



MAGELLAN  
FINANCIAL GROUP

# Magellan Financial Group Limited

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## Interim Report

For the half year ended 31 December 2021

ABN 59 108 437 592

# Contents

<b>Chief Executive Officer's Interim Letter</b>	<b>3</b>
<b>Directors' Report</b>	<b>12</b>
<b>Auditor's Independence Declaration</b>	<b>15</b>
<b>Financial Statements</b>	
Consolidated Statement of Profit or Loss and Comprehensive Income	16
Consolidated Statement of Financial Position	17
Consolidated Statement of Changes in Equity	18
Consolidated Statement of Cash Flows	19
Notes to the Financial Statements	20
1. Basis of Preparation	20
<i>Results for the Period</i>	
2. Segment Information	21
3. Earnings Per Share	24
4. Revenue	25
5. Taxation	26
<i>Investments</i>	
6. Financial Assets	27
7. Associates	28
8. Financial Liabilities	29
9. Fair Value Disclosures	29
<i>Capital Structure</i>	
10. Contributed Equity	30
11. Dividends	31
<i>Other Items</i>	
12. Commitments and Contingent Assets and Liabilities	31
13. Subsequent Events	32
<b>Directors' Declaration</b>	<b>33</b>
<b>Independent Review Report</b>	<b>34</b>
<b>Corporate Information</b>	<b>36</b>

The interim financial report has been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001* and does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with Magellan Financial Group Limited's ("MFG") most recent annual financial report available at [www.magellangroup.com.au](http://www.magellangroup.com.au). MFG has also released information to the Australian Securities Exchange ("ASX") in compliance with the continuous disclosure requirements of the ASX Listing Rules and these announcements are available at [www.asx.com.au](http://www.asx.com.au) (MFG's ASX code: MFG).

# Chief Executive Officer's Interim Letter

for the half year ended 31 December 2021

Dear Shareholder,

Magellan Financial Group Limited ("Magellan" or the "Group") has delivered strong financial results for the six months to 31 December 2021:

- Average funds under management ("FUM") grew 12% to \$112.7 billion (average FUM of \$100.9 billion for the half year ended 31 December 2020);
- Profit before tax and performance fees of the Funds Management business increased 15% to \$293.6 million (\$256.2 million for the half year ended 31 December 2020);
- adjusted net profit after tax increased 16% to \$248.1 million (\$213.1 million for the half year ended 31 December 2020);
- reported net profit after tax of \$251.6 million increased 24% (\$202.3 million for the half year ended 31 December 2020); and
- Directors have declared an Interim Dividend of 110.1 cents per share (franked to 75%), which is an increase of 13% over the prior corresponding period.

Magellan's balance sheet is robust with liquid assets (comprising cash and cash equivalents, financial assets and equity accounted investments) of \$1,016.7 million as at 31 December 2021. Net tangible assets at that date were \$992.8 million. Further details about the financial results, dividends and the dividend policy are noted below.

Today Magellan announced a number of significant capital management initiatives, which are detailed below, including an intention to progress a bonus issue of options to Magellan shareholders. We are also considering the implementation of an on-market share buy-back over the next 12 months, subject to various factors including market conditions.

Whilst the balance sheet of Magellan is very strong and the interim financial result is a record, I wanted to acknowledge the challenges the business has had in recent months which include the conclusion of our relationship with St James's Place ("SJP"), changes in our leadership team and the recent share price performance being well below expectations. We understand the culmination of these events may have impacted the trust you place in our company and we are focused and determined to return stability and simplicity to the business.

Importantly, I assure you we are focused on our key objective and purpose which is to deliver value for our clients who entrust us to manage their assets. The Magellan Global Fund has met its long-term objective of delivering returns of 9% per annum net of fees since inception, however we recognise that we need to sharpen our investment processes to improve investment performance.

Despite the challenges, the underlying qualities of our business have not diminished.

The financial health of the business is very strong. It is not reliant on a single client and our employees are united and focused on the work ahead. I, along with the senior management team, could not be more proud of how our employees have responded to the recent challenges – they are calm and determined to take advantage of the opportunities that lie ahead to grow our business and are doing so with great camaraderie. Both our employees and Directors are very aligned to your interests as 85% are shareholders and a large number are also unitholders across our various funds.

We have deeply experienced investment teams and our fundamental, proven investment discipline has provided clients with strong, consistent investment results with downside protection since inception. Looking forward, Magellan has a key priority to further sharpen its investment processes to improve investment performance. There is no change in Magellan's focus on quality investment portfolios built at appropriate prices with portfolio construction also seeking to minimise risks of permanent capital losses.

As a business that puts our clients and employees first, we wholeheartedly support Hamish Douglass taking the time he requires to prioritise his health and we look forward to his return. In the meantime, we are very fortunate to welcome back Magellan's Co-Founder Chris Mackay who will work closely with Magellan's investment team and oversee the portfolio management of the global equity retail funds and global equity institutional mandates. As many of you will know, Chris was Magellan's inaugural Chief Investment Officer from inception in 2006 to 2012 and he was Chairman until 2013. Chris has worked from our offices and has been actively engaged with the investment team since that time. His transition back into our business has been seamless. He is a deeply experienced investor with a strong long term track record of managing global equities.

Our infrastructure business which manages approximately \$20 billion of FUM is market leading and has been led by Gerald Stack since 2007, along with Ofer Karliner, Ben McVicar and David Costello as portfolio managers. It, along with Airlie Funds Management, our Australian equities business led by John Sevier, Matt Williams and Emma Fisher, operates independently and both are unaffected by the personnel changes above.

# Chief Executive Officer's Interim Letter

for the half year ended 31 December 2021

I thank all employees across the business for their loyalty and immense effort at this important time. From our investment team to our distribution team, with its 10,000+ deep and long-standing adviser and client relationships, and of course to our business support teams of finance, legal, investment operations, risk & compliance, corporate strategy, IT, administration and HR.

As a fund manager, our people are our largest asset and we recognise investing in our business means investing in talented people. Whilst we will continue to be prudent in our expense management, this will not come at the cost of our future.

On a personal level, it has always been a privilege to work for this business and especially so right now at this very important time. I will continue to work diligently, with a commitment to deliver at the highest of standards, and I look forward to further engagement with our shareholders over the coming months. As always, we would welcome your thoughts and feedback.

## Interim Financial Results

A key driver of the Group's financials is FUM. During the period, the Group saw a 12% growth in average FUM over the previous corresponding period, to \$112.7 billion (average FUM of \$100.9 billion for the half year ended 31 December 2020), noting that SJP terminated its mandated in December 2021.

The Group reported net profit after tax of \$251.6 million for the six months ended 31 December 2021, which represents an increase of 24% over the previous corresponding period (\$202.3 million for the half year ended 31 December 2020).

Reported net profit after tax includes some inherent assumptions and, therefore, we believe adjusted net profit after tax provides additional meaningful information about the performance of the business, particularly in comparative analysis.

The Group's adjusted net profit after tax increased by 16% to \$248.1 million (\$213.1 million for the half year ended 31 December 2020). Adjusted financial measures for the half year are adjusted for:

- non-cash amortisation expense of \$2.3 million;
- unrealised capital gains from the Fund Investments segment of \$11.9 million (net of tax); and
- costs related to strategic initiatives of \$6.1 million (net of tax), which primarily relate to costs associated with the MGF Options.

If we recalculated adjusted net profit to remove earnings from SJP for the half year ended 31 December 2021, adjusted net profit after tax would have been approximately \$212.5 million, broadly in-line with the prior corresponding period.

Adjusted earnings per share increased by 15% to 134.4 cents per share (116.4 cents per share for the half year ended 31 December 2020).

In the period, the Group earned crystallised performance fees before tax of \$11.5 million (\$12.4 million for the half year ended 31 December 2020). As we have discussed previously, it is important to note performance fees can, and usually do, vary significantly from period to period. Whilst this does not detract from their value, it can distort near term comparative analysis.

We therefore draw shareholders' attention to the change in profit before tax and performance fees of our Funds Management business. This increased 15% to \$293.6 million for the half year ended 31 December 2021 (\$256.2 million for the half year ended 31 December 2020) which was broadly in line with the growth in average FUM. Again, if we were to remove earnings from SJP in the current period, the Funds Management profit before tax and performance fees would have been approximately \$254.1 million, broadly in-line year-on-year.

Our share of the after-tax profits incurred by the investments in Magellan Capital Partners was \$3.0 million. While it is still early days, we are pleased with the progress of the investments in Magellan Capital Partners.

Fund Investments made a profit of \$33.5 million before tax. This comprised distributions of \$8.6 million, realised capital gains of \$8.1 million and a \$17.0 million unrealised capital gain. Earnings from distributions and realised capital gains/losses are included in other revenue in the table on the next page.

The Directors have declared an Interim Dividend of 110.1 cents per share in respect of the half year ended 31 December 2021, 75% franked. This is an increase of 13% over the prior corresponding period. The Interim Dividend will be paid on 8 March 2022.

# Chief Executive Officer's Interim Letter

for the half year ended 31 December 2021

The following table summarises the Group's profitability over the past two December ended half years<sup>1</sup>:

	31 Dec 2021 \$'000	31 Dec 2020 \$'000	Change %
Management and services fees	352,305	311,350	13%
Performance fees	11,472	12,421	(8%)
Other revenue and income	20,273	9,385	116%
<b>Adjusted revenue and other income</b>	<b>384,050</b>	<b>333,156</b>	15%
Adjusted expenses	(65,251)	(52,635)	24%
<b>Adjusted net profit before tax</b>	<b>318,799</b>	<b>280,521</b>	14%
Adjusted tax expense	(73,665)	(61,370)	20%
<b>Adjusted net profit after tax and before associates</b>	<b>245,134</b>	<b>219,151</b>	12%
<b>Share of after tax profit/(loss) of associates</b>	<b>2,966</b>	(6,081)	149%
<b>Adjusted net profit after tax</b>	<b>248,100</b>	<b>213,070</b>	16%
Transaction costs related to strategic initiatives (after tax) <sup>1</sup>	(6,061)	(2,848)	113%
Amortisation expense of intangible assets	(2,287)	(2,294)	0%
Net unrealised change in fair value of financial assets and liabilities (after tax)	11,880	(5,600)	312%
<b>Total non-IFRS adjustments</b>	<b>3,532</b>	<b>(10,742)</b>	
<b>Statutory net profit after tax</b>	<b>251,632</b>	<b>202,328</b>	24%
<b>Key statistics</b>			
Diluted earnings per share (cents per share)	136.3	110.6	23%
Adjusted diluted earnings per share (cents per share)	134.4	116.4	15%
<b>Interim dividend (cents per share)</b>	<b>110.1</b>	97.1	13%

<sup>1</sup> Comprises the costs of funding the discounts associated with Magellan Global Fund ("MGF") Options issued under the MGF Partnership Offer and Bonus MGF Option Issue and contributions to Magellan FuturePay under the commitment made by MFG. In the prior period, transaction costs reflect the restructure of MGF and the costs of funding discounts under the Magellan High Conviction Trust ("MHH") and Magellan Global Trust ("MGG") DRPs.

## Capital Management

Magellan is in a strong financial position. As at 31 December 2021 Magellan had:

- investment assets (cash and cash equivalents, financial assets and equity accounted investments) of \$1,016.7 million (30 June 2021: \$902.9 million). The Group's cash position was \$291.5 million and current receivables were \$117.5 million. Dividends of \$204.5 million are due to be paid to shareholders on 8 March 2022;
- net assets of \$1,104.6 million (30 June 2021: \$989.4 million) which includes \$111.8 million of intangible assets following the acquisitions of Airlie and Frontier;
- net tangible assets per share of \$5.35 (30 June 2021: \$4.77); and
- total liabilities of \$225.0 million which relate predominantly to the Group's financial commitments in regard to the MGF Options but also include payables, provisions and lease liabilities. The Group has no debt and has access to an undrawn debt facility.

<sup>1</sup> 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 3.1 of the Directors' Report.

# Chief Executive Officer's Interim Letter

for the half year ended 31 December 2021

Today Magellan has announced a number of significant capital management initiatives:

- Intention to progress with a 1-for-8 bonus issue of options to Magellan shareholders:
  - Exercise price of \$35 per option;
  - 5 year term – exercisable at any time until expiry;
  - Prospectus expected to be lodged in March 2022; and
  - An application will be made with ASX to have the options quoted on ASX;
- Intention to progress with an issuance of approximately 10 million unlisted options to Magellan staff (\$35 exercise price, 5 year term) as part of a staff retention programme;
- Considering the implementation of an on-market share buy-back, subject to various factors including market conditions;
- Confirming the dividend policy of 90-95% payout of the profit after tax of the Funds Management business;
- Suspending the dividend reinvestment plan; and
- No plans to make further investments via Magellan Capital Partners.

The Directors believe these initiatives and proposals will be attractive to shareholders and reaffirm our focus on our core Funds Management business. The initiatives and proposals are in line with our aim to deliver capital efficiency, solid dividends and attractive returns for shareholders.

Magellan's employees are exceptional. Our team members are working diligently, many with increased hours, as we and our clients navigate the current environment. The intention to progress with an issuance of options to employees comprises part of Magellan's overall goal to continue to be an employer of choice.

## Funds Management Segment

The Group's Funds Management segment is Magellan's core business and is the driver of the Group's revenues, profitability and, therefore, dividends paid to shareholders. As at 31 December 2021, the Funds Management business had FUM of \$95.5 billion that is managed on behalf of Australian and New Zealand retail investors and institutional investors around the world. Since establishment, the business has been focused on putting our clients first and setting out to achieve the investment objectives outlined to clients. This section discusses the financial performance of the Funds Management segment for the period.

For the half year ended 31 December 2021, the Group's Funds Management segment profit before tax increased by 13% to \$304.8 million (\$268.6 million for the half year ended 31 December 2020). Excluding performance fees, profit before tax grew by 15% to \$293.6 million<sup>2</sup> (\$256.2 million for the half year ended 31 December 2020).

<sup>2</sup> Adjusts for the current period performance fee impact on revenue and expenses for the six month period.

# Chief Executive Officer's Interim Letter

for the half year ended 31 December 2021

The following table summarises the profitability of the Funds Management business over the past two December ended half years:

	31 Dec 2021 \$'000	31 Dec 2020 \$'000	Change %
<b>Revenue</b>			
Management fees	350,265	309,350	13%
Performance fees	11,472	12,421	(8%)
Services fees	2,040	2,000	2%
Interest and other revenue	3,277	(3,602)	191%
	<b>367,054</b>	320,169	15%
<b>Expenses</b>			
Employee expenses	42,160	34,220	23%
Fund administration and operational costs	10,678	9,400	14%
Information technology and data	3,763	3,648	3%
Marketing	1,113	860	29%
Other expenses	4,533	3,428	32%
	<b>62,247</b>	51,556	21%
<b>Net profit before tax</b>	<b>304,807</b>	268,613	13%
<b>Net profit before tax and performance fees<sup>1</sup></b>	<b>293,622</b>	256,192	15%
<b>Key statistics</b>			
Average funds under management (\$ million)	112,699	100,930	12%
Average AUD/USD exchange rate	0.7319	0.7234	1%
Average number of employees	139	132	5%
Employee expenses / total expenses	67.7%	66.4%	
Cost / income	17.0%	16.1%	
Cost / income, excl. performance fees <sup>1</sup>	17.4%	16.8%	

<sup>1</sup> Adjusts for the current period performance fee impact on revenue and expenses for the six month period.

## Revenues

The primary component of the Group's revenues are management fees, which are based on FUM. Changes in FUM are driven by both investment performance and also by client inflows and outflows and distributions to clients. FUM is discussed further in the next section.

Revenues for the six months ended 31 December 2021 increased by 15% to \$367.1 million over the period. This was driven by a 13% increase in total management fee revenue as a result of a 12% increase in average FUM over the period, offset by a small decline in performance fees. Performance fees before tax for the half year totalled \$11.5 million compared with \$12.4 million in the prior corresponding period. Performance fees can, and very often do, vary significantly from period to period.

Given a large portion of our overall FUM is invested in offshore markets and is typically unhedged for currency movements, our FUM, and therefore revenue, is inversely affected by movements in the Australian dollar. Relative to the US dollar, the Australian dollar was broadly in line year-on-year and therefore we did not see material impact from currency movements during the period.

Other revenue includes a \$2.1 million net foreign exchange gain.

## Expenses

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

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



# Chief Executive Officer's Interim Letter

for the half year ended 31 December 2021

Overall, the Funds Management business operated efficiently with a cost to income ratio (excluding performance fees) of 17.4% compared with 16.8% for the half year ended 31 December 2020. Excluding the earnings contribution from SJP in the half year ended 31 December 2021, our cost to income ratio (excluding performance fees) would have been 19.6%.

Expenses increased by 21% to \$62.2 million over the previous corresponding period. We expect Funds Management segment expenses for the 2022 financial year to be in the range of \$125-\$130 million. This includes employee retention initiatives which we are currently working through. Ultimately the level of our expenses for the year will depend on a number of market related variables such as foreign exchange rates, FUM levels and unitholder activity.

Magellan retains significant headroom to continue to invest in the business.

The following table sets out total employee numbers:

	31 Dec 2021	30 June 2021
<b>Investment</b>		
Portfolio Managers/Analysts	34	34
Dealers	3	3
	<b>37</b>	37
<b>Distribution &amp; Marketing</b>	<b>35</b>	34
<b>Other (including Finance, Risk &amp; Compliance, Admin)</b>	<b>48</b>	48
<b>Frontier</b>	<b>10</b>	11
<b>Airlie</b>	<b>9</b>	9
<b>Total</b>	<b>139</b>	139
Average number of employees	<b>139</b>	135

As at 31 December 2021, the Group had 139 employees. We are pleased with the talent employed across the business and the bench strength of the management team.

## Funds Under Management

As at 31 December 2021, the Group had FUM of \$95.5 billion, split between global equities (68%), infrastructure equities (22%) and Australian equities (10%). This compares with FUM of \$113.9 billion at 30 June 2021. The decrease in FUM was driven by net outflows of \$26.1 billion (primarily due to the loss of the SJP mandate of \$23 billion), cash distributions (net of reinvestment) of \$0.4 billion, partially offset by investment performance of approximately \$8.1 billion.

The following table sets out the composition of FUM:

	31 Dec 2021	30 Jun 2021
Retail	30.8	30.9
Institutional	64.7	83.0
Total FUM (\$billion)	<b>95.5</b>	113.9
Retail (%)	<b>32%</b>	27%
Institutional (%)	<b>68%</b>	73%
FUM subject to performance fees (%)	<b>40%</b>	34%
Breakdown of FUM (\$billion)		
Global equities	<b>64.9</b>	85.4
Global listed infrastructure	<b>20.6</b>	18.9
Australian equities	<b>10.0</b>	9.5
Average base management fee (bps) per annum excluding performance fees <sup>1</sup>	<b>62</b>	61

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



# Chief Executive Officer's Interim Letter

for the half year ended 31 December 2021

## Retail FUM

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

At 31 December 2021, the Group had total retail FUM of \$30.8 billion. We experienced total net retail outflows of \$1.7 billion for the six months to 31 December 2021, compared with net inflows of \$1.4 billion for the previous corresponding period.

The Group experienced average monthly retail net outflows of approximately \$285 million over the six months to 31 December 2021, compared with average monthly net inflows of \$234 million over the previous corresponding period.

We remain extremely focused on servicing the adviser and broker community and their clients for whom we manage money. Our highly experienced retail Distribution team is dedicated to providing value to our existing relationships and aims to support and partner with our adviser and broker networks by delivering clear and relevant information in a timely manner.

While it is still early days, we see significant growth opportunities for our newer products that we have launched in recent years:

- **Airlie Australian Share Fund (ASX: AASF / APIR: MGE9705AU):** The Airlie Australian Share Fund, managed by Matt Williams and Emma Fisher has established an exceptional three year track record. As at 31 December 2021, FUM in the Airlie Australian Share Fund stood at \$289 million, significantly higher than the \$45 million 12 months ago.
- **MFG Core Series:** The three funds in the MFG Core Series (MFG Core International Fund, MFG Core ESG Fund and MFG Core Infrastructure Fund) were launched to retail investors in December 2020. We are seeing growing demand for low cost products and are excited for the opportunities that the MFG Core Series presents.
- **Magellan Sustainable Fund:** The Magellan Sustainable Fund, managed by Dom Giuliano, has now built over a 12 month track record, and we are pleased to be able to offer retail investors a thoughtful and differentiated approach to climate change and ESG risks.
- **FuturePay:** Launched in June 2021, **FuturePay** still remains in its infancy, however the opportunity is enormous given the size of the market and lack of products that truly meet the needs of post-retirement investors. We have held a large number of adviser and investor education sessions over the past few months and are pleased with the client engagement to date.

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

Investment Performance for the Period to 31 December 2021 <sup>1</sup>	1 Year	3 Years	5 Years	Since Inception
	%	% p.a.	% p.a.	% p.a. <sup>2</sup>
<b>Magellan Global Fund<sup>3</sup></b>	<b>19.3</b>	<b>15.2</b>	<b>13.9</b>	<b>12.0</b>
MSCI World NTR Index (\$A)	29.3	20.4	14.9	8.2
<b>Magellan Infrastructure Fund</b>	<b>15.2</b>	<b>8.5</b>	<b>8.3</b>	<b>8.0</b>
Global Listed Infrastructure Benchmark (\$A) <sup>4</sup>	13.7	7.8	6.0	5.4
<b>Magellan High Conviction Fund</b>	<b>20.8</b>	<b>15.2</b>	<b>14.3</b>	<b>14.8</b>
<b>Airlie Australian Share Fund</b>	<b>28.8</b>	<b>20.1</b>	-	<b>14.5</b>
S&P/ASX 200 Accum. Index	17.2	13.6	-	10.1

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Performance for the Magellan Global Fund Open Class

<sup>4</sup> 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).

## Institutional FUM

At 31 December 2021, the Group had total institutional FUM of \$64.7 billion. During the six months to 31 December 2021, we experienced institutional net outflows of \$24.4 billion, which compares with net inflows of \$2.3 billion for the previous corresponding period.

# Chief Executive Officer's Interim Letter

for the half year ended 31 December 2021

The loss of the SJP mandate in December 2021 of \$23 billion was the primary component of the institutional net outflows for the period. Whilst we are disappointed, we respect SJP's decision. We are only fiduciaries of our clients' assets and they always have a choice as to who manages their money.

We have a well-diversified institutional client base and are not reliant on a single client.

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 are also pleased with the continued development of our next generation of global equities strategies, the Sustainable strategies. Our Deputy CIO Dom Giuliano manages the Global Sustainable strategy, and our US Sustainable strategy is managed by Alan Pullen. Both strategies have recently passed their five year anniversaries. We were pleased to welcome new institutional mandates into the Global Sustainable strategy during the period and total institutional FUM of these strategies is now over \$500 million. We believe both these strategies are well positioned on the back of solid track records and a thoughtful, differentiated sustainable investment approach.

## Fund Investments

The Group's Fund Investments is a sub-set of the Group's balance sheet and largely comprises investments in our funds and seed portfolios for new strategies and initiatives. We believe maintaining a strong balance sheet that can withstand almost any market condition is important for Magellan's clients and shareholders. The Group's Fund Investments are important for multiple reasons, including:

- Alignment with our clients through co-investment in our investment strategies;
- Seeding new investment strategies; and
- Provide meaningful level of liquid assets for operational risk purposes.

As at 31 December 2021, the Group had net Fund Investments of \$427.0 million, compared with \$407.5 million at 30 June 2021. The following table sets out a summary of the Group's Fund Investments as at 31 December 2021:

\$million	31 Dec 2021	30 Jun 2021
Cash	0.6	0.5
Investments in:		
Magellan funds <sup>1</sup>	467.9	441.5
Net seed portfolios	11.6	10.6
Other <sup>2</sup>	0.3	0.3
<b>Total</b>	<b>480.4</b>	<b>452.9</b>
Net deferred tax liability <sup>3</sup>	(53.4)	(45.4)
<b>Net Fund Investments</b>	<b>427.0</b>	<b>407.5</b>
<b>Net Fund Investments per share (cents)<sup>4</sup></b>	<b>229.9</b>	<b>221.7</b>

<sup>1</sup> Investments are set out in note 6 of the financial statements.

<sup>2</sup> Comprises receivables and payables.

<sup>3</sup> Arises from changes in the fair value of financial assets offset by the deferred tax asset relating to unused tax losses.

<sup>4</sup> Based on 185,713,004 ordinary shares on issue at 31 December 2021 (30 June 2021: 183,793,753 ordinary shares).

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

The Group's Fund Investments portfolio has returned pre-tax 19.8%, 15.1% and 13.7% per annum over the last 1, 3 and 5 years to 31 December 2021 respectively. Excluding the effect of the Group's previous investment in MFF Capital Investments Limited, disposed of by way of an in-specie distribution to shareholders in February 2013, the portfolio returned pre-tax 11.6% 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.

# Chief Executive Officer's Interim Letter

for the half year ended 31 December 2021

## Magellan Capital Partners

Magellan Capital Partners comprises three financial investments:

- 40% non-diluting economic interest (5% voting interest) in Barrenjoey Capital Partners ("Barrenjoey"), a newly established full-service financial services firm;
- 15% (fully diluted) interest in FinClear Holdings Limited ("FinClear"), a provider of technology, infrastructure and ASX market-access services; and
- 12% interest (fully diluted) in Guzman y Gomez (Holdings) Limited ("GYG"), an Australian based quick service restaurant chain specialising in made to order, clean, authentic and fresh Mexican food.

These investments are held on Magellan's balance sheet and are managed separately from and independently of Magellan's core Funds Management business. Magellan Capital Partners is overseen by Craig Wright, Head of Magellan Capital & Advisory.

Magellan Capital Partners delivered a profit of \$3.0 million during the six month period to 31 December 2021. We are very pleased with the performance of its investments particularly as they are all currently investing heavily for growth.

Magellan Capital Partners' 40% share of Barrenjoey was the major contributor to the profit recorded in the half by Magellan Capital Partners. Barrenjoey has already achieved a strong market presence and its management has represented that the business is tracking ahead of its plans, achieving profitability even though significant segments of the group, including Fixed Income, did not commence operations during the half.

GYG's underlying domestic business is performing well despite headwinds created by the COVID pandemic. The company is reinvesting profits heavily into the business to support its future growth both in Australia and in the U.S. and there are exciting prospects for the company ahead.

FinClear grew strongly in the first half of the financial year after consolidating its acquisition of Pershing Securities Australia. This acquisition has significantly expanded the scale of FinClear's HIN platform. Having successfully stabilised the Pershing business, FinClear is delivering a high level of service to clients and is now benefiting from new client wins.

Magellan remains supportive of these three investments and their Boards and management teams and believes these investments have the ability to generate superior returns for Magellan's shareholders in the future.

However, consistent with changes to its broader capital management strategy, Magellan does not plan to make further investments via Magellan Capital Partners.

Yours faithfully,



**Kirsten Morton**

Interim CEO

18 February 2022

# Directors' Report

For the half year ended 31 December 2021

The Directors present their report together with the financial statements of Magellan Financial Group Limited (the "Company" or "MFG") and its controlled entities, which together form the Group, for the half year ended 31 December 2021.

## 1. Directors

		Appointed	Resigned
Hamish McLennan	Non-Executive Chairman <sup>1</sup>	1 March 2016	-
Robert Fraser	Non-Executive Deputy Chairman and Chairman of MAM <sup>2</sup>	23 April 2014	-
Hamish Douglass	Executive Director <sup>3</sup>	21 November 2006	-
John Eales	Non-Executive Director	1 July 2017	-
Colette Garnsey	Non-Executive Director	30 November 2020	-
Karen Phin	Non-Executive Director	23 April 2014	-
Paul Lewis	Non-Executive Director	20 December 2006	30 September 2021
Brett Cairns	Chief Executive Officer <sup>4</sup>	22 January 2007	6 December 2021

<sup>1</sup> Mr McLennan was a Non-Executive Director and Deputy Chairman during the half year ended 31 December 2021. On 7 February 2022, Mr McLennan was appointed Chairman.

<sup>2</sup> Mr Fraser was a Non-Executive Director of MFG and the Chairman of Magellan Asset Management Limited ("MAM") during the half year ended 31 December 2021. On 7 February 2022, Mr Fraser was appointed Deputy Chairman of MFG.

<sup>3</sup> Mr Douglass was the Chairman and Chief Investment Officer during the half year ended 31 December 2021. On 7 February 2022, Mr Douglass commenced a medical leave of absence.

<sup>4</sup> Following Dr Cairns' resignation on 6 December 2021, Ms Morton was appointed as Chief Executive Officer (Interim) of the Group. Ms Morton is also the Chief Financial Officer, a position she has held since 3 June 2013.

## 2. Dividends

The Directors have declared an interim dividend of 110.1 cents per ordinary share (75% franked) in respect of the half year ended 31 December 2021 (December 2020: 97.1 cents per ordinary share, 75% franked). The amount of the interim dividend expected to be paid on 8 March 2022, but not recognised as a liability as at 31 December 2021, is approximately \$204,470,000 (December 2020: \$178,361,000).

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.

## 3. Review of Financial Results and Operations

### 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-International Financial Reporting Standards ("non-IFRS") financial measures including "adjusted revenue and other income", "adjusted net profit before associates", "adjusted net profit after tax" and "adjusted basic and diluted EPS" which are shown on the next page. Refer to section 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 2021 was \$251,632,000, up \$49,304,000 on the prior corresponding half year. The Group's adjusted net profit after tax was \$248,100,000 (December 2020: \$213,070,000) which takes into account various non-IFRS adjustments as shown on the following page.

# Directors' Report

For the half year ended 31 December 2021

## 3.1 Reconciliation of Net Profit After Tax to Adjusted Net Profit After Tax (continued)

	31 Dec 2021		31 Dec 2020	
	Statutory \$'000	Non-IFRS \$'000	Statutory \$'000	Non-IFRS \$'000
Management and services fees	352,305	352,305	311,350	311,350
Performance fees	11,472	11,472	12,421	12,421
Other revenue and income	37,245	37,245	1,385	1,385
<b>Total revenue and other income</b>	<b>401,022</b>	<b>401,022</b>	325,156	325,156
Adjust for: net unrealised change in fair value of financial assets and liabilities		(16,972)		8,000
Adjust for: realised change in fair value of financial liabilities		-		-
<b>Adjusted revenue and other income</b>		384,050		333,156
<b>Total expenses</b>	<b>(76,197)</b>	<b>(76,197)</b>	(58,997)	(58,997)
Adjust for: transaction costs related to strategic initiatives <sup>1</sup>		8,659		4,068
Adjust for: amortisation of intangible assets		2,287		2,294
<b>Adjusted expenses</b>		(65,251)		(52,635)
<b>Income tax</b>	<b>(76,253)</b>	<b>(76,253)</b>	(57,750)	(57,750)
Adjust for: tax expense on above adjustments		2,494		(3,620)
Adjust for: tax expense on undistributed associate profit		94		-
<b>Adjusted income tax</b>		(73,665)		(61,370)
<b>Adjusted net profit before associates</b>		245,134		219,151
Share of after-tax profit/(loss) of associates	3,060	3,060	(6,081)	(6,081)
Adjust for: tax expense on undistributed associate profit		(94)		-
<b>Net profit after tax</b>	<b>251,632</b>		202,328	
<b>Adjusted net profit after tax</b>		248,100		213,070
<b>Basic and diluted earnings per share</b>	<b>136.3</b>		110.6	
<b>Adjusted basic and diluted earnings per share</b>		134.4		116.4

<sup>1</sup> Comprises the costs of funding the discounts associated with Magellan Global Fund ("MGF") Options issued under the MGF Partnership Offer and Bonus MGF Option Issue and contributions to Magellan FuturePay under the commitment made by MGF. In the prior period, transaction costs reflect the restructure of MGF and the costs of funding discounts under the Magellan High Conviction Trust ("MHH") and Magellan Global Trust ("MGG") DRPs.

Included in total expenses are employee expenses of \$42,217,000 (December 2020: \$34,275,000). Current period employee expenses reflect an out of cycle salary adjustment applied in January 2021 to salaries which had not been reviewed in the prior period due to COVID.

## 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.

# Directors' Report

For the half year ended 31 December 2021

## 3.3. Statement of Financial Position

The Group is in a strong financial position and at 31 December 2021 reported:

- investment assets (cash and cash equivalents, financial assets and equity accounted investments) of \$1,016,723,000 (June 2021: \$902,878,000) and shareholders' funds of \$1,104,561,000 (June 2021: \$989,434,000); and
- NTA per share of \$5.35 (June 2021: \$4.77).

Refer to the Chief Executive Officer's Interim Letter on page 3 for further information on the Group's operations, including details on the Group's results, strategy and future outlook.

## 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 2021 other than as disclosed in this report or the financial statements.

## 5. Events Subsequent to the End of the Half Year

Other than the items below and the dividend disclosed in respect of the six months ended 31 December 2021 discussed at note 11, 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 periods.

On 18 February 2022 the Directors announced an intention to progress a 1 for 8 bonus option issue to shareholders. It is intended each option will provide shareholders with the opportunity, but not the requirement, to purchase one additional Magellan share at an exercise price of \$35.00 per share. It is intended the options will have a 5-year term and will be exercisable any time until expiry. An application will be made with ASX to have options quoted on ASX.

In addition, there is an intention to progress with an issue of approximately 10 million unlisted options to Magellan staff with the same exercise price and 5-year term, as part of a broader staff retention and engagement program.

The final terms of the intended options issuances and timetable will be notified to the market and lodged with the ASX once approved by the Board. It is expected that the Prospectus for the bonus options and further details of the employee options will be released to the ASX, and the Prospectus dispatched to shareholders in accordance with their communication preferences, in March 2022.

## Funds Under Management

On 11 February 2022, the Group reported to the ASX that its funds under management was \$87.1 billion as at 9 February 2022 (at the close of the US market).

## 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.

## 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 15.

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



**Hamish McLennan**  
Chairman

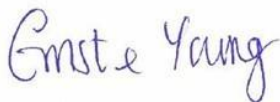
Sydney  
18 February 2022

## Auditor's independence declaration to the directors of Magellan Financial Group Limited

As lead auditor for the review of the half-year financial report of Magellan Financial Group Limited for the half-year ended 31 December 2021, 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;
- b. No contraventions of any applicable code of professional conduct in relation to the review; and
- c. No non-audit services provided that contravene 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  
18 February 2022



# Consolidated Statement of Profit or Loss and Comprehensive Income

for the half year ended 31 December

	Note	2021 \$'000	2020 \$'000
<b>Revenue</b>			
Management fees	4	350,265	309,350
Performance fees	4	11,472	12,421
Services fees		2,040	2,000
Advisory fees		779	858
Dividend and distribution income		8,571	7,217
Interest income		767	1,022
Net change in the fair value of financial assets and liabilities:			
Realised		8,063	5,077
Unrealised		16,972	(8,000)
Net foreign exchange (loss)/gain		2,093	(4,789)
<b>Total revenue and other income</b>		<b>401,022</b>	<b>325,156</b>
<b>Expenses</b>			
Employee expenses		42,217	34,275
Non-Executive Director fees		263	235
Fund administration and operational costs		10,793	9,511
Information, technology and data		3,763	3,648
Marketing		1,113	860
Professional services fees		2,329	1,188
Travel and entertainment		204	83
Depreciation and amortisation		3,555	3,586
Foreign and withholding taxes		139	184
Transaction costs related to strategic initiatives	2	8,659	4,068
Finance costs		1,132	538
Other expenses		2,030	821
<b>Total expenses</b>		<b>76,197</b>	<b>58,997</b>
Share of after tax profit/(loss) of associates		3,060	(6,081)
<b>Net profit before tax</b>		<b>327,885</b>	<b>260,078</b>
Income tax expense	5	(76,253)	(57,750)
<b>Net profit after tax</b>		<b>251,632</b>	<b>202,328</b>
<b>Other comprehensive income for the period</b>			
Exchange differences on translation of foreign operations		1,212	(4,459)
<b>Other comprehensive income for the period, net of tax</b>		<b>1,212</b>	<b>(4,459)</b>
<b>Total comprehensive income for the period</b>		<b>252,844</b>	<b>197,869</b>
Basic earnings per share (cents per share)	3	136.3	110.6
Diluted earnings per share (cents per share)	3	136.3	110.6

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

# Consolidated Statement of Financial Position

As at 31 December 2021

	Note	31 Dec 2021 \$'000	30 Jun 2021 \$'000
<b>Current assets</b>			
Cash and cash equivalents		291,468	211,577
Loans and receivables		117,485	118,389
Financial assets	6	1,650	1,650
Prepayments		1,651	1,342
Other assets		1,467	817
<b>Total current assets</b>		<b>413,721</b>	333,775
<b>Non-current assets</b>			
Loans and receivables		32,876	21,191
Financial assets	6	480,775	452,523
Associates	7	242,830	237,128
Property, plant and equipment		630	619
Right-of-use assets		10,691	11,497
Intangible assets		111,794	113,062
Net deferred tax asset		28,444	41,110
Other assets		7,771	5,261
<b>Total non-current assets</b>		<b>915,811</b>	882,391
<b>Total assets</b>		<b>1,329,532</b>	1,216,166
<b>Current liabilities</b>			
Payables		29,352	36,553
Financial liabilities	8	165,220	157,547
Provisions		2,236	1,983
Income tax payable		9,064	11,576
Lease liabilities		2,492	2,275
<b>Total current liabilities</b>		<b>208,364</b>	209,934
<b>Non-current liabilities</b>			
Provisions		5,328	4,473
Lease liabilities		11,279	12,325
<b>Total non-current liabilities</b>		<b>16,607</b>	16,798
<b>Total liabilities</b>		<b>224,971</b>	226,732
<b>Net assets</b>		<b>1,104,561</b>	989,434
<b>Equity</b>			
Contributed equity	10	679,841	607,849
Reserves		387,361	344,987
Retained earnings		37,359	36,598
<b>Total equity</b>		<b>1,104,561</b>	989,434

The Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Financial Statements.

# Consolidated Statement of Changes in Equity

for the half year ended 31 December

		Contributed Equity	Profits Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
	Note	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Opening balance at 1 July 2021</b>		<b>607,849</b>	<b>345,089</b>	<b>(102)</b>	<b>36,598</b>	<b>989,434</b>
Net profit for the period		-	-	-	<b>251,632</b>	<b>251,632</b>
Other comprehensive income for the period		-	-	<b>1,212</b>	-	<b>1,212</b>
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>1,212</b>	<b>251,632</b>	<b>252,844</b>
Issue of shares:						
Under Dividend Reinvestment Plan ("DRP")	10	<b>52,335</b>	-	-	-	<b>52,335</b>
Under share purchase agreements ("SPA")	10	<b>19,731</b>	-	-	-	<b>19,731</b>
Transaction costs, net of tax	10	<b>(162)</b>	-	-	-	<b>(162)</b>
Dividends paid	11	-	<b>(209,709)</b>	-	-	<b>(209,709)</b>
SPA expense for the period	10	<b>88</b>	-	-	-	<b>88</b>
Transfer (from retained earnings)/to profits reserve		-	<b>250,871</b>	-	<b>(250,871)</b>	-
<b>Closing balance at 31 December 2021</b>		<b>679,841</b>	<b>386,251</b>	<b>1,110</b>	<b>37,359</b>	<b>1,104,561</b>
<b>Opening balance at 1 July 2020</b>		<b>525,271</b>	<b>356,925</b>	<b>3,382</b>	<b>160,349</b>	<b>1,045,927</b>
Net profit for the period		-	-	-	202,328	202,328
Other comprehensive income for the period		-	-	<b>(4,459)</b>	-	<b>(4,459)</b>
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>(4,459)</b>	<b>202,328</b>	<b>197,869</b>
Issue of shares:						
To acquire shares in Barrenjoey Capital Partners	10	66,033	-	-	-	66,033
Under SPA	10	11,712	-	-	-	11,712
Transaction costs, net of tax	10	(70)	-	-	-	(70)
Dividends paid	11	-	<b>(222,382)</b>	-	-	<b>(222,382)</b>
SPA expense for the period	10	111	-	-	-	111
Transfer (from retained earnings)/to profits reserve		-	282,691	-	<b>(282,691)</b>	-
<b>Closing balance at 31 December 2020</b>		<b>603,057</b>	<b>417,234</b>	<b>(1,077)</b>	<b>79,986</b>	<b>1,099,200</b>

The Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements.

# Consolidated Statement of Cash Flows

for the half year ended 31 December

	Note	2021 \$'000	2020 \$'000
<b>Cash flows from operating activities</b>			
Management and services fees received		368,795	322,474
Performance fees received		19,409	47,852
Advisory fees received		894	982
Dividends and distributions received		7,894	16,600
Interest received		553	683
Finance cost payments		(1,132)	(542)
Tax payments		(65,785)	(68,342)
Payments to suppliers and employees		(90,089)	(78,356)
Payments of transaction costs related to strategic initiatives		(2,021)	(4,411)
<b>Net cash from operating activities</b>		<b>238,518</b>	236,940
<b>Cash flows from investing activities</b>			
Proceeds from sale of financial assets and liabilities		11,080	36,255
Purchases of financial assets and liabilities		(14,292)	(41,942)
Purchases of associates		(2,985)	(110,000)
Purchases of property, plant and equipment		(145)	(151)
Net returns/(placements) of cash on term deposits		-	367
Net repayments from/(loans to) third party		-	7,500
<b>Net cash used in investing activities</b>		<b>(6,342)</b>	(107,971)
<b>Cash flows from financing activities</b>			
Proceeds from share issuances, net of transaction costs		23,672	(100)
Proceeds from repayment of share purchase agreement loans		1,866	684
Dividend payments	11	(178,931)	(221,224)
Lease payments		(1,161)	(1,845)
<b>Net cash used in financing activities</b>		<b>(154,554)</b>	(222,485)
<b>Net increase/(decrease) in cash and cash equivalents</b>			
Effects of exchange rate changes on cash and cash equivalents		2,269	(5,235)
Cash and cash equivalents at the beginning of the period		211,577	437,513
<b>Cash and cash equivalents at the end of the period</b>		<b>291,468</b>	338,762

The Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements.

# Notes to the Financial Statements

For the half year ended 31 December 2021

## Overview

Magellan Financial Group Limited (the "Company" or "MFG") is a for-profit entity that is incorporated and domiciled in Australia. The Company is listed on the ASX (ticker code: MFG).

This condensed interim financial report comprises the consolidated financial report of MFG and its subsidiaries ("the Group"). This financial report was authorised for issue in accordance with a resolution of the Directors on 18 February 2022 and the Directors have the power to amend and reissue this financial report.

### 1. Basis of Preparation

This condensed interim financial report for the six month period ended 31 December 2021 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 also complies with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

All amounts in this financial report are presented in Australian dollars (\$) and 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 Group's annual financial report. Accordingly, this report should be read in conjunction with the 30 June 2021 Annual Report and any public announcements made in respect of the Group during the half year ended 31 December 2021 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

#### 1.1. 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.

The Group has not early adopted any accounting standard, interpretation or amendment that has been issued but is not yet effective at reporting date and none of those pronouncements are expected to have a material impact on the Group's financial statements.

#### 1.2. 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 2021 Annual Report.

#### *Impacts of COVID-19*

The impacts of the COVID-19 pandemic on the Group were disclosed in note 1.2 of the Group's 30 June 2021 Annual Report and remain broadly unchanged at the date of this financial report. Despite the pandemic continuing throughout the period of this report, there have been no new adverse impacts on the Group's financial results or risks arising from COVID-19 and the Group's operations and services are operating efficiently and largely unaffected. The Group maintained solvency throughout the half year ended 31 December 2021 with strong cash reserves (\$291.5m as at 31 December 2021), access to liquid investments (\$482.4m at 31 December 2021) and an undrawn credit facility which more than covered the Group's obligations and regulatory capital requirements.

# Notes to the Financial Statements

For the half year ended 31 December 2021

## 2. Segment Information

The Group's business activities are organised into the reportable operating segments listed below 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. Funds Management activities include:

- Providing investment research and administrative services to certain clients;
- Providing investment management and sub-advisory services under client mandates; and
- Acting as Responsible Entity/Trustee ("RE") and/or Investment Manager ("IM") for the following funds (collectively the "Magellan Funds"):

<b>Australian funds</b>	<b>RE</b>	<b>IM</b>	<b>International funds</b>	<b>IM</b>
Magellan Global Fund	✓	✓	MFG Global Fund <sup>1</sup>	✓
Magellan Global Fund (Hedged)	✓	✓	MFG Select Infrastructure Fund <sup>1</sup>	✓
Magellan Global Equities Fund (Currency Hedged)	✓	✓	MFG Global Sustainable Fund <sup>1</sup>	✓
Magellan Infrastructure Fund	✓	✓	Frontier MFG Global Equity Fund <sup>2</sup>	✓
Magellan Infrastructure Fund (Unhedged)	✓	✓	Frontier MFG Global Plus Fund <sup>2</sup>	✓
Magellan Infrastructure Fund (Currency Hedged)	✓	✓	Frontier MFG Core Infrastructure Fund <sup>2</sup>	✓
Magellan High Conviction Fund	✓	✓	Frontier MFG Select Infrastructure Fund <sup>2</sup>	✓
Magellan High Conviction Trust	✓	✓	Frontier MFG Global Sustainable Fund <sup>2</sup>	✓
MFG Core Infrastructure Fund <sup>3,4</sup>	✓	✓	MFG High Conviction Master Fund LP	✓
MFG Core International Fund <sup>4</sup>	✓	✓		
MFG Core ESG Fund <sup>4</sup>	✓	✓		
Magellan Sustainable Fund	✓	✓		
Magellan <b>FuturePay</b>	✓	✓		
FuturePay Support Trust		✓		
Magellan Global Wholesale Fund	✓	✓		
MC Fund	✓	✓		
Airlie Australian Share Fund <sup>5</sup>	✓	✓		
Airlie Concentrated Share Fund <sup>5</sup>	✓	✓		

<sup>1</sup> Funds authorised under the European Communities (Undertakings for Collective Investment in Transferable Securities ("UCITS")).

<sup>2</sup> Collectively, the Frontier MFG Funds.

<sup>3</sup> Formerly, Magellan Core Infrastructure Fund.

<sup>4</sup> Collectively, the Core Series Funds which were launched on 15 December 2020.

<sup>5</sup> Collectively, the Airlie Funds

### Fund Investments

The Fund Investments (previously referred to as Principal Investments) segment comprises the Group's direct investment in certain Magellan Funds and a select portfolio of listed Australian and international equities.

### Magellan Capital Partners

The Magellan Capital Partners segment comprises a portfolio of selective investments in businesses in which the Group has a strategic interest.

### Corporate

The Corporate segment principally comprises the Group's treasury management activities, corporate development and strategy activities and the costs associated with governance and corporate management. The combined income tax consequences of the Group are reported in the Corporate segment, with the exception of deferred income tax arising from changes in the value of financial assets and associates, which are reported in the relevant segment.

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.

# Notes to the Financial Statements

For the half year ended 31 December 2021

## Segment Financial Results

	Funds Management	Fund Investments	Magellan Capital Partners	Corporate	Total
31 December 2021	\$'000 <sup>1</sup>	\$'000	\$'000	\$'000	\$'000
<b>Segment revenue</b>					
Management fees	350,265	-	-	-	350,265
Performance fees	11,472	-	-	-	11,472
Services fees	2,040	-	-	-	2,040
Advisory fees	779	-	-	-	779
Dividend and distribution income	-	8,571	-	-	8,571
Interest income	425	-	244	98	767
Net change in the fair value of financial assets and liabilities:					
Realised	-	8,063	-	-	8,063
Unrealised	-	16,972	-	-	16,972
Net foreign exchange (loss)/gain	2,073	20	-	-	2,093
<b>Total segment revenue and other income</b>	<b>367,054</b>	<b>33,626</b>	<b>244</b>	<b>98</b>	<b>401,022</b>
<b>Segment expenses</b>					
Employee expenses	42,160	-	-	57	42,217
Non-Executive Director fees	164	-	-	99	263
Other expenses	19,923	120	395	2,333	22,771
<b>Total segment expenses</b>	<b>62,247</b>	<b>120</b>	<b>395</b>	<b>2,489</b>	<b>65,251</b>
<b>Share of after tax profit/(loss) of associates</b>	<b>-</b>	<b>-</b>	<b>3,060</b>	<b>-</b>	<b>3,060</b>
<b>Total segment operating profit before tax</b>	<b>304,807</b>	<b>33,506</b>	<b>2,909</b>	<b>(2,391)</b>	<b>338,831</b>
<b>Other comprehensive income</b>					
Exchange differences on translation of foreign operations	1,212	-	-	-	1,212
<b>Other comprehensive income, before tax</b>	<b>1,212</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,212</b>
<b>Total comprehensive income for the period, before tax</b>	<b>306,019</b>	<b>33,506</b>	<b>2,909</b>	<b>(2,391)</b>	<b>340,043</b>

<sup>1</sup> Includes elimination of income and expense under the transfer pricing agreements between MFG's wholly-owned subsidiary, Magellan Asset Management Limited ("MAM"), and US controlled entities, within the Funds Management segment.

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

	Note	31 Dec 2021 \$'000	31 Dec 2020 \$'000
<b>Total segment operating profit before tax</b>		<b>338,831</b>	266,440
<i>Add back:</i>			
Amortisation of intangible assets <sup>1</sup>		(2,287)	(2,294)
Transaction costs related to strategic initiatives:			
MGF Partnership Offer and Bonus MGF Option Issue		(8,309)	-
Commitment to Magellan FuturePay		(350)	-
Restructure of MGF		-	(3,544)
Dividend Reinvestment Plan discounts relating to Magellan Funds <sup>2</sup>		-	(524)
Total transaction costs related to strategic initiatives		(8,659)	(4,068)
<b>Statutory net profit before tax for the period</b>		<b>327,885</b>	260,078
Income tax expense		(76,253)	(57,750)
<b>Statutory net profit after tax for the period</b>		<b>251,632</b>	202,328

<sup>1</sup> Amortisation expense relates to intangible assets recorded on acquisition of Airlie Funds Management ("Airlie") and Frontier Partners Inc, Frontegra Strategies LLC and Frontegra Asset Management Inc (collectively, the "Frontier Group").

<sup>2</sup> Reflects amounts paid (or payable) by MFG to MHH, MGG and MGF to ensure there is no net asset value per share dilution of unitholders who choose not to participate in the funds' Dividend Reinvestment Plans as a result of the discount offered to participants under the plans.



# Notes to the Financial Statements

For the half year ended 31 December 2021

## Segment Financial Results (continued)

	Funds Management	Fund Investments	Magellan Capital Partners	Corporate	Total
31 December 2020	\$'000 <sup>1</sup>	\$'000	\$'000 <sup>2</sup>	\$'000	\$'000
<b>Segment revenue</b>					
Management fees	309,350	-	-	-	309,350
Performance fees	12,421	-	-	-	12,421
Services fees	2,000	-	-	-	2,000
Advisory fees	858	-	-	-	858
Dividend and distribution income	-	7,217	-	-	7,217
Interest income	34	1	141	846	1,022
Net change in the fair value of financial assets and liabilities:					
Realised	-	5,077	-	-	5,077
Unrealised	-	(8,000)	-	-	(8,000)
Net foreign exchange (loss)/gain	(4,494)	(87)	-	(208)	(4,789)
<b>Total segment revenue and other income</b>	<b>320,169</b>	<b>4,208</b>	<b>141</b>	<b>638</b>	<b>325,156</b>
<b>Segment expenses</b>					
Employee expenses	34,220	-	-	55	34,275
Non-Executive Director fees	146	-	-	89	235
Other expenses	17,190	114	-	821	18,125
<b>Total segment expenses</b>	<b>51,556</b>	<b>114</b>	<b>-</b>	<b>965</b>	<b>52,635</b>
<b>Share of after tax profit/(loss) of associates</b>	<b>-</b>	<b>-</b>	<b>(6,081)</b>	<b>-</b>	<b>(6,081)</b>
<b>Total segment operating profit before tax</b>	<b>268,613</b>	<b>4,094</b>	<b>(5,940)</b>	<b>(327)</b>	<b>266,440</b>
<b>Other comprehensive income</b>					
Exchange differences on translation of foreign operations	(4,459)	-	-	-	(4,459)
<b>Other comprehensive income, before tax</b>	<b>(4,459)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,459)</b>
<b>Total comprehensive income for the period, before tax</b>	<b>264,154</b>	<b>4,094</b>	<b>(5,940)</b>	<b>(327)</b>	<b>261,981</b>

<sup>1</sup> Includes elimination of income and expense under the transfer pricing agreements between MFG's wholly-owned subsidiary, Magellan Asset Management Limited ("MAM"), and US controlled entities, within the Funds Management segment.

<sup>2</sup> Magellan Capital Partners was disclosed for the first time in the 2021 annual financial report and accordingly comparative segment information has been restated in this interim financial report.

# Notes to the Financial Statements

For the half year ended 31 December 2021

## Segment Assets and Liabilities

	Funds Management	Fund Investments	Magellan Capital Partners	Corporate	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>31 December 2021</b>					
Financial assets	1,650	480,080	695	-	482,425
Associates	-	-	242,830	-	242,830
Other assets	286,016	(52,591) <sup>1</sup>	(155) <sup>1</sup>	371,007	604,277
Total liabilities	(48,444)	(1,423)	-	(175,104)	(224,971)
<b>Net assets</b>	<b>239,222</b>	<b>426,066</b>	<b>243,370</b>	<b>195,903</b>	<b>1,104,561</b>
<b>30 June 2021</b>					
Financial assets	1,650	452,523	-	-	454,173
Associates	-	-	237,128	-	237,128
Other assets	296,645	(46,439) <sup>1</sup>	(76) <sup>1</sup>	274,735	524,865
Total liabilities	(55,740)	(462)	-	(170,530)	(226,732)
<b>Net assets</b>	<b>242,555</b>	<b>405,622</b>	<b>237,052</b>	<b>104,205</b>	<b>989,434</b>

<sup>1</sup> Reflects tax liabilities within the Group's net deferred tax asset.

## 3. Earnings Per Share

	31 Dec 2021	31 Dec 2020
<b>Basic and diluted EPS</b>		
Net profit attributable to shareholders (\$'000)	251,632	202,328
Weighted average number of shares for basic and diluted EPS ('000)	184,587	183,015
<b>Basic and diluted EPS (cents)</b>	<b>136.3</b>	<b>110.6</b>

# Notes to the Financial Statements

For the half year ended 31 December 2021

## 4. Revenue

### Management Fees

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

	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Magellan Global Fund <sup>1</sup>	119,319	106,187
Magellan Global Fund (Hedged)	10,680	9,575
Magellan Global Equities Fund (Currency Hedged)	2,253	1,844
Magellan Infrastructure Fund	14,799	11,877
Magellan Infrastructure Fund (Unhedged)	5,740	4,928
Magellan Infrastructure Fund (Currency Hedged)	4,551	3,536
Magellan High Conviction Fund	4,316	4,573
Magellan High Conviction Trust	7,187	7,290
MFG Core Infrastructure Fund	710	782
MFG Global Fund	9,916	9,735
MFG Select Infrastructure Fund	1,340	1,112
MFG High Conviction Master Fund	632	399
Frontier MFG Funds	14,738	13,056
Airlie Funds	1,087	439
Other funds and mandates	152,997	134,017
<b>Total management fees</b>	<b>350,265</b>	<b>309,350</b>

<sup>1</sup> On 27 November 2020, Magellan Global Equities Fund and Magellan Global Trust were acquired by Magellan Global Fund as part of a global equities restructure.

### Performance Fees

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

	High watermark unit price (\$) <sup>1</sup>	31 Dec 2021 \$'000	31 Dec 2020 \$'000
<b>Based on performance relative to both market index and absolute return hurdle</b>			
Magellan Global Fund (Open/Closed Class)	2.3696/1.7019	104	103
Magellan Global Fund (Hedged)	1.5079	13	48
Magellan Global Equities Fund (Currency Hedged)	2.9759	2	-
Magellan Infrastructure Fund	1.3865	5,336	-
Magellan Infrastructure Fund (Unhedged)	1.8911	1,838	-
Magellan Infrastructure Fund (Currency Hedged)	3.0524	1,648	-
<b>Based on performance relative to absolute return hurdle</b>			
Magellan High Conviction Fund (Class A/B)	2.2895(A)/1.4061(B)	791	231
Magellan High Conviction Trust	1.8059	1,052	38
MFG High Conviction Master Fund	-	680	225
<b>Based on performance relative to a market index</b>			
Other funds and mandates	various	8	11,776
<b>Total performance fees</b>		<b>11,472</b>	<b>12,421</b>

<sup>1</sup> The high watermark as at 31 December 2021 and adjusted for distributions. The high watermark is the Net Asset Value ("NAV") per unit at the end of the most recent calculation period for which the Group was entitled to a performance fee, less any income (including capital distributions) since the last performance fee period.

# Notes to the Financial Statements

For the half year ended 31 December 2021

## Management, Services and Performance Fees by Geographic Location

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

	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Australia & New Zealand	230,266	195,777
United Kingdom & Europe	74,238	74,688
North America	47,460	44,425
Asia	11,813	8,881
<b>Total management, services and performance fees</b>	<b>363,777</b>	<b>323,771</b>

## 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:

	31 Dec 2021 \$'000	31 Dec 2020 \$'000
<b>Management and services fees</b>		
Retail	191,363	170,155
Institutional	160,942	141,195
<b>Performance fees</b>		
Retail	10,590	418
Institutional	882	12,003
<b>Total management, services and performance fees</b>	<b>363,777</b>	<b>323,771</b>
Total Retail	201,953	170,573
Total Institutional	161,824	153,198
<b>Total management, services and performance fees</b>	<b>363,777</b>	<b>323,771</b>

## 5. Taxation

For the half year ended 31 December 2021, the Group's estimated effective tax rate was 23.3% (December 2020: 22.2%), 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 2021, the effect of the concessional tax rate of 10% was to reduce tax expense by \$21,859,000 (December 2020: \$21,154,000).

The effective tax rate for the full financial year ending 30 June 2022 may change as it depends upon the proportion of qualifying OB income relative to total income.

# Notes to the Financial Statements

For the half year ended 31 December 2021

## 6. Financial Assets

	31 Dec 2021 \$'000	30 Jun 2021 \$'000
<b>Term deposits - at amortised cost<sup>1</sup></b>	<b>1,650</b>	1,650
<b>Total current financial assets</b>	<b>1,650</b>	1,650
<b>Investments - fair value through profit or loss</b>		
<b>Magellan Funds<sup>2</sup></b>		
Magellan Global Fund - Open Class <sup>3,4</sup>	<b>218,826</b>	211,704
Magellan Global Fund - Closed Class <sup>5,6</sup>	<b>46,115</b>	42,589
Magellan Global Fund (Hedged)	<b>1,089</b>	1,069
Magellan Global Equities Fund (Currency Hedged)	<b>25,513</b>	25,067
Magellan Infrastructure Fund (Currency Hedged)	<b>13,080</b>	12,323
Magellan High Conviction Fund <sup>7</sup>	<b>12,143</b>	19,176
Magellan High Conviction Trust <sup>8</sup>	<b>47,819</b>	33,424
MFG Core International Fund	<b>12,784</b>	11,670
MFG Core ESG Fund	<b>12,629</b>	11,514
Magellan Sustainable Fund	<b>5,940</b>	5,520
Magellan <b>FuturePay</b>	<b>10,547</b>	10,879
Magellan Wholesale Plus Global Fund	<b>11,006</b>	10,890
Magellan Wholesale Plus Infrastructure Fund	<b>6,477</b>	6,204
Frontier MFG Core Infrastructure Fund	<b>8,407</b>	7,591
Frontier MFG Global Plus Fund	<b>13,990</b>	13,058
Frontier MFG Global Sustainable Fund	<b>18,551</b>	16,959
MFG Global Sustainable Fund	<b>2,001</b>	1,821
MC Fund <sup>9</sup>	<b>991</b>	-
Total investments in Magellan Funds	<b>467,908</b>	441,458
<b>Seed portfolios - securities by domicile of primary stock exchange</b>		
United States	<b>10,616</b>	9,595
Europe and United Kingdom	<b>1,310</b>	908
Asia	<b>197</b>	451
Australia	<b>49</b>	111
Total investments in seed portfolios	<b>12,172</b>	11,065
<b>Unlisted entities</b>	<b>695</b>	-
<b>Total non-current financial assets</b>	<b>480,775</b>	452,523

<sup>1</sup> Held with a major Australian bank and pledged against bank guarantees in respect of the Group's lease obligations. Should the Group fail to make its lease payments, the bank can apply the deposits in settlement of the amount paid to the lessor under the guarantees.

<sup>2</sup> At 31 December 2021, MFG held the following investments: Magellan Global Fund Open Class 1.5% and Closed Class 1.6% (June 2021: 1.4% and 1.4%), Magellan Global Fund (Hedged) 0.1% (June 2021: 0.1%), Magellan Global Equities Fund (Currency Hedged) 8.0% (June 2021: 7.2%), Magellan Infrastructure Fund (Currency Hedged) 1.4% (June 2021: 1.5%), Magellan High Conviction Fund 2.7% (June 2021: 4.0%), Magellan High Conviction Trust 5.5% (June 2021: 3.7%), MFG Core International Fund 53.6% (June 2021: 84.5%), MFG Core ESG Fund 80.3% (June 2020: 84.6%), Magellan Sustainable Fund 62.0% (June 2021: 70.9%), Magellan FuturePay 52.5% (June 2021: 63.6%), MC Fund 90.9% (June 2021: nil), Magellan Wholesale Plus Global Fund 1.1% (June 2021: 1.1%), Magellan Wholesale Plus Infrastructure Fund 3.1% (June 2021: 4.2%), Frontier MFG Core Infrastructure Fund 0.9% (June 2021: 1.1%), Frontier MFG Global Plus Fund 2.9% (June 2021: 2.9%), Frontier MFG Global Sustainable Fund 99.1% (June 2021: 99.1%) and MFG Global Sustainable Fund 3.3% (June 2021: 3.9%).

<sup>3</sup> MFG sold 1,002,169 units for \$2,881,000 during the period.

<sup>4</sup> MFG has securities lending arrangements with financial institution counterparties through which Open Class units in MGF may be lent on a fully collateralised basis. As at 31 December 2021, 46,630 units were on loan (June 2021: nil).

<sup>5</sup> MFG purchased 2,163,526 units for \$3,773,000 during the period.

<sup>6</sup> At 31 December 2021, MFG held 8,379,927 MGF Options (June 2021: 8,379,927 MGF Options).

<sup>7</sup> MFG sold 3,422,597 units for \$7,674,000 during the period.

<sup>8</sup> MFG purchased 4,561,060 units for \$7,672,000 during the period.

<sup>9</sup> MFG seeded the fund with \$1,000,000 on 30 December 2021.

# Notes to the Financial Statements

For the half year ended 31 December 2021

## Reconciliation

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

	31 Dec 2021 \$'000	30 Jun 2021 \$'000
<b>Current</b>		
Opening balance at 1 July	1,650	2,017
Cash placed on term deposit	-	2,384
Matured term deposits	-	(2,751)
<b>Closing balance</b>	<b>1,650</b>	<b>1,650</b>
<b>Non-current</b>		
Opening balance at 1 July	452,523	396,420
Acquisitions	16,340	100,612
Disposals	(12,354)	(81,822)
Net change in fair value		
Realised	8,059	19,916
Unrealised	16,926	16,041
Recorded as dividend and distribution income	(719)	1,356
<b>Closing balance</b>	<b>480,775</b>	<b>452,523</b>

## 7. Associates

Associate	Industry	Ownership interest		Investment carrying value	
		2021 %	2020 %	31 Dec 2021 \$'000	30 Jun 2021 \$'000
Barrenjoey Capital Partners Group Holdings Pty Ltd ("Barrenjoey") <sup>1</sup>	Financial services	40	40	118,105	114,480
Guzman y Gomez (Holdings) Ltd ("GYG") <sup>2,3</sup>	Consumer services	13	13	103,168	102,904
FinClear Holdings Ltd ("FinClear") <sup>4,3</sup>	Financial services	16	17	21,557	19,744
				<b>242,830</b>	<b>237,128</b>

<sup>1</sup> Barrenjoey is a newly-launched Australian-based financial services firm providing corporate and strategic advisory, capital market underwriting, research, prime brokerage and fixed income services. The Group's voting interest in Barrenjoey is 4.99%.

<sup>2</sup> GYG is an Australian-based quick service restaurant chain specialising in made to order, clean, authentic and fresh Mexican food. The Group's voting interest in GYG is equal to its ownership interest.

<sup>3</sup> Ownership interest reflects the Group's current entitlement and excludes the impact of any potential dilution arising from unexercised options.

<sup>4</sup> FinClear is an Australian-based provider of technology, trading infrastructure and exchange market-access services to wealth, stockbroking, platform and fintech customers. The Group's voting interest in FinClear is equal to its ownership interest.

## Transactions with Associates

The Group has entered into a facility agreement to provide Barrenjoey with up to \$50,000,000 of unsecured working capital finance. During the half year ended 31 December 2021, \$25,000,000 was drawn and then subsequently repaid. Interest received on the facility for the half year ended 31 December 2021 amounted to \$443,000 (December 2020: nil). The facility was entirely undrawn at 31 December 2021. Subsequent to reporting date a further \$15,000,000 has been drawn by Barrenjoey.

During the period, the Group received DRP underwriting services from Barrenjoey in respect of the dividend declared for the six month period ended 30 June 2021. As part of the DRP underwrite, Barrenjoey was issued 586,056 ordinary MFG shares, none of which were still held by Barrenjoey as at 31 December 2021. The Group paid Barrenjoey fees of \$46,000 (December 2020: nil) in connection with the underwriting service.

## Key judgement

Through representation on the board of directors of each associate, the Group participates in financial and operating policy decisions. As a result, the Group is deemed to have significant influence despite holding less than 20% of the voting rights of the entities.

# Notes to the Financial Statements

For the half year ended 31 December 2021

## 8. Financial Liabilities

	31 Dec 2021 \$'000	30 Jun 2021 \$'000
<b>Financial liabilities - fair value through profit or loss</b>		
Obligation to fund the discount offered on MGF Options <sup>1</sup>	164,692	157,093
Other financial liabilities	528	454
<b>Total financial liabilities</b>	<b>165,220</b>	<b>157,547</b>

<sup>1</sup> In January 2021, MFG committed to fund the 7.5% discount associated with options issued to MGF unitholders under the MGF Partnership Offer and the Bonus MGF Option Issue (referred to collectively as "MGF Options"). In accordance with accounting standards, the funding obligation has been recognised as a financial liability assuming all MGF Options are exercised over the three-year option term. As a result, the financial liability moves in line with changes to the NAV per MGF Closed Class Unit and reduces when MGF Options are exercised or ultimately forfeited. Any increase in the financial liability is recorded as an additional expense, and any decrease as a gain, in the Consolidated Statement of Profit or Loss and Comprehensive Income.

### Reconciliation

The movement in the carrying value of the Group's obligation to fund the MGF Options discount is as follows:

	31 Dec 2021 \$'000	30 Jun 2021 \$'000
Opening balance at 1 July	157,093	-
Initial recognition of liability to fund MGF Options discount	-	137,220
Net increase/(decrease) in liability resulting from NAV changes	8,309	19,996
Expense recognised in the Consolidated Statement of Profit or Loss and Comprehensive Income	8,309	157,216
Exercise of MGF Options during the period	(710)	(123)
<b>Closing balance of liability in the Consolidated Statement of Financial Position</b>	<b>164,692</b>	<b>157,093</b>

## 9. Fair Value Disclosures

The Group classifies financial assets and liabilities that are measured at fair value into the following three levels, as prescribed by the accounting standards, to provide an indication about the reliability of the inputs used in determining fair value:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. Fair value is based on the closing price of 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 unobservable inputs such as is required where the Group invests in unlisted entities or unlisted funds which in turn invest in unlisted entities.



# Notes to the Financial Statements

For the half year ended 31 December 2021

The table below presents the Group's financial assets and liabilities measured at fair value according to the fair value hierarchy:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>31 December 2021</b>				
Magellan Fund investments <sup>1</sup>	393,253	74,655	-	467,908
Seed portfolios	12,172	-	-	12,172
Unlisted entities <sup>2</sup>	-	-	695	695
Financial liabilities at fair value through profit or loss	(528)	(164,692)	-	(165,220)
<b>Total financial assets and liabilities at fair value</b>	<b>404,897</b>	<b>(90,037)</b>	<b>695</b>	<b>315,555</b>

## 30 June 2021

Magellan Fund investments <sup>1</sup>	364,690	76,768	-	441,458
Seed portfolios	11,065	-	-	11,065
Financial liabilities at fair value through profit or loss	(454)	(157,093)	-	(157,547)
<b>Total financial assets and liabilities at fair value</b>	<b>375,301</b>	<b>(80,325)</b>	<b>-</b>	<b>294,976</b>

<sup>1</sup> Fair value is determined by reference to the fund's redemption unit price at reporting date and is categorised in level 2 as inputs into the redemption unit price are directly observable from published price quotations.

<sup>2</sup> Comprises a shareholding in an unlisted company for which management has assessed the investment cost to be a reasonable reflection of fair value at reporting date.

During the half year ended 31 December 2021, there were no transfers between any fair value hierarchy levels (June 2021: the investment in Magellan Global Fund was transferred from level 2 to level 1 as the investment was quoted on the ASX following the completion of a restructure in December 2020). The Group's policy is to recognise transfers into and out of hierarchy levels as at the end of the reporting period.

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

## 10. Contributed Equity

	31 December 2021		30 June 2021	
	Number of shares '000	Contributed equity \$'000	Number of shares '000	Contributed equity \$'000
Opening balance	183,794	607,849	182,280	525,271
Shares issued under Dividend Reinvestment Plan <sup>1</sup>	1,353	52,335	-	-
Shares issued under SPA	566	19,731	313	16,411
Shares issued as purchase consideration for shares in Barrenjoey	-	-	1,201	66,033
Expense for SPA loans	-	88	-	215
Transaction costs of share issues, net of tax	-	(162)	-	(81)
<b>Closing balance<sup>2</sup></b>	<b>185,713</b>	<b>679,841</b>	<b>183,794</b>	<b>607,849</b>

<sup>1</sup> On 30 September 2021, 766,692 ordinary shares were issued to DRP participants at a price of \$38.43 and 586,056 ordinary shares were issued to the underwriter in accordance with the underwriting agreement at a price of \$39.02.

<sup>2</sup> Includes 1,632,324 ordinary shares issued under SPA (June 2021: 1,196,445).

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

# Notes to the Financial Statements

For the half year ended 31 December 2021

## 11. Dividends

	Cents per share	Franking % <sup>1</sup>	Total \$'000	Date Paid
<b>During the half year ended 31 December 2021</b>				
Prior year final dividend paid	102.6	75%	188,573	23 September 2021
Prior year performance fee dividend paid	11.5	75%	21,136	23 September 2021
<b>Total dividends declared and paid during the half year<sup>2</sup></b>	<b>114.1</b>		<b>209,709</b>	
<b>During the half year ended 31 December 2020</b>				
Prior year final dividend paid	91.6	75%	166,969	26 August 2020
Prior year performance fee dividend paid	30.4	75%	55,413	26 August 2020
<b>Total dividends declared and paid during the half year<sup>2</sup></b>	<b>122.0</b>		<b>222,382</b>	

<sup>1</sup> At the corporate tax rate of 30%.

<sup>2</sup> Includes dividends of \$1,244,000 which were not paid in cash but rather applied directly against the balances of SPA loans (December 2020: \$1,158,000) and a further \$29,534,000 which were not paid in cash as they were delivered in shares or carried forward in relation to DRP participation (December 2020: nil).

### Dividend Declared

On 18 February 2022, the Directors declared an interim dividend of 110.1 cents per ordinary share (75% franked at the corporate tax rate of 30%) in respect of the half year ended 31 December 2021 (December 2020: 97.1 cents per ordinary share 75% franked).

A dividend payable to shareholders of MFG is only recognised for the amount of any dividend declared by the Directors on or before the end of the half year, but not paid at reporting date. Accordingly, the interim dividend totalling approximately \$204,470,000 is not recognised as a liability and is expected to be paid on 8 March 2022.

### Imputation Credits

The Group has a total of \$53,723,000 imputation credits available for subsequent reporting periods based on a tax rate of 30% (June 2021: \$46,375,000 at a 30% tax rate). The amount comprises the balance of the imputation account 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 18 February 2022 will be partially franked out of existing franking credits, or out of franking credits arising from the payment of income tax.

## 12. Commitments and Contingent Assets and Liabilities

In June 2021, the Group committed up to \$50,000,000 to assist Magellan **FuturePay** capitalise the FuturePay Support Trust. As at 31 December 2021, the Group's outstanding commitment to Magellan **FuturePay** was \$48,587,000.

The Group has also extended loan commitments to certain related parties which were undrawn at reporting date (refer to note 7).

### Contingent Assets and Liabilities

Other than the below, the Group has no material contingent assets or contingent liabilities as at 31 December 2021 (June 2021: nil).

- MGF Dividend Reinvestment Plan:** In accordance with the terms of a deed entered into with MGF, the Group has agreed to pay MGF an amount equal to the MGF DRP discount. As a result, the Group has a contingent liability where MGF offers a discount to the Net Trust Value per unit on units issued under the MGF DRP in future periods. The quantum of the contingent liability is determined at each MGF distribution date and the amount is currently equal to a 7.5% discount to the NAV per unit multiplied by the number of units participating in the MGF 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 MGF DRP, the NAV per unit and whether the MGF DRP will be offered. On 25 August 2021, the Magellan High Conviction Trust transitioned from a closed ended listed investment trust into an open ended active exchange traded fund. As a result, a previous deed between the Group and MHH for the Group to pay MHH an amount equal to the MHH DRP discount was terminated and the MHH DRP discount funding is no longer provided by the Group. For the half year ended 31 December 2021, nil (December 2020: \$524,000) was paid (or payable) by the Group for discounts related to the MGF and MHH DRPs.
- FuturePay Support Trust:** The Group is one of the nominated beneficiaries of the FuturePay Support Trust. As a beneficiary, the Group is entitled to receive distributions of trust income and property, however those distributions are at the discretion of the Trustee of the FuturePay Support Trust. Further, the management fee earned by MAM in respect of Magellan **FuturePay** will be

# Notes to the Financial Statements

For the half year ended 31 December 2021

reduced where distributions of FuturePay Support Trust income are made to the Group. At 31 December 2021, nil (December 2020: nil) distributions have been received or accrued by the Group or declared by the FuturePay Support Trust.

## 13. Subsequent Events

Other than the items below and the dividend disclosed in respect of the six months ended 31 December 2021 (refer to note 11), 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.

On 18 February 2022 the Directors announced an intention to progress a 1 for 8 bonus option issue to shareholders. It is intended each option will provide shareholders with the opportunity, but not the requirement, to purchase one additional Magellan share at an exercise price of \$35.00 per share. It is intended the options will have a 5-year term and will be exercisable at any time until expiry. An application will be made with ASX to have options quoted on ASX.

In addition, there is an intention to progress with an issue of approximately 10 million unlisted options to Magellan staff with the same exercise price and 5-year term, as part of a broader staff retention and engagement program.

The final terms of the intended options issuances and timetable will be notified to the market and lodged with the ASX once approved by the Board. It is expected that the Prospectus for the bonus options and further details of the employee options will be released to the ASX, and the Prospectus dispatched to shareholders in accordance with their communication preferences, in March 2022.

## Funds Under Management

On 11 February 2022, the Group reported to the ASX that its funds under management was \$87.1 billion as at 9 February 2022 (at the close of the US market).

# Directors' Declaration

For the half year ended 31 December 2021

In the Directors' opinion,

- a. the financial statements and notes set out on pages 16 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 2021 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.



**Hamish McLennan**  
Chairman

Sydney  
18 February 2022

## Independent auditor's review report to the members of Magellan Financial Group Limited

### Conclusion

We have reviewed the accompanying interim financial report of Magellan Financial Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2021, the statement of comprehensive income, statement of changes in equity and 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, we have not become aware of any matter that makes us believe that the interim financial report of the Group does not comply 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 2021 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*.

### Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the interim financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

### Directors' responsibilities for the interim financial report

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

### Auditor's responsibilities for the review of the interim financial report

Our responsibility is to express a conclusion on the interim financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



A review of an interim 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.

A handwritten signature in blue ink that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in blue ink that reads 'Clare Sporle'.

Clare Sporle  
Partner  
Sydney  
18 February 2022

# Corporate Information

As at 18 February 2022

## Directors

Hamish McLennan – Chairman  
Robert Fraser – Deputy Chairman and Chairman of MAM  
Hamish Douglass  
John Eales AM  
Colette Garnsey OAM  
Karen Phin

## Company Secretaries

Marcia Venegas  
Mariana Kolaroski

## Registered Office

Level 36, 25 Martin Place, Sydney NSW 2000  
Telephone: +61 2 9235 4888  
Email: [info@magellangroup.com.au](mailto:info@magellangroup.com.au)

## Website

[www.magellangroup.com.au](http://www.magellangroup.com.au)

## Securities Exchange Listing

Magellan Financial Group Limited shares are listed on the Australian Securities Exchange (ASX: MFG)

## Corporate Governance Statement

The Corporate Governance Statement for MFG can be found at the Shareholder Centre at [www.magellangroup.com.au](http://www.magellangroup.com.au)

## Auditor

Ernst & Young  
200 George Street, Sydney NSW 2000

## Share Registrar

Boardroom Pty Limited  
Level 12, 225 George Street, Sydney NSW 2000  
Telephone: +61 2 9290 9600  
Email: [enquiries@boardroomlimited.com.au](mailto:enquiries@boardroomlimited.com.au)

InvestorServe is Boardroom's free, self-service website where shareholders can manage their interests online. The website enables shareholders to:

- view share balances
- change address details
- view payment and tax information
- update payment instructions
- update communication instructions.

Shareholders can register their email address at [boardroomlimited.com.au](http://boardroomlimited.com.au) to receive shareholder communications electronically.

## Electronic delivery of CHESS holding statements and notifications

The ASX has now launched the ASX CHESS Statements Portal, giving you the ability to receive electronic notifications about your holdings. This shift away from paper-based communications will make it easier for you to stay on top of your holding, and benefit the environment by reducing waste.

To access the portal and your electronic notifications, your broker will need to opt you in. Contact your broker and see if they have this service enabled. If you have not opted in, you will continue to receive CHESS holding statements and notifications in the mail. Once you have opted in, all of your statements and notifications will be available through the ASX CHESS Statements Portal and you will no longer receive paper statements.