constraints at different points as we grow.

Our expectation at the beginning of the financial year was that Funds Management segment expenses for the year ended 30 June 2020 to be in the range of \$115-\$120 million. It is likely that expenses will be at the top end of this range due, in part, to increases in FUM (relative to budget) and its associated variable costs.

It should be noted, however, that our ultimate 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 conscience culture, our current cost to income ratio of 18.8% 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 0.8% decline in our FUM (something which can happen from day to day merely due to market movements).

Funds Under Management

As at 31 December 2019, the Group had FUM of \$97.5 billion, split between global equities (74%), infrastructure equities (18%) and Australian equities (8%). This compares with FUM of \$86.7 billion at 30 June 2019. The increase in FUM was driven by investment performance of approximately \$7.8 billion and net inflows of \$3.6 billion less cash distributions (net of reinvestment) of approximately \$0.6 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	31 Dec 2019	30 June 2019	31 Dec 2018
Retail	26.9	23.2	19.0
Institutional	70.6	63.5	51.8
Total FUM	97.5	86.7	70.8
Retail (%)	28%	27%	27%
Institutional (%)	72%	73%	73%
FUM subject to Performance Fees (%)	34%	33%	34%
Breakdown of FUM (\$billion)			
- Global Equities	71.7	64.0	52.5
- Global Listed Infrastructure	17.6	15.2	12.0
- Australian Equities	8.2	7.5	6.3
Average Base Management fee (bps) per annum excluding Performance Fees ⁽⁵⁾	62	62	63

Retail FUM

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

- Broker advised and financial advisers; and
- Self-directed retail investors.

(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.

At 31 December 2019, the Group had total retail FUM of \$26.9 billion. We experienced total net retail inflows of \$2.4 billion for the six months to 31 December 2019 (including the proceeds of the MHH IPO), compared with \$0.5 billion for the previous corresponding period.

The Group experienced average monthly retail net inflows of approximately \$256 million over the six months to 31 December 2019 (excluding the proceeds of the MHH IPO), compared with \$79 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 has 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 10 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 are excluded from the Funds Management segment when calculating shareholder dividends.

We continue to see strong support for our global investment strategies across all retail channels, with global infrastructure experiencing continued solid inflows during the period. Our combined active ETF unitholder base grew approximately 23% over the period to reach over 35,000, and our combined exchange quoted products had total FUM of \$5.7 billion as at 31 December 2019, with over 88,000 direct unitholders.

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 very experienced retail Distribution team is highly focused on 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 is our 2020 Investor Evenings which commence on 21 February 2020. Magellan's Chairman and Chief Investment Officer, Hamish Douglass, will be visiting seven cities in Australia and New Zealand providing an update on global markets and investments. These are large undertakings and this year the presentations will be followed by a cocktail reception where those attending can meet senior members of the investment team and the wider business. We are looking forward to these events and meeting fellow investors.

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 inception.

Investment Performance for the period to 31 December 2019 ⁽⁶⁾	1 Year	3 Years	5 Years	Since Inception ⁽⁷⁾
	%	% p.a.	% p.a.	% p.a.
Magellan Global Fund	28.1	17.1	13.9	12.4
MSCI World NTR Index (\$A)	27.9	13.7	12.1	6.9
Magellan Infrastructure Fund	25.5	13.6	11.6	9.2
Global Listed Infrastructure Benchmark (\$A) ⁽⁸⁾	25.3	10.2	7.6	6.3
Magellan High Conviction Fund	29.6	18.2	14.2	16.8
Airlie Australian Share Fund	24.4	-	-	10.1
S&P/ASX 200 Accum. Index	23.4	-	-	11.4

Overall, we are pleased with the performance achieved to date.

Institutional FUM

At 31 December 2019, the Group had total institutional FUM of \$70.6 billion from around 140 clients⁽⁹⁾. During the six months to 31 December 2019, we experienced institutional net inflows of \$1.2 billion, which compares with net inflows of \$0.9 billion for the previous corresponding period.

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.

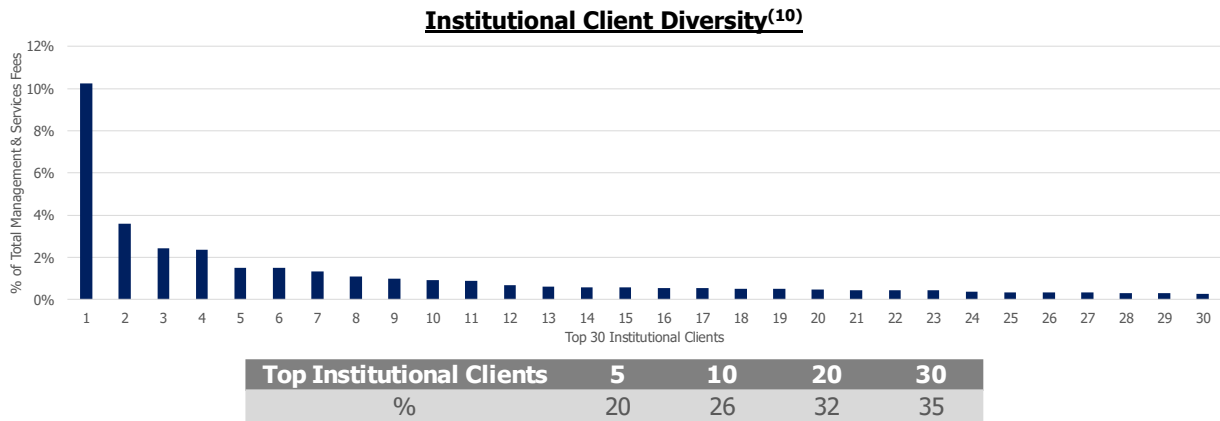
(6) Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Annualised performance is denoted with "p.a." for the relevant period.

(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.

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.



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 31 December 2019 the Group's infrastructure FUM was US\$12.4 billion.

We are also pleased with the development of our next generation of global equities strategies, the Sustainable strategies. Our Global Sustainable strategy, managed by Dom Giuliano, and our US Sustainable strategy managed by Alan Pullen, have produced excellent results, outpacing their benchmarks. Importantly, both strategies have passed their three year anniversary.

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.

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 31 December 2019, the Group had net Principal Investments of \$380.9 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 28.3%, 16.9% and 13.8% per annum over the last 1, 3 and 5 years respectively. Excluding the effect of the Group's previous investment in MFF Capital Investments Limited, which was disposed of by way of an in-specie distribution to 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.

(10) Management and services fees for the six months to 31 December 2019 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.

The following table sets out a summary of the Group's Principal Investments as at 31 December 2019.

The Group's Principal Investments

\$million	31 Dec 2019	30 June 2019
Cash	0.7	4.6
Magellan Unlisted Funds ⁽¹²⁾	271.3	213.4
Listed shares/funds ⁽¹³⁾	142.6	125.7
Other ⁽¹⁴⁾	0.0	3.8
Total	414.6	347.5
Net deferred tax ⁽¹⁵⁾	(33.7)	(24.4)
Net Principal Investments	380.9	323.1
Net Principal Investments per share (cents)⁽¹⁶⁾	209.0	182.5

CAPITAL MANAGEMENT

As at 31 December 2019, the Group's financial position included:

- investment assets (cash and cash equivalents and financial assets) of \$848.9 million (30 June 2019: \$539.3 million). The Group's cash position at 31 December 2019 was \$432.7 million and current receivables were \$126.4 million. Dividends of \$169.3 million are due to be paid to shareholders on 27 February 2020;
- net assets of \$1,012.1 million (30 June 2019: \$734.0 million) which includes \$122.1 million of intangible assets following the acquisitions of Airlie and Frontier;
- net tangible assets per share of \$4.88 (30 June 2019: \$3.44); and
- total liabilities of \$119.3 million which relate predominantly to payables, provisions and lease liabilities. The Group has no debt but has access to a debt facility of \$50 million which is currently undrawn.

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;
- ensuring flexibility for growth whether that be through new fund launches or strategic opportunities; and
- delivering capital efficiency, solid dividends and returns for shareholders.

OTHER

We continue to make solid progress on a range of new initiatives, some of which we expect to be able to share more broadly in the near future, particularly with regard to:

- Airlie Australian Share Fund:* We expect to make the Airlie Australian Share Fund available on the ASX in the coming weeks. Importantly, this is not a new fund or a new class of units. Rather, the existing units of the currently unquoted fund will also be 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. It is our intention to build on this approach as we constantly look at simplifications across our funds.
- Retirement Income:* We have made further progress on developing a client solution for retirement income and expect, at this stage, to be able to launch the Magellan Retirement Fund before the end of the financial year.
- Partnership Initiatives:* We continue to assess, and are making progress on, a number of partnership initiatives. As we have previously discussed, we believe such partnership investments will help deepen and broaden our relationships and add further layers of resilience and diversification to our business over time.

CLOSING REMARKS

There is always a lot going on at Magellan and I would like to thank our entire team for their dedication and passion. It makes a difference. Thanks also to Hamish and the Board for their support during the year.

Yours faithfully,



Brett Cairns
CEO

13 February 2020

(12) Magellan Unlisted Funds as outlined in Note 7 of the Financial Statements.

(13) Listed shares/funds include seed portfolios and Magellan's listed funds (as outlined in Note 7 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 31 December 2019 (30 June 2019, it is based on 177,087,458 ordinary shares)

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the half year ended 31 December 2019

The Directors of Magellan Financial Group Limited (the "Company" or "MFG") present their financial report for the Company and its controlled entities which together form the consolidated entity (the "Group") in respect of the half year ended 31 December 2019.

1.1 Directors

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

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

(A) Magellan Asset Management Limited

1.2 Dividends

The Directors have declared an interim dividend of 92.9 cents per ordinary share (75% franked) in respect of the half year ended 31 December 2019 (December 2018: 73.8 cents per ordinary share 75% franked). The amount of the interim dividend expected to be paid on 27 February 2020, but not recognised as a liability as at 31 December 2019, is approximately \$169,338,000 (December 2018: \$130,690,000).

The Company's policy is to pay Interim and Final Dividends of 90% to 95% of the net profit after tax of the Group's funds management business excluding performance fees. 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 Directors will pay an annual Performance Fee Dividend of 90% to 95% of net crystallised performance fees after tax. Any Performance Fee Dividend will be paid annually alongside the Final Dividend. The payment of dividends by the Group will be subject to corporate, legal and regulatory considerations.

1.3 Review of Financial Results and Operations

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

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

The Group's statutory net profit after tax for the half year ended 31 December 2019 was \$195,678,000, up \$22,155,000 on the prior corresponding half year. The Group's adjusted net profit after tax was \$216,761,000 (December 2018: \$176,322,000) which excludes various non-IFRS adjustments as shown on the following page.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the half year ended 31 December 2019

1.3 Review of Financial Results and Operations (continued)

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

	31 Dec 2019		31 Dec 2018	
	Statutory \$'000	Non-IFRS \$'000	Statutory \$'000	Non-IFRS \$'000
Management and services fees	288,246	288,246	228,136	228,136
Performance fees	41,683	41,683	42,699	42,699
Other revenue	34,256	34,256	4,769	4,769
Total revenue	364,185	364,185	275,604	275,604
Adjust for: net unrealised change in fair value of financial assets and liabilities		(27,118)		844
Adjusted revenue		337,067		276,448
Total expenses	(112,274)	(112,274)	(51,521)	(51,521)
Adjust for: costs related to strategic initiatives ^(A)		53,908		-
Adjust for: amortisation of intangible assets		2,330		2,208
Adjusted expenses		(56,036)		(49,313)
Income tax expense	(56,233)	(56,233)	(50,560)	(50,560)
Tax expense on above adjustments		(8,037)		(253)
Adjusted income tax expense		(64,270)		(50,813)
Net Profit after income tax expense for the half year	195,678		173,523	
Adjusted Net Profit after income tax expense for the half year		216,761		176,322
Basic and diluted earnings per share	108.2		98.2	
Adjusted basic and diluted earnings per share		119.9		99.8

(A) Includes Initial Public Offering ("IPO") costs for Magellan High Conviction Trust ("MHH") and Dividend Reinvestment Plan ("DRP") discount funding costs for MHH and Magellan Global Trust ("MGG") for the half year ended 31 December 2019.

1.3.2 Non-IFRS Financial Measures

Non-IFRS financial measures are measures that are not defined or specified under IFRS. The Directors believe non-IFRS financial measures assist in providing additional meaningful information about the performance of the business and period-to-period comparability by adjusting for strategic, non-cash or unrealised items which affect the Group's statutory financial results.

Non-IFRS financial measures should be viewed in addition to, and not as a substitute for, the Group's statutory results. These measures may also differ from non-IFRS measures used by other companies.

The Group's non-IFRS financial measures are presented with reference to the Australian Securities & Investments Commission (ASIC) Regulatory Guide 230 *Disclosing non-IFRS financial information*, issued in December 2011. Non-IFRS financial measures are not subject to audit or review.

1.3.3 Statement of Financial Position

The Group is in a strong financial position and at 31 December 2019 reported:

- investment assets (cash and cash equivalents and financial assets) of \$848,942,000 (June 2019: \$539,281,000) and shareholders' funds of \$1,012,129,000 (June 2019: \$734,022,000); and
- NTA per share of \$4.88 (June 2019: \$3.44).

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the half year ended 31 December 2019

1.3 Review of Financial Results and Operations (continued)

1.3.3 Statement of Financial Position (continued)

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

1.4 Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the Group that occurred during the half year ended 31 December 2019 other than as disclosed in this report.

1.5 Events Subsequent to the End of the Half Year

On 15 January 2020, 34,447,931 Loyalty Units and IPO Foundation Units were allotted as ordinary units in MHH to eligible applicants who applied in the priority offer and wholesale/general public offer of MHH. MFG paid \$57,752,000 to MHH, to offset the dilutive impact of the issue of Loyalty Units and IPO Foundation Units, on 15 January 2020.

On 5 February 2020, the Group reported to the Australian Securities Exchange ("ASX") that its funds under management was \$104.3 billion as at 31 January 2020.

Other than the items above and the dividend disclosed in respect of the six months ended 31 December 2019 discussed at section 1.2, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this report that has significantly affected or may significantly affect the operations of the Group, the result of those operations or the state of affairs of the Group in subsequent financial years.

1.6 Rounding of Amounts

The Company is of a kind referred to in the *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and amounts in the Directors' Report have been rounded to the nearest thousand dollars in accordance with that Legislative Instrument, or in certain cases, the nearest dollar.

1.7 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 13.

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



Hamish M Douglass

Chairman

Sydney
13 February 2020



**Building a better
working world**

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

As lead auditor for the review of the half-year report of Magellan Financial Group Limited for the half-year ended 31 December 2019, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Ernst & Young

Clare Sporle
Partner
13 February 2020

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME for the half year ended 31 December 2019

	Note	Consolidated Entity	
		31 Dec 2019 \$'000	31 Dec 2018 \$'000
Revenue			
Management fees	5(a)	285,896	225,783
Performance fees	5(b)	41,683	42,699
Services fees	5(c)	2,350	2,353
Advisory fees		1,545	1,578
Dividend and distribution income		1,059	1,423
Interest income		2,198	1,416
Net change in the fair value of financial assets and liabilities:			
- Realised		197	451
- Unrealised		27,118	(844)
Net foreign exchange gain/(loss)		2,139	745
Total revenue		364,185	275,604
Expenses			
Employee expenses		36,245	30,936
Non-Executive Director fees		228	210
Fund administration and operational costs		9,224	8,047
Information technology and information services expense		2,928	2,624
Marketing expense		1,438	1,802
Legal and professional fees		1,390	901
Travel and entertainment expense		1,153	1,007
Occupancy expense	1(c)	187	1,707
Auditor's remuneration		578	575
Depreciation expense	1(c)	1,052	190
Amortisation expense		2,330	2,208
Foreign and withholding taxes		115	60
Transaction costs related to strategic initiatives	10 & 11	53,908	-
Finance costs	1(c)	591	214
Other expenses		907	1,040
Total expenses		112,274	51,521
Net profit before income tax expense		251,911	224,083
Income tax expense	6	(56,233)	(50,560)
Net profit after income tax expense for the half year		195,678	173,523
Other comprehensive income for the half year			
Exchange differences on translation of foreign operations		(77)	1,506
Other comprehensive income for the half year, net of tax		(77)	1,506
Total comprehensive income for the half year		195,601	175,029
Basic earnings per share (cents per share)	3	108.2 cents	98.2 cents
Diluted earnings per share (cents per share)	3	108.2 cents	98.2 cents

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

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

		Consolidated Entity	
		31 Dec	30 Jun
		2019	2019
		\$'000	\$'000
	Note		
Assets			
Current assets			
Cash and cash equivalents		432,706	198,188
Financial assets	7	2,017	2,009
Receivables		126,377	123,812
Loans - share purchase plan		3,989	3,616
Prepayments		977	895
Total current assets		566,066	328,520
Non-current assets			
Financial assets	7	414,219	339,084
Loans - share purchase plan		13,455	7,603
Property, plant and equipment		15,513	576
Intangible assets		122,133	124,508
Total non-current assets		565,320	471,771
Total assets		1,131,386	800,291
Liabilities			
Current liabilities			
Payables		78,247	31,793
Provisions		1,380	1,802
Income tax payable		14,445	19,355
Lease liabilities		2,316	-
Total current liabilities		96,388	52,950
Non-current liabilities			
Net deferred tax liability		4,542	9,151
Deferred lease incentives		-	2,114
Provisions		2,442	2,054
Lease liabilities		15,885	-
Total non-current liabilities		22,869	13,319
Total liabilities		119,257	66,269
Net assets		1,012,129	734,022
Equity			
Contributed equity	9(a)	523,629	243,150
Foreign currency translation reserve		2,423	2,500
Retained profits		486,077	488,372
Total equity attributable to members of the Group		1,012,129	734,022
Total equity		1,012,129	734,022

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

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year ended 31 December 2019

		Attributable to Equity Holders of the Consolidated Entity				
		Contributed Equity	Foreign Currency Translation Reserve	Retained Profits	Available- For-Sale Reserve	Total Equity
Note		\$'000	\$'000	\$'000	\$'000	\$'000
2019						
Equity - 1 July 2019		243,150	2,500	488,372	-	734,022
Adoption of AASB 16	1(c)	-	-	(698)	-	(698)
Restated equity - 1 July 2019		243,150	2,500	487,674	-	733,324
Net profit for the half year		-	-	195,678	-	195,678
Other comprehensive income for the half year		-	(77)	-	-	(77)
Total comprehensive income for the half year		-	(77)	195,678	-	195,601
Transactions with owners in their capacity as owners:						
Issue of shares:						
- under institutional placement	9(a)	275,000	-	-	-	275,000
- under Share Purchase Plan ("SPP")	9(a)	8,970	-	-	-	8,970
- transaction costs arising on share issue and placement, net of tax	9(a)	(3,723)	-	-	-	(3,723)
Dividends paid	4	-	-	(197,275)	-	(197,275)
SPP expense for the half year	9(a)	232	-	-	-	232
Total transactions with equity holders in their capacity as equity owners		280,479	-	(197,275)	-	83,204
Equity - 31 December 2019		523,629	2,423	486,077	-	1,012,129
2018						
Equity - 1 July 2018		218,877	850	345,618	55,088	620,433
Adoption of AASB 9		-	-	55,088	(55,088)	-
Restated equity - 1 July 2018		218,877	850	400,706	-	620,433
Net profit for the half year		-	-	173,523	-	173,523
Other comprehensive income for the half year		-	1,506	-	-	1,506
Total comprehensive income for the half year		-	1,506	173,523	-	175,029
Transactions with owners in their capacity as owners:						
Issue of shares:						
- to acquire Frontegra Asset Management, Inc.	9(a)	21,672	-	-	-	21,672
- under SPP	9(a)	2,187	-	-	-	2,187
- transaction costs arising on share issue, net of tax	9(a)	(31)	-	-	-	(31)
Dividends paid	4	-	-	(158,591)	-	(158,591)
SPP expense for the half year		231	-	-	-	231
Total transactions with equity holders in their capacity as equity owners		24,059	-	(158,591)	-	(134,532)
Equity - 31 December 2018		242,936	2,356	415,638	-	660,930

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

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS for the half year ended 31 December 2019

	Note	Consolidated Entity	
		31 Dec 2019 \$'000	31 Dec 2018 \$'000
Cash flows from operating activities			
Management and services fees received		286,985	236,755
Performance fees received		55,932	45,547
Advisory fees received		1,691	1,672
Dividends and distributions received		10,916	123
Interest received		1,887	1,204
Finance costs paid		(590)	(213)
Tax paid		(63,987)	(68,999)
Payments to suppliers and employees (inclusive of GST)		(79,992)	(69,561)
Transaction costs related to strategic initiatives paid		(1,805)	-
Net cash inflows/(outflows) from operating activities		211,037	146,528
Cash flows from investing activities			
Proceeds from sale of financial assets and liabilities		1,730	989
Purchase of financial assets and liabilities		(51,971)	(557)
Net matured term deposits		(5)	28
Payments for property, plant and equipment		(166)	(96)
Acquisition of subsidiary, net of cash acquired		-	(1,632)
Loan to third party		(2,500)	-
Net cash inflows/(outflows) from investing activities		(52,912)	(1,268)
Cash flows from financing activities			
Net proceeds from issue of shares		270,554	208
Proceeds from repayment of SPP loans		1,131	1,873
Dividends paid	4	(196,261)	(157,611)
Payments of principal under office premise leases		(1,017)	-
Net cash inflows/(outflows) from financing activities		74,407	(155,530)
Net increase / (decrease) in cash and cash equivalents		232,532	(10,270)
Effects of exchange rate movements on cash and cash equivalents		1,986	965
Cash and cash equivalents at the beginning of the half year		198,188	169,095
Cash and cash equivalents at the end of the half year		432,706	159,790

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the half year ended 31 December 2019

Overview

This condensed interim financial report is for Magellan Financial Group Limited (the "Company" or "MFG") and its controlled entities (the "Group") for the half year ended 31 December 2019.

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

1. Basis of Preparation

The condensed interim financial report for the six months ended 31 December 2019 is a general purpose financial report and has been prepared in accordance with AASB 134: *Interim Financial Reporting*, the *Corporations Act 2001* and other mandatory professional reporting requirements. It is presented in Australian dollars (\$).

All amounts in this financial report are rounded to the nearest thousand dollars (\$'000) in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless stated otherwise.

This condensed interim financial report does not include all the information and disclosures normally included in the annual financial report. Accordingly, this report should be read in conjunction with the 30 June 2019 Annual Report and any public announcements made in respect of the Group during the half year ended 31 December 2019 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

This condensed financial report was approved by the Board of Directors on 13 February 2020 and the Directors have the power to amend and reissue the financial report.

(a) Accounting Policies

The accounting policies adopted in the preparation of this financial report are consistent with those of the previous financial year and corresponding interim reporting period except for the adoption of new standards effective as of 1 July 2019 that are described in note 1(c). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(b) Critical Accounting Estimates and Judgements

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the 30 June 2019 Annual Report.

(c) New and Amended Accounting Standards and Interpretations Effective 1 July 2019

From 1 July 2019, the Group applied for the first time AASB 16: *Leases* ("AASB 16"), which replaced AASB 117 *Leases*, and AASB Interpretation 23: *Uncertainty over Income Tax Treatment* ("Interpretation 23"). The impact of adopting these changes are explained below.

- **AASB 16: Leases**

AASB 16 provides a new model for identifying and measuring lease arrangements which requires a lessee to recognise an asset and liability on the Consolidated Statement of Financial Position where a contract contains a lease.

On 1 July 2019, being the date AASB 16 was adopted, the Group recognised right-of-use assets ("ROU") for leased office premises and office equipment of \$15,817,000 in the Consolidated Statement of Financial Position. These leases had previously been classified as 'operating leases' under AASB 117 at 30 June 2019 and disclosed within the commitments note. The ROU assets have been included within 'property, plant and equipment' on the Statement of Financial Position. Simultaneously, related lease liabilities of \$19,279,000 were recognised in the Consolidated Statement of Financial Position as required by AASB 16. These liabilities represent the present value of the remaining lease payments owing under the lease contracts at 1 July 2019 and discounted using the weighted average of the Group's incremental borrowing rate of 4.0%.

In addition, transition adjustments were also required under AASB 16 relating to the Group's rent prepayment of \$210,000, deferred lease incentives on office leases of \$2,114,000 and onerous lease provision of \$728,000

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2019

1. Basis of Preparation (continued)

(c) New and Amended Accounting Standards and Interpretations Effective 1 July 2019 (continued)

- **AASB 16: Leases (continued)**

at 30 June 2019. These adjustments primarily represented the difference between the cumulative lease expense recognised and cash paid on the leases.

The adoption of AASB 16 has resulted in an increase in assets and liabilities in the Group's Consolidated Statement of Financial Position at 1 July 2019. The net impact of \$698,000 has been recognised as an adjustment to the opening balance of retained profits at 1 July 2019, as shown below:

	30 June 2019 \$'000	AASB 16 Adjustment \$'000	1 Jul 2019 \$'000
Assets			
Prepayments	895	(210)	685
Property, plant and equipment	576	15,817	16,393
Liabilities			
Deferred lease incentives	2,114	(2,114)	-
Provisions	3,856	(728)	3,128
Lease liabilities	-	19,279	19,279
Net deferred tax liabilities	9,151	(132)	9,019
Equity			
Retained profits	488,372	(698)	487,674

Under AASB 16, the ROU assets are depreciated over the lease term. Similarly, the lease liability is amortised over the lease term. As compared to AASB 117, the pattern of expense recognition will involve higher costs in the earlier stages of a lease as a result of the lease liability amortising over the lease term using the effective interest method.

The impact of applying AASB 16 on the Group's Consolidated Statement of Profit or Loss and Comprehensive Income for the half year ended 31 December 2019 was:

- Interest expense on the lease liabilities of \$377,000 (31 December 2018: nil); and
- Depreciation expense on the right-of-use assets of \$933,000 (31 December 2018: nil).

As the above expenses are separately recorded from 1 July 2019, this has resulted in a significant decrease in occupancy expenses shown in the Group's Statement of Profit or Loss and Comprehensive Income where rent expense was recorded in prior periods. From 1 July 2019, occupancy expense only includes short term lease expenses and outgoings costs.

The classification of the Group's leases has remained unchanged under AASB 16.

In applying AASB 16, the Group elected not to restate prior year comparatives as permitted under the modified retrospective approach and applied the practical expedient of a single discount rate to the portfolio of leases with reasonably similar characteristics when measuring the lease liabilities.

Accounting policy effective 1 July 2019

Leases

The Group leases office premises and various assets, primarily office equipment. Contracts are typically for fixed periods of up to 10 years.

At the commencement date of a lease, the Group recognises a liability for the present value of lease payments under the lease contract ('lease liability') and an asset representing the right to use the leased asset over the lease term ('right-of-use asset'), which is included within property, plant and equipment on the Statement of Financial Position. The lease liability is measured at the present value of future lease payments and discounted

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2019

1. Basis of Preparation (continued)

(c) New and Amended Accounting Standards and Interpretations Effective 1 July 2019 (continued)

- **AASB 16: Leases (continued)**

Accounting policy effective 1 July 2019 (continued)

using the weighted average of the Group's incremental borrowing rate, unless an interest rate is stated within the lease. The liability is remeasured upon the occurrence of certain events, such as a change in the lease term or lease payments. The amount of any re-measurement in the lease liability is adjusted against the right-of-use asset.

A right-of-use asset is measured at cost, which is the amount of the initial measurement of the lease liability and any initial direct costs in obtaining the leased asset.

Interest expense arising on the amortisation of the lease liability over the lease term is recognised in 'finance costs' in profit and loss. The right-of-use asset is depreciated over the shorter of the leased asset's useful life or lease term and depreciation expense is recognised separately in profit or loss.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases have a term of 12 months or less and low-value assets comprise small items of technology and office equipment.

- **AASB Interpretation 23: Uncertainty over Income Tax Treatment**

Interpretation 23 clarified the application of the recognition and measurement criteria in AASB 112: *Income Taxes* where there is uncertainty over income tax treatments, and requires an assessment of each uncertain tax position as to whether it is probable that a taxation authority will accept the position. Where it is not probable, the effect of the uncertainty is reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates. The amount is determined as either the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes, whichever predicts the resolution of the uncertainty. Judgements are reassessed as and when new facts and circumstances are presented.

The Group adopted Interpretation 23 on 1 July 2019. The Group's existing recognition and measurement accounting policies, together with accounting related judgements, are aligned with those required by Interpretation 23 and as a result there was no impact on the Group's financial statements.

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

- **Conceptual Framework for Financial Reporting**

The revised Conceptual Framework ("Conceptual Framework"), which is the Australian equivalent of the revised Conceptual Framework issued by the International Accounting Standards Board ("IASB"), is effective for the Group's annual reporting period beginning 1 July 2020.

The Conceptual Framework applies to any entity preparing financial statements and its main purpose is to assist financial report preparers develop consistent accounting policies when there is no specific or similar standard that addresses an issue. The Conceptual Framework includes amendments to the definition and recognition criteria for assets, liabilities, income and expenses, guidance on measurement and derecognition, and other relevant financial reporting concepts.

The Group has assessed the Conceptual Framework which is not expected to have any impact on the Group's financial statements.

(e) Accounting policies effective from 1 July 2019

Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities are measured at fair value through profit or loss if they are held for trading purposes or designated to be measured at fair value to profit or loss upon initial recognition.

Financial liabilities at fair value through profit or loss are carried in the statement of financial position at fair value with the net change in fair value recognised in the statement of profit or loss.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the half year ended 31 December 2019

2. Segment Information

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

Funds Management

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

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

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

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

(B) Collectively, the Frontier MFG Funds.

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

Current tax liabilities and deferred tax assets/liabilities that arise from the operations of the Funds Management business are included within the Corporate segment.

Principal Investments

The Principal Investment portfolio is comprised of the Company's investments in the ASX Active Exchange Traded Funds ("ETF")/Listed Trusts, the Unlisted Magellan Funds, the Frontier MFG Funds and a select portfolio comprising Australian and international listed companies, cash, other investments and net deferred tax assets/liabilities arising from changes in fair value of these investments.

Corporate

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

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2019

2. Segment Information (continued)

(a) Segment Financial Results

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

	Consolidated Entity			
	Funds Management (A)	Principal Investments	Corporate	Consolidated Entity
31 December 2019	\$'000	\$'000	\$'000	\$'000
Segment revenue				
Management fees	285,896	-	-	285,896
Performance fees	41,683	-	-	41,683
Services fees	2,350	-	-	2,350
Advisory fees	1,545	-	-	1,545
Dividend and distribution income	-	1,059	-	1,059
Interest income	148	3	2,047	2,198
Net change in fair value of financial assets and liabilities:				
- Realised	-	197	-	197
- Unrealised	-	27,118	-	27,118
Net foreign exchange gain/(loss)	2,290	(151)	-	2,139
Total segment revenue	333,912	28,226	2,047	364,185
Segment expenses				
Employee expense	36,001	-	12	36,013
Employee expense - SPP	183	-	49	232
Non-Executive Directors' fees	142	-	86	228
Other expenses	18,575	111	877	19,563
Total segment expenses	54,901	111	1,024	56,036
Total segment operating profit before income tax expense	279,011	28,115	1,023	308,149
Other comprehensive income				
Exchange differences on translation of foreign operations	(77)	-	-	(77)
Other comprehensive income for the half year, before tax	(77)	-	-	(77)
Total comprehensive income for the half year, before tax	278,934	28,115	1,023	308,072

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

	Consolidated Entity	
	31 Dec 2019	31 Dec 2018
	\$'000	\$'000
Segment operating profit before income tax expense	308,149	226,291
<i>Individually significant items and amortisation of intangibles:</i>		
Amortisation of intangible assets ^(B)	(2,330)	(2,208)
Transaction costs related to strategic initiatives		
Initial Public Offering ("IPO") costs for Magellan High Conviction Trust ("MHH") ^(C)	(53,402)	-
Dividend Reinvestment Plan discount funding costs for MHH and Magellan Global Trust ("MGG") ^(D)	(506)	-
Net profit before income tax expense	251,911	224,083
Income tax expense	(56,233)	(50,560)
Net profit for the half year	195,678	173,523

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

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

(C) Refer to note 10.

(D) Relates to MFG's payment to MHH and MGG to ensure unitholders who do not participate in the MHH and MGG Dividend Reinvestment Plan ("DRP") suffer no NTA per share dilution as a result of any DRP discount.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2019

2. Segment Information (continued)

(a) Segment Financial Results (continued)

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

(A) Includes elimination of income and expense under transfer pricing agreements between MAM and US controlled entities, within the Funds Management segment.

(b) Segment Assets and Liabilities

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

	Consolidated Entity			
	Funds Management	Principal Investments	Corporate	Total
31 December 2019	\$'000	\$'000	\$'000	\$'000
Total assets	302,192	414,881	414,313	1,131,386
Total liabilities	43,614	49,268	26,375	119,257
Net assets	258,578	365,613	387,938	1,012,129
30 June 2019	\$'000	\$'000	\$'000	\$'000
Total assets	281,204	351,363	167,724	800,291
Total liabilities	32,902	43,580	(10,213)	66,269
Net assets	248,302	307,783	177,937	734,022

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2019

3. Earnings Per Share (EPS)

	Consolidated Entity	
	31 Dec 2019	31 Dec 2018
Basic EPS		
Net profit attributable to shareholders (\$'000)	195,678	173,523
Weighted average number of shares for basic EPS ('000)	180,769	176,647
Basic EPS (cents)	108.2	98.2
Diluted EPS		
Net profit attributable to shareholders (\$'000)	195,678	173,523
Weighted average number of shares for diluted EPS ('000)	180,769	176,647
Diluted EPS (cents)	108.2	98.2

4. Dividends

	Consolidated Entity			
	Total \$'000	Cents per Share	Franking %	Date Paid
During the half year ended 31 December 2019				
Prior year final dividend paid	138,128	78.0	75%	29 August 2019
Prior year performance dividend paid	59,147	33.4	75%	29 August 2019
Total dividends declared and paid during the half year⁽ⁱ⁾	197,275	111.4		
During the half year ended 31 December 2018				
Prior year final dividend paid	132,335	75.1	100%	27 August 2018
Prior year performance dividend paid	26,256	14.9	100%	27 August 2018
Total dividends declared and paid during the half year⁽ⁱ⁾	158,591	90.0		

(i) Includes an amount of \$1,014,000 (December 2018: \$980,000) relating to the dividend entitlement of SPP holders. This amount was not paid in cash but rather applied directly against the holders' SPP loan balances.

(a) Dividend Declared

On 13 February 2020, the Directors declared an interim dividend of 92.9 cents per ordinary share (75% franked) in respect of the half year ended 31 December 2019 (December 2018: 73.8 cents per ordinary share 75% franked). The amount of the interim dividend expected to be paid on 27 February 2020, but not recognised as a liability as at 31 December 2019, is approximately \$169,338,000 (December 2018: \$130,690,000).

(b) Imputation Credits

	Consolidated Entity	
	31 Dec 2019	30 Jun 2019
	\$'000	\$'000
Total imputation credits available for subsequent reporting periods based on a tax rate of 30% (June 2019: 30%)	51,534	56,442

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

The dividend declared by the Directors on 13 February 2020 will be partially franked out of existing franking credits, or out of franking credits arising from the payment of income tax.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2019

5. Revenue

(a) Management Fees

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

	Consolidated Entity	
	31 Dec	31 Dec
	2019	2018
	\$'000	\$'000
Magellan Global Fund	77,821	65,630
Magellan Global Fund (Hedged)	4,741	3,237
Magellan Global Equities Fund	10,445	7,774
Magellan Global Equities Fund (Currency Hedged)	783	499
Magellan Global Trust	15,835	11,972
Magellan Infrastructure Fund	11,135	7,640
Magellan Infrastructure Fund (Unhedged)	5,258	3,453
Magellan Infrastructure Fund (Currency Hedged)	2,516	1,092
Magellan High Conviction Fund	4,525	4,071
Magellan High Conviction Trust	3,131	-
Magellan Core Infrastructure Fund	832	255
The Airlie Concentrated Share Fund	387	577
MFG Global Fund	10,059	9,494
MFG Select Infrastructure Fund	952	242
MFG High Conviction Master Fund	315	-
Frontier MFG Funds	11,722	8,846
Other funds and mandates	125,439	101,001
Total management fees	285,896	225,783

(b) Performance Fees

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

	High watermark unit price (\$) ^(A)	Consolidated Entity	
		31 Dec	31 Dec
		2019	2018
		\$'000	\$'000
Based on performance relative to both market index and absolute return hurdle			
Magellan Global Fund	2.4095	949	3,310
Magellan Global Fund (Hedged)	1.6760	52	28
Magellan Global Equities Fund	3.6622	40	209
Magellan Global Equities Fund (Currency Hedged)	3.3103	2	3
Magellan Global Trust	1.6385	6	1,700
Magellan Infrastructure Fund	1.4829	217	4
Magellan Infrastructure Fund (Unhedged)	1.5975	40	18
Magellan Infrastructure Fund (Currency Hedged)	3.2504	51	-
Based on performance relative to absolute return hurdle			
Magellan High Conviction Fund (Class A/B)	2.0849(A)/1.2687(B)	5,017	64
Magellan High Conviction Trust	1.5999	5,612	-
Other fund	-	1,191	-
Based on total shareholder return			
MFF Capital Investments Limited	-	1,000	1,000
Based on performance relative to a market index			
Other funds and mandates	various	27,506	36,363
Total performance fees earned		41,683	42,699

(A) The high watermark shown as at 31 December 2019 and adjusted for distributions.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2019

5. Revenue (continued)

(c) Services Fees

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

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

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

	Consolidated Entity	
	31 Dec	31 Dec
	2019	2018
	\$'000	\$'000
Australia & New Zealand	206,473	167,725
United Kingdom & Europe	71,026	56,915
North America	43,298	34,776
Asia	9,132	11,419
Total management, services and performance fees	329,929	270,835

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

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

	Consolidated Entity	
	31 Dec	31 Dec
	2019	2018
	\$'000	\$'000
Management and services fees		
- Retail	155,306	121,176
- Institutional	132,940	106,960
Performance fees		
- Retail	24,447	24,972
- Institutional	17,236	17,727
Total management, services and performance fees	329,929	270,835
Total Retail	179,753	146,148
Total Institutional	150,176	124,687
Total management, services and performance fees	329,929	270,835

6. Taxation

For the half year ended 31 December 2019, the Group's estimated effective tax rate was 22.3% (December 2018: 22.6%), which includes taxes paid net of tax credits in foreign jurisdictions. This rate is below the Australian company tax rate of 30% primarily as a result of MAM's qualifying offshore banking ("OB") income, net of costs, attracting a concessional tax rate of 10%. For the six months to 31 December 2019, the effect of the concessional tax rate of 10% was to reduce tax expense by \$20,836,000 (December 2018: \$17,858,000).

The effective tax rate for the full financial year ending 30 June 2020 may change as it depends upon the proportion of qualifying OB income relative to total income.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2019

7. Financial Assets

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Current		
(i) Financial assets at amortised cost		
Term deposits ^(A)	2,017	2,009
Total current financial assets	2,017	2,009
Non-Current		
(ii) Financial assets at fair value through profit or loss		
Investments in equity securities (by domicile of primary stock exchange)		
- United States	7,230	6,285
- Europe and UK	1,384	1,234
- Asia	117	-
- Australia	50	-
Investments in Active ETFs/ASX listed trusts^(B)		
- Magellan Global Equities Fund	84,077	79,218
- Magellan Global Equities Fund (Currency Hedged)	22,777	21,632
- Magellan Infrastructure Fund (Currency Hedged)	13,640	13,101
- Magellan Global Trust ^(C)	9,446	4,215
- Magellan High Conviction Trust ^(D)	4,143	-
Total Active ETFs/listed investments	142,864	125,685
Investments in unlisted funds^(B)		
- Magellan Global Fund	149,486	138,191
- Magellan Global Fund (Hedged)	994	921
- Magellan High Conviction Fund	43,898	39,398
- Magellan Wholesale Plus Global Fund	9,752	9,020
- Magellan Wholesale Plus Infrastructure Fund	6,672	6,330
- Frontier MFG Core Infrastructure Fund	7,809	7,245
- Frontier MFG Global Plus Fund	11,602	10,703
- Frontier MFG Global Sustainable Fund ^(E)	15,386	-
- Frontier Caravan Emerging Markets Fund ^(F)	24,049	-
- MFG Global Sustainable Fund	1,685	1,569
- Other	22	22
Total unlisted investments	271,355	213,399
Total non-current financial assets	414,219	339,084

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

(B) At 31 December 2019 the Group held the following investments: Magellan Global Equities Fund 5.1% (June 2019: 5.6%), Magellan Global Equities Fund (Currency Hedged) 16.9% (June 2019: 21.4%), Magellan Infrastructure Fund (Currency Hedged) 2.3% (June 2019: 3.5%), Magellan Global Trust 0.4% (June 2019: 0.2%), Magellan High Conviction Trust 0.4% (June 2019: nil), Magellan Global Fund 1.2% (June 2019: 1.3%), Magellan Global Fund (Hedged) 0.1% (June 2019: 0.2%), Magellan High Conviction Fund 8.0% (June 2019: 6.9%), Magellan Wholesale Plus Global Fund 0.9% (June 2019: 1.0%), Magellan Wholesale Plus Infrastructure Fund 9.5% (June 2019: 16.7%), Frontier MFG Core Infrastructure Fund 1.3% (June 2019: 1.3%), Frontier MFG Global Plus Fund 3.3% (June 2019: 3.5%), Frontier MFG Global Sustainable Fund 99.1% (June 2019: nil), Frontier Caravan Emerging Markets Fund 80.1% (June 2019: nil) and MFG Global Sustainable Fund 5.3% (June 2019: 4.7%).

(C) MFG purchased \$4,142,500 of units in Magellan Global Trust during the period.

(D) MFG purchased \$3,809,195 of units in Magellan High Conviction Trust during the period.

(E) On 9 October 2019, MFG purchased US\$10,000,000 of units in Frontier MFG Global Sustainable Fund to seed the fund.

(F) On 4 December 2019, MFG purchased US\$16,000,000 of units in Frontier Caravan Emerging Markets Fund to seed the fund.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2019

7. Financial Assets (continued)

Reconciliation

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

	Consolidated Entity	
	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Current		
Opening balance at 1 July	2,009	1,972
Cash placed on term deposit	729	2,151
Matured term deposits	(721)	(2,114)
Closing balance	2,017	2,009
Non-current		
Opening balance at 1 July	339,084	274,567
Acquisitions	48,674	22,713
Disposals	(1,467)	(2,147)
Net change in fair value		
- Realised	200	577
- Unrealised	30,558	40,136
Net change in fair value recorded as dividend and distribution income	(2,830)	3,238
Closing balance	414,219	339,084

8. Fair Value Disclosures

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

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2019

8. Fair Value Disclosures (continued)

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

		Consolidated Entity			
	Note	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
31 December 2019					
Financial assets measured at fair value					
Investments in Active ETF's/listed investments	7	142,864	-	-	142,864
Investments in unlisted funds (i)	7	-	271,333	22	271,355
Total financial assets measured at fair value		142,864	271,333	22	414,219
30 June 2019					
Financial assets measured at fair value					
Investments in Active ETF's/listed investments	7	125,685	-	-	125,685
Investments in unlisted funds (i)	7	-	213,377	22	213,399
Total financial assets measured at fair value		125,685	213,377	22	339,084

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

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

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

There were no transfers between any fair value hierarchy level during the half years ended 31 December 2019 or 2018 and the Group's policy is to recognise transfers into and out of hierarchy levels as at the end of the reporting period. At 31 December 2019, the fair value of the level 3 assets is \$22,000 (June 2019: \$22,000).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2019

9. Contributed Equity

	Note	Consolidated Entity	
		31 Dec	30 Jun
		2019	2019
		\$'000	\$'000
Ordinary Shares	(a)	523,629	243,150
Total contributed equity		523,629	243,150

	Consolidated Entity			
	6 months	12 months	6 months	12 months
	to 31 Dec	to 30 Jun	to 31 Dec	to 30 Jun
	2019	2019	2019	2019
	Number	Number	\$'000	\$'000
	'000	'000	'000	'000
(a) Ordinary Shares				
Opening balance	177,087	176,211	243,150	218,877
Shares issued under institutional placement ⁽ⁱ⁾	4,982	-	275,000	-
Shares issued for acquisition of Frontegra Asset Management, Inc. ⁽ⁱⁱ⁾	-	788	-	21,672
Shares issued under SPP ⁽ⁱⁱⁱ⁾	211	88	8,970	2,187
SPP expense for the period	-	-	232	445
Transaction costs arising on share issue and placement, net of tax	-	-	(3,723)	(31)
Closing balance - Ordinary Shares	182,280	177,087	523,629	243,150

(i) On 14 August 2019, MFG completed a \$275,000,000 institutional placement whereby 4,981,885 ordinary shares were issued at a price of \$55.20.

(ii) In accordance with the sale agreement, 689,066 of the 787,507 ordinary shares issued were placed in escrow in the name of the former shareholder. The escrowed shares will be released in equal amounts on the anniversary date of issue, being 1 October, over seven years until 2025. On 1 October 2019, a further 98,438 ordinary shares were released.

(iii) Of the 182,280,220 ordinary shares on issue at 31 December 2019, 1,040,831 ordinary shares are held by employees and Non-Executive Directors under the SPP (June 2019: 911,016).

Terms and Conditions of Ordinary Shares

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the half year ended 31 December 2019

10. Magellan High Conviction Trust IPO

On 3 October 2019, MFG announced that MHH raised \$862 million from an IPO. MHH is a closed end fund which replicates the Magellan High Conviction Fund investment strategy. On 8 October 2019, units in MHH were allotted and on 11 October 2019, MHH commenced trading on the ASX. The costs of the IPO were paid by MFG, which ensured the opening cash net asset value per unit of MHH was equal to the application unit price of \$1.50.

The offer comprised a priority offer to underlying investors in MFG, MGG and the Magellan High Conviction Fund and a wholesale/general public offer. Under the priority offer, eligible applicants could apply for up to 33,334 units equivalent to \$50,001 and receive a loyalty reward of additional units ("Loyalty Units") worth 7.5% of the value of the units allotted to them under the priority offer subject to the terms and conditions outlined in the Product Disclosure Statement ("PDS"). In addition, applicants under the wholesale/general public offer could receive additional units ("IPO Foundation Units") worth 2.5% of the value of the units allotted to them subject to the terms and conditions outlined in the PDS.

On 15 January 2020, a total of 34,447,931 Loyalty Units and IPO Foundation Units were allotted as ordinary units in MHH. MFG paid \$57,752,000 to MHH, being the economic cost associated with the issue of Loyalty Units and IPO Foundation Units, on 15 January 2020. The amount payable to MHH based on MHH's net asset value per unit at 31 December 2019 was included in payables in the Consolidated Statement of Financial Position at 31 December 2019. The costs relating to the IPO are treated as deductible over five years for income tax purposes.

The offer costs borne by the Group totalled \$59,482,000, comprising:

- Costs relating to the IPO of \$1,730,000 (included in expenses in profit and loss);
- The cost of issuing 34,447,931 Loyalty Units and IPO Foundation Units at the application unit price of \$1.50 which amounted to \$51,672,000 (included in expenses in profit and loss); and
- The increase in the cost of issuing Loyalty Units and IPO Foundation Units due to changes in the MHH net asset value per unit up to 15 January 2020 of \$6,080,000 (\$3,441,000 included in profit and loss for the half year ended 31 December 2019 and \$2,639,000 relating to changes in the net asset value after 31 December 2019 to be recorded in the June 2020 half year).

The offer costs were partially offset by the net change in the fair value of financial assets held to provide an economic hedge of the exposure to changes in MHH's net asset value of \$6,097,000 (\$3,729,000 included in profit and loss for the half year ended 31 December 2019 and \$2,368,000 relating to changes in fair value after 31 December 2019 to be recorded in the June 2020 half year).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the half year ended 31 December 2019

11. Contingent Liabilities and Contingent Assets

In accordance with the terms of the deeds entered into with MGG and MHH, MFG will pay MGG and MHH an amount equal to the DRP discount. As a result, MFG has a contingent liability where MGG or MHH offer a discount to the Net Trust Value per unit on units issued under the DRP in future periods. The quantum of the contingent liability is determined at each distribution date of MGG and MHH and the amount is currently equal to a 5% discount to the respective Net Asset Value ("NAV") per unit multiplied by the number of units participating in the DRP. It is not practical to estimate the future cost to the Group as there is uncertainty as to the level of participation in the DRP, the respective NAV per unit and whether the DRP will be offered. For the half year ended 31 December 2019, \$506,000 was paid or payable by the Group in respect of MGG and MHH DRP (December 2018: \$215,000).

The Group has contingent assets in respect of performance fees carried forward at 31 December 2019.

Other than the above, the Group has no material contingent assets or contingent liabilities as at 31 December 2019 (June 2019: nil).

12. Subsequent Events

On 15 January 2020, 34,447,931 Loyalty Units and IPO Foundation Units were allotted as ordinary units in MHH to eligible applicants who applied in the priority offer and wholesale/general public offer of MHH. MFG paid \$57,752,000 to MHH, to offset the dilutive impact of the issue of the Loyalty Units and IPO Foundation Units, on 15 January 2020 (refer to note 10).

On 5 February 2020, the Group announced to the ASX its funds under management were \$104.3 billion as at 31 January 2020.

Other than the items above and the dividend disclosed in respect of the six months ended 31 December 2019 (refer to note 4(a)), the Directors are not aware of any other matter or circumstance not otherwise dealt with in this report that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' DECLARATION

In the Directors' opinion,

- a) the financial statements and notes set out on pages 14 to 32 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
 - (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving declarations from the Chief Executive Officer and Chief Financial Officer which mirror section 295A of the *Corporations Act 2001* and are recommended by the ASX Corporate Governance Principles and Recommendations.

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

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

Hamish M Douglass
Chairman

Sydney
13 February 2020

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Magellan Financial Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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



**Building a better
working world**

Independence

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

Ernst & Young

Clare Sporle
Partner
Sydney
13 February 2020

MAGELLAN FINANCIAL GROUP LIMITED

CORPORATE INFORMATION

Directors

Brett Cairns – CEO
Hamish Douglass – Chairman and Chief Investment Officer
John Eales
Robert Fraser – Chairman of MAM
Paul Lewis
Hamish McLennan – Deputy Chairman
Karen Phin

Company Secretary

Marcia Venegas

Registered Office

Magellan Financial Group Limited
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Auditor

Ernst & Young
200 George Street
Sydney NSW 2000

Share Registrar

Boardroom Pty Limited
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225 George Street
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Securities Exchange Listing

Australian Securities Exchange
ASX code (ordinary shares): MFG

Website

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

Corporate Governance Statement

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