



MAGELLAN  
FINANCIAL GROUP

# Magellan Financial Group Limited

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## Annual Report 2022

ABN 59 108 437 592

## Five year summary

		30 June 2022	30 June 2021	30 June 2020	30 June 2019	30 June 2018
<b>Group Results</b>						
Total Revenue	\$'000	553,530	715,012	693,952	617,387	452,598
Total Expenses	\$'000	116,582	336,048	178,874	124,050	181,988
Net Profit Before Tax	\$'000	495,986	337,243	515,078	493,337	270,610
Net Profit After Tax	\$'000	383,011	265,156	396,214	376,947	211,791
Adjusted Revenue and Other Income <sup>1</sup>	\$'000	647,251	697,944	692,941	577,251	452,598
Adjusted Expenses <sup>1</sup>	\$'000	132,082	110,451	119,751	104,024	101,010
Adjusted Net Profit Before Associates <sup>1</sup>	\$'000	393,132	454,201	438,299	364,225	268,897
Adjusted Net Profit After Tax <sup>1</sup>	\$'000	399,733	412,419	438,299	364,225	268,897
Effective Tax Rate	%	22.8	21.4	23.1	23.6	21.7
<b>Funds Under Management<sup>2</sup></b>						
Average Funds Under Management	\$m	94,251	103,680	95,458	75,819	59,034
Closing Funds Under Management	\$m	61,291	113,902	97,184	86,718	69,509
Funds Under Management comprises:						
Retail	\$m	22,169	30,883	26,769	23,216	19,182
Institutional	\$m	39,122	83,019	70,415	63,502	50,327
Average Base Management Fee (per annum) <sup>3</sup>	bps	62	61	62	62	65
Average AUD/USD Exchange Rate	\$	0.7257	0.7469	0.6716	0.7155	0.7752
<b>Funds Management Business<sup>1</sup></b>						
Total Revenue	\$'000	609,137	662,594	674,811	561,326	428,705
Total Expenses	\$'000	127,090	106,115	116,799	101,537	97,275
Net Profit Before Tax	\$'000	482,047	556,479	558,012	459,789	331,430
Net Profit Before Tax and Performance Fees <sup>1</sup>	\$'000	470,575	526,405	477,048	376,182	291,841
Employee Expenses / Total Expenses	%	68.2	65.6	63.2	61.8	53.4
Cost to Income Ratio (expense/revenue)	%	20.9	16.0	17.3	18.1	22.7
Cost to Income Ratio (excluding performance fees)	%	21.3	16.8	19.7	21.3	25.0
<b>Assets</b>						
Total Assets	\$'000	1,241,401	1,216,166	1,123,873	800,291	674,943
Net Assets	\$'000	1,026,760	989,434	1,045,927	734,022	620,433
Net Tangible Assets Per Share	\$	4.95	4.77	5.08	3.44	2.92
<b>Shareholder Value</b>						
Basic Earnings Per Share	cents	206.9	144.6	218.3	213.1	122.0
Diluted Earnings Per Share	cents	206.9	144.6	218.3	213.1	122.0
Adjusted Basic and Diluted Earnings Per Share <sup>1</sup>	cents	215.9	224.9	241.5	205.9	154.9
Total Dividends Per Share comprises:						
Interim and Final Dividends Per Share	cents	175.1	199.7	184.5	151.8	119.6
Performance Fee Dividend Per Share	cents	3.9	11.5	30.4	33.4	14.9
Franking	%	77	75	75	75	100
<b>Other Information</b>						
Number of Employees		135	139	131	125	124
Average Number of Employees		137	135	128	125	116

<sup>1</sup> Adjustments are made for strategic, non-recurring, non-cash or unrealised items to provide additional meaningful information (refer to section 1.4.1 of the Directors' Report and note 2 in the financial statements for the breakdown of these items).

<sup>2</sup> As reported in the Group's funds under management ("FUM") announcements published on the Australian Securities Exchange ("ASX").

<sup>3</sup> Calculated using management fees (excluding services and performance fees) for the relevant year divided by the average of month end FUM over the same year.

Where accounting classifications have changed, or where changes in accounting policy are adopted retrospectively, comparatives have been revised and may differ from results previously reported. The above Consolidated Statement of Profit or Loss and Comprehensive Income and Consolidated Statement of Financial Position extracts are derived from the published financial statements. This table includes non-IFRS information as defined in section 1.4.2 of the Directors' Report.

The annual financial report has been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001*. MFG has also released information to the 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).

# Contents

<b>Chairman's Letter</b>	<b>4</b>
<b>Chief Executive Officer's Letter</b>	<b>6</b>
<b>Performance Overview</b>	<b>7</b>
<b>Directors' Report</b>	<b>15</b>
<b>Remuneration Report</b>	<b>22</b>
<b>Auditor's Independence Declaration</b>	<b>44</b>
<b>Financial Statements</b>	
Consolidated Statement of Profit or Loss and Comprehensive Income	45
Consolidated Statement of Financial Position	46
Consolidated Statement of Changes in Equity	47
Consolidated Statement of Cash Flows	48
Notes to the Financial Statements	49
1. Basis of Preparation	49
<i>Results for the Year</i>	
2. Segment Information	51
3. Earnings Per Share	54
4. Revenue	54
5. Taxation	56
6. Reconciliation of Operating Cash Flows	59
<i>Investments</i>	
7. Financial Assets	60
8. Associates	62
9. Intangibles	64
<i>Operating Assets and Liabilities</i>	
10. Loans and Receivables	65
11. Leases	67
12. Payables	67
13. Employee Benefits	68
14. Financial Liabilities	69
<i>Capital and Financial Instrument Risk Management</i>	
15. Capital Management	70
16. Contributed Equity	70
17. Reserves	71
18. Employee Share Option Plan	72
19. Dividends	73
20. Subsidiaries	74
21. Related Parties	75
22. Financial Instrument Risk Management	76
<i>Other Items</i>	
23. Commitments and Contingent Assets and Liabilities	80
24. Parent Entity Information	81
25. Auditor Remuneration and Independence	82
26. Subsequent Events	84
<b>Directors' Declaration</b>	<b>85</b>
<b>Independent Auditor's Report</b>	<b>86</b>
<b>Corporate Sustainability and Responsibility Report</b>	<b>93</b>
<b>Corporate Information</b>	<b>101</b>
<b>Shareholder Information</b>	<b>102</b>

# Chairman's Letter

For the year ended 30 June 2022

Dear Shareholder,

It is a pleasure to present the 2022 Annual Report, my first report to shareholders as Chairman of Magellan Financial Group Limited ("Magellan"). I joined the Magellan Board in March 2016 as a non-executive director and earlier this year I had the honour of being appointed your Chairman, following a period as Deputy Chairman from June 2019 to February 2022.

I will surprise no one by saying that this year has been a challenging one for Magellan. Whilst our funds under management ("FUM") and financial results in the second half of the year reflect the challenges Magellan has faced, they also demonstrate the scale and resilience of our business. In a year of change and transformation for the company, our balance sheet has remained strong and our current levels of profitability provide an excellent platform from which to reinvest in the business and grow. There is, of course, much work to do in regaining the trust of our clients and shareholders but we are committed to rebuilding this trust and to returning value to Magellan's clients and shareholders.

## Looking to the Future

Magellan remains very focused on our core funds management business. Our number one priority is to deliver on our clients' investment objectives, which in turn will provide the foundation for revenue growth and returns for shareholders over the long term. We recognise that our Global Equities Strategy has underperformed relative to the market over the past 18 months and that we must do better. Magellan has built a reputation for protecting investor capital and generating wealth over the long-term and, whilst we will stay true to our investment philosophies and disciplined investment approach, we are extremely focused on sharpening our investment processes to deliver the investment performance for which we are known.

As we focus on the future, it is important we look after our people who are Magellan's number one asset. As a result, in March 2022, we announced a number of staff retention initiatives, which included a retention bonus plan, amendments to the terms of share purchase plan ("SPP") loans to employees, and the issue of options to employees at an exercise price of \$35 per option with a five-year term, subject to standard conditions around vesting and continued employment. Having a strong balance sheet has allowed us to support and invest in our people through initiatives that also align with shareholder outcomes. This, in turn, has allowed employees to remain focused on our clients and the business during a period of change and uncertainty. I am proud of how our people have met the challenges of this year.

## Capital Management

During the year, we delivered on a number of capital management initiatives which were announced in conjunction with our Interim Results in February 2022, the first of which was the implementation of an on-market buy-back of up to 10 million shares. The buy-back is now well underway, and we believe that this represents an effective way to enhance value for shareholders.

In March 2022, we also announced a bonus issue of options to shareholders on a 1-for-8 basis for nil consideration. The options were issued with an exercise price of \$35 per option and a five-year term. We believe that the bonus options, issued at no cost to shareholders, represent a potential source of value to shareholders.

Finally, in line with our strategy (announced to the market in February 2022) to focus on our core funds management business, and not make further investments in Magellan Capital Partners, we sold our shareholding in Guzman y Gomez for cash consideration of \$140 million, representing a 36.3% premium to our entry price in January 2021.

Taken in totality, we believe these capital management initiatives are consistent with our aim to deliver capital efficiency, solid dividends and attractive returns to shareholders, and importantly, are evidence of our focus on our core funds management business.

## Leadership & Board Update

As announced in May 2022, following an extensive search the Board appointed David George as Magellan's CEO and Managing Director. David joined us on 19 July 2022, and it is my great pleasure to welcome David to Magellan. David has deep funds management experience having spent the last 14 years with the Future Fund, and he brings an outstanding investment management pedigree, strong client service credentials and a fresh perspective to our team. David is a great fit for our business and an excellent leader for the next chapter of our growth.

I sincerely thank Kirsten Morton for acting as Interim CEO through the leadership transition period. Kirsten has displayed tremendous leadership and determination and will continue to be a key part of the success of Magellan going forward in her dual roles as Chief Financial Officer and Chief Operating Officer.

# Chairman's Letter

For the year ended 30 June 2022

Lastly, as you are aware, Hamish Douglass stepped down from the Board in March 2022. I thank Hamish for his contribution to the Board over many years and for founding and building a great business. Later this year, I look forward to welcoming Hamish to a new consultancy role which will enable him to deliver his macroeconomic and geopolitical investment expertise to Magellan commencing from October 2022.

As we flagged earlier in the year, the Board continues its search for an additional non-executive director, and we are hoping to have news on an appointment in the coming months.

## Concluding Remarks

Looking forward, I am excited for the next chapter of Magellan's growth. Despite recent challenges, it is important to remember that Magellan remains a globally significant asset manager with over A\$60 billion of FUM as at 29 July 2022, a team of talented and dedicated employees, and thousands of clients who have placed their trust in us.

I would like to thank my fellow Directors on the Board and Magellan employees for their dedication and hard work this year.

Thank you for your ongoing support of Magellan.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Hamish McLennan', followed by a horizontal line.

**Hamish McLennan**  
Chairman

# Chief Executive Officer's Letter

For the year ended 30 June 2022

Dear Shareholder,

Magellan was founded in 2006 with a simple goal of protecting and growing the wealth of its clients through investments in high-quality global companies. By focusing on its clients and delivering on its investment objectives over many years, Magellan became an asset manager of meaningful scale, with deep and long-standing relationships in the investment community. This growth led to the creation of significant shareholder value.

However, the past year has seen the company undergo a period of significant change and transformation. Changes to Magellan's leadership team and personnel, as well as relative underperformance in the Global Equities strategy, have impacted client confidence and contributed to a period of declining funds under management and profitability.

I acknowledge that this year's events are not what you would have expected.

It has only been a few short weeks since I joined the company, but I want to convey to you that I am acutely aware of the challenges, as is the Magellan Board and indeed the entire Magellan team. We are committed to improving investment returns and, in doing so, restoring stability, confidence and shareholder value.

Despite recent changes, Magellan's goal of protecting and growing its clients' wealth remains undiminished. My initial impressions are of a professional, energetic and committed team with a tremendous pride to deliver for our clients. I am looking forward to working with the team in service of this goal.

## Strong Platform for Growth

Notwithstanding the challenges of the past year, Magellan remains an asset manager of significant scale with considerable underlying financial strength and great potential.

Our three core investment capabilities – Global Equities, Infrastructure Equities and Australian Equities – are supported by deeply experienced investment teams and disciplined investment processes, that provide the foundation for future growth. These capabilities also give Magellan the capacity to tailor and deliver new products to investors that leverage our existing investment expertise, such as the MFG Core Series and the Sustainable strategy.

Importantly, our strong balance sheet and current level of profitability give us the flexibility to continue to invest in our core funds management business and take advantage of opportunities as they arise.

I am excited by the opportunities in the market and how they present for Magellan. The current investment landscape is a volatile and challenging one. The end of monetary expansion marks a change from the time when money flows pushed all asset values upward. Such a volatile and difficult environment should reward outstanding fundamental company research and active management of portfolios, qualities that are trademarks of Magellan products. I look forward to contributing my own long-term investment perspectives and experience, developed during my 14 years at the Future Fund, to the considerable depth of knowledge and experience of our investment team as we navigate this evolving environment.

## Closing Remarks

In my first weeks as CEO, I have had two priorities. The first has been to work with the investment team, supporting a relentless focus on efficiency, effectiveness, and excellence throughout our investment activity. The second has been to take time to listen to shareholders, clients and our team at Magellan, which I plan to continue to do in the coming months. This is part of a detailed review of the business to identify areas of improvement in our core funds management business and to formulate a strategy that restores performance, enhances shareholder returns and positions the business for future growth. I look forward to sharing my thoughts with shareholders in October.

I would like to thank all shareholders for your ongoing support of Magellan. It is a great privilege to lead Magellan through the next chapter of its growth. There is much to do, and I look forward to updating you on our progress.



**David George**

Chief Executive Officer & Managing Director

# Performance Overview

For the year ended 30 June 2022

## Overview of Results

The 2022 financial year has been a challenging period for Magellan Financial Group Limited ("Magellan" or the "Group"). Funds under management ("FUM") at 30 June 2022 was \$61.3 billion, representing a decrease of 46% from the 30 June 2021 closing FUM of \$113.9 billion. The timing of client outflows, which primarily occurred during (or shortly prior to) the second half, resulted in a more modest decrease to average FUM for the year of 9% to \$94.3 billion (average FUM of \$103.7 billion for the year ended 30 June 2021).

The Group's statutory net profit after tax for the 2022 financial year was \$383.0 million, representing an increase of 44% over the previous corresponding period (\$265.2 million for the year ended 30 June 2021). The significant increase in statutory net profit can be largely attributed to the material one-off after tax expense (of approximately \$148 million) recognised by the Group in the 2021 financial year in respect of strategic initiatives for that period, associated with the issue of additional Magellan Global Fund ("MGF") Closed Class Units and MGF Options under the MGF Partnership Offer and Bonus MGF Option Issue.

The Group's adjusted net profit after tax decreased by 3% to \$399.7 million (\$412.4 million for the year ended 30 June 2021). Adjusted earnings per share decreased by 4% to 215.9 cents per share (224.9 cents per share for the year ended 30 June 2021).

The Group believes adjusted net profit after tax provides meaningful information about the performance of the business, particularly in comparative analysis. Adjusted financial measures for the period are adjusted for:

- non-cash amortisation expense of \$4.6 million;
- net unrealised capital losses from the Fund Investments segment of \$92.9 million (net of tax: \$65.1 million);
- net non-cash remeasurement of share purchase related loans of \$3.3 million;
- net gain on dilutions and disposals of associates of \$50.7 million (net of tax: \$40.4 million), which primarily relates to the sale of the Group's 11.6% shareholding in Guzman y Gomez (Holdings) Limited ("GYG"); and
- net non-cash benefits from strategic initiatives of \$22.6 million (net of tax: \$15.8 million), which primarily reflect changes in the fair value of Magellan's liability to fund the 7.5% exercise discount in respect of the MGF Options.

Profit before tax from the Funds Management business decreased by 13% to \$482.0 million (\$556.5 million for the year ended 30 June 2021). In the period, the Group earned crystallised performance fees before tax of \$11.5 million (\$30.1 million for the year ended 30 June 2021). These fees were previously disclosed in Magellan's 1H22 Interim Results and were earned by the Group during the six-month period to 31 December 2021. Performance fees can, and usually do, vary significantly from period to period. Profit before tax and performance fees of the Funds Management business decreased 11% to \$470.6 million (\$526.4 million for the year ended 30 June 2021) which was broadly in line with the decrease in average FUM.

The Group's share of the after-tax profits generated by the investments in Magellan Capital Partners was \$8.4 million. In addition, Magellan made an after-tax gain on disposal of \$23.4 million from the sale of its 11.6% shareholding in GYG, which completed on 24 June 2022 and a one-off gain on dilution of \$17.6 million resulting from Barclays' \$75 million additional investment in Barrenjoey.

Fund Investments made a loss of \$56.1 million before tax. This primarily comprised net unrealised capital losses of \$92.9 million which were partially offset by distribution income of \$17.6 million and net realised capital gains of \$19.4 million. Earnings from distributions and realised capital gains/losses are included in other revenue in the table on the next page.

The Directors have declared total dividends of 179.0 cents per share in respect of the year ended 30 June 2022. This compares with 211.2 cents per share in the 2021 financial year. In respect of the six months to 30 June 2022, the Directors have declared a total dividend of 68.9 cents per share, franked at 80% (114.1 cents per share, 75% franked, in 2021) which will be paid on 6 September 2022. The dividend comprises:

- a Final Dividend of 65.0 cents per share (102.6 cents per share for the six months to 30 June 2021); and
- a Performance Fee Dividend of 3.9 cents per share (11.5 cents per share for the six months to 30 June 2021).

The Group'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, expenses/benefits related to strategic initiatives and gains/losses from non-cash remeasurements. In addition to the Interim and Final Dividends, the Group will pay an annual Performance Fee Dividend of 90% to 95% of the net crystallised performance fees after tax. Any Performance Fee Dividend will be paid annually alongside the Final Dividend.

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

# Performance Overview

For the year ended 30 June 2022

As previously noted, dividends are likely to be less than 100% franked due to the combination of Magellan's payout ratio and its below 30% tax rate. Magellan's effective tax rate is below the company tax rate (currently 30%) because Magellan has the benefit of being declared an Offshore Banking Unit ("OBU"). The benefit of an OBU is that assessable offshore income, net of costs, is taxed at a concessional rate of 10%. Assessable domestic income is still taxed at the company tax rate and so the actual overall tax rate will depend on the mix of the Group's offshore and onshore businesses. Currently Magellan's effective tax rate is 22.8%. As previously announced to shareholders, the OBU regime will be abolished from 1 July 2023. Once abolished, the concessional 10% rate will no longer be available and all of the Group's assessable earnings will be taxed at the company tax rate.

The Board has a policy of paying out franking credits to the maximum extent possible over time, however, the level of franking attached to dividends may vary from period to period. The proposed changes to the OBU will likely lead to higher levels of franking paid to shareholders in the future.

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

	30 June 2022 \$'000	30 June 2021 \$'000	Change \$'000	Change %
Management and services fees	592,634	635,407	(42,773)	(7%)
Performance fees	11,472	30,074	(18,602)	(62%)
Other revenue and income	43,145	32,463	10,682	33%
<b>Adjusted revenue and other income</b>	<b>647,251</b>	<b>697,944</b>	(50,693)	(7%)
Adjusted expenses	(132,082)	(110,451)	(21,631)	20%
<b>Adjusted net profit before tax</b>	<b>515,169</b>	<b>587,493</b>	(72,324)	(12%)
Adjusted tax expense	(122,037)	(133,292)	11,255	(8%)
<b>Adjusted net profit after tax and before associates</b>	<b>393,132</b>	<b>454,201</b>	(61,069)	(13%)
Share of after tax profit/(loss) of associates <sup>1</sup>	6,601	(41,782)	48,383	116%
<b>Adjusted net profit after tax</b>	<b>399,733</b>	<b>412,419</b>	(12,686)	(3%)
Net (expenses)/benefits related to strategic initiatives (after tax) <sup>2</sup>	15,814	(154,113)	169,927	nm
Net gain on dilutions and disposals of associates (after tax)	40,395	-	40,395	nm
Amortisation expense of intangible assets	(4,585)	(4,548)	(37)	nm
Net non-cash remeasurement of SPA loans	(3,291)	240	(3,531)	nm
Net unrealised change in fair value of financial assets and liabilities (after tax)	(65,055)	11,158	(76,213)	nm
<b>Total non-IFRS adjustments</b>	<b>(16,722)</b>	<b>(147,263)</b>	130,541	
<b>Statutory net profit after tax</b>	<b>383,011</b>	<b>265,156</b>	117,855	44%
<b>Key statistics</b>				
Diluted earnings per share (cents per share)	206.9	144.6	62.3	43%
Adjusted diluted earnings per share (cents per share)	215.9	224.9	-9.0	(4%)
<b>Dividends</b>				
Interim and final dividends (cents per share)	175.1	199.7	-24.6	(12%)
Annual performance fee dividend (cents per share)	3.9	11.5	-7.6	(66%)
Total dividends (cents per share)	179.0	211.2	-32.2	(15%)

<sup>1</sup> Share of after-tax profit/(loss) of associates of \$8.38 million adjusted for tax on undistributed associate profit of \$1.78 million. A reconciliation to the reported statutory net profit is outlined in section 1.4.1 of the Directors' Report.

<sup>2</sup> Comprises the change in value of the obligation 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 the Group. The prior period also included the restructure of MGF and the costs of funding discounts under the Magellan High Conviction Trust ("MHH") and Magellan Global Trust ("MGG") DRPs.

<sup>1</sup> Adjusted financial measures are adjusted for strategic, non-recurring, non-cash or unrealised items to provide additional meaningful information (refer to section 1.4.1 of the Directors' Report and note 2 in the financial statements for the breakdown of these items).

# Performance Overview

For the year ended 30 June 2022

## Funds Management Segment

The Group's Funds Management segment is Magellan's core business and the driver of the Group's revenues, profitability, and therefore, dividends paid to shareholders. As at 30 June 2022, the Funds Management business had FUM of \$61.3 billion that is managed on behalf of Australian and New Zealand retail investors and institutional investors around the world. This section discusses the financial performance of the Funds Management segment for the period.

For the year ended 30 June 2022, the Funds Management segment profit before tax was \$482.0 million (\$556.5 million for the year ended 30 June 2021). Excluding performance fees, profit before tax decreased by 11% to \$470.6 million (\$526.4 million for the year ended 30 June 2021). Funds Management segment profit excludes amortisation of intangibles, expenses/benefits related to strategic initiatives and gains/losses from non-cash remeasurements.

The following table summarises the profitability of the Funds Management segment over the past two financial years:

	30 June 2022 \$'000	30 June 2021 \$'000	Change %
<b>Revenue</b>			
Management fees	588,594	631,367	(7%)
Performance fees	11,472	30,074	(62%)
Services fees	4,040	4,040	0%
Other revenue and income	5,031	(2,887)	274%
	<b>609,137</b>	662,594	(8%)
<b>Expenses</b>			
Employee expenses	86,716	69,602	25%
Fund administration and operational costs	20,441	19,589	4%
Information, technology and data	8,183	7,147	14%
Marketing	2,349	1,620	45%
Other expenses	9,401	8,157	15%
	<b>127,090</b>	106,115	20%
<b>Net profit before tax</b>	<b>482,047</b>	556,479	(13%)
<b>Net profit before tax and performance fees<sup>1</sup></b>	<b>470,575</b>	526,405	(11%)
<b>Key statistics</b>			
Average funds under management (\$ million)	94,251	103,680	(9%)
Average AUD/USD exchange rate	0.7257	0.7469	(3%)
Average number of employees	137	135	1%
Employee expenses / total expenses	68.2%	65.6%	
Cost / income	20.9%	16.0%	
Cost / income, excl. performance fees <sup>1</sup>	21.3%	16.8%	

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

## Revenues

The primary component of the Group's revenues are management fees, which are based on FUM. Changes in FUM are discussed further on page 11.

Revenues for the year decreased by 8% to \$609.1 million. This was driven by a 7% decrease in total management fee revenue, as a result of a 9% decrease in average FUM over the period, and a decline in performance fees. Performance fees before tax for the year totalled \$11.5 million compared with \$30.1 million in the prior corresponding period. Performance fees can, and very often do, vary significantly from period to period.

Given a large portion of Magellan's overall FUM is invested in offshore markets and is typically unhedged for currency movements, Magellan's FUM, and therefore revenue, is inversely affected by movements in the Australian dollar. The depreciation of the Australian dollar during the year has had a positive impact on FUM and revenue, with the average AUD/USD exchange rate across the period depreciating 3% compared with the 2021 financial year.

# Performance Overview

For the year ended 30 June 2022

As a result of the acquisition of Frontier in 2018, the Group also receives revenues relating to Frontier's third-party fund manager distribution business (excluding Magellan) which has been included in other revenue. Other revenue during the period was also impacted by a \$3.4 million net foreign exchange gain.

## Expenses

Expenses increased by 20% to \$127.1 million over the previous corresponding period, within previously provided guidance that Funds Management segment expenses would be in the range of \$125-\$130 million.

As noted above, the operating expenses of the Funds Management segment exclude items relating to strategic initiatives. For the year ended 30 June 2022 these initiatives included benefits arising from the change in value of the obligation to fund the discounts associated with MGF Options and costs incurred from contributions to Magellan FuturePay under the commitment made by Magellan. In the past, these items have included the costs associated with the restructure of Magellan's global equities retail funds in December 2020, and funding of the discounts offered under any capital raisings (for example UPPs, DRPs and the MGF Partnership Offer) in Magellan's closed-ended funds. These costs are regarded as investments in the business rather than contributing to day-to-day operating expenses.

Overall, the Funds Management business operated efficiently with a cost to income ratio (excluding performance fees) of 21.3% compared with 16.8% for the year ended 30 June 2021. The increase to Magellan's cost to income ratio primarily reflects the decrease in revenue resulting from a material reduction in FUM during the period.

As a fund manager, Magellan's business is heavy on human capital and its people are fundamental to delivering value for clients. Payments to employees increased by 25% to \$86.7 million and made up 68.2% of the operating expenses of the Funds Management segment in the 2022 financial year. The increase in employee expenses during the period is primarily attributable to the payment of deferred cash bonuses in respect of the 2021 financial year (as foreshadowed in the 2021 Annual Report), Mr Douglass' resignation payment and a pro-rated expense for the staff retention bonus plan announced in March 2022 (discussed further below).

The following table sets out total employee numbers:

	30 June 2022	30 June 2021
<b>Investment</b>		
Portfolio Managers/Analysts	32	34
Dealers	3	3
	<b>35</b>	37
<b>Distribution &amp; Marketing</b>	<b>36</b>	34
<b>Other (including Finance, Risk &amp; Compliance, Admin)</b>	<b>46</b>	48
<b>Frontier</b>	<b>9</b>	11
<b>Airlie</b>	<b>9</b>	9
<b>Total</b>	<b>135</b>	139
Average number of employees	<b>137</b>	135

As at 30 June 2022, the Group had 135 employees. During the period, Magellan continued to invest in and support its people. In March 2022, a staff engagement and retention program was announced. This included a retention bonus plan and the issue of up to 10 million share options to employees, subject to standard conditions around vesting and continued employment. These initiatives have allowed employees to remain focused on clients and the business during a period of change and uncertainty, while also aligning with shareholder outcomes. The expenses associated with the employee options and retention bonus plan will be recognised over the course of their respective vesting periods. The Funds Management segment expenses for the period include the amounts recognisable in relation to these initiatives for the 2022 financial year.

The level of expenses each year also depends on a number of market related variables such as foreign exchange rates, FUM levels and unitholder activity.

The Group continues to pay close attention to costs and has a cost-conscious culture.

# Performance Overview

For the year ended 30 June 2022

## Funds Under Management

As at 30 June 2022, the Group had FUM of \$61.3 billion, split between global equities (54%), infrastructure equities (33%) and Australian equities (13%). This compares with FUM of \$113.9 billion at 30 June 2021. The decrease in FUM was driven by investment losses of approximately \$2.3 billion, net outflows of \$49.5 billion and cash distributions (net of reinvestment) of approximately \$0.8 billion.

The following table sets out the composition of FUM over the past two financial years:

	30 June 2022	30 June 2021
Retail	22.2	30.9
Institutional	39.1	83.0
Total FUM (\$billion)	61.3	113.9
Retail (%)	36%	27%
Institutional (%)	64%	73%
FUM subject to performance fees (%)	40%	34%
Breakdown of FUM (\$billion)		
Global equities	33.3	85.4
Global listed infrastructure	20.1	19.0
Australian equities	7.9	9.5
Average base management fee (bps) per annum excluding performance fees <sup>1</sup>	62	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.

## Retail FUM

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

At 30 June 2022, the Group had total retail FUM of \$22.2 billion. The Group experienced total net retail outflows of \$5.2 billion for the 12 months to 30 June 2022, compared with total net inflows of \$1.9 billion for the previous financial year. Retail net outflows increased during the second half of the financial year, with retail net outflows of \$3.5 billion, compared with retail net outflows of \$1.7 billion during the first half.

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

Investment Performance for the Period to 30 June 2022 <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>(11.8)</b>	<b>2.1</b>	<b>8.4</b>	<b>10.2</b>
MSCI World NTR Index (\$A)	(6.5)	7.7	10.1	6.7
<b>Magellan Infrastructure Fund</b>	<b>6.6</b>	<b>1.5</b>	<b>5.5</b>	<b>7.5</b>
Global Listed Infrastructure Benchmark (\$A) <sup>4</sup>	9.4	2.4	4.2	5.4
<b>Airlie Australian Share Fund</b>	<b>(7.4)</b>	<b>8.0</b>	-	<b>7.8</b>
S&P/ASX 200 Accum. Index	(6.5)	3.3	-	6.1

<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 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).

# Performance Overview

For the year ended 30 June 2022

It has been a difficult 18 months for the Global Equities strategy, and Magellan recognises that it must do better. Magellan continues to believe investing in the world's best companies is the path to growing wealth in the long-term, and it is extremely focused on sharpening investment processes to deliver the investment performance for which the Group is known.

Magellan's Infrastructure Equities strategy continues to deliver solid long-term performance underscored by the team's strict approach to defining investment grade infrastructure, which excludes companies where Magellan has assessed their earnings to have material direct exposure to commodity prices, competitive pressure or sovereign risk. The long-term performance of the strategy speaks volumes to this disciplined approach, which has developed a strong following amongst investors and advisers.

The Airlie Australian Share Fund (ASX: AASF / APIR: MGE9705AU), managed by Matt Williams and Emma Fisher, has established an exceptional three-year track record and continues to deliver strong investment performance. As at 30 June 2022, FUM in the Airlie Australian Share Fund stood at \$308 million, significantly higher than the \$103 million 12 months ago.

While it is still early days, Magellan sees significant growth opportunities for the newer products launched in recent years as follows:

- 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. There is growing demand for low cost products and Magellan is excited for the opportunities that the MFG Core Series presents.
- Magellan Sustainable Fund: Magellan is pleased to continue to offer retail investors a thoughtful and differentiated approach to climate change and ESG risks through the Magellan Sustainable Fund, managed by Dom Giuliano.

Subsequent to the end of the financial year, in July 2022, Magellan made the decision to close Magellan FuturePay. Magellan FuturePay was developed to meet the needs of many investors for retirement income and its unique structure achieved this objective. However, given the size and modest anticipated demand for FuturePay, Magellan determined that it was in the best interests of investors to return their capital and close the fund. The closure is also consistent with the Group's strategy to simplify its business and concentrate on its core investment capabilities.

## Institutional FUM

At 30 June 2022, the Group had total institutional FUM of \$39.1 billion. During the 12 months to 30 June 2022, institutional net outflows were \$44.2 billion, which compares with net inflows of \$2.6 billion for the previous financial year. The loss of the St James's Place mandate in December 2021 of \$23 billion was the largest contributor to the institutional net outflows for the period.

During the financial year, Magellan undertook a significant engagement program across its global institutional client base and continues to work closely with clients to provide transparency and insight on the performance and positioning of the Global Equities strategy.

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

The Group's global listed infrastructure strategies continue to see interest from institutional investors, and Magellan believes it is well positioned to grow in this space given its unique approach to defining infrastructure and the solid long-term investment performance the team has achieved. At 30 June 2022, the Group's infrastructure FUM was US\$13.8 billion.

Magellan is also pleased with the continued development of its next generation of global equities strategies, the Sustainable strategies. Head of ESG and Portfolio Manager, Dom Giuliano, manages the Global Sustainable strategy, and the US Sustainable strategy is managed by Head of Financials and Portfolio Manager, Alan Pullen. Both strategies have passed their five year anniversaries and continue to gather investor interest. Magellan was pleased to welcome new institutional mandates into the Global Sustainable strategy during the period and total institutional FUM of these strategies is now \$417 million. The Group believes both these strategies are well positioned on the back of solid track records and a thoughtful, differentiated sustainable investment approach.

# Performance Overview

For the year ended 30 June 2022

## Fund Investments

Fund Investments is a sub-set of the Group's balance sheet and largely comprises investments in Magellan's funds and seed portfolios for new strategies and initiatives. The Group believes that maintaining a strong balance sheet which 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 clients through co-investment in Magellan's investment strategies;
- Seeding new investment strategies; and
- Providing a meaningful level of liquid assets for operational risk purposes.

As at 30 June 2022, the Group had net Fund Investments of \$358.4 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 30 June 2022 and 30 June 2021:

	30 June 2022 \$'m	30 June 2021 \$'m
Cash	0.3	0.5
Investments in:		
Magellan funds <sup>1</sup>	374.0	441.5
Net seed portfolios	4.7	10.6
Other <sup>2</sup>	0.3	0.3
<b>Total</b>	<b>379.3</b>	<b>452.9</b>
Net deferred tax liability <sup>3</sup>	(20.9)	(45.4)
<b>Net Fund Investments</b>	<b>358.4</b>	<b>407.5</b>
<b>Net Fund Investments per share (cents)<sup>4</sup></b>	<b>193.6</b>	<b>221.7</b>

<sup>1</sup> Investments are set out in note 7 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 185,088,872 shares on issue at 30 June 2022 (June 2021: 183,793,753 ordinary shares).

The Group aims to earn satisfactory returns on its 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 (11.9%), 2.0% and 7.8% per annum over the last 1, 3 and 5 years to 30 June 2022 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 9.8% per annum since inception from 1 July 2007. The inception date of 1 July 2007 has been chosen to reflect the first purchase date of the investments in the Magellan Global Fund and Magellan Infrastructure Fund.

The underperformance of Magellan's Global Equities strategy in the last 18 months has meaningfully impacted the returns of the Fund Investments portfolio. Magellan is highly focused on improving investment performance in its funds which, in turn, should improve the Group's Fund Investments portfolio returns.

## Magellan Capital Partners

As at 30 June 2022, Magellan Capital Partners comprised two financial investments:

- 36% economic interest (5% voting interest) in Barrenjoey Capital Partners Group Holdings Pty Limited ("Barrenjoey"), a recently established full-service financial services firm; and
- 16% interest in FinClear Holdings Limited ("FinClear"), a provider of technology, infrastructure and ASX market-access services (excluding the impact of any potential dilution arising from unexercised issued options).

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.

# Performance Overview

For the year ended 30 June 2022

During the period, Magellan Capital Partners sold its 11.6% shareholding in GYG for cash consideration of \$140 million, representing a 36.3% premium to Magellan's entry price in January 2021. The sale completed on 24 June 2022. Magellan may also be entitled to a further payment of up to \$6 million subject to the performance of GYG and the realisation of the investment by the acquiring entity.

The Magellan Capital Partners segment delivered a pre-tax profit of \$9.1 million during the year ended 30 June 2022, with Barrenjoey delivering a modest profit for the year and FinClear recognising a material one-off profit on the gain on acquisition of Pershing Australia. This profit excludes the sale of Magellan's shareholding in GYG for a net pre-tax profit of \$33.7 million and also excludes a one-off net pre-tax gain of \$17.6 million on the dilution of Magellan's shareholding in Barrenjoey from 40% to 36% following Barclays' \$75 million additional investment in Barrenjoey.

As announced in conjunction with Magellan's Interim Results in February 2022, Magellan does not plan to make further investments via Magellan Capital Partners. The Board is pleased with the performance of Magellan Capital Partners over the period and continues to manage these holdings in a prudent and patient way.

## Capital Management

As at 30 June 2022, the Group's financial position included:

- investment assets (cash and cash equivalents, financial assets and investments in associates) of \$963.3 million (June 2021: \$902.9 million). The Group's cash position at 30 June 2022 was \$419.9 million and current loans and receivables were \$66.3 million. Dividends of \$127.5 million are due to be paid to shareholders on 6 September 2022;
- net assets of \$1,026.8 million (June 2021: \$989.4 million) which includes \$111.3 million of intangible assets in relation to the acquisitions of Airlie and Frontier;
- net tangible assets per share of \$4.95 (June 2021: \$4.77); and
- total liabilities of \$214.6 million (June 2021: \$226.7 million) which relate predominantly to the Group's financial commitments in regard to the MGF Options but which also include payables, employee benefits, income tax payable and lease liabilities. The Group has no debt and has access to an undrawn debt facility.

During the period, Magellan delivered on a number of capital management initiatives which were announced at the Interim Results Briefing in February 2022. These included:

- an on-market share buy-back of up to 10 million ordinary fully paid shares (representing up to 5.4% of shares on issue as at announcement). As at 30 June 2022, Magellan has bought back 626,960 shares pursuant to the programme;
- a 1-for-8 pro rata non-renounceable bonus issue of options to eligible shareholders for nil consideration. The options were issued with an exercise price of \$35.00 per option and an expiry date of 16 April 2027 and commenced trading on the ASX in April 2022 under the ticker "MFGO";
- the sale of Magellan Capital Partners' shareholding in GYG for cash consideration of \$140 million.

The above initiatives are consistent with Magellan's focus on its core Funds Management business and Magellan's aim to deliver capital efficiency and attractive returns for shareholders.

# Directors' Report

For the year ended 30 June 2022

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 year ended 30 June 2022.

## 1. Operations and Activities

### 1.1. Company Overview

The Company is a listed public company incorporated in Australia. The Group's main operating company is Magellan Asset Management Limited ("MAM"). The shares of the Company are publicly traded on the Australian Securities Exchange ("ASX") under ASX Code: MFG.

The Company's principal place of business is Level 36, 25 Martin Place, Sydney, New South Wales, 2000.

### 1.2. Principal Activity

The principal activity of the Group is funds management with the objective of offering investment opportunities to high net worth and retail investors in Australia and New Zealand, and institutional investors globally.

### 1.3. Dividends

During the year ended 30 June 2022, dividends amounting to \$414,179,000 were paid representing 224.2 cents per ordinary share (June 2021: \$400,743,000 representing 219.1 cents per ordinary share).

On 17 August 2022, the Directors declared a total dividend of 68.9 cents per ordinary share (80% franked) in respect of the six months to 30 June 2022 (June 2021: 114.1 cents per ordinary share 75% franked). The dividend payments comprise a Final Dividend of 65.0 cents per ordinary share and a Performance Fee Dividend of 3.9 cents per share (June 2021: Final Dividend of 102.6 cents per ordinary share and a Performance Fee Dividend of 11.5 cents per ordinary share). The amount of the Final and Performance Fee Dividend expected to be paid on 6 September 2022, but not recognised as a liability as at 30 June 2022, is approximately \$127,526,000 (June 2021: \$209,709,000).

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, expenses/benefits related to strategic initiatives and gains/losses from non-cash remeasurements. In addition to the Interim and Final Dividends, the Directors will pay an annual Performance Fee Dividend of 90% to 95% of net crystallised performance fees after tax. Any Performance Fee Dividend will be paid annually alongside the Final Dividend. The payment of dividends by the Group will be subject to corporate, legal and regulatory considerations.

### 1.4. Review of Financial Results and Operations

#### 1.4.1. 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 1.4.2 for further details on non-IFRS financial measures.

The Group's statutory net profit after tax for the year ended 30 June 2022 was \$383,011,000, up \$117,855,000 on the prior year. The Group's adjusted net profit after tax was \$399,733,000 (June 2021: \$412,419,000) which takes into account various non-IFRS adjustments as shown on the following page.

# Directors' Report

For the year ended 30 June 2022

	30 June 2022		30 June 2021	
	Statutory \$'000	Non-IFRS \$'000	Statutory \$'000	Non-IFRS \$'000
Management and services fees	592,634	592,634	635,407	635,407
Performance fees	11,472	11,472	30,074	30,074
Other revenue and income	(50,576)	(50,576)	49,531	49,531
<b>Total revenue and other income</b>	<b>553,530</b>	<b>553,530</b>	715,012	715,012
Adjust for: net unrealised change in fair value of financial assets and liabilities		92,937		(15,940)
Adjust for: non-cash interest recognised in respect of SPA loans		784		(1,128)
<b>Adjusted revenue and other income</b>		647,251		697,944
<b>Total expenses</b>	<b>(116,582)</b>	<b>(116,582)</b>	(336,048)	(336,048)
Adjust for: net expenses/(benefits) related to strategic initiatives <sup>1</sup>		(22,592)		220,161
Adjust for: amortisation of intangible assets		4,585		4,548
Adjust for: non-cash expenses recognised in respect of SPA loans		2,507		888
<b>Adjusted expenses</b>		(132,082)		(110,451)
<b>Income tax</b>	<b>(112,975)</b>	<b>(112,975)</b>	(72,087)	(72,087)
Adjust for: tax on above adjustments		(21,104)		(61,266)
Adjust for: tax on undistributed associate profit		1,780		61
Adjust for: tax on gain from associate dilutions and disposals		10,262		-
<b>Adjusted income tax</b>		(122,037)		(133,292)
<b>Adjusted net profit before associates</b>		393,132		454,201
Share of after-tax profit/(loss) of associates	8,381	8,381	(41,721)	(41,721)
Adjust for: tax on undistributed associate profit		(1,780)		(61)
Net gain on dilutions and disposals of associates	50,657	50,657	-	-
Adjust for: net gain on dilutions and disposals of associates		(50,657)		-
<b>Net profit after tax</b>	<b>383,011</b>		265,156	
<b>Adjusted net profit after tax</b>		399,733		412,419
<b>Basic and diluted earnings per share</b>	<b>206.9</b>		144.6	
<b>Adjusted basic and diluted earnings per share</b>		215.9		224.9

<sup>1</sup> Comprises the change in value of the obligation 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 the Group. In the prior period, costs also included the restructure of MGF and the costs of funding discounts under the Magellan High Conviction Trust ("MHH") and Magellan Global Trust ("MGG") DRPs.

## 1.4.2. 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-recurring, 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 year ended 30 June 2022

## 1.4.3. Statement of Financial Position

The Group is in a strong financial position and at 30 June 2022 reported:

- investment assets (cash and cash equivalents, financial assets and investments in associates) of \$963,305,000 (June 2021: \$902,878,000);
- shareholders' funds of \$1,026,760,000 (June 2021: \$989,434,000); and
- NTA per share of \$4.95 (June 2021: \$4.77).

The Group has access to \$150,000,000 through a revolving debt facility. The Group may use the facility to finance the partnership benefits it has undertaken to fund as part of the MGF Partnership Offer.

Refer to the Performance Overview on page 7 for further information on the Group's operations and results. Further details regarding the future outlook of the Group are included in the Chief Executive Officer's Letter on page 6.

## 1.5. Likely Developments and Expected Results of Operations

The Group will continue to pursue its financial objectives which are to increase the profitability of the Group over time by increasing the value and performance of funds under management and seeking to grow the value of the Group's investment portfolio. Additional comments on expected results of operations of the Group are included in this report in the Performance Overview section.

## 1.6. Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the Group during the year ended 30 June 2022 other than as disclosed in this report or the financial statements.

## 1.7. Events Subsequent to the End of the Financial Year

Other than the items noted below, 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.

## Final Dividend and Performance Fee Dividend

Refer to section 1.3 for details of the dividend declared in respect of the six months ended 30 June 2022.

## Magellan FuturePay Closure

On 12 July 2022 the Group announced the termination of Magellan FuturePay which took effect on 20 July 2022 ("Closure Date"). Investors in Magellan FuturePay on the Closure Date received a final payment comprising their pro-rata share of the net proceeds on wind-up. Investors who would otherwise have received less than their original investment, after taking into account distributions received, also received an ex gratia payment from the Group. The total ex gratia payment funded by the Group was \$88,000. The final distribution was paid to investors on 27 July 2022.

Due to the closure of the fund, the Group has been released from the following financial obligations:

- The commitment to provide up to \$50,000,000 to assist Magellan FuturePay capitalise the FuturePay Support Trust was terminated with effect from the Closure Date. At the date of termination, the unutilised portion of the commitment was \$48,567,000.
- The funding facility extended to Magellan FuturePay by the Group was terminated with effect from 12 July 2022. At no time during the financial period was the funding facility utilised.

## Funds Under Management

On 4 August 2022, the Group reported to the ASX that its funds under management was \$60.2 billion as at 29 July 2022.

## 1.8 Auditor

Ernst & Young continues in office in accordance with section 327 of the *Corporation Act 2001* and a copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 44.

## Non-Audit Services

The Audit & Risk Committee has reviewed details of the amounts paid and payable for non-audit services provided by the Group's auditors, Ernst & Young and Plante Moran, to the Group during the year ended 30 June 2022.

# Directors' Report

For the year ended 30 June 2022

The Directors, in accordance with advice received from the Audit & Risk Committee, are satisfied that the provision of non-audit services by the auditors did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit & Risk Committee to ensure that they did not impact the impartiality and objectivity of the auditors;
- the Board's own review conducted in conjunction with the Audit & Risk Committee concluded that the auditor independence was not compromised, having regard to the Board's policy with respect to the engagement of auditors; and
- none of the non-audit services provided by Ernst & Young or Plante Moran during the year had the characteristics of management, decision making, self review, advocacy or joint sharing of risks.

For details regarding non-audit services provided by the auditors, fees paid to the auditors along with auditor tenure, refer to note 25 to the financial statements.

## 1.9 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.

## 2. Directors and Officers

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

		Appointed	Resigned
Hamish McLennan <sup>1</sup>	Non-Executive Chair	1 March 2016	-
Robert Fraser <sup>2</sup>	Non-Executive Deputy Chair and Chair of MAM	23 April 2014	-
David George	Chief Executive Officer and Managing Director	19 July 2022	-
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
Hamish Douglass <sup>3</sup>	Chair and Chief Investment Officer	21 November 2006	19 March 2022
Brett Cairns	Chief Executive Officer	22 January 2007	6 December 2021

<sup>1</sup> During the year ended 30 June 2022, Mr McLennan served as Deputy Chair from 1 July 2021 until he was appointed Chair on 7 February 2022.

<sup>2</sup> Mr Fraser was a Non-Executive Director of MFG and the Chair of Magellan Asset Management Limited ("MAM") during the year ended 30 June 2022. On 7 February 2022, Mr Fraser was appointed Deputy Chair of MFG.

<sup>3</sup> During the year ended 30 June 2022, Mr Douglass was the Chair from 1 July 2022 until 7 February 2022 when he commenced a medical leave of absence.

### Secretaries

Marcia Venegas has been Company Secretary since 2019. During the year Mariana Kolaroski was a joint Secretary of the Company until she resigned from the role on 3 June 2022.

### Information on Directors and Officers

#### Hamish McLennan

*Chairman, Non-Executive Director and member of the Audit & Risk Committee and the Remuneration & Nominations Committee*

Hamish has over 30 years of experience in the media industry. He is currently Chairman of REA Group Limited (appointed February 2012 and Chairman since April 2012), a global online real estate advertising company, Chairman of HT&E Limited (appointed October 2018), an Australian media and entertainment company, and Chairman of Rugby Australia (appointed June 2020). Hamish is also a Non-Executive Director of the tech firm Claim Central Consolidated (since January 2020) and an independent director of Light & Wonder, a US gaming and lottery company (since November 2020). He was previously Executive Vice President, Office of the Chairman, News Corporation, and Global Chairman & CEO of Young & Rubicam (Y&R) in New York, part of WPP, the world's largest communications services group. Hamish joined Young & Rubicam in 2002 as Chairman and CEO of Y&R Brands Australia/New Zealand, one of the largest marketing services groups in Australasia, and led the firm's global business operations from 2006 to 2011. He was also previously Executive Chairman and Chief Executive Officer (March 2014 to July 2015) and Chief Executive Officer and Managing Director (February 2013 to March 2014) of Australian media company Ten Network Holdings Limited. He has previously served on the Boards of Directors for the United Negro College Fund (UNCF) and the US Ad Council.

# Directors' Report

For the year ended 30 June 2022

## Robert Fraser

*Non-Executive Director – Deputy Chairman of Magellan Financial Group Limited, Chairman of the Audit & Risk Committee and member of the Remuneration & Nominations Committee, Chairman of Magellan Asset Management Limited (Responsible Entity and main operating subsidiary of MFG)*

Robert is a company director and corporate adviser with over 30 years of investment banking experience, specialising in mergers and takeovers, corporate and financial analysis, capital management, equity capital markets and corporate governance. Robert is currently the Managing Director of TC Corporate Pty Limited, the corporate advisory division of Taylor Collison Limited stockbrokers of which he is a Director and Principal. Robert has Bachelor of Economics and Bachelor of Laws (Hons) degrees from the University of Sydney and is also qualified as a licensed business broker, licensed real estate agent and a registered tax (financial) adviser. Robert currently serves as a Non-Executive Director on the Boards of ARB Corporation Limited (since February 2004) where he is Chairman of the Audit Committee and the Remuneration and Nomination Committee, F.F.I. Holdings Limited (since October 2011) and MFF Capital Investments Limited (since May 2019) where he is Chairman of the Audit and Risk Committee.

## David George

*Chief Executive Officer and Managing Director*

David's career spans over 20 years in institutional investment management across analytical roles, investment management and organisational leadership in Australia and Canada. Most recently, David spent 14 years at the Future Fund (Australia's Sovereign Wealth Fund). This included roles evaluating and investing alongside external investment managers, leadership of a sector team, and finally as Deputy Chief Investment Officer, Public Markets with responsibility for equities, credit, derivative overlays, public market alternatives, cash and treasury. David also served as a member of the firm-wide Senior Management Team and on all relevant internal investment portfolio management and risk committees.

Prior to the Future Fund, David held senior roles at Mercer Investment Consulting, the Royal Bank of Canada and Integra Capital Management.

David is a CFA and CAIA Charterholder and holds a Bachelor of Arts (Economics) degree from Western University in Canada. David also sits on the Board of the CAIA Association and is a trustee of the Standards Board of Alternative Investments.

## John Eales AM

*Non-Executive Director – Chairman of the Remuneration & Nominations Committee and member of the Audit & Risk Committee*

John graduated from the University of Queensland in 1991 and enjoyed a 10 year international sporting career with the Australian rugby team from 1991, captaining the Wallabies from 1996 until 2001.

John has served as an executive, adviser, director and investor in a number of listed and unlisted private organisations. John co-founded the Mettle Group in 2003 – a corporate consultancy which was acquired by Chandler Macleod in 2007.

John is currently Chairman of Trajan Group (since March 2021) and also serves on the Boards of Flight Centre Travel Group (since September 2012), FUJIFILM Data Management Solutions Pty Ltd and Executive Health Solutions. He continues to serve as a consultant to major Australian companies, including Westpac. John has been a regular columnist in both the Australian Financial Review and The Australian over the last 20 years and is the author of two books, Learning from Legends Sport and Learning from Legends Business. He is the Chair of the World Rugby Hall of Fame Selection Panel and on the Rugby Australia Bid Advisory Committee for the Rugby World Cup 2027.

He was made a Member of the Order of Australia in 1999 for services to the community and rugby and is a Patron of the Melanoma Foundation, Hearts in Union and the Champagnat Trust.

John holds a Bachelor of Arts from the University of Queensland and is a graduate of the Australian Institute of Company Directors.

## Colette Garnsey OAM

*Non-Executive Director and member of the Audit & Risk Committee and the Remuneration & Nominations Committee*

Colette has over 40 years of experience in retail, marketing and distribution and played a key role in the development and growth of the Australian retail industry using her established experience in branding, consumer insights, digital and marketing.

Colette is currently Chair of Laser Clinics Australia (appointed to the Board in November 2020 and Chairman since October 2021). She also serves as a Director of Flight Centre Travel Group (since February 2018), Seven West Media Limited (since December 2018) and Loreto Normanhurst (since January 2021).

# Directors' Report

For the year ended 30 June 2022

Colette has previously held senior roles with David Jones, Pacific Brands and Premier Investments. She has also held directorial and advisory positions for government boards and not-for-profit enterprises, including the CSIRO (1997 to 2001), Australian Government Innovation Council (2010 to 2012), Federal Trade and Investment Ministers (2014 to 2018), Australian Fashion Week (1998 to 2009) and the Melbourne Fashion Festival (2006 to 2013).

Colette was awarded the Medal of the Order of Australia in 2012 for services to business and professional organisations. She holds an Executive MBA from the Graduate School of Business at Stanford University.

## Karen Phin

*Non-Executive Director and member of the Audit & Risk Committee and the Remuneration & Nominations Committee*

Karen has over 20 years of capital markets experience advising a range of top Australian companies on their capital management and funding strategies. Until 2014, Karen was Managing Director and Head of Capital Management Advisory at Citigroup in Australia and New Zealand. From 1996 to 2009, she worked at UBS where she was also a Managing Director and established and led the Capital Management Group. Prior to joining Citigroup, Karen spent 12 months at ASIC as a Senior Specialist in the Corporations group. Karen is currently a Non-Executive Director of Omni Bridgeway Ltd (since August 2017), Non-Executive Director of ARB Corporation Limited (since June 2019) and is a member of the Takeovers Panel and the Ascham School Council of Governors. Karen has a Bachelor of Arts/Law (Honours) from the University of Sydney and is a graduate of the AICD.

## Marcia Venegas

*Company Secretary*

Marcia was appointed Company Secretary of the Company on 20 March 2019. Marcia also holds the role of Chief Risk Officer and Head of Risk, Compliance and Legal. Prior to joining MFG in November 2015, Marcia was Chief Compliance Officer at Platinum Asset Management in Sydney and held senior roles including Chief Compliance Officer at Dodge & Cox in the US. Marcia brings more than 20 years of experience in the financial services industry in Australia and the US, during which time she has been responsible for national and international regulatory requirements, the development and maintenance of governance, risk and compliance frameworks, licensing, proxy voting, training and liaising with regulators, auditors and clients. Marcia holds a Bachelor of Arts from the University of Wollongong.

## Former Directors

### Hamish Douglass

*Chairman and Chief Investment Officer*

Hamish is the co-founder of the Company. He is a former member of the Australian Government's Foreign Investment Review Board (FIRB), the Australian Government's Financial Literacy Board, former Acting President of the Australian Government's Takeovers Panel and former Co-Head of Global Banking at Deutsche Bank, Australasia. Hamish is a Director of the Victor Chang Cardiac Research Institute. He holds a BCom from the University of NSW.

### Brett Cairns

*Chief Executive Officer*

Brett was formerly co-head of the Capital Markets Group within Structured Finance at Babcock & Brown, which he joined in 2002. Brett was a former Managing Director and Head of Debt Capital Markets for Merrill Lynch in Australia where he worked from 1994 to 2002. Prior to joining Merrill Lynch, Brett spent three years with Credit Suisse Financial Products, the then derivatives bank of the Credit Suisse group. Brett has a BE (Hons), Master of Business Administration and a Doctorate of Philosophy from the University of Sydney.

### Paul Lewis MBE

*Non-Executive Director, Chairman of the Remuneration & Nominations Committee and member of the Audit & Risk Committee*

Paul was Managing Partner and Chief Executive – Asia for PA Consulting Group, based in Hong Kong from 1992 to 2004, at the conclusion of which PA had offices in Hong Kong, Beijing, Tokyo, Bangalore, Singapore, Kuala Lumpur and Jakarta. Paul led major assignments in financial services – retail banking, life insurance and stock exchanges, energy, manufacturing, telecommunications, rail, air, container shipping and government. Paul also served on senior advisory panels with ministerial representation in Hong Kong, Malaysia and Indonesia, and from 2003 to 2009 was a member of British Telecom's Global Advisory Board. Paul is currently Deputy National Chairman of the Australian British Chamber of Commerce, Chair of IPScape Limited, Chair of GWS Giants Foundation, and a board member of Volt Bank. He was previously Chair of the NAB Private Advisory Board, NAB Business Advisory Board, Optal Limited and British Telecom Global Advisory Board. Paul is a Fellow of the Australian Institute of Company Directors, and was awarded an MBE in June 2018 for services to bilateral trade.

# Directors' Report

For the year ended 30 June 2022

## Directors' Meetings

The number of meetings of the Board and Board Committees held during the year ended 30 June 2022 and the number of those meetings attended by each Director are set out below:

	Board		Audit & Risk Committee		Remuneration & Nominations Committee	
	Held	Attended	Held	Attended	Held	Attended
Brett Cairns	3	2	-	-	-	-
Hamish Douglass	18	8	-	-	-	-
John Eales	25	25	10	10	6	6
Robert Fraser	25	25	10	10	6	6
Colette Garnsey	25	25	10	10	6	6
Paul Lewis	1	1	4	4	1	1
Hamish McLennan	25	24	10	10	6	6
Karen Phin	25	25	10	10	6	6

## Directors' Interests

No Director has or has had any interest in a contract entered into up to the date of this Directors' Report with the Company or any related entity other than as disclosed in this report.

## Indemnification and Insurance of Directors and Officers

The Group insures the Directors and Officers of the Group in office to the extent permitted by law for losses, liabilities, costs and charges in defending any legal proceedings arising out of their conduct while acting in the capacity of Directors and Officers of the Group, other than conduct involving a wilful breach of duty in relation to the Group. During the year, the Group paid insurance premiums to insure the Directors and Officers of the Company and its subsidiaries as permitted by the *Corporations Act 2001*. The terms of the contract prohibit the disclosure of the premiums paid.

# Directors' Report

For the year ended 30 June 2022

## 3. 2022 Remuneration Report (Audited)

### Message from the Chair of the Remuneration & Nomination Committee

Dear Shareholder,

On behalf of the Board of Directors, I present the Group's Remuneration Report for the financial year ended 30 June 2022. As well as an explanation of Magellan Financial Group's remuneration framework, performance and outcomes for Group Executives and Non-Executive Directors, the Remuneration Report includes context on our culture and current people initiatives.

#### Our year, Remuneration at a Glance

This was a challenging year for the business as we navigated significant internal change, volatile markets and other difficult external factors.

During the year, the Remuneration & Nomination Committee ("the Committee") dealt with the following significant items relating to people and remuneration:

- **Senior leadership and Board renewal.** Mr Hamish McLennan was appointed Non-Executive Chairman following Mr Hamish Douglass unexpectedly stepping down as Chairman for a medical leave of absence on 7 February 2022. The Board was able to respond quickly to this challenge by implementing its risk management and succession plans.

During the year, Ms Kirsten Morton assumed the role of Interim CEO while we undertook a search for a new CEO following the resignation of Dr Cairns in December 2021. In May 2022, we were pleased to announce the appointment of Mr David George, an experienced investment management executive, as CEO and Managing Director. Mr George commenced with the Group on 19 July 2022 and we have been very pleased with his contribution to date.

We have also commenced a process around further Board renewal involving a search for an additional Non-Executive Director. We look forward to providing details of our progress in the coming months.

- **Employee staff engagement and retention program successfully implemented.** At its core we are a client-led people business built around people talent and skills. Over some months we designed and refined a program to retain key talent and skills and ensure business and leadership continuity for both the renewal and future growth of our business. After extensive involvement and consideration by the Committee, the Board and the CEO, the Board approved an engagement and retention program which was implemented in early April 2022. This program targeted all levels of employees across the business and was an important element in the Board's goal to return stability and simplicity to the business as quickly as possible. Details of the program were announced on 31 March 2022 and are discussed in more detail at section 3.2.

The program included a one-off incentive that consisted of the following components:

1. **cash retention incentive** – The cash incentive comprises two components and is payable provided the employee remains continuously employed at September 2024 and September 2025 and performs to the Group's satisfaction, in which case the full component values of the retention cash incentive will be awarded.
2. **employee share options ("options")** – The options were issued under the Employee Share Option Plan for nil consideration and have an exercise price of \$35.00. The options vest on 1 September 2024 provided that the employee remains continuously employed until that date, after which they may be exercised up until 16 April 2027.
3. **share purchase plan ("SPP") loans** – The Board varied the repayment terms for employees with SPP loans by extending the repayment dates for the interest free loans from 10 to 15 years. The variations provide additional time for employees to repay their loans. In addition, for employees who receive a cash retention incentive and have an outstanding SPP loan at the relevant date, the after-tax cash retention incentive paid will automatically be applied to reduce their outstanding loan balance.

# Directors' Report

For the year ended 30 June 2022

- **Review of SPP.** Whilst participation in the SPP is voluntary, over 85% of employees are Magellan shareholders and are aligned to think and act like owners of the business, and the original intent was to promote alignment between employees and shareholders. However, particularly in light of the share price decline, the Board suspended the SPP indefinitely from February 2022 as we considered the future SPP issuance and related loans would be unlikely to meet its intended purposes. As mentioned above, the Board also varied the terms of the SPP Rules. The variations included extending the maximum loan term from 10 to 15 years, removing the requirement for loan repayments from an employee's annual cash bonus and permitting voluntary loan repayments. As part of approving the above variation, the Board put in place a process to ensure that the security over shares held by employees is protected. The variations did not alter the full recourse nature of the loans. That is, all SPP loans remain on foot and are required to be repaid. Further details on the SPP and variations are included in section 3.2 and note 10 of the financial statements. The variations only applied to SPP loans provided to employees and not SPP loans provided to Non-Executive Directors.

## 2022 Variable Remuneration Outcomes

For the year ended 30 June 2022, the Group Executives (other than the Executive Directors) were awarded variable performance-based incentives of between 55% - 76% of their fixed remuneration. This reflects strong commitment and performance of management over the financial year, whilst managing many external factors outside of their control. Mr Douglass and Dr Cairns, former Executive Directors, received no variable remuneration outcomes in the 2022 financial year. More details can be found in section 3.4.

## Supporting the Group's Strategy

The Board is committed to ensuring the remuneration strategy reflects good governance, includes consultation with key stakeholders, is transparent in its design to support the Group's strategy, and drives sustainable shareholder value creation over the short, medium and long-term.

On behalf of the Board, we invite you to read the Remuneration Report and welcome your feedback.

Yours faithfully,



**John Eales, Chairman**

Remuneration & Nominations Committee

# Directors' Report

For the year ended 30 June 2022

## 3.1. Key Management Personnel

This Remuneration Report outlines the remuneration arrangements for the Key Management Personnel ("KMP") of the Group for the year ended 30 June 2022. KMP are defined as those persons and corporate entities having authority and responsibility for planning, directing and controlling activities of the Group, directly or indirectly.

In the 2022 financial year, the KMP for the Group included the Non-Executive Directors and the Group's Executives as set out below.

		Term as KMP
<b>Chairman</b>		
Hamish McLennan <sup>1</sup>	(from 7 February 2022)	Full Year
<b>Non-Executive Directors</b>		
Robert Fraser		Full Year
John Eales		Full Year
Colette Garnsey		Full Year
Karen Phin		Full Year
Paul Lewis <sup>2</sup>		Until 30 September 2021
<b>Executive Directors</b>		
Hamish Douglass <sup>3</sup>	Chairman (until 7 February 2022) and Chief Investment Officer	Until 19 March 2022
Brett Cairns	Chief Executive Officer	Until 6 December 2021
<b>Group Executives (Other KMP)</b>		
Kirsten Morton <sup>4</sup>	Interim CEO (from 6 December 2021) and Chief Financial Officer	Full Year
Marcia Venegas	Company Secretary and Head of Risk, Compliance and Legal	Full Year
Craig Wright	Head of Magellan Capital & Advisory	Full Year

<sup>1</sup> Mr McLennan was appointed Chairman on 7 February 2022 following the Board's review of structure and governance arrangements and the commencement of Mr Douglass' medical leave of absence.

<sup>2</sup> Mr Lewis retired as a Director on 30 September 2021.

<sup>3</sup> Mr Douglass served as Chairman up until 7 February 2022 at which point he commenced a medical leave of absence and resigned from the role. He subsequently resigned as a Director on 19 March 2022. He resigned as an employee of MAM on 15 June 2022. Although Mr Douglass ceased to be a KMP on 19 March 2022, his remuneration for the entire period of employment up until his resignation on 15 June 2022 is included in this Remuneration Report for purposes of transparency.

<sup>4</sup> Ms Morton was Chief Financial Officer for the year ended 30 June 2022. Following Dr Cairns' resignation on 6 December 2021, Ms Morton was appointed Interim CEO and held dual roles for the remainder of the year.

Following Dr Cairns stepping down as CEO on 6 December 2021, the Board conducted an executive search for a new CEO. On 11 May 2022, the Board announced the appointment of Mr David George as Managing Director and CEO, with Mr George commencing in the role on 19 July 2022. Consequently, Mr George is not a KMP in the 2022 financial year.

In February 2022, at the request of the Board, Mr Christopher Mackay stepped into an oversight role in relation to portfolio management of the Group's Global Equity strategies upon Mr Douglass commencing his medical leave of absence. Mr Mackay is not a Director of any Group entity and has no other role with the Group. In addition, Mr Mackay did not receive any remuneration from the Group for this role or otherwise.

The Remuneration Report has been prepared and audited against the disclosure requirements of the *Corporations Act 2001*.

# Directors' Report

For the year ended 30 June 2022

## 3.2. Oversight and Governance

### Magellan Financial Group Board

- Overall responsibility for the remuneration strategy and outcomes for Executives and Non-Executive Directors
- Reviews and approves recommendations from the Remuneration & Nominations Committee
- Approves the appointment of Non-Executive Directors and CEO



### Remuneration & Nominations Committee

The Remuneration & Nominations Committee ("the Committee") supports the Board by overseeing the Group's remuneration policies and practices. Including its Chairman, the Committee has five members, all of whom are independent Non-Executive Directors. The key responsibilities of the Committee are as follows:

- Review the composition, functions, responsibilities and size of the Board and Directors tenure;
- Lead the process to appointment of Directors and CEO
- Develop and implement a process for the evaluation of the performance of Non-Executive Directors
- Provide oversight over the Company's strategic human resources initiatives including diversity, culture and leadership; and
- Review and recommend significant changes in remuneration policy and structure including employee equity plans and awards
- Equitably, consistently and responsibly reward executives – including variable performance-based remuneration targets and achievement of remuneration outcomes; and
- Take appropriate action to ensure the Committee, Board and senior management have available to them sufficient information and external advice to ensure informed decision-making regarding remuneration.



### CEO & Senior Management

Provides relevant data and information for the Committee to recommend:

1. Variable remuneration targets and outcomes
2. Remuneration policy
3. Individual remuneration and contractual arrangements
4. Culture and people matters

### Information and exchange with other Board committees

Notably the Audit & Risk Committee, to ensure that all relevant matters are considered before the Remuneration and Nominations Committee makes remuneration recommendation and decisions.

### Independent remuneration advisors

The Committee appoints an external independent advisor to assist it with market and governance issues, benchmarking, best practice observations and general advice.

# Directors' Report

For the year ended 30 June 2022

## Remuneration Philosophy and Principles

The Group's remuneration philosophy is centred on fair compensation for performance and contribution that achieves business outcomes. It aims to balance short-term and long-term incentives appropriately, including encouraging broad based employee ownership in the Group. Importantly, incentives motivate each employee to achieve agreed business objectives which align to long-term business outcomes.

The key drivers of the Group's remuneration philosophy and principles are:

- Promoting staff behaviour that is in the best interest of clients;
- Attracting and retaining outstanding staff;
- Building a culture that rewards performance while maintaining the Group's reputation and mitigating risk; and
- Encouraging staff to think and act like long-term owners of the Group.

Broadly the Group's remuneration arrangements for employees comprise the following components:

- A fixed remuneration amount (inclusive of superannuation);
- A variable incentive which is determined annually and is usually subject to some level of deferred payment; and
- An offer of voluntary participation in the Group's SPP, to encourage long-term ownership in the Group. In February 2022, the Board suspended the SPP indefinitely as it considered it no longer met its intended purposes.

The Committee engages external remuneration advisors from time to time to conduct benchmarking and advice on regulatory and market developments. To ensure independence and avoid conflicts of interest, a remuneration advisor is directly engaged by the Committee's Chairman or upon his/her instruction and reports must be delivered directly to the Chairman. The Committee generally seeks information rather than specific remuneration recommendations within the definition of the Corporations Act 2001 ("the Act"). The recommendations that the Committee makes to the Board are based on its own independent assessment of the advice and information received from various sources, using its experience and having careful regard to the principles and objectives of the remuneration framework, Group performance, shareholder and community expectation and good governance. During the year, no external advisor provided any remuneration recommendations as defined by the Act.

## Performance-Based Variable Remuneration

The Board believes variable incentives should be aimed at areas where employees have a direct influence over the business and the outcomes that are aligned to the best interests of the Group's clients and shareholders. The Board does not believe it is appropriate to use measures such as earnings per share or the share price performance of the Group in determining annual variable remuneration. Such arrangements could misalign the interests of the employee with those of the Group's clients and ultimately be detrimental to the long-term interests of shareholders.

With the exception of Mr Douglass and certain portfolio managers, the variable incentive amount is discretionary and is determined by reference to an employee's individual performance and contribution, and the overall performance of the Group. Other than for Mr Douglass, variable remuneration is not determined on a formulaic basis but is an outcome of an overall performance appraisal process. Variable performance-based remuneration may be in the range of 0-100% of the fixed remuneration amount and can be higher in exceptional circumstances.

The Lead Portfolio Manager for the Group's Global Listed Infrastructure strategy has a variable remuneration arrangement that is directly tied to the net revenues, less certain allocated costs, of the Group's Global Listed Infrastructure business and the performance of the investment strategies for which he has primary responsibility. The Board considers that this arrangement appropriately rewards and aligns his interests with those of the Group's clients and shareholders.

Certain portfolio managers have variable remuneration arrangements that incorporate two components:

- A discretionary component in the range of 0-100% of fixed remuneration or higher in certain circumstances; and
- A performance component in the range of 0-200% of fixed remuneration dependent upon the performance of the investment strategies for which they are responsible, which is generally calculated over a three year period, or a lesser term where a three year period is not available or appropriate.

Variable incentives are paid partly as a current year cash bonus and partly as a conditional deferred cash bonus amount over periods up to three years, dependent upon ongoing employment.

# Directors' Report

For the year ended 30 June 2022

## 2022 Retention Program

As a funds manager, people are fundamental to delivering value for our clients, which in turn delivers shareholder returns. Our view is that retaining our talented people is an investment for our long-term success.

In April 2022, a retention program was introduced as a one-off incentive and is in addition to annual remuneration. The program was designed to retain key talent and skills and ensure leadership continuity for both the renewal and future growth of our business. The program extended to all levels across the business and was an important element in returning stability and simplicity to the business as quickly as possible. As the Group is a very manageable size at approximately 135 employees, each retention offer was able to be thoughtfully considered and tailored to maximise its impact and therefore alignment to all stakeholders. Notwithstanding the highly competitive labour market at present, we are pleased to report that we have continued to experience low turnover up to the date of this report and morale across the business remains good.

Under the retention program, certain staff were offered either a cash retention incentive, employee share options under the Employee Share Option Plan ("options") or both. Providing the employee remains continuously employed at September 2024 and September 2025 and performs to the Group's satisfaction, the full value of the cash incentive will be awarded. For employees who receive a cash retention incentive and have an outstanding loan balance under the SPP, the after-tax cash retention incentive will be automatically applied to reduce the employee's outstanding loan balance. The options were issued for nil consideration and have an exercise price of \$35.00. The options vest on 1 September 2024 providing the employee remains continuously employed at that date. Once vested, the options may be exercised until 16 April 2027 provided the employee remains employed. The options lapse if the employee leaves the Group. The Group issued 8,202,500 employee options to employees under the Employee Share Option Plan ("ESOP") during the year ended 30 June 2022. Further details on the options are included in note 18 of the financial statements.

## Other Equity/Share Plans

### Share Purchase Plan

The Group does not operate a specific long-term incentive plan. Until February this year, the Group offered voluntary participation in the SPP as a means to align employees with shareholders, encourage employees to think and act like business owners and to create value over the longer term. Whilst the SPP provided both employees and Non-Executive Directors ("participants") with the opportunity to acquire a meaningful ownership interest in the Group, the Board suspended the SPP indefinitely from February 2022 as it considered it no longer met its intended purpose of employee retention in the current environment. Notwithstanding this, the Board encourages equity ownership in line with an individual's personal circumstances, to promote alignment with shareholders. The Board does not require any minimum share ownership thresholds.

The Group's SPP involved a subscription for shares by SPP participants at the prevailing market price. The Group provided financial assistance to the SPP participants for up to either 75% or 100% of the subscription value, via a full recourse, interest-free loan, and thus the SPP participant bears the full risks and benefits of being a shareholder. The Board believed the Group was best placed to offer stable financing arrangements to establish and support meaningful ownership as it would be counterproductive to a true long-term ownership position if short-term share price movements were to impact upon an employee's own financing of this loan. In the year ended 30 June 2022, repayments against the full recourse loan comprised dividends paid on associated shares plus 25% (or other amount as permitted by the SPP rules) of the relevant employee's after tax variable performance-based incentive. From April 2022, the Board varied the terms to no longer require a payment to be made from the employee's variable performance-based incentive. As the loan is full recourse, participants are liable to repay the loan irrespective of the performance of the Group's shares. The interest-free component of the full recourse loan provides real value to SPP participants and is expensed by the Group through the Consolidated Statement of Profit or Loss and Comprehensive Income.

Up until the suspension, the Group's SPP was also extended to Non-Executive Directors which allowed Non-Executive Directors to be appropriately invested in the Group at the beginning of their tenure rather than waiting many years to accumulate a meaningful ownership position. The Board held the view that providing full recourse financial assistance to Non-Executive Directors under the SPP did not hinder their independence from management and that an ownership stake that is meaningful but in line with their personal circumstances, promotes independent thought and engagement that will be in the long-term interests of the Group's shareholders. Further details of the SPP are set out in note 10 to the financial statements.

# Directors' Report

For the year ended 30 June 2022

## *Employee Share Options Plan (ESOP)*

Whilst the Group has not granted share options to Directors or employees in the past, the options issued under the ESOP have an exercise price of \$35.00 and a five year term. Consequently, the Board believes this creates alignment between employees and shareholders as employees are incentivised to, and rewarded for, delivering a share price within a reasonable period of time that is at a meaningful premium to the share price at the time of the issue of the options. The Group issued 8,202,500 employee options to employees under the Employee Share Option Plan during the year ended 30 June 2022. Further details on the options are included in note 18 of the financial statements.

## 3.3. Remuneration of Non-Executive Directors

Non-Executive Director remuneration comprises Directors' fees (inclusive of superannuation). Non-Executive Directors do not receive retirement benefits (other than superannuation) or remuneration linked to the performance or earnings of the Group, which ensures the Non-Executive Directors are able to independently and objectively assess both executive and Group performance.

The Board periodically reviews, and determines, the remuneration of Non-Executive Directors. The Board believes Non-Executive Director fees should fairly recognise the Directors' contribution to the work of the Board and the associated Committees on which Directors serve. This is central to ensuring the Board's remuneration policy attracts and retains experienced, high-calibre independent Directors with a broad range of skills and experience particularly during this period of change. In addition, the Board encourages equity ownership by Non-Executive Directors in line with their personal circumstances, to ensure alignment with shareholders. The non-cash expense to the Group of providing the full recourse, interest-free loans under the SPP is described in section 3.2.

The total amount of Non-Executive Director fees is capped at a maximum aggregate fee limit that is approved by shareholders. The current fee limit of MFG is \$750,000, which was approved by shareholders at the AGM on 12 October 2017 and the current fee limit of MAM is \$500,000. In 2022, total Board and Committee fees paid for both MFG and MAM were \$503,000.

Annual Board and Committee fees of both the Group and MAM for the years ended 30 June 2022 and 30 June 2021 is below. These did not change in the year ended 30 June 2022 other than a modest inflationary adjustment. Actual fees paid to the Chairman and Board members in 2022 are provided in section 3.5.

	Position	30 June 2022 \$'000	30 June 2021 \$'000
MFG Board (Group)	Chair	77	72
	Member	77	72
MFG Audit & Risk Committee	Chair	27	26
	Member	11	10
MFG Remunerations & Nominations Committee	Chair	-	-
	Member	-	-
MAM Board	Chair	27	26
	Member	-	-

The Group has reimbursed or borne expenses incurred by the Non-Executive Directors in the discharge of their duties of \$17,000 (June 2021: \$nil).

# Directors' Report

For the year ended 30 June 2022

## 3.4. Remuneration of Executive KMP

Remuneration of current and former Executive KMP comprised fixed remuneration and performance-based remuneration. The summary below provides further details of the different elements of the CEO and Other KMP remuneration structures applicable during the year ended 30 June 2022 along with a summary of exit arrangements.

### CEO Remuneration Structure

Following the resignation of Dr Cairns as CEO on 6 December 2021, Ms Morton was appointed Interim CEO on 6 December 2021 and performed CEO duties while a search for a new CEO was underway.

For the year ended 30 June 2022, the remuneration arrangement of the Interim CEO mirrored that of the former CEO, pro-rated for the period of service. As in prior years, the variable performance-based remuneration of the CEO is based on the performance metrics set by the Board at the outset of each financial year. The performance metrics for the current year are discussed below. Ms Morton adopted the same metrics upon her appointment as Interim CEO as the Board assessed the performance metrics remained appropriate. The Remuneration and Nominations Committee determines, and the Board approves, the variable performance-based incentive to be awarded on an annual basis with regards to the determined performance metrics.

#### Dr Cairns' Remuneration

Component	Detail
<b>Fixed remuneration (including superannuation)</b>	For the year ended 30 June 2022, Dr Cairns' fixed remuneration (inclusive of superannuation) was \$1,639,091.
<b>Variable remuneration structure</b>	<p>Dr Cairns was eligible to receive a variable performance-based incentive of up to 50% of fixed remuneration based on the performance metrics the Board believe are important to the long-term success of the business and over which Dr Cairns has direct influence over the outcome.</p> <p>Dr Cairns' remuneration as CEO was appropriately aligned to the Group's strategy. As previously outlined to shareholders, the key driver of creating shareholder value is servicing and retaining the Group's existing clients and funds the Group manages on behalf of clients by achieving our stated investment objectives. As CEO, Dr Cairns was not responsible for managing client money and, therefore, the Board believe it inappropriate for his incentive to be based on investment performance. Dr Cairns was responsible for ensuring the Group operates to the highest standards and to ensure operational areas that underpin the Group's reputation and confidence of clients in the Group such as compliance, cybersecurity and fund operations are managed appropriately. Further, employees are key to the success of the Group and achievement of the Group's strategy and the ability to foster and retain key talent and protect the Group's cultural values is a priority for the business. For the year ended 30 June 2022, the Board determined the performance metrics and weightings were:</p> <ol style="list-style-type: none"><li>1. Design &amp; Delivery of Strategic Initiatives (25%);</li><li>2. Leadership, People &amp; Culture (25%);</li><li>3. Compliance, Governance &amp; Cybersecurity (25%); and</li><li>4. Operational Effectiveness (25%).</li></ol>
<b>Variable remuneration outcome</b>	Dr Cairns did not receive a bonus for the 2022 financial year.
<b>Exit arrangement</b>	<p>After stepping down from the CEO position effective 6 December 2021, Dr Cairns received a payment in lieu of notice and for his statutory entitlements of accrued annual and long service leave. He was not awarded a performance-based incentive in respect of the period 1 July 2021 to 6 December 2021 as per the Board's discretion. Details of the overall remuneration paid to Dr Cairns is provided in section 3.5.</p> <p>Dr Cairns' existing SPP loan remains on-foot after cessation of his employment and there have been no changes to the terms and conditions of the full recourse loan.</p>

# Directors' Report

For the year ended 30 June 2022

## Ms Morton's Remuneration

Component	Detail
<b>Fixed remuneration (including superannuation)</b>	Ms Morton received a pro-rated salary adjustment for the increase in her role and accountabilities following her appointment as Interim CEO. For the year ended 30 June 2022, Ms Morton's fixed remuneration (inclusive of superannuation) for her dual roles was \$1,157,000 (2021: \$496,000). Effective from 19 July 2022, Ms Morton stepped down as Interim CEO and into the role of Chief Financial Officer & Chief Operating Officer. At that date, Ms Morton's fixed remuneration is \$527,000 per annum.

<b>Variable remuneration structure</b>	<p>As CFO and Interim CEO, Ms Morton is eligible to receive a variable performance-based incentive:</p> <ul style="list-style-type: none"> <li>Interim CEO role: up to 50% of the 2022 CEO's annual fixed remuneration of \$1,639,091, pro-rated for the period 6 December 2021 to 30 June 2022 and subject to the achievement of the performance metrics set by the Board. This equates to a maximum award of \$469,160 for performance that exceeds aggregate performance metrics; and</li> <li>CFO role: up to 100% of the CFO's annual fixed remuneration. For the year ended 30 June 2022 and notwithstanding Ms Morton held dual roles during the year, the maximum variable performance-based incentive as CFO was based on the 2022 CFO's annual fixed remuneration of \$511,400, pro-rated for the period 1 July 2021 to 6 December 2021. This equates to a maximum award of \$218,642.</li> </ul>
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As was the case for Dr Cairns, Ms Morton as Interim CEO, was not responsible for managing client money and therefore the Board believed it was inappropriate for her incentive to be based on investment performance. Having regard to the changing priorities and extraordinarily challenging and dynamic environment during her appointment, it was determined Ms Morton was responsible for ensuring the Group operates to the highest standards. This included servicing clients and ensuring operational areas that underpin the Group's reputation and confidence of clients such as compliance, cybersecurity and fund operations were strongly managed. As the Group is a people business, Ms Morton was also responsible to foster and retain key talent and protect the Group's cultural values to assist with the long-term success of the Group and its achievement of the Group's strategy in the near-term.

<b>Variable remuneration outcome</b>	The below table provides an overview of key achievements and business outcomes delivered by Ms Morton that were considered when determining her variable remuneration as Interim CEO for the period 6 December 2021 to 30 June 2022. Ms Morton's achievements as CFO are summarised separately on the next page.
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Performance Metric and Weighting	FY22 Performance Outcome Against Metric
Leadership, People & Culture (25%)	<ul style="list-style-type: none"> <li>Piloted new culture survey and responsively actioned throughout 2022</li> <li>Lifted employee engagement, internal communication and connection with the Group's values, in a challenging environment</li> <li>Developed, managed and delivered employee retention program in response to Group's needs, together with ongoing retention strategy and additional engagement initiatives</li> <li>Successfully managed the organisational process and related changes around the 2022 announcements of Mr Douglass and Mr George</li> <li>Reviewed and progressed succession planning across the Group</li> <li>Ongoing retention strategy reviewed and additional retention and employee engagement initiatives implemented</li> <li>Implemented effective hybrid working arrangements</li> <li>No regretted departures across Group in 2022</li> </ul>

# Directors' Report

For the year ended 30 June 2022

Component	Detail								
	<table><thead><tr><th>Performance Metric and Weighting</th><th>FY22 Performance Outcome Against Metric</th></tr></thead><tbody><tr><td>Compliance, Governance &amp; Cybersecurity (25%)</td><td><ul style="list-style-type: none"><li>Managed risk and operational considerations pertaining to external announcements and internal business changes from December 2021 onwards, with no material issues</li><li>Actively involved in managing response to client servicing during internal business changes, including establishing and maintaining client relationships</li><li>No significant regulatory issues identified or unresolved in the Group during the period, nor breaches or near-misses</li></ul></td></tr><tr><td>Design &amp; Delivery of Strategic Initiatives (25%)</td><td><ul style="list-style-type: none"><li>Reviewed and implemented simplification initiatives to create capacity to invest in our core business</li><li>Successful divestment of Guzman &amp; Gomez at 36% premium to entry price</li><li>Efficient closure of FuturePay with minimal disruption</li><li>Progressed ESG integration within Group</li></ul></td></tr><tr><td>Operational Effectiveness (25%)</td><td><ul style="list-style-type: none"><li>Strong management and handling of the Group's operations during a challenging period, and adjusting processes and reporting to respond to various internal stakeholders and external requirements, without taking undue risks</li><li>Delivered uninterrupted service to clients with no significant issues.</li></ul></td></tr></tbody></table>	Performance Metric and Weighting	FY22 Performance Outcome Against Metric	Compliance, Governance & Cybersecurity (25%)	<ul style="list-style-type: none"><li>Managed risk and operational considerations pertaining to external announcements and internal business changes from December 2021 onwards, with no material issues</li><li>Actively involved in managing response to client servicing during internal business changes, including establishing and maintaining client relationships</li><li>No significant regulatory issues identified or unresolved in the Group during the period, nor breaches or near-misses</li></ul>	Design & Delivery of Strategic Initiatives (25%)	<ul style="list-style-type: none"><li>Reviewed and implemented simplification initiatives to create capacity to invest in our core business</li><li>Successful divestment of Guzman &amp; Gomez at 36% premium to entry price</li><li>Efficient closure of FuturePay with minimal disruption</li><li>Progressed ESG integration within Group</li></ul>	Operational Effectiveness (25%)	<ul style="list-style-type: none"><li>Strong management and handling of the Group's operations during a challenging period, and adjusting processes and reporting to respond to various internal stakeholders and external requirements, without taking undue risks</li><li>Delivered uninterrupted service to clients with no significant issues.</li></ul>
Performance Metric and Weighting	FY22 Performance Outcome Against Metric								
Compliance, Governance & Cybersecurity (25%)	<ul style="list-style-type: none"><li>Managed risk and operational considerations pertaining to external announcements and internal business changes from December 2021 onwards, with no material issues</li><li>Actively involved in managing response to client servicing during internal business changes, including establishing and maintaining client relationships</li><li>No significant regulatory issues identified or unresolved in the Group during the period, nor breaches or near-misses</li></ul>								
Design & Delivery of Strategic Initiatives (25%)	<ul style="list-style-type: none"><li>Reviewed and implemented simplification initiatives to create capacity to invest in our core business</li><li>Successful divestment of Guzman &amp; Gomez at 36% premium to entry price</li><li>Efficient closure of FuturePay with minimal disruption</li><li>Progressed ESG integration within Group</li></ul>								
Operational Effectiveness (25%)	<ul style="list-style-type: none"><li>Strong management and handling of the Group's operations during a challenging period, and adjusting processes and reporting to respond to various internal stakeholders and external requirements, without taking undue risks</li><li>Delivered uninterrupted service to clients with no significant issues.</li></ul>								

For the year ended 30 June 2022, Ms Morton received a total variable incentive of \$676,870 (2021: \$471,671), representing 59% of Ms Morton's 2022 total fixed remuneration. The amount awarded comprised the maximum 50% for the Interim CEO role and 95% of the maximum 100% for the CFO role, pro-rated for the relevant period as discussed above.

## Mr George's Remuneration

Mr George joined the Group as CEO on 19 July 2022 and consequently is not included within the 2022 Remuneration Report. A summary of the material terms of Mr George's remuneration arrangement was announced to the Australian Securities Exchange on 11 May 2022. The Board will disclose the FY23 performance metrics, along with the respective weightings, for Mr George's performance-based incentive in the FY23 annual report. Mr George's remuneration will align with the the Group strategy, whilst also being designed in a manner that drives both Company and shareholder value creation.

# Directors' Report

For the year ended 30 June 2022

## Mr Douglass' Remuneration Structure

Mr Douglass is Magellan's co-founder. He served as Chairman of the Board up until 7 February 2022 at which he commenced a medical leave of absence and resigned from the role. He subsequently resigned as a Director of the Board on 19 March 2022. He held the role of Chief Investment Officer and Lead Portfolio Manager of Magellan's Global Equities strategies until his resignation from the Company on 15 June 2022.

Component	Detail
<b>Fixed remuneration (including superannuation)</b>	For the year ended 30 June 2022, Mr Douglass' fixed remuneration (inclusive of superannuation) was \$2,731,000.
<b>Variable remuneration structure</b>	<p>Mr Douglass was eligible to receive a variable performance-based incentive of up to 200% of fixed remuneration.</p> <p>The Board believed it was important for Mr Douglass' remuneration to be tied to the performance of the investment strategies under his control and focusing on client outcomes and achieving superior investment returns for clients over the medium to long-term will ultimately be in shareholders' interests. Consequently, Mr Douglass' annual variable incentive was determined in relation to the performance of the Global Equity Strategy over a three-year period, that being the current year and the two preceding years. The three-year performance period emphasised the Group's medium to long-term focus for its investment strategies and the needs of clients. Mr Douglass does not receive any of his variable incentive upfront. Instead, payment is deferred over the subsequent three financial years which is consistent with the medium term focus of Mr Douglass' variable remuneration arrangements.</p> <p>In addition, the Board viewed Mr Douglass' substantial shareholding in the Group, along with his investments in the Group's investment strategies, as creating strong alignment with clients and shareholders.</p>
<b>Variable remuneration outcome</b>	<p>The Board determined the performance metrics and underlying quantitative measures that applied for Mr Douglass' variable remuneration for the year ended 30 June 2022. These metrics were unchanged from the prior year. In respect of the year ended 30 June 2022, Mr Douglass was entitled to a variable performance-based incentive, however upon mutual agreement between the Board and Mr Douglass, no variable performance-based remuneration was awarded (June 2021: \$4,007,000).</p> <p>Mr Douglass' entitlement to variable incentive amounts is dependent on him being employed by the Group at the time of payment and, where relevant, is also subject to the termination arrangements described in Section 3.6.</p>
<b>Exit arrangement</b>	<p>Notwithstanding Mr Douglass resigned on 15 June 2022 and had a 12 month written notice period, the Board and Mr Douglass agreed this notice would be served over the period of 7 February 2022 to 6 February 2023 ("agreed notice period"). The total amount paid and payable to Mr Douglass upon his resignation was \$2,499,000 which comprised a payment in lieu of notice to 6 February 2023 and unpaid deferred cash bonuses earned in prior periods (to which he was entitled over the period to 6 February 2023). Mr Douglass also received his statutory entitlements of accrued annual and long service leave. Details of the overall remuneration paid to Mr Douglass are provided in section 3.5.</p> <p>No performance-based incentive was paid or payable to him in respect of the 2022 financial year. Mr Douglass forfeited \$1,868,361 of unpaid deferred cash bonuses arising in respect of prior periods, but only payable to him at dates beyond the end of the agreed notice period on 6 February 2023.</p>

Following Mr Douglass' resignation from the Group on 15 June 2022, Mr Douglass entered into a consultancy agreement with MAM effective from 1 October 2022 to provide geopolitical and macroeconomic investment insights to the Group.

# Directors' Report

For the year ended 30 June 2022

## Remuneration Structure for Other KMP

Fixed remuneration is structured as a total employment cost package, which may be received as a combination of cash, non-cash benefits and superannuation contributions. Fixed remuneration for Other KMP is reviewed annually to ensure that it is competitive and reasonable. However, there are no guaranteed increases to the fixed remuneration amount.

When considering variable remuneration, the Board's primary objective is that KMP are motivated to achieve high performance over areas where they have direct influence, while maintaining the Group's reputation and mitigating risk. The core of the Group's culture is to put our clients first. If these objectives are met, the interests of shareholders will also be satisfied.

The CEO and Chairman determine the amount of variable incentive to be paid to Other KMP, subject to review and approval of overall amounts by the Remuneration and Nominations Committee, taking into consideration each individual's performance and contribution during the year. The variable performance-based incentive of Other KMP is discretionary and may be in the range of 0 to 100% of fixed remuneration (higher in exceptional circumstances) and comprises a cash bonus amount and a conditional deferred cash bonus payable over periods up to three years. Entitlement to the deferred cash bonus is dependent on Other KMP being employed by the Group at the time of payment.

Additionally, the Group may require KMP to act as a Director of a subsidiary of the Group or associate of the Group for no additional remuneration.

# Directors' Report

For the year ended 30 June 2022

## Summary of 2022 Variable Remuneration Outcomes

### Variable Performance-Based Remuneration Outcomes for 2022

The table below outlines the variable remuneration outcomes (as a % of fixed remuneration) for current and former Executive KMP who were employed during the 2022 financial year, along with an overview of key achievements delivered that were considered when determining their variable remuneration for the year.

KMP	Variable remuneration outcome	Comments
Hamish Douglass	0%	<ul style="list-style-type: none"><li>Mr Douglass and the Board mutually agreed to award no performance-based incentive in 2022.</li></ul>
Brett Cairns	0%	<ul style="list-style-type: none"><li>No performance-based incentive awarded as per the Board's discretion.</li></ul>
Kirsten Morton	59%	<ul style="list-style-type: none"><li>In relation to the Interim CEO role - refer to achievements of the performance metrics relating to the long term success of the business and the Group's operations over which Ms Morton has direct influence as outlined in section 3.4.</li><li>In relation to the CFO role -<ul style="list-style-type: none"><li>Efficiently adapted processes, controls and reporting across finance and investment operations to respond to business needs following internal changes, with no increase in risk and no near misses</li><li>Implemented further expense discipline and optimal allocation of resources to the Group's highest priorities, notably in second half of 2022</li><li>Further progressed succession and key person risk management across operations team. The effectiveness of role readiness planning and testing was shown through the seamless step change in role by the Deputy CFO following Ms Morton's appointment to Interim CEO</li><li>Maintained sound relationships with tax regulators throughout assurance tax reviews in 2022 and outcomes were within risk tolerance.</li></ul></li></ul>
Marcia Venegas	76%	<ul style="list-style-type: none"><li>Delivered strong company secretarial support and senior leadership throughout challenging period</li><li>Successfully implemented technology solutions streamlining management of regulatory changes and client information requests</li><li>Strong management of elevated level of investor inquiries following internal changes in 2022 financial year</li><li>Strong oversight in identification, management and governance of non-financial risk against backdrop of internal changes, with no material issues</li><li>Implemented enhanced framework for assessing and addressing modern slavery risks in the Group's operations, with no material issues identified</li><li>Regular and constructive engagement with regulators and industry bodies.</li></ul>
Craig Wright	55%	<ul style="list-style-type: none"><li>Managed the sale of Magellan's investment in Guzman y Gomez (Holdings) Limited for a 36% premium to its initial investment</li><li>Crisis management planning and response implementation</li><li>Strongly led stakeholder outreach program in a year of change</li><li>Strong management of elevated level of shareholder inquiries following internal changes in 2022 financial year</li><li>Delivered the successful migration of the Group's corporate IT network and infrastructure to a new cloud hosting environment, with no business disruption</li><li>Project managed the development and implementation of various capital management initiatives</li><li>Oversees Magellan's involvement in the Group's UCITS investment company based in Ireland and co-mingled private fund in respect of the High Conviction investment strategy during a period of change.</li></ul>

# Directors' Report

For the year ended 30 June 2022

## Components of 2022 Variable Performance-Based Remuneration

The table below provides a summary of variable remuneration outcomes for current and former KMP for the years ended 30 June 2022 and 30 June 2021. The table outlines the portion of performance-based variable remuneration awarded for each financial year that is paid in cash and the portion that is deferred over subsequent financial years, along with the retention incentives offered under the 2022 retention program.

Details of the remuneration paid to former Executive Directors and Other KMP is provided in section 3.5. Details of the employment agreements of Executive Directors and Other KMP are described in section 3.6.

		Performance-based			Retention			
		Cash bonus	Conditional deferred cash bonus	Total performance-based remuneration awarded	Fixed remuneration (incl. super)	Performance-based remuneration as % of fixed remuneration	Cash incentive	Options
		\$'000 <sup>1</sup>	\$'000 <sup>2</sup>	\$'000	\$'000	%	\$'000 <sup>3</sup>	\$'000 <sup>4</sup>
<b>Group Executives (Other KMP)</b>								
Kirsten	2022	100	577	677	1,157	59%	400	113
Morton	2021	333	139	472	496	95%	-	-
Marcia	2022	100	245	345	455	76%	230	113
Venegas	2021	314	128	442	442	100%	-	-
Craig	2022	100	150	250	455	55%	60	113
Wright	2021	385	167	553	442	125%	-	-
<b>Former Executive Directors</b>								
Brett	2022	-	-	-	709	0%	-	-
Cairns <sup>5</sup>	2021	773	-	773	1,545	50%	-	-
Hamish	2022	-	-	-	2,618	0%	-	-
Douglass <sup>6</sup>	2021	-	4,007	4,007	2,500	160%	-	-
<b>Total KMP</b>	<b>2022</b>	<b>300</b>	<b>972</b>	<b>1,272</b>	<b>5,395</b>		<b>690</b>	<b>340</b>
	2021	1,804	4,441	6,246	5,425		-	-

<sup>1</sup> Cash bonus represents the portion of Other KMP's awarded variable remuneration that is payable in September post the release of the Group's Annual Report.

<sup>2</sup> Conditional deferred cash bonus represents the portion of Other KMP's awarded variable remuneration for the financial year that is deferred and is paid in cash in future financial years, subject to continued employment with the Group.

<sup>3</sup> Retention incentives awarded to Other KMP in the 2022 financial year as part of a broader employee retention program will be payable in cash in September 2024 and September 2025, subject to performance and continued employment with the Group. Where Other KMP have an outstanding SPP loan, the cash retention incentive will firstly be directed to repayment of the loan balance.

<sup>4</sup> Share options awarded to Other KMP in the 2022 financial year as part of a broader employee retention program are exercisable from 1 September 2024 at an exercise price of \$35.00 per option, subject to continued employment with the Group. The value of the share options was independently determined at grant date.

<sup>5</sup> Dr Cairns' remuneration for the year ended 30 June 2022 is shown for the period 1 July 2021 to 6 December 2021.

<sup>6</sup> Mr Douglass' remuneration for the year ended 30 June 2022 is shown for the period 1 July 2021 to 15 June 2022. Although Mr Douglass ceased to be a KMP on 19 March 2022, his remuneration for the entire period of employment is included for purposes of transparency.

# Directors' Report

For the year ended 30 June 2022

## 3.5. Details of Remuneration

The total amount paid or payable to KMP of the Group is detailed below:

		Short-term benefits				Total cash remuneration	Long-term benefits				Total statutory remuneration
		Salary	Cash bonus	Conditional deferred cash bonus paid	Superannuation		Annual and long service leave	Retention incentives	Termination benefits	Other benefits	
		\$'000	\$'000 <sup>1</sup>	\$'000 <sup>2</sup>	\$'000		\$'000 <sup>3</sup>	\$'000 <sup>4</sup>	\$'000 <sup>5</sup>	\$'000 <sup>6</sup>	
<b>Non-Executive Directors</b>											
Hamish	2022	79	-	-	8	87	-	-	-	22	110
McLennan	2021	75	-	-	7	82	-	-	-	27	109
Robert	2022	131	-	-	-	131	-	-	-	11	142
Fraser	2021	124	-	-	-	124	-	-	-	16	140
John	2022	79	-	-	8	87	-	-	-	26	113
Eales	2021	75	-	-	7	82	-	-	-	29	112
Colette	2022	79	-	-	8	87	-	-	-	9	96
Garnsey	2021	44	-	-	4	48	-	-	-	-	48
Karen	2022	79	-	-	8	87	-	-	-	9	96
Phin	2021	75	-	-	7	82	-	-	-	13	96
Paul	2022	22	-	-	-	22	-	-	-	-	22
Lewis <sup>9</sup>	2021	82	-	-	-	82	-	-	-	-	82
<b>Group Executives (Other KMP)</b>											
Kirsten	2022	1,133	286	46	24	1,489	46	46	-	7	1,588
Morton <sup>10</sup>	2021	465	333	-	22	820	40	-	-	5	864
Marcia	2022	432	175	43	24	673	17	31	-	8	730
Venegas	2021	412	314	-	22	747	51	-	-	7	805
Craig	2022	432	126	56	24	637	29	18	-	8	691
Wright	2021	412	385	-	22	819	9	-	-	5	833
<b>Former Executive Directors</b>											
Brett	2022	692	-	-	18	709	50	-	404	685	1,848
Cairns <sup>11</sup>	2021	1,523	773	-	22	2,318	60	-	-	145	2,523
Hamish	2022	2,595	-	2,844	24	5,463	126	-	2,499	-	8,087
Douglass <sup>12</sup>	2021	2,478	-	2,721	22	5,221	136	-	-	-	5,357
<b>Total KMP</b>	<b>2022</b>	<b>5,754</b>	<b>587</b>	<b>2,989</b>	<b>144</b>	<b>9,474</b>	<b>267</b>	<b>94</b>	<b>2,903</b>	<b>785</b>	<b>13,523</b>
	<b>2021</b>	<b>5,766</b>	<b>1,804</b>	<b>2,721</b>	<b>134</b>	<b>10,426</b>	<b>296</b>	<b>-</b>	<b>-</b>	<b>247</b>	<b>10,969</b>

<sup>1</sup> The cash bonus amount reflects the portion of Other KMP's awarded variable remuneration that is paid in cash post the release of the Group's Annual Report. For the year ended 30 June 2022, the amount shown is the cash bonus payable in September along with the portion of the conditional deferred cash bonus that each Other KMP has become entitled to up to the date of this report.

<sup>2</sup> The conditional deferred cash bonus paid reflects the deferred components of prior years' bonuses which have been paid in cash during the current financial year. With the exception of Mr Douglass, deferred cash bonuses in respect of financial year 2020 were brought forward in response to Covid-related remuneration changes. As a result, there were no conditional deferred cash bonuses paid in 2021.

<sup>3</sup> The total cash remuneration represents the cash amounts actually received by the Group KMP, as distinct from the accounting expense. As a result, it does not align to Australian Accounting Standards.

<sup>4</sup> Comprises annual leave and long service leave entitlements accrued and not taken during the year.

<sup>5</sup> Comprises the portion of the retention incentives accrued as an employee expense during the financial year. Included in the amount for each Other KMP is \$12,000 of share-based payment expense recognised in respect of options granted in 2022. Refer to note 18 of the financial statements for further information.

<sup>6</sup> Represents payments made to employees who have resigned in the period.

<sup>7</sup> Other benefits represent the non-cash cost of providing interest-free loans to Participants in the SPP (refer to further details at section 3.2). At the time of Dr Cairns' resignation, the remaining balance of unrecognised interest on his SPP loan at 6 December 2022 totalling \$685,000 has been reflected as non-cash remuneration.

<sup>8</sup> No non-monetary benefits or other short-term benefits not otherwise disclosed above were paid during the years ended 30 June 2022 and 30 June 2021.

<sup>9</sup> Mr Lewis' remuneration covers the period 1 July 2021 to 30 September 2021, being the date of his retirement from the Board.

<sup>10</sup> Ms Morton's salary for the year ended 30 June 2022 reflects her dual role as Interim CEO and Chief Financial Officer from 6 December 2021.

<sup>11</sup> Dr Cairns' remuneration covers the period 1 July 2021 to 6 December 2021, being the date of his resignation.

<sup>12</sup> Mr Douglass' remuneration covers the period 1 July 2021 to 15 June 2022. Although Mr Douglass ceased to be a KMP on 19 March 2022, his remuneration for the entire period of employment up until his resignation on 15 June 2022 is included for purposes of transparency.

# Directors' Report

For the year ended 30 June 2022

## 3.6. KMP Employment Agreements

Remuneration and other terms of employment for the Executive Directors and Other KMP are formalised in employment agreements with MAM, a controlled entity of the Group. The key contractual details for current and former Executive KMP who are or were employed during the year ended 30 June 2022 are summarised below.

### Hamish Douglass, former Chairman and CIO

Mr Douglass was employed from 1 March 2008 until his resignation on 15 June 2022.

#### *Fixed and variable remuneration*

Mr Douglass was entitled to fixed and variable remuneration as outlined in Section 3.4.

#### *Shareholding requirement*

Mr Douglass' contract does not specify a shareholding ownership requirement. However as one of the founders of the business Mr Douglass and his associates held 22,212,727 ordinary shares (2021: 22,212,727 ordinary shares) up until 15 June 2022.

#### *Termination arrangements*

Termination with cause: The contract provided the Board with the ability to immediately terminate Mr Douglass' employment agreement with cause. Under those circumstances, Mr Douglass would be entitled to be paid the statutory requirements of any accrued fixed remuneration (e.g. accrued base salary and superannuation) and accrued leave entitlements (e.g. annual and long service leave) at the termination date, after set-off of any loss suffered by the Group from the acts of Mr Douglass which led to his termination.

Termination without cause: Either the Board or Mr Douglass had the ability to terminate Mr Douglass' employment contract at any time by providing not less than 12 months' written notice. Under those circumstances, Mr Douglass would be entitled to be paid the statutory requirements of any accrued fixed remuneration (e.g. accrued base salary and superannuation), accrued leave entitlements (e.g. annual and long service leave) at the termination date, unpaid deferred bonuses earned in prior years and payable during the written notice and any other amounts approved by the Board in its absolute discretion subject to all applicable laws and regulations.

- termination due to death or incapacity: In addition to the statutory requirements of any accrued fixed remuneration (e.g. accrued base salary and superannuation) and accrued leave entitlements (e.g. annual and long service leave) at the termination date, Mr Douglass would be paid any outstanding variable remuneration attributable to any previous financial year; and
- a pro-rata variable remuneration component for the period from 1 July of that year to the termination date.

## CEO

	Length of employment agreement	Notice period provided by executive	Notice period provided by Company
Kirsten Morton <sup>1</sup>	Ongoing	3 months	3 months
Brett Cairns	Ceased employment on 6 December 2021	3 months	3 months

<sup>1</sup> Following the commencement of Mr David George on 19 July 2022, Ms Morton stepped down as Interim CEO.

In the event of termination, the termination payment comprises any accrued fixed compensation, including superannuation, after set-off of any loss suffered by the Group from the acts of the CEO which led to his termination; and any amounts of accrued annual and long service leave.

Under their respective employment agreements, both Dr Cairns and Ms Morton are restrained from soliciting employees and clients of MAM or any related company of MAM for a period of six months after termination of employment.

### Group Executives (Other KMP)

Other KMP have rolling employment contracts with MAM. MAM may terminate the contracts at any time by giving up to three months written notice or providing payment in lieu of that notice, or at any time without notice if serious misconduct has occurred. Other KMP may terminate the contract at any time by giving up to three months' written notice. In the event of the termination, their termination payment comprises any accrued fixed compensation, including superannuation, after set-off of any loss suffered by MAM from the acts of that the KMP which led to their termination; and any amounts of accrued annual and long service leave.

On termination, any KMP with an outstanding SPP loan balance is required to repay the amount in respect of shares acquired under the Group's SPP in accordance with the SPP terms and conditions.

# Directors' Report

For the year ended 30 June 2022

## 3.7. Shareholdings

The number of ordinary shares and options over ordinary shares held during the year by each KMP is set out below:

	Closing balance 30 June 2020	Net additions/ (disposals)	Closing balance 30 June 2021	Net additions/ (disposals)	Closing balance 30 June 2022
<b>Non-Executive Directors</b>					
John Eales					
Ordinary shares	77,616	-	77,616	3,238	80,854
MFG 2027 Options <sup>1</sup>	-	-	-	10,112	10,112
Robert Fraser					
Ordinary shares	599,109	(99,109)	500,000	-	500,000
MFG 2027 Options <sup>1</sup>	-	-	-	62,502	62,502
Colette Garnsey <sup>2</sup>					
Ordinary shares	-	2,030	2,030	28,710	30,740
MFG 2027 Options <sup>1</sup>	-	-	-	3,843	3,843
Paul Lewis <sup>3</sup>					
Ordinary shares	1,500,000	(150,000)	1,350,000	-	1,350,000
Hamish McLennan					
Ordinary shares	105,248	-	105,248	-	105,248
MFG 2027 Options <sup>1</sup>	-	-	-	13,157	13,157
Karen Phin					
Ordinary shares	89,312	-	89,312	257	89,569
MFG 2027 Options <sup>1</sup>	-	-	-	11,197	11,197
<b>Group Executives (Other KMP)</b>					
Kirsten Morton					
Ordinary shares	18,896	6,748	25,644	-	25,644
MFG 2027 Options <sup>1</sup>	-	-	-	3,206	3,206
ESOP issued options <sup>4</sup>	-	-	-	75,000	75,000
Marcia Venegas					
Ordinary shares	4,694	8,308	13,002	1,735	14,737
MFG 2027 Options <sup>1</sup>	-	-	-	1,843	1,843
ESOP issued options <sup>4</sup>	-	-	-	75,000	75,000
Craig Wright					
Ordinary shares	18,896	5,836	24,732	(17,896)	6,836
MFG 2027 Options <sup>1</sup>	-	-	-	855	855
ESOP issued options <sup>4</sup>	-	-	-	75,000	75,000
<b>Former Executive Directors</b>					
Brett Cairns <sup>5</sup>					
Ordinary shares	1,137,615	13,000	1,150,615	27,709	1,178,324
Hamish Douglass <sup>6</sup>					
Ordinary shares	22,212,727	-	22,212,727	-	22,212,727

<sup>1</sup> MFG 2027 Options issued 14 April 2022.

<sup>2</sup> Ms Garnsey was appointed as a Director on 30 November 2020 and the balance as at 30 June 2020 represents the number of ordinary shares held by her and her associates as at the date of her appointment.

<sup>3</sup> The balance as at 30 June 2022 represents the number of ordinary shares and options held by Mr Lewis and his associates at 30 September 2021, being the date of his retirement from the Board.

<sup>4</sup> Share options awarded to Group Executives in the 2022 financial year are exercisable from 1 September 2024 at an exercise price of \$35.00 per option, subject to continued employment with the Group. The share options expire on 16 April 2027. The fair value per option was \$1.512 at grant date. Refer to note 18 of the financial statements for further information.

<sup>5</sup> The balance as at 30 June 2022 represents the number of ordinary shares and options held by Dr Cairns and his associates at 6 December 2021, being his resignation date.

<sup>6</sup> The balance as at 30 June 2022 represents the number of ordinary shares and options held by Mr Douglass and his associates at 19 March 2022, being the date he ceased to be a KMP.

# Directors' Report

For the year ended 30 June 2022

## 3.8. Unitholdings in Magellan Funds

The number of units held during the year by each KMP in funds managed by the Group, is set out below:

	Closing balance 30 June 2020	Net additions/ (disposals) <sup>1</sup>	Closing balance 30 June 2021	Net additions/ (disposals) <sup>1</sup>	Closing balance 30 June 2022 <sup>2</sup>
<b>Magellan Global Fund - Open Class Units<sup>3</sup></b>					
Hamish Douglass <sup>4</sup>	2,257,577	1,163,549	3,421,126	70,592	3,491,718
Brett Cairns <sup>5</sup>	-	70,416	70,416	1,335	71,751
Paul Lewis <sup>6</sup>	581,324	31,696	613,020	10,436	623,456
Marcia Venegas	-	5,545	5,545	207	5,752
<b>Magellan Global Fund - Closed Class Units<sup>7</sup></b>					
Hamish Douglass <sup>4</sup>	-	21,869,659	21,869,659	414,898	22,284,557
Brett Cairns <sup>5</sup>	-	142,270	142,270	274	142,544
John Eales	-	388,435	388,435	7,961	396,396
Robert Fraser	-	260,893	260,893	5,348	266,241
Paul Lewis <sup>6</sup>	-	1,048,196	1,048,196	-	1,048,196
Hamish McLennan	-	115,655	115,655	2,371	118,026
Karen Phin	-	115,909	115,909	2,376	118,285
Kirsten Morton	-	45,674	45,674	936	46,610
Marcia Venegas	-	93,390	93,390	315	93,705
Craig Wright	-	69,791	69,791	1,431	71,222
<b>MGF Options expiring 1 March 2024<sup>8</sup></b>					
Hamish Douglass <sup>4</sup>	-	12,829,522	12,829,522	-	12,829,522
Brett Cairns <sup>5</sup>	-	96,598	96,598	-	96,598
John Eales	-	235,377	235,377	-	235,377
Robert Fraser	-	158,092	158,092	-	158,092
Paul Lewis <sup>6</sup>	-	696,197	696,197	-	696,197
Hamish McLennan	-	70,083	70,083	-	70,083
Karen Phin	-	70,237	70,237	-	70,237
Kirsten Morton	-	26,702	26,702	-	26,702
Marcia Venegas	-	11,394	11,394	-	11,394
Craig Wright	-	42,291	42,291	-	42,291
<b>Magellan High Conviction Trust</b>					
Hamish Douglass <sup>4</sup>	14,294,964	1,438,079	15,733,043	422,247	16,155,290
Brett Cairns <sup>5</sup>	181,594	5,607	187,201	2,558	189,759
John Eales	218,196	6,738	224,934	6,078	231,012
Robert Fraser	252,566	7,797	260,363	7,035	267,398
Paul Lewis <sup>6</sup>	1,485,530	10,523	1,496,053	35,000	1,531,053
Hamish McLennan	36,319	1,121	37,440	1,012	38,452
Karen Phin	120,471	2,243	122,714	2,023	124,737
Kirsten Morton	21,791	673	22,464	607	23,071
Marcia Venegas	3,632	88,431	92,063	101	92,164
Craig Wright	72,638	2,243	74,881	(74,881)	-
<b>Magellan Global Equities Fund (Currency Hedged)</b>					
Hamish Douglass <sup>4</sup>	520,118	366	520,484	-	520,484
Brett Cairns <sup>5</sup>	10,881	615	11,496	203	11,699
<b>Magellan Infrastructure Fund (Currency Hedged)</b>					
Marcia Venegas	3,661	174	3,835	155	3,990

# Directors' Report

For the year ended 30 June 2022

	Closing balance 30 June 2020	Net additions/ (disposals) <sup>1</sup>	Closing balance 30 June 2021	Net additions/ (disposals) <sup>1</sup>	Closing balance 30 June 2022 <sup>2</sup>
<b>Magellan Infrastructure Fund</b>					
Hamish Douglass <sup>4</sup>	101,174	-	101,174	-	101,174
Paul Lewis <sup>6</sup>	441,835	918,376	1,360,211	76,185	1,436,396
<b>Magellan High Conviction Fund<sup>9</sup></b>					
Hamish Douglass <sup>4</sup>	3,382,101	89,853	3,471,954	54,324	3,526,278
Paul Lewis <sup>6</sup>	-	889,714	889,714	11,754	901,468
Craig Wright	39,542	(39,542)	-	-	-
<b>Airlie Australian Share Fund</b>					
Brett Cairns <sup>5</sup>	20,000	989	20,989	335	21,324
John Eales	-	16,685	16,685	-	16,685
Paul Lewis <sup>6</sup>	-	415,755	415,755	6,629	422,384
Karen Phin	19,049	-	19,049	-	19,049
Craig Wright	-	-	-	30,050	30,050
<b>Magellan FuturePay</b>					
Brett Cairns <sup>5</sup>	-	20,000	20,000	140	20,140
Karen Phin	-	-	-	33,653	33,653

<sup>1</sup> Includes the reinvestment of June and December distributions in the years ended 30 June 2020 and 30 June 2021 respectively.

<sup>2</sup> In addition to the above holdings, Mr Douglass selected the Magellan Global Fund product via his employer superannuation account and had holdings of 480,824 units at a value of \$1,154,217 as at 19 March 2022 when he ceased to be a KMP (June 2021: 474,987 units at a value of \$1,197,014).

<sup>3</sup> As a result of the restructure of the retail global equity funds completed in December 2020, KMP's interests in Magellan Global Equities Fund and Magellan Global Trust were acquired by the Magellan Global Fund by way of two trust schemes. KMP were issued Open Class Units and Closed Class Units in the Magellan Global Fund respectively on the same terms as the other members of the funds.

<sup>4</sup> Mr Douglass ceased to be a KMP on 19 March 2022 and the balance as at 30 June 2022 represents the number of units held by Mr Douglass and his associates as at 19 March 2022.

<sup>5</sup> Dr Cairns resigned on 6 December 2021 and the balance as at 30 June 2022 represents the number of units held by Dr Cairns and his associates as at 6 December 2021.

<sup>6</sup> Mr Lewis resigned as a Director on 30 September 2021 and the balance as at 30 June 2022 represents the number of units held by Mr Lewis and his associates as at 30 September 2021.

<sup>7</sup> As a result of the restructure of the retail global equity funds completed in December 2020, KMP's interests in Magellan Global Equities Fund and Magellan Global Trust were acquired by the Magellan Global Fund by way of two trust schemes. KMP were issued Open Class Units and Closed Class Units in the Magellan Global Fund respectively on the same terms as the other members of the funds. If KMP were eligible and participated in the Magellan Global Fund Partnership Offer in the year ended 30 June 2021, additions include units issued under that offer on 1 March 2021 at \$1.7383 per new unit. These units were issued on the same terms as other investors in the Partnership Offer.

<sup>8</sup> If KMP were eligible and participated in the Magellan Global Fund Partnership Offer and Bonus MGF Option Issue, in the year ended 30 June 2021 additions include MGF Options issued under these offers. These MGF Options were issued on the same terms as other investors in the Partnership Offer and Bonus MGF Option Issue.

<sup>9</sup> Includes Class A and Class B units of the Magellan High Conviction Fund.

Unless specified above, no other KMP held units in Magellan Funds.

# Directors' Report

For the year ended 30 June 2022

## 3.9. Loans to KMP

The Group has made full recourse interest-free loans to Non-Executive Directors and Other KMP in connection with shares acquired under the Group's SPP. As at 30 June 2022, six KMP held a loan (June 2021: eight). The terms and conditions of the loans, including repayment terms, are disclosed in note 10 of the financial statements. There are no other related party transactions with KMP other than those disclosed.

		SPP shares acquired during year	Opening loan balance	Loans made	Loans (repaid)	Closing loan balance	
		number	\$'000	\$'000	\$'000	\$'000	
						Face value <sup>1</sup>	Carrying value <sup>2</sup>
<b>Directors</b>							
Hamish McLennan	2022	-	541	-	(143)	398	323
	2021	-	681	-	(140)	541	483
Robert Fraser	2022	-	138	-	(138)	-	-
	2021	-	352	-	(214)	138	136
John Eales	2022	-	663	-	(120)	543	401
	2021	-	780	-	(117)	663	563
Colette Garnsey	2022	28,710	-	750	(32)	718	538
Karen Phin	2022	-	114	-	(114)	-	-
	2021	-	291	-	(177)	114	112
<b>Group Executives (Other KMP)</b>							
Kirsten Morton	2022	-	327	-	(15)	312	247
	2021	6,748	-	330	(3)	327	246
Marcia Venegas	2022	-	341	-	(57)	284	215
	2021	5,367	49	300	(8)	341	264
Craig Wright	2022	-	297	-	(13)	283	186
	2021	5,836	-	300	(3)	297	222
<b>Former Executive Director</b>							
Brett Cairns	2022	-	4,678	-	(641)	4,038	3,676
	2021	-	4,904	-	(226)	4,678	3,816

<sup>1</sup> The face value represents the loan balance due to be repaid to the Company.

<sup>2</sup> The carrying value represents the loan balance as required by the accounting standards (for further detail, refer to note 10 of the financial statements).

# Directors' Report

For the year ended 30 June 2022

## 3.10. Link Between Performance and Remuneration Paid by the Group

		2022	2021	2020	2019	2018
<b>Group Results</b>						
Total revenue	\$'000	553,530	715,012	693,952	617,387	452,598
Total expenses	\$'000	116,582	336,048	178,874	124,050	181,988
Net profit after tax	\$'000	383,011	265,156	396,214	376,947	211,791
Adjusted revenue <sup>1</sup>	\$'000	647,251	699,072	692,941	577,251	452,598
Adjusted expenses <sup>1</sup>	\$'000	132,082	111,339	119,751	104,024	101,010
Adjusted net profit before associates <sup>1</sup>	\$'000	393,132	454,441	438,299	364,225	268,897
Adjusted net profit after tax <sup>1</sup>	\$'000	399,733	412,659	438,299	364,225	268,897
<b>Funds Management Business</b>						
Net profit before tax	\$'000	482,047	556,690	558,012	459,789	331,430
Net profit before tax and performance fees	\$'000	470,575	526,616	477,048	376,182	291,841
<b>Shareholder Value</b>						
Diluted EPS	cps	206.9	144.6	218.3	213.1	122.0
Adjusted diluted EPS <sup>1</sup>	cps	215.9	225.0	241.5	205.9	154.9
Total dividends paid	cps	179.0	211.2	214.9	185.2	134.5
Closing share price (ASX code: MFG) <sup>2</sup>	\$	12.92	53.86	58.01	51.00	23.30
<b>KMP Remuneration</b>						
Total KMP remuneration: <sup>3</sup>						
Fixed compensation <sup>4</sup>	\$'000	6,165	6,197	6,052	5,568	8,782
Variable compensation <sup>5</sup>	\$'000	7,358	4,772	5,164	3,153	4,448
		13,523	10,969	11,217	8,721	13,231
Number of KMP for the year		11	11	10	10	12
<b>Growth rates</b>						
Net profit after tax	%	44%	-33%	5%	78%	8%
Adjusted net profit after tax	%	-3%	-6%	20%	35%	37%
FM net profit before tax	%	-13%	0%	21%	39%	33%
FM net profit before tax and performance fees	%	-11%	10%	27%	29%	29%
Diluted EPS	%	43%	-34%	2%	75%	7%
Adjusted diluted EPS	%	-4%	-7%	17%	33%	36%
Total KMP remuneration <sup>6</sup>	%	23%	-2%	29%	-34%	30%
Dividends paid	%	-15%	-2%	16%	38%	57%
Total KMP remuneration as % of net profit after tax	%	4%	4%	3%	2%	6%

<sup>1</sup> Adjustments are made for strategic, non-recurring, non-cash or unrealised items to provide additional meaningful information (refer to section 1.4.1 of the Directors' Report and note 2 in the financial statements for the breakdown of these items).

<sup>2</sup> As at 30 June.

<sup>3</sup> As reported in historical Annual Reports and has not been adjusted for changes to KMP. For the year ended 30 June 2022, total remuneration includes termination benefits of \$2.9 million which were paid to Mr Douglass.

<sup>4</sup> Fixed compensation comprises salary, superannuation and leave benefits outlined in section 3.5.

<sup>5</sup> Variable compensation comprises cash bonuses, retention incentives, termination benefits and other benefits outlined in section 3.5.

<sup>6</sup> Excluding termination benefits paid to Mr Douglass of \$2.9 million during the year ended 30 June 2022, Total KMP remuneration increased 0.5% for the year ended 30 June 2022.

# Directors' Report

For the year ended 30 June 2022

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



**Hamish McLennan**  
Chairman

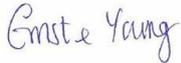
Sydney  
17 August 2022

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

As lead auditor for the audit of the financial report of Magellan Financial Group Limited for the financial year ended 30 June 2022, 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 audit;
- b) No contraventions of any applicable code of professional conduct in relation to the audit; and
- c) No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

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



Ernst & Young



Clare Sporle  
Partner  
17 August 2022

# Consolidated Statement of Profit or Loss and Comprehensive Income

For the year ended 30 June

	Note	2022 \$'000	2021 \$'000
<b>Revenue</b>			
Management fees	4	588,594	631,367
Performance fees	4	11,472	30,074
Services fees	4	4,040	4,040
Advisory fees		1,536	1,632
Dividend and distribution income		17,600	15,122
Interest income		422	1,766
Net change in the fair value of financial assets and liabilities:			
Realised		19,353	19,917
Unrealised		(92,937)	15,940
Net foreign exchange gain/(loss)		3,450	(4,846)
<b>Total revenue and other income</b>		<b>553,530</b>	<b>715,012</b>
<b>Expenses</b>			
Employee expenses		88,654	70,513
Non-Executive Director fees		503	505
Fund administration and operational costs		20,642	19,810
Information, technology and data		8,183	7,147
Marketing		2,349	1,620
Professional services fees		4,366	3,068
Travel and entertainment		924	347
Depreciation and amortisation		7,142	7,071
Foreign and withholding taxes		351	416
Expenses/(benefits) related to strategic initiatives	2	(22,592)	220,161
Finance costs		2,227	2,768
Other expenses		3,833	2,622
<b>Total expenses</b>		<b>116,582</b>	<b>336,048</b>
Share of after tax profit/(loss) of associates	8	8,381	(41,721)
Net gain on dilution of interests in associates	8	17,002	-
Net gain on disposal of interests in associates	8	33,655	-
<b>Net profit before tax</b>		<b>495,986</b>	<b>337,243</b>
Income tax expense	5	(112,975)	(72,087)
<b>Net profit after tax</b>		<b>383,011</b>	<b>265,156</b>
<b>Other comprehensive income for the year</b>			
Exchange differences on translation of foreign operations		3,344	(3,484)
<b>Other comprehensive income for the year, net of tax</b>		<b>3,344</b>	<b>(3,484)</b>
<b>Total comprehensive income for the year</b>		<b>386,355</b>	<b>261,672</b>
Basic earnings per share (cents per share)	3	206.9	144.6
Diluted earnings per share (cents per share)	3	206.9	144.6

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 30 June

	Note	2022 \$'000	2021 \$'000
<b>Current assets</b>			
Cash and cash equivalents		419,922	211,577
Loans and receivables	10	66,270	118,389
Financial assets	7	1,650	1,650
Prepayments		994	1,342
Other assets		724	817
<b>Total current assets</b>		<b>489,560</b>	333,775
<b>Non-current assets</b>			
Loans and receivables	10	31,901	21,191
Financial assets	7	379,438	452,523
Associates	8	162,295	237,128
Property, plant and equipment		592	619
Right-of-use assets	11	9,560	11,497
Intangible assets	9	111,287	113,062
Net deferred tax asset	5	49,849	41,110
Other assets		6,919	5,261
<b>Total non-current assets</b>		<b>751,841</b>	882,391
<b>Total assets</b>		<b>1,241,401</b>	1,216,166
<b>Current liabilities</b>			
Payables	12	15,478	13,043
Employee benefits	13	31,401	25,493
Financial liabilities	14	133,349	157,547
Income tax payable		18,483	11,576
Lease liabilities	11	2,585	2,275
<b>Total current liabilities</b>		<b>201,296</b>	209,934
<b>Non-current liabilities</b>			
Employee benefits	13	3,316	4,422
Provisions		62	51
Lease liabilities	11	9,967	12,325
<b>Total non-current liabilities</b>		<b>13,345</b>	16,798
<b>Total liabilities</b>		<b>214,641</b>	226,732
<b>Net assets</b>		<b>1,026,760</b>	989,434
<b>Equity</b>			
Contributed equity	16	671,716	607,849
Reserves	17	317,758	344,987
Retained earnings		37,286	36,598
<b>Total equity</b>		<b>1,026,760</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 year ended 30 June

		Contributed equity	Profits reserve	Share- based payments reserve	Foreign currency translation reserve	Retained earnings	Total equity
	Note	\$'000	\$'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 after tax for the year		-	-	-	-	<b>383,011</b>	<b>383,011</b>
Other comprehensive income for the year		-	-	-	<b>3,344</b>	-	<b>3,344</b>
<b>Total comprehensive income for the year</b>		-	-	-	<b>3,344</b>	<b>383,011</b>	<b>386,355</b>
Issue of shares:							
Under Dividend Reinvestment Plan ("DRP")	16	<b>52,335</b>	-	-	-	-	<b>52,335</b>
Under share purchase agreements ("SPA")	16	<b>19,731</b>	-	-	-	-	<b>19,731</b>
On exercise of MFG 2027 Options	16	<b>99</b>	-	-	-	-	<b>99</b>
Shares bought back on-market and cancelled	16	<b>(7,796)</b>	-	-	-	-	<b>(7,796)</b>
Transaction costs, net of tax	16	<b>(709)</b>	-	-	-	-	<b>(709)</b>
Dividends paid	19	-	<b>(414,179)</b>	-	-	-	<b>(414,179)</b>
SPA expense	16	<b>207</b>	-	-	-	-	<b>207</b>
Share-based payment expense		-	-	<b>1,283</b>	-	-	<b>1,283</b>
Transfer (from retained earnings)/to profits reserve	24	-	<b>382,323</b>	-	-	<b>(382,323)</b>	-
<b>Closing balance at 30 June 2022</b>		<b>671,716</b>	<b>313,233</b>	<b>1,283</b>	<b>3,242</b>	<b>37,286</b>	<b>1,026,760</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 after tax for the year		-	-	-	-	<b>265,156</b>	<b>265,156</b>
Other comprehensive income for the year		-	-	-	<b>(3,484)</b>	-	<b>(3,484)</b>
<b>Total comprehensive income for the year</b>		-	-	-	<b>(3,484)</b>	<b>265,156</b>	<b>261,672</b>
Issue of shares:							
To acquire shares in Barrenjoey Capital Partners	16	<b>66,033</b>	-	-	-	-	<b>66,033</b>
Under SPA	16	<b>16,411</b>	-	-	-	-	<b>16,411</b>
Transaction costs, net of tax	16	<b>(81)</b>	-	-	-	-	<b>(81)</b>
Dividends paid	19	-	<b>(400,743)</b>	-	-	-	<b>(400,743)</b>
SPA expense	16	<b>215</b>	-	-	-	-	<b>215</b>
Transfer (from retained earnings)/to profits reserve	24	-	<b>388,907</b>	-	-	<b>(388,907)</b>	-
<b>Closing balance at 30 June 2021</b>		<b>607,849</b>	<b>345,089</b>	-	<b>(102)</b>	<b>36,598</b>	<b>989,434</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 year ended 30 June

	Note	2022 \$'000	2021 \$'000
<b>Cash flows from operating activities</b>			
Management and services fees received		661,808	659,980
Performance fees received		31,991	48,639
Advisory fees received		1,384	1,835
Dividends and distributions received		14,987	18,046
Interest received		1,053	882
Finance cost payments		(2,227)	(2,685)
Tax payments		(113,917)	(122,849)
Payments to suppliers and employees		(158,314)	(139,922)
Payments of transaction costs related to strategic initiatives		(2,139)	(62,595)
<b>Net cash from operating activities</b>	6	<b>434,626</b>	401,331
<b>Cash flows from investing activities</b>			
Proceeds from the sale of financial assets and liabilities		43,832	81,744
Purchases of financial assets and liabilities		(42,694)	(98,104)
Proceeds from the sale of associates	8	136,858	-
Purchases of associates		(2,985)	(212,816)
Purchases of property, plant and equipment		(261)	(272)
Net returns/(placements) of cash on term deposits		-	367
Net repayments from/(loans to) associates		-	7,500
<b>Net cash from/(used in) investing activities</b>		<b>134,750</b>	(221,581)
<b>Cash flows from financing activities</b>			
Proceeds from share issuances, net of transaction costs		23,035	(115)
Proceeds from repayment of share purchase plan loans		3,120	749
Dividend payments	19	(381,819)	(398,523)
Lease payments		(2,390)	(2,632)
Shares bought back on-market	16	(6,890)	-
<b>Net cash used in financing activities</b>		<b>(364,944)</b>	(400,521)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>204,432</b>	(220,771)
Effects of exchange rate changes on cash and cash equivalents		3,913	(5,165)
Cash and cash equivalents at the beginning of the year		211,577	437,513
<b>Cash and cash equivalents at the end of the year</b>		<b>419,922</b>	211,577

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 year ended 30 June 2022

## 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 Australian Securities Exchange (ticker code: MFG).

The principal activities of the Company and its subsidiaries (the "Group") are described in the segment information in note 2. This financial report was authorised for issue in accordance with a resolution of the Directors on 17 August 2022 and the Directors have the power to amend and reissue this financial report.

## 1. Basis of Preparation

This general purpose financial report is presented in Australian dollars and has been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards ("AASB") and Interpretations issued by the Australian Accounting Standards Board and other mandatory professional reporting requirements. It also complies with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

This financial report has been prepared on a going concern basis and under the historical cost convention except for the measurement of financial assets and liabilities at fair value through profit or loss. All amounts in this financial report are rounded to the nearest thousand dollars (\$'000) in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless stated otherwise.

### 1.1. Accounting Policies

The accounting policies adopted in the preparation of this financial report are contained within the notes to which they relate. The policies adopted in the preparation of this financial report are consistent with those of the previous financial year except for the accounting policy set out in note 18 regarding the employee share option plan.

The Group has not early adopted any accounting standard, interpretation or amendment that has been issued but is not yet effective at reporting date. No accounting standards, interpretations or amendments that have been issued are expected to have a material impact on the Group's financial statements.

#### *Reclassification of employee benefits*

The Group's liabilities for employee benefits including salaries, wages, leave obligations and bonuses, were previously presented as either payables or provisions in the Statement of Financial Position. However, management considers it to be more relevant if all employee benefits are presented in one separate line item in the Statement of Financial Position. Prior year comparatives as at 30 June 2021 have been restated by reclassifying current payables of \$23,510,000 and current provisions of \$1,983,000 to current employee benefits and by reclassifying non-current provisions of \$4,422,000 to non-current employee benefits.

### 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 main areas where a higher degree of judgement or complexity arises, or where assumptions and estimates are significant to the financial statements are:

- Determination of significant influence over associates for which the Group holds less than a 20 percent voting interest (refer to note 8);
- Estimation of useful lives and impairment of intangible assets including goodwill (refer to note 9); and
- Classification of interests held in funds for which the Group provides management services (refer to note 20).

### 1.3. Foreign Currency Translation

Both the functional and presentation currency of MFG is Australian dollars. Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Australian dollars at the Reuters London 4pm exchange rates at reporting date. The fair values of financial assets where denominated in a foreign currency are translated to Australian dollars using the Reuters London 4pm exchange rates at reporting date. Foreign currency exchange differences relating to financial assets are included in net changes in fair value in the profit or loss. All other foreign currency exchange differences are presented separately in the profit or loss as net foreign exchange gains/(losses).

# Notes to the Financial Statements

For the year ended 30 June 2022

## 1.4. Goods and Services Tax ("GST")

Revenue, expenses and assets (with the exception of receivables) are recognised net of the amount of GST, except when GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of that purchase or as an expense. Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included in the Consolidated Statement of Financial Position as a receivable or payable. Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST component of cash flows arising from financing activities which are recoverable from, or payable to the taxation authority, is presented as operating cash flows.

## 1.5. Expenses

Expenses are recognised in the Consolidated Statement of Profit or Loss and Comprehensive Income on an accruals basis at the fair value of the consideration paid or payable for services rendered. Certain costs, such as depreciation of property, plant and equipment and amortisation of intangible assets, are charged evenly over the useful life of the asset.

Employee expenses include salaries, wages, allowances and annual and long service leave, together with the cost of other benefits provided to employees such as bonuses, share purchase loans and options. The Group makes some performance awards to employees that are deferred over a specified vesting period. The cost of such awards are charged to the Consolidated Statement of Profit or Loss and Comprehensive Income over the vesting period.

Information regarding the Directors' remuneration is included in the Remuneration Report commencing on page 22.

## 1.6. Impairment of Non-Financial Assets

All non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where an indicator or objective evidence of impairment exists, an estimate of the asset's recoverable amount is made. An impairment loss is recognised in the Consolidated Statement of Profit or Loss and Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

## 1.7. Structured Entities

Structured entities are those entities that have been designed so that voting or similar rights are not the dominant factor in deciding who has control, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements.

The Group has determined that the funds for which it acts as Responsible Entity or Investment Manager (as set out in note 2) and the funds in which it invests (as set out in note 7) are not structured entities. In making this assessment the decision-making rights of the Group, as Responsible Entity or Investment Manager, as well as the various rights afforded to investors in the funds, including the right to remove the Investment Manager and redeem holdings, have been taken into consideration.

# Notes to the Financial Statements

For the year ended 30 June 2022

## 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</sup>	✓	✓	MFG High Conviction Master Fund LP	✓
MFG Core International Fund <sup>3</sup>	✓	✓		
MFG Core ESG Fund <sup>3</sup>	✓	✓		
Magellan Sustainable Fund	✓	✓		
Magellan FuturePay	✓	✓		
FuturePay Support Trust		✓		
Magellan Global Wholesale Fund	✓	✓		
MC Fund	✓	✓		
Airlie Australian Share Fund <sup>4</sup>	✓	✓		
Airlie Concentrated Share Fund <sup>4</sup>	✓	✓		

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

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

<sup>3</sup> Collectively, the Core Series Funds.

<sup>4</sup> Collectively, the Airlie Funds.

### Fund Investments

The Fund 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 year ended 30 June 2022

## Segment Financial Results

30 June 2022	Funds Management \$'000 <sup>1</sup>	Fund Investments \$'000	Magellan Capital Partners \$'000	Corporate \$'000	Total \$'000
<b>Segment revenue</b>					
Management fees	588,594	-	-	-	588,594
Performance fees	11,472	-	-	-	11,472
Services and advisory fees	5,576	-	-	-	5,576
Dividend and distribution income	-	17,600	-	-	17,600
Interest income	99	1	739	367	1,206
Net change in the fair value of financial assets and liabilities:					
Realised	-	19,353	-	-	19,353
Unrealised	-	(92,937)	-	-	(92,937)
Net foreign exchange gain/(loss)	3,396	54	-	-	3,450
<b>Total segment revenue and other income</b>	<b>609,137</b>	<b>(55,929)</b>	<b>739</b>	<b>367</b>	<b>554,314</b>
<b>Segment expenses</b>					
Employee expenses	86,716	-	-	26	86,742
Non-Executive Director fees	314	-	-	189	503
Other expenses	40,060	205	-	4,572	44,837
<b>Total segment expenses</b>	<b>127,090</b>	<b>205</b>	<b>-</b>	<b>4,787</b>	<b>132,082</b>
<b>Share of after tax profit/(loss) of associates</b>	<b>-</b>	<b>-</b>	<b>8,381</b>	<b>-</b>	<b>8,381</b>
<b>Total segment operating profit before tax</b>	<b>482,047</b>	<b>(56,134)</b>	<b>9,120</b>	<b>(4,420)</b>	<b>430,613</b>
<b>Other comprehensive income</b>					
Exchange differences on translation of foreign operations	3,344	-	-	-	3,344
<b>Other comprehensive income for the year, before tax</b>	<b>3,344</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,344</b>
<b>Total comprehensive income for the year, before tax</b>	<b>485,391</b>	<b>(56,134)</b>	<b>9,120</b>	<b>(4,420)</b>	<b>433,957</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 Statutory Net Profit After Tax

	Note	30 June 2022 \$'000	30 June 2021 \$'000 <sup>1</sup>
<b>Total segment operating profit before tax</b>		<b>430,613</b>	561,712
<i>Add back:</i>			
Amortisation of intangible assets <sup>2</sup>		(4,585)	(4,548)
Net non-cash remeasurement of SPA loans		(3,291)	240
Net gain on dilutions and disposals of interests in associates	8	50,657	-
Net (expenses)/benefits related to strategic initiatives:			
MGF Partnership Offer and Bonus MGF Option Issue	14	22,961	(211,718)
Commitment to Magellan FuturePay		(369)	(1,062)
Restructure of Magellan Global Fund		-	(5,981)
Dividend Reinvestment Plan discounts relating to Magellan Funds		-	(1,400)
Total benefits/(expenses) related to strategic initiatives		22,592	(220,161)
<b>Statutory net profit before tax for the year</b>		<b>495,986</b>	337,243
Income tax expense		(112,975)	(72,087)
<b>Statutory net profit after tax for the year</b>		<b>383,011</b>	265,156

<sup>1</sup> Prior period segment operating profit before tax has been restated to exclude the net non-cash remeasurement of SPA loans of \$240,000 on a basis consistent with the current reporting period.

<sup>2</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").

# Notes to the Financial Statements

For the year ended 30 June 2022

## Segment Financial Results (continued)

	Funds Management	Fund Investments	Magellan Capital Partners	Corporate	Total
30 June 2021 <sup>1</sup>	\$'000 <sup>2</sup>	\$'000	\$'000	\$'000	\$'000
<b>Segment revenue</b>					
Management fees	631,367	-	-	-	631,367
Performance fees	30,074	-	-	-	30,074
Services and advisory fees	5,672	-	-	-	5,672
Dividend and distribution income	-	15,122	-	-	15,122
Interest income	45	1	227	365	638
Net change in the fair value of financial assets and liabilities:					
Realised	-	19,917	-	-	19,917
Unrealised	-	15,940	-	-	15,940
Net foreign exchange (loss)/gain	(4,564)	(282)	-	-	(4,846)
<b>Total segment revenue and other income</b>	<b>662,594</b>	<b>50,698</b>	<b>227</b>	<b>365</b>	<b>713,884</b>
<b>Segment expenses</b>					
Employee expenses	69,602	-	-	23	69,625
Non-Executive Director fees	313	-	-	192	505
Other expenses	36,200	228	-	3,893	40,321
<b>Total segment expenses</b>	<b>106,115</b>	<b>228</b>	<b>-</b>	<b>4,108</b>	<b>110,451</b>
<b>Share of after tax profit/(loss) of associates</b>	<b>-</b>	<b>-</b>	<b>(41,721)</b>	<b>-</b>	<b>(41,721)</b>
<b>Total segment operating profit before tax</b>	<b>556,479</b>	<b>50,470</b>	<b>(41,494)</b>	<b>(3,743)</b>	<b>561,712</b>
<b>Other comprehensive income</b>					
Exchange differences on translation of foreign operations	(3,484)	-	-	-	(3,484)
<b>Other comprehensive income for the year, before tax</b>	<b>(3,484)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,484)</b>
<b>Total comprehensive income for the year, before tax</b>	<b>552,995</b>	<b>50,470</b>	<b>(41,494)</b>	<b>(3,743)</b>	<b>558,228</b>

<sup>1</sup> Prior period segment operating profit before tax has been restated to exclude the net non-cash remeasurement of SPA loans of \$240,000 on a basis consistent with the current reporting period.

<sup>2</sup> Includes elimination of income and expense under the transfer pricing agreements between MAM and US controlled entities, within the Funds Management segment.

## Segment Assets and Liabilities

	Funds Management	Fund Investments	Magellan Capital Partners	Corporate	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>30 June 2022</b>					
Financial assets	1,650	378,743	695	-	381,088
Associates	-	-	162,295	-	162,295
Other assets	249,813	(20,351) <sup>1</sup>	(1,821) <sup>1</sup>	470,377	698,018
Total liabilities	(60,947)	-	-	(153,694)	(214,641)
<b>Net assets</b>	<b>190,516</b>	<b>358,392</b>	<b>161,169</b>	<b>316,683</b>	<b>1,026,760</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.

# Notes to the Financial Statements

For the year ended 30 June 2022

## 3. Earnings Per Share

Basic earnings per share ("EPS") is calculated as net profit/(loss) after income tax expense for the year divided by the weighted average number of ordinary shares on issue. Diluted EPS is calculated by adjusting the basic EPS to take into account the effect of any costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

	30 June 2022	30 June 2021
<b>Basic and diluted EPS</b>		
Net profit attributable to shareholders (\$'000)	<b>383,011</b>	265,156
Weighted average number of shares for basic and diluted EPS ('000)	<b>185,125</b>	183,379
<b>Basic and diluted EPS (cents)</b>	<b>206.9</b>	144.6

The outstanding MFG 2027 Options and the outstanding options issued to certain employees under the MFG Employee Share Option Plan (refer to notes 16 and 18) are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 30 June 2022. However, these options could potentially dilute basic earnings per share in the future.

## 4. Revenue

The Group's primary source of revenue is fee income from investment management activities. Fee income includes management, services and performance fees.

### Management Fees

Management fees are based on an agreed percentage of the value of funds under management. Management fee revenue, determined in accordance with Investment Management Agreements for mandates and Constitutions for managed funds, is recognised as the service is provided and at the amount the Group is entitled to receive.

	30 June 2022 \$'000	30 June 2021 \$'000
Magellan Global Fund <sup>1</sup>	<b>212,610</b>	215,893
Magellan Global Fund (Hedged)	<b>17,618</b>	20,349
Magellan Global Equities Fund (Currency Hedged)	<b>3,749</b>	4,063
Magellan Infrastructure Fund	<b>29,333</b>	25,178
Magellan Infrastructure Fund (Unhedged)	<b>11,515</b>	9,877
Magellan Infrastructure Fund (Currency Hedged)	<b>9,174</b>	7,509
Magellan High Conviction Fund	<b>7,243</b>	8,966
Magellan High Conviction Trust	<b>12,067</b>	14,450
MFG Core Infrastructure Fund	<b>1,464</b>	1,538
MFG Global Fund	<b>15,501</b>	18,957
MFG Select Infrastructure Fund	<b>2,733</b>	2,285
MFG Global Sustainable Fund	<b>856</b>	237
MFG High Conviction Master Fund	<b>849</b>	808
Frontier MFG Funds	<b>25,089</b>	26,277
Airlie Funds	<b>2,468</b>	1,116
Other funds and mandates	<b>236,325</b>	273,864
<b>Total management fees</b>	<b>588,594</b>	631,367

<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.

### Services Fees

Services fees arise from providing investment research and administrative services to MFF Capital Investments Limited as well as research and advisory services under other mandates. Services fees are recognised as the relevant service is provided and it is probable that the fee will be collected.

### Performance Fees

Performance fees may be earned from certain funds and mandates. The Group's entitlement to a performance fee is dependent on outperformance of certain hurdles over an agreed performance measurement period. These hurdles may be index relative (including

# Notes to the Financial Statements

For the year ended 30 June 2022

in some cases a fixed percentage above an index), absolute return or both absolute return and index relative. In addition, performance fees are generally subject to either a high-water mark arrangement or a deficit clause, which ensures that fees are not earned more than once on the same performance. The high-water mark is the NAV per unit at the end of the most recent measurement period for which the Group was entitled to a performance fee, less any intervening income (including capital distributions). Performance measurement periods vary across funds and mandates and are typically one, three, six or 12 month periods. The measurement period for all Magellan funds is six months ending 30 June and 31 December each year.

Performance fee arrangements give rise to variable consideration and fees are only recognised where it is highly probable that a significant reversal of such revenue will not occur in future periods, being when any uncertainty related to outperformance is resolved. Performance fees are therefore typically recognised at the end of the performance period.

	High watermark unit price (\$) <sup>1</sup>	30 June 2022 \$'000	30 June 2021 \$'000
<b>Based on performance relative to both market index and absolute return hurdle</b>			
Magellan Global Fund (Open/Closed Class)	2.3186/1.6653	104	103
Magellan Global Fund (Hedged)	1.4711	13	48
Magellan Global Equities Fund (Currency Hedged)	2.9029	2	-
Magellan Infrastructure Fund	1.3605	5,336	-
Magellan Infrastructure Fund (Unhedged)	1.8552	1,838	-
Magellan Infrastructure Fund (Currency Hedged)	2.9951	1,648	-
<b>Based on performance relative to absolute return hurdle</b>			
Magellan High Conviction Fund (Class A/B)	2.2580(A)/1.3869(B)	791	7,945
Magellan High Conviction Trust	1.7813	1,052	9,968
MFG High Conviction Master Fund	-	680	225
<b>Based on performance relative to a market index</b>			
Other funds and mandates	various	8	11,785
<b>Total performance fees</b>		<b>11,472</b>	<b>30,074</b>

<sup>1</sup> The high watermark as at 30 June 2022 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 intervening income (including capital distributions).

## Management, Services and Performance Fees by Investor Type

	30 June 2022 \$'000	30 June 2021 \$'000
<b>Management and services fees</b>		
Retail	345,324	347,168
Institutional	247,311	288,239
<b>Performance fees</b>		
Retail	10,590	18,063
Institutional	881	12,011
<b>Total management, services and performance fees</b>	<b>604,106</b>	<b>665,481</b>
Total Retail	355,914	365,231
Total Institutional	248,192	300,250
<b>Total management, services and performance fees</b>	<b>604,106</b>	<b>665,481</b>

# Notes to the Financial Statements

For the year ended 30 June 2022

## Management, Services and Performance Fees by Geographic Location

	30 June 2022 \$'000	30 June 2021 \$'000
Australia & New Zealand	404,976	416,174
United Kingdom & Europe	97,925	142,372
North America	80,232	87,715
Asia	20,973	19,220
<b>Total management, services and performance fees</b>	<b>604,106</b>	<b>665,481</b>

## Dividend and Distribution Income

Dividend and distribution income is recognised when it is declared and the Group's right to receive payment is established.

## Interest Income

Interest income is calculated using the effective interest rate method and recognised on an accrual basis.

## 5. Taxation

### Reconciliation of Income Tax Expense

	30 June 2022 \$'000	30 June 2021 \$'000
<b>Net profit before tax</b>	<b>495,986</b>	337,243
Prima facie income tax expense at 30% (2021: 30%)	(148,796)	(101,173)
Effect of amounts which are non-deductible/(assessable) in calculating taxable income:		
Concessional tax rate on offshore banking unit ("OBU")	32,358	42,444
Share of profit/(losses) of associates	5,870	(12,593)
Non-assessable income and non-deductible expenses	(1,274)	(1,996)
US state and local taxes (net of tax credits)	(310)	(423)
Differences in overseas tax rates	(35)	(120)
Imputed interest, expense and allowances relating to SPA loans	(988)	72
Franked dividends and distributions received	-	2
(Under)/over provision of prior year income tax	200	1,700
<b>Income tax expense</b>	<b>(112,975)</b>	(72,087)

### Components of Income Tax Expense

	30 June 2022 \$'000	30 June 2021 \$'000
Current income tax (expense)/benefit	(121,263)	(115,569)
Deferred income tax expense/(benefit)	8,433	42,325
Differences in overseas tax rates	(35)	(120)
US state and local taxes (net of tax credits)	(310)	(423)
(Under)/over provision of prior year income tax	200	1,700
<b>Income tax expense</b>	<b>(112,975)</b>	(72,087)

## Offshore Banking Unit

MAM, a controlled entity of MFG and a member of the Australian tax consolidated group, was declared an OBU on 31 July 2013. Assessable offshore banking ("OB") income derived from the Group's OB funds management and advisory activities provided to clients outside of Australia and New Zealand, net of costs, is subject to a concessional tax rate of 10% and is determined with reference to current Australian tax legislation definitions of assessable OB income, exclusive OB deductions and general OB deductions.

# Notes to the Financial Statements

For the year ended 30 June 2022

In September 2021, the *Treasury Laws Amendment (2021 Measures No. 2) Bill 2021* received Royal Assent. This legislation abolishes the OBU regime and removes the concessional tax rate of 10% applying to certain Group income and expenses from 1 July 2023. This change does not result in any financial impact on the Group for the 2022 financial year, but will result in the Group paying higher income tax in Australia from 1 July 2023, which in turn will generate additional franking credits available to frank the Group's dividends to shareholders (all other variables being equal).

For the year ended 30 June 2022, the Company's effective tax rate was 22.8% (June 2021: 21.4%), which includes tax 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 OB income, net of costs. The impact of the OBU concessional tax rate during the year ended 30 June 2022 is a benefit of \$32,358,000 in the income tax expense recognised in the Consolidated Statement of Profit or Loss and Comprehensive Income (June 2021: \$42,444,000).

## Reconciliation of Net Deferred Tax Asset/(Liability)

	30 June 2022 \$'000	Charged to		30 June 2021 \$'000
		Equity \$'000	Profit \$'000	
Financial assets held at fair value	(20,906)	-	26,336	(47,242)
Accruals and provisions	51,777	-	(5,181)	56,958
Investment in associates	(1,822)	-	(1,745)	(77)
Business-related costs deductible over 5 years	20,800	306	(9,086)	29,580
Unused tax losses from issuance of loyalty units under MGG priority offer	-	-	(1,891)	1,891
<b>Net deferred tax asset/(liability)</b>	<b>49,849</b>	<b>306</b>	<b>8,433</b>	<b>41,110</b>

At 30 June 2022, deferred tax assets of \$6,887,000 (June 2021: \$12,593,000) relating to the Group's share of post-tax losses from associates have not been recognised in the Consolidated Statement of Financial Position.

## Tax Consolidation

MFG and its wholly owned Australian subsidiaries have formed a tax consolidated group for income tax purposes. The entities in the tax consolidated group are party to a tax sharing agreement, which limits the joint and several liability of the subsidiaries in the case of a default of MFG. These entities are also party to a tax funding agreement under which each subsidiary has agreed to compensate MFG for the amount of tax calculated as though the subsidiary were a tax paying entity. MFG, as head entity, and the subsidiaries in the tax consolidated group continue to account for their own current and deferred tax amounts. The amounts are measured as if each entity in the tax consolidated group were a standalone taxpayer in its own right. The subsidiary tax balances are transferred to MFG via inter-company transactions and recognised as related party tax payables or receivables.

During the financial year, income tax liabilities of \$122,746,000 (June 2021: \$123,447,000) were assumed by MFG of which \$5,687,000 remained receivable from other entities under the tax funding agreement as at reporting date (June 2021: \$16,006,000).

There is also a US tax consolidated group for income tax purposes which includes several US based entities.

## Income Tax

Income tax expense/benefit is the tax payable/receivable on the current year's taxable income adjusted by changes in deferred tax assets and liabilities. Taxable profit differs from net profit reported in the Consolidated Statement of Profit or Loss and Comprehensive Income as some items of income or expense are assessable or deductible in years other than the current year and some items are never assessable or deductible.

Current and deferred tax is recognised in the profit or loss, except to the extent that it relates to items recognised in comprehensive income or directly in equity. In this case, the tax is recognised in comprehensive income or equity respectively.

# Notes to the Financial Statements

For the year ended 30 June 2022

## *Current Tax*

Current tax assets or liabilities are amounts receivable or payable in relation to income taxes attributable to taxable profits of the current or prior financial years, less income tax instalments paid. The tax rates and laws used to calculate current taxes are those that are enacted or substantively enacted as at the reporting date.

## *Deferred Tax*

Deferred tax balances represent amounts that will become payable or recoverable in future accounting periods. They arise when there are temporary differences between the tax bases of the Group's assets and liabilities and the related accounting values. Deferred tax is not recognised if it arises from the initial recognition of goodwill, from an asset or liability in a transaction other than a business combination which affects neither taxable income nor accounting profit or from investments in subsidiaries, associates and foreign operations when the timing of reversal can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise the temporary differences and losses. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that the tax benefit will be realised.

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority and for which the tax consolidated group intends either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax legislation that has been enacted or substantively enacted at reporting date.

# Notes to the Financial Statements

For the year ended 30 June 2022

## 6. Reconciliation of Operating Cash Flows

The below table provides a reconciliation of net profit after tax, which is based on accounting rules, to operating cash flows.

	30 June 2022 \$'000	30 June 2021 \$'000
Net profit after tax	<b>383,011</b>	265,156
<i>Adjustments for non-cash items of profit or loss:</i>		
Net change in the fair value of financial assets and liabilities:		
Unrealised	<b>92,937</b>	(15,940)
Recorded as dividend and distribution income	<b>(745)</b>	(1,356)
Share of (profit)/loss of associates	<b>(8,381)</b>	41,721
Net gain on dilution of interest in associates	<b>(17,002)</b>	-
Net gain on disposal of interests in associates	<b>(33,655)</b>	-
Depreciation and amortisation expense	<b>7,142</b>	7,071
Net foreign exchange (gain)/loss	<b>(3,450)</b>	4,846
Non-cash charges related to SPP loans	<b>2,916</b>	(240)
Share-based payment expense	<b>1,283</b>	-
Expected credit losses	<b>375</b>	-
<i>Adjustments for which cash effects are investing activities:</i>		
Realised changes in the fair value of financial assets and liabilities	<b>(19,353)</b>	(19,917)
Dividends and distributions reinvested	<b>(1,342)</b>	(2,605)
<i>Adjustments for operating asset and liability movements:</i>		
(Increase)/decrease in receivables	<b>49,521</b>	13,137
(Increase)/decrease in prepayments	<b>358</b>	(577)
(Increase)/decrease in net deferred tax asset	<b>(8,433)</b>	(42,325)
Increase/(decrease) in payables and provisions	<b>(17,469)</b>	160,967
Increase/(decrease) in income tax payable	<b>6,907</b>	(8,603)
Effects of exchange rates on cash and cash equivalents	<b>6</b>	(4)
<b>Net cash from operating activities</b>	<b>434,626</b>	401,331

Cash and cash equivalents comprise cash at bank and short term deposits with a maturity of 90 days or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. Term deposits with maturities greater than 90 days from inception date are classified as financial assets (refer to note 7).

# Notes to the Financial Statements

For the year ended 30 June 2022

## 7. Financial Assets

	30 June 2022 \$'000	30 June 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</sup>	153,875	211,704
Magellan Global Fund - Closed Class <sup>4,5</sup>	55,518	42,589
Magellan Global Fund (Hedged)	839	1,069
Magellan Global Equities Fund (Currency Hedged)	19,850	25,067
Magellan Infrastructure Fund (Currency Hedged)	12,660	12,323
Magellan High Conviction Fund <sup>6</sup>	8,654	19,176
Magellan High Conviction Trust <sup>7</sup>	34,212	33,424
MFG Core International Fund	10,175	11,670
MFG Core ESG Fund	9,857	11,514
Magellan Sustainable Fund	4,760	5,520
Magellan FuturePay	9,454	10,879
Magellan Wholesale Plus Global Fund	9,079	10,890
Magellan Wholesale Plus Infrastructure Fund	6,334	6,204
Frontier MFG Core Infrastructure Fund	8,526	7,591
Frontier MFG Global Plus Fund	11,594	13,058
Frontier MFG Global Sustainable Fund	15,290	16,959
MFG Global Sustainable Fund	1,655	1,821
MC Fund <sup>8</sup>	795	-
Magellan Global Wholesale Fund <sup>9</sup>	908	-
Total investments in Magellan Funds	374,035	441,458
<b>Seed portfolios - securities by domicile of primary stock exchange</b>		
United States	4,184	9,595
Europe and United Kingdom	524	908
Asia	-	451
Australia	-	111
Total investments in seed portfolios	4,708	11,065
<b>Unlisted entities</b>	<b>695</b>	-
<b>Total non-current financial assets</b>	<b>379,438</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 30 June 2022, MFG held the following investments: Magellan Global Fund Open Class 1.6% and Closed Class 2.8% (June 2021: 1.4% and 1.4%), Magellan Global Fund (Hedged) 0.1% (June 2021: 0.1%), Magellan Global Equities Fund (Currency Hedged) 12.3% (June 2021: 7.2%), Magellan Infrastructure Fund (Currency Hedged) 1.4% (June 2021: 1.5%), Magellan High Conviction Fund 3.8% (June 2021: 4.0%), Magellan High Conviction Trust 6.4% (June 2021: 3.7%), MFG Core International Fund 66.0% (June 2021: 84.5%), MFG Core ESG Fund 79.7% (June 2021: 84.6%), Magellan Sustainable Fund 64.3% (June 2021: 70.9%), Magellan FuturePay 53.4% (June 2021: 63.6%), MC Fund 90.9% (June 2021: nil), Magellan Global Wholesale Fund 99.9% (June 2021: nil), Magellan Wholesale Plus Global Fund 1.3% (June 2021: 1.1%), Magellan Wholesale Plus Infrastructure Fund 4.0% (June 2021: 4.2%), Frontier MFG Core Infrastructure Fund 1.5% (June 2021: 1.1%), Frontier MFG Global Plus Fund 18.4% (June 2021: 2.9%), Frontier MFG Global Sustainable Fund 90.2% (June 2021: 99.1%) and MFG Global Sustainable Fund 9.8% (June 2021: 3.9%).

<sup>3</sup> MFG sold 10,658,054 units for \$27,430,000 during the year.

<sup>4</sup> MFG purchased 17,999,911 units for \$28,238,000 during the year.

<sup>5</sup> At 30 June 2022, MFG held 8,379,927 MGF Options (June 2021: 8,379,927 MGF Options).

<sup>6</sup> MFG sold 3,422,597 units for \$7,674,000 during the year.

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

<sup>8</sup> MFG seeded the fund with \$1,000,000 on 30 December 2021.

<sup>9</sup> MFG seeded the fund with \$1,000,000 on 28 March 2022.

# Notes to the Financial Statements

For the year ended 30 June 2022

## Reconciliation of Financial Assets Carrying Value

	30 June 2022 \$'000	30 June 2021 \$'000
<b>Current</b>		
Opening balance at 1 July	1,650	2,017
Cash placed on term deposit	1,650	2,384
Matured term deposits	(1,650)	(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	43,474	100,612
Disposals	(43,603)	(81,822)
Net change in fair value		
Realised	19,308	19,916
Unrealised	(93,009)	16,041
Recorded as dividend and distribution income	745	1,356
<b>Closing balance</b>	<b>379,438</b>	<b>452,523</b>

## Classification and Measurement

Financial assets are recognised initially at fair value on the date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets are measured at amortised cost when their contractual cash flows represent solely payments of principal and interest and they are held within a business model designed to collect cash flows. This classification typically applies to the Group's receivables, loans and term deposits. The carrying value of financial assets at amortised cost is adjusted for impairment under an expected credit loss model (refer to note 22).

All other financial assets are measured at fair value through profit or loss with future changes in the value of such assets recognised in the Consolidated Statement of Profit or Loss and Comprehensive Income. The change in fair value of financial assets does not include dividend and distribution income.

Financial assets are classified as non-current assets unless management intends to dispose of the assets within 12 months of reporting date.

## Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group no longer holds substantially all the risks and rewards of ownership.

# Notes to the Financial Statements

For the year ended 30 June 2022

## 8. Associates

Associates are entities in which the Group has an investment and over which it has significant influence, but not control, through participation in financial and operating policy decisions. The Group accounts for associates using the equity method.

Under the equity method, investments are initially recognised in the Consolidated Statement of Financial Position at cost and adjusted thereafter to recognise the Group's share of the associate's profit or loss and other comprehensive income. The Group's share of the associate's profit or loss and other comprehensive income is included in the Consolidated Statement of Profit or Loss and Comprehensive Income. Dividends received from an associate are accounted for as a reduction to the carrying value of the investment.

At each reporting date, the Group applies judgement to determine whether there is any indication that the carrying value of associates may be impaired. If an associate is deemed to be impaired, the carrying value is reduced to the investment's recoverable amount. This reduction is recognised as an impairment charge in the Consolidated Statement of Profit or Loss and Comprehensive Income.

Associate	Industry	Ownership interest		Investment carrying value	
		2022 %	2021 %	30 June 2022 \$'000	30 June 2021 \$'000
Barrenjoey Capital Partners Group Holdings Pty Ltd ("Barrenjoey") <sup>1</sup>	Financial services	36	40	133,240	114,480
FinClear Holdings Ltd ("FinClear") <sup>2,3</sup>	Financial services	16	17	29,055	19,744
Guzman y Gomez (Holdings) Ltd ("GYG") <sup>4</sup>	Consumer services	-	13	-	102,904
				<b>162,295</b>	<b>237,128</b>

<sup>1</sup> Barrenjoey is an 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%. During the year ended 30 June 2022, Barclays Unquoted Investments Limited ("Barclays") increased its shareholding in Barrenjoey via a \$75 million subscription for new capital. As a result of the Barclays capital injection, the Group's economic interest in Barrenjoey was diluted from 40% to 36.4% and a \$17,594,000 gain on dilution was recognised in the Consolidated Statement of Profit or Loss and Comprehensive Income.

<sup>2</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.

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

<sup>4</sup> On 9 May 2022, the Group sold its shares in GYG to an investment trust managed by Barrenjoey. The Group received cash consideration of \$136,858,000, net of arranging fees, and recorded a gain on sale of \$33,655,000 (before tax) in the Consolidated Statement of Profit or Loss and Comprehensive Income.

### 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.

### Transactions with Associates

The Group provides Barrenjoey with up to \$50,000,000 of unsecured working capital finance. During the year ended 30 June 2022 an aggregate of \$45,000,000 was drawn in varying amounts (June 2021: \$15,000,000) and all borrowings were subsequently repaid in full. The maximum loan balance during the year was \$25,000,000. Interest received in respect of these borrowings amounted to \$739,000 (June 2021: \$86,000). The facility was undrawn at 30 June 2022 and has not been drawn since that date.

During the period, the Group received the following services from Barrenjoey:

- DRP underwriting services 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, all of which were subsequently transferred to relevant MFG shareholders. No MFG shares were held by Barrenjoey as at 30 June 2022. The Group paid Barrenjoey fees of \$46,000 (June 2021: nil) in connection with the underwriting service.
- Brokering services in respect of the MFG on-market share buy-back of up to 10 million ordinary shares announced on 16 March 2022. The Group paid Barrenjoey \$9,000 in brokerage fees during the year ended 30 June 2022 (June 2021: nil).
- Arranging services in respect of the Group's disposal of its interest in GYG to a trust managed by Barrenjoey on behalf of investors. The Group paid Barrenjoey \$3,079,000 in arranging fees during the year ended 30 June 2022 (June 2021: nil). As part of the transaction, the Group has executed an agreement with Barrenjoey which would see the Group receive further consideration of up to \$6,128,000, net of \$138,000 in related arranging fees, subject to the performance of GYG and the realisation of the investment by the managed trust.

# Notes to the Financial Statements

For the year ended 30 June 2022

## Associates' Financial Information

The tables below provide summarised financial information of the Group's associates aggregated on an industry classification basis. The information reflects the amounts presented in the financial statements of the associates and not the Group's share of those amounts (except where indicated). As required by the equity method of accounting, amounts have been amended to reflect adjustments made by the Group, including fair value adjustments and modifications for differences in accounting policies.

### Summarised Statement of Financial Position

	Financial services		Consumer services		Total	
	30 June	30 June	30 June	30 June	30 June	30 June
	2022	2021	2022	2021	2022	2021
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Current assets	5,296,420	196,521	-	80,922	5,296,420	277,443
Non-current assets	93,404	24,500	-	125,502	93,404	150,002
Current liabilities	(4,520,696)	(108,164)	-	(38,506)	(4,520,696)	(146,670)
Non-current liabilities	(622,817)	(10,646)	-	(100,454)	(622,817)	(111,100)
<b>Net assets</b>	<b>246,311</b>	<b>102,211</b>	<b>-</b>	<b>67,464</b>	<b>246,311</b>	<b>169,675</b>
Group's interest in net assets	71,675	35,340	-	8,611	71,675	43,951
Goodwill and transaction costs	90,620	98,884	-	94,293	90,620	193,177
<b>Investment carrying amount</b>	<b>162,295</b>	<b>134,224</b>	<b>-</b>	<b>102,904</b>	<b>162,295</b>	<b>237,128</b>

### Summarised Statement of Profit or Loss and Comprehensive Income

	Financial services		Consumer services		Total	
	30 June	30 June	30 June	30 June	30 June	30 June
	2022	2021	2022	2021	2022	2021
	\$'000	\$'000	\$'000 <sup>1</sup>	\$'000	\$'000	\$'000
Revenue	273,536	18,516	139,536	59,504	413,072	78,020
Profit or loss from continuing operations	45,580	(105,823)	3,267	2,009	48,847	(103,814)
Other comprehensive income	-	-	-	-	-	-
<b>Total comprehensive income</b>	<b>45,580</b>	<b>(105,823)</b>	<b>3,267</b>	<b>2,009</b>	<b>48,847</b>	<b>(103,814)</b>
<b>Group's share of associates' profit/(loss)</b>	<b>7,965</b>	<b>(41,973)</b>	<b>416</b>	<b>252</b>	<b>8,381</b>	<b>(41,721)</b>
Dividends received from associates	-	-	-	-	-	-

<sup>1</sup> Amounts presented in consumer services for the year ended 30 June 2022 reflect the period from 1 July 2022 to 30 April 2022 as the Group's interest in GYG was divested in May 2022.

# Notes to the Financial Statements

For the year ended 30 June 2022

## 9. Intangibles

Intangible assets comprise goodwill and customer relationships resulting from the acquisition of Airlie and the Frontier Group.

	30 June 2022			30 June 2021		
	Customer relationships	Goodwill	Total	Customer relationships	Goodwill	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At cost	25,743	105,288	131,031	25,381	102,840	128,221
less: accumulated amortisation and impairment	(19,744)	-	(19,744)	(15,159)	-	(15,159)
<b>Total intangible assets</b>	<b>5,999</b>	<b>105,288</b>	<b>111,287</b>	<b>10,222</b>	<b>102,840</b>	<b>113,062</b>
<b>Movements:</b>						
Opening balance at 1 July	10,222	102,840	113,062	15,300	105,252	120,552
Amortisation expense	(4,585)	-	(4,585)	(4,548)	-	(4,548)
Net foreign exchange differences	362	2,448	2,810	(530)	(2,412)	(2,942)
<b>Closing balance</b>	<b>5,999</b>	<b>105,288</b>	<b>111,287</b>	<b>10,222</b>	<b>102,840</b>	<b>113,062</b>

### Customer Relationships

Customer relationships reflect existing agreements with clients and relationships with unitholders in the case of the Magellan Funds. They are definite life assets with useful lives based on the following expected client attrition profile:

- Airlie - 5 years
- Frontier Group - 7 years.

Customer relationship assets are recognised at fair value at the date of acquisition and amortised to profit or loss on a straight-line basis over the useful lives stated above.

### Goodwill

Goodwill arises when consideration paid for a business exceeds the fair value of the identifiable net assets acquired or liabilities assumed at the date of acquisition. The Group's goodwill represents the value of expected synergies from the acquisitions of Airlie and the Frontier Group, as well as the value of their respective workforces. Goodwill has an indefinite life. It is initially recognised at cost at the date of a business acquisition and subsequently measured at cost less any accumulated impairment.

### Impairment

Goodwill is tested for impairment annually or when circumstances indicate the carrying value may not be recoverable. In addition, impairment tests for all assets are performed when there is an indication of impairment. All of the Group's goodwill is allocated to one cash generating unit ("CGU"), being the Funds Management segment ("FM CGU"). The recoverable amount of the FM CGU has been determined by taking a value-in-use approach which calculates the net present value of the CGU's estimated future pre-tax cash flows.

### Key Estimates and Judgements

Judgement is applied to assess the estimated useful life of intangible assets, the presence of indicators of impairment and the recoverable amount of goodwill and customer relationship assets. Determination of the recoverable amount of goodwill requires the application of significant judgement when making assumptions about the future cash flows of the FM CGU, including the reasonableness of applied growth and discount rates.

In the Group's goodwill impairment testing, estimated future cash flows are based on financial budgets approved by the Directors for a period of one year. Cash flows for the 4 years beyond the approved budget period are extrapolated using a growth rate of 5.0% (June 2021: 4.0%) based on external forecasts of long-term global equity market returns. A perpetuity growth rate of 3.0% (June 2021: 2.5%) is used to derive a terminal value and a pre-tax discount rate of 12.4% (June 2021: 11.6%) is applied to net cash flows.

In forecasting cash flows over the assessment period, the current economic conditions, impacts arising from COVID-19 and the Funds Management segment performance were considered. Management is of the view that no reasonably possible change to a key assumption would cause the recoverable amount of goodwill to fall short of the carrying amount. As such there is no impairment of goodwill at 30 June 2022.

# Notes to the Financial Statements

For the year ended 30 June 2022

## 10. Loans and Receivables

	30 June 2022 \$'000	30 June 2021 \$'000
<b>Current</b>		
Fees receivable	64,081	113,717
Distributions receivable from Magellan Funds	221	279
Other receivables	352	126
Loans issued under share purchase agreements	1,616	4,267
	66,270	118,389
<b>Non-current</b>		
Loans issued under share purchase agreements	31,901	21,191
<b>Total loans and receivables</b>	<b>98,171</b>	<b>139,580</b>

### Fees Receivable

Fees receivable comprise uncollected management, performance and services fees. These amounts are initially recognised at the fair value of the amounts to be collected. An impairment analysis is performed at each balance date to determine whether a loss allowance should be recognised for expected credit losses. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The Group applies the simplified approach for trade receivables whereby the loss allowance is based on lifetime expected credit losses at each balance date.

Receivables of \$3,521,000 were past due at 30 June 2022 (June 2021: \$2,550,000). Based on the credit quality of the Group's clients (including Magellan Funds) and no historical credit losses, there were no provisions for expected credit losses recognised during the year (June 2021: nil).

### Share Purchase Agreements

The Group has arrangements in place through which its employees, Non-Executive Directors and employees of associates receive financial assistance to purchase MFG shares (referred to as "Share Purchase Agreements" or "SPA") to align more closely the interests of SPA participants to those of shareholders of the Group.

The financial assistance provided to SPA participants is by way of a full recourse interest free loan ("SPA loan"). The SPA loan is generally secured by the MFG shares issued under the SPA to that participant. Any outstanding balance at the end of the SPA loan term must be repaid by the participant. A participant who ceases to be employed must repay the total amount owing under the SPA loan within three months of cessation, or such longer period as determined by the Board.

Shares purchased under the SPA are issued at the volume weighted average price of traded shares on the five business days prior to the offer date. This issue price is deemed to be fair market value of the shares at the offer date.

Shares purchased under the SPA have the same rights as all other MFG ordinary shares except they are placed in a trading lock. Following full repayment of the SPA loan, the holding lock and any security over the shares issued under the SPA is released and the participant has unrestricted access to their shares.

SPA loans to employees and Non-Executive Directors are subject to the Group's Share Purchase Plan ("SPP") Rules. During the year, terms relating to the repayment of loans were varied in accordance with the SPP Rules. The variations only applied to loans issued to employees of Magellan Asset Management Limited and were intended to provide greater flexibility to assist employees with the repayment of their loan(s). The variations did not amend the full recourse nature of the SPA loans.

The variations included extending the maximum loan term from 10 to 15 years and removing the requirement for loan repayments from an employee's annual cash bonus. In addition, voluntary loan repayments have been permitted, however MFG retains absolute discretion to determine the allocation of loan repayments where multiple loans are held. This ensures appropriate security over the outstanding loan is retained by the Group. For the same reason, where an employee has more than one SPA loan, dividends are not aggregated but rather repayment occurs by applying the dividends received from the shares issued under each SPA loan to that particular SPA loan.

Where an employee is awarded a cash retention amount (refer to note 13) and has an outstanding SPA loan at the payment date of that award, the variation includes a requirement for the after-tax amount to be applied to reduce any outstanding SPA loan.

# Notes to the Financial Statements

For the year ended 30 June 2022

At 30 June 2022, the weighted average duration of the SPA loans was 6.9 years, with individual terms ranging from 1.5 years to 14.4 years (June 2021: weighted average duration of 5.0 years, with individual terms ranging from 1.2 years to 9.8 years).

## Reconciliation of SPA Loans

	30 June 2022		30 June 2021	
	Number of shares	SPA loans \$'000	Number of shares	SPA loans \$'000
Opening balance at 1 July	1,196,445	25,458	950,469	15,289
Loan issuances	566,503	15,029	312,720	12,010
Modification adjustment	-	(350)	-	-
Imputed interest income/(expense)	-	(233)	-	1,128
Repayments - cash	-	(3,120)	-	(749)
Repayments - dividends (refer to note 19)	-	(2,892)	-	(2,220)
Expected credit losses <sup>1</sup>	-	(375)	-	-
Shares released on loan termination	(384,594)	-	(66,744)	-
<b>Closing balance</b>	<b>1,378,354</b>	<b>33,517</b>	<b>1,196,445</b>	<b>25,458</b>

<sup>1</sup> Reflects an allowance for potential loan defaults recognised in accordance with the measurement requirements of AASB 9 *Financial Instruments* (refer to note 22 for further discussion).

## Classification and Measurement

SPA loans are initially recognised at fair value, which is determined by discounting loans to their net present value using an interest rate reflective of the risk of the underlying asset at the time the loan is granted and an estimated repayment schedule. Subsequently, the loans are carried at amortised cost using the effective interest rate method and adjusted for changes in the projected repayment schedule. Changes in the carrying value of the SPA loans are recognised within interest income in the Consolidated Statement of Profit or Loss and Comprehensive Income.

The cost of providing the interest free loans to SPA participants is capitalised at inception of the loan and subsequently expensed on a straight-line basis over the expected life of the SPA loan. This cost, which reflects the foregone interest income of the Group, is recorded within employee expenses in the Consolidated Statement of Profit or Loss and Comprehensive Income. During the year ended 30 June 2022, \$2,132,000 was recognised within employee expenses (June 2021: \$888,000).

Both the change in the carrying value of the SPA loans recorded in interest income and the cost of providing the interest free loan to participants recorded as employee expenses are non-cash items and therefore not included in the Group's Consolidated Statement of Cash Flows. Over the life of the SPA loans, the amounts credited to interest income and the amounts recognised within employee expenses will exactly offset each other.

On variation of the SPA loan terms, the revised cash flows, reflecting the new loan maturities and repayment terms, were discounted using the effective interest rate determined at inception of the original loan. The carrying values of the SPA loan, and the related capitalised cost of providing those loans were adjusted and a net modification gain of \$206,000 was recognised within interest income in the the Consolidated Statement of Profit or Loss and Comprehensive Income (June 2021: nil).

The total value of MFG ordinary shares securing the SPA loans to SPA participants applying MFG's closing share price at 30 June 2022 of \$12.92 was \$17,808,000 (June 2021: \$64,441,000 at a share price of \$53.86). An impairment analysis is performed at each reporting date to determine whether to recognise a loss allowance for potential loan defaults. At 30 June 2022, an expected credit loss allowance of \$375,000 (June 2021: nil) has been recognised within other expenses in the Consolidated Statement of Profit or Loss and Comprehensive Income (refer to note 22 for further discussion).

# Notes to the Financial Statements

For the year ended 30 June 2022

## 11. Leases

The Group's lease arrangements primarily comprise operating leases of office space typically for fixed periods of up to 10 years.

At commencement of a lease, the Group records a lease liability in the Consolidated Statement of Financial Position reflecting the present value of future contractual payments to be made over the lease term, discounted at the Group's incremental borrowing rate, unless an interest rate is stated within the lease. A right-of-use ("ROU") asset is also recorded at the value of the lease liability plus any initial direct costs incurred to obtain the leased asset.

Interest is accrued on the lease liability, and recognised within finance costs in the Consolidated Statement of Profit and Loss and Comprehensive Income, whilst the liability balance is reduced as lease payments are made. The ROU asset is depreciated on a straight-line basis over the shorter of the leased asset's useful life or the lease term.

The liability is remeasured upon the occurrence of certain events, such as a change in the lease term or the lease payments. The amount of any liability remeasurement is adjusted against the value of the ROU asset.

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

	30 June 2022		30 June 2021	
	ROU assets \$'000	Lease liabilities \$'000	ROU assets \$'000	Lease liabilities \$'000
Opening balance at 1 July	11,497	14,600	13,666	17,288
Additions and remeasurements	323	313	138	135
Lease terminations	-	-	-	(323)
Lease payments	-	(2,918)	-	(3,107)
Depreciation expense	(2,270)	-	(2,285)	-
Interest expense	-	547	-	634
Net foreign exchange differences	10	10	(22)	(27)
<b>Closing balance</b>	<b>9,560</b>	<b>12,552</b>	<b>11,497</b>	<b>14,600</b>

The Group's undiscounted lease payments are contractually due in the following time periods:

	30 June 2022				30 June 2021			
	Within 1 year \$'000	Within 2 to 5 years \$'000	Beyond 5 years \$'000	Total \$'000	Within 1 year \$'000	Within 2 to 5 years \$'000	Beyond 5 years \$'000	Total \$'000
Lease liabilities	3,036	10,721	-	13,757	2,817	11,716	1,809	16,342

## 12. Payables

Payables represent liabilities for goods and services received prior to the end of the year which remain unpaid at 30 June.

	30 June 2022 \$'000	30 June 2021 \$'000 <sup>1</sup>
Trade payables and accruals	13,456	10,321
GST and Fringe Benefits Tax payable	2,022	2,716
Unsettled trades	-	6
<b>Total payables</b>	<b>15,478</b>	<b>13,043</b>

<sup>1</sup> Prior year comparatives as at 30 June 2021 have been restated by reclassifying current payables of \$23,510,000 to current employee benefits.

Trade payables are unsecured and are recognised at the amount due to suppliers. Accruals represent amounts due for supplies and services received but not invoiced at reporting date.

# Notes to the Financial Statements

For the year ended 30 June 2022

## 13. Employee Benefits

Employee benefits comprise wages, salaries, annual and long service leave obligations, bonuses and cash retention incentives.

	30 June 2022 \$'000	30 June 2021 \$'000 <sup>1</sup>
Accrued employee entitlements	27,377	21,584
Leave obligations	4,024	3,909
<b>Total current employee benefits</b>	<b>31,401</b>	25,493
Accrued employee entitlements	1,636	2,947
Leave obligations	1,680	1,475
<b>Total non-current employee benefits</b>	<b>3,316</b>	4,422

<sup>1</sup> Prior year comparatives as at 30 June 2021 have been restated by reclassifying current payables of \$23,510,000 and current provisions of \$1,983,000 to current employee benefits and by reclassifying non-current provisions of \$4,422,000 to non-current employee benefits.

### Wages, Salaries and Annual Leave

Liabilities for wages and salaries and annual leave are measured at the amounts expected to be paid when the liabilities are settled and include related on-costs, for example payroll tax.

### Long Service Leave

Liabilities for long service leave are recognised when employees reach a qualifying period of continuous service. Current liabilities are measured at the amount expected to be settled within 12 months of the reporting date. Non-current liabilities are measured as the present value of expected future payments and are expected to be paid beyond 12 months of the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service and discounted using high quality corporate bond rates at reporting date, with terms to maturity that match, as closely as possible, the estimated future cash outflows.

### Bonuses

Bonuses are recognised in respect of employee services received up to the end of the reporting period where the Group is contractually obliged or where there is past practice that has created a constructive obligation to pay the bonus under the employee bonus plan. A current liability is recorded for accrued bonuses to be paid within 12 months of reporting date. A non-current liability is recorded for accrued bonuses to be paid beyond 12 months of the reporting date.

For certain employees, a portion of their annual bonus is deferred and paid in equal instalments for a period of up to 36 months conditional on the employee being employed at the time of payment. The conditional deferred bonus paid each month is expensed in the Consolidated Statement of Profit or Loss and Comprehensive Income as incurred.

The unrecognised portion of annual bonuses payable to employees by the Group in the future is a contingent liability. At 30 June 2022, the contingent liability is \$9,766,000 (June 2021: \$16,596,000). Of this amount, \$4,405,000 would be payable during the year ending 30 June 2023 and \$5,361,000 would be payable during the years ending 30 June 2024 through 30 June 2025, subject to the vesting conditions being met.

### Employee Retention Program

During the year ended 30 June 2022, the Group offered a retention package to employees as part of its broader employee retention program. The package included a cash incentive payable subject to satisfactory performance and continued employment up to September 2024 and September 2025. Where employees have a share purchase loan, cash incentive awarded at those dates will firstly be directed to repayment of the outstanding loan. For further details refer to section 3.2 in the Remuneration Report.

Retention incentives payable in cash are recognised in respect of employee services received up to the end of the reporting period. A current liability is recorded for accrued incentives to be paid within 12 months of reporting date. A non-current liability is recorded for accrued incentives to be paid beyond 12 months of the reporting date.

The retention incentives payable in cash for services provided by employees in future periods is a contingent liability. At 30 June 2022, the contingent liability is \$16,433,000 (June 2021: \$nil). Of this amount, \$6,650,000 would be payable during the year ending 30 June 2025 and \$9,783,000 would be payable during the year ending 30 June 2026, subject to the vesting conditions being met.

# Notes to the Financial Statements

For the year ended 30 June 2022

## 14. Financial Liabilities

	30 June 2022 \$'000	30 June 2021 \$'000
<b>Financial liabilities - fair value through profit or loss</b>		
Obligation to fund the discount offered on MGF Options <sup>1</sup>	133,349	157,093
Other financial liabilities	-	454
<b>Total financial liabilities</b>	<b>133,349</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:

	30 June 2022 \$'000	30 June 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	(22,961)	19,996
Expense recognised in the Consolidated Statement of Profit or Loss and Comprehensive Income	134,132	157,216
Exercise of MGF Options during the period	(783)	(123)
<b>Closing balance as at 30 June</b>	<b>133,349</b>	<b>157,093</b>

### Classification and Measurement

Financial liabilities are recognised initially at fair value on the date at which the Group becomes a party to the contractual provisions of the instrument. These liabilities are subsequently measured at fair value through profit or loss if they are held for trading purposes or designated as such upon initial recognition. Changes in the value of such liabilities are recognised in the Consolidated Statement of Profit or Loss and Comprehensive Income.

All other financial liabilities are measured at amortised cost.

Financial liabilities are classified as current unless the Group has the unconditional right to defer settlement beyond 12 months from the reporting date.

# Notes to the Financial Statements

For the year ended 30 June 2022

## 15. Capital Management

The Board of Directors is committed to prudent capital management and a conservative approach to protect shareholder value. The Board's objectives when managing capital are to ensure the Group continues as a going concern, has sufficient liquidity to meet its operating requirements, is able to support the payment of dividends to shareholders in accordance with the Company's dividend policy, and maintains the flexibility to retain capital if required for future business expansion. The Directors recognise and believe that the Group's core business, being funds management, is scalable over time without the need to make material additional capital investment into the business.

The Group's capital consists of contributed equity and a profits reserve which preserves the Company's capacity to pay future dividends.

The Board regularly reviews the Group's free cash flow generation, cash and cash equivalents, investments, tax and other financial factors. The Group also has access to a revolving credit facility which remains fully undrawn as at 30 June 2022 (refer to the Liquidity Risk discussion in note 22). In order to maintain an optimal capital structure, the Board may:

- vary the amount of dividends paid to shareholders;
- issue new shares;
- utilise a dividend reinvestment plan;
- increase or decrease borrowings; or
- redeem and/or sell investments.

The Group is also subject to regulatory capital requirements by virtue of an Australian Financial Services Licence ("AFSL") held by MAM. Under the AFSL, MAM must hold a minimum level of net tangible assets and cash and cash equivalents. During the 2022 financial year MAM complied with its licensing requirements at all times.

## 16. Contributed Equity

	30 June 2022		30 June 2021	
	Number of securities '000	Contributed equity \$'000	Number of securities '000	Contributed equity \$'000
<b>Ordinary shares</b>				
Opening balance	183,794	607,849	182,280	525,271
Shares issued:				
Under Dividend Reinvestment Plan <sup>1</sup>	1,353	52,335	-	-
Under SPA	566	19,731	313	16,411
On exercise of MFG 2027 Options	3	99	-	-
As purchase consideration for shares in Barrenjoey	-	-	1,201	66,033
Shares bought back on-market and cancelled <sup>2</sup>	(627)	(7,796)	-	-
Transaction costs, net of tax	-	(164)	-	(81)
SPA expense	-	207	-	215
<b>Total ordinary shares<sup>3,4</sup></b>	<b>185,089</b>	<b>672,261</b>	183,794	607,849
<b>Options</b>				
Opening balance	-	-	-	-
MFG 2027 Options issued 14 April 2022	23,219	-	-	-
Shares issued from exercise of options during period	(3)	-	-	-
Transaction costs of option issues, net of tax	-	(545)	-	-
<b>Total options</b>	<b>23,216</b>	<b>(545)</b>	-	-
<b>Total contributed equity</b>	<b>208,305</b>	<b>671,716</b>	183,794	607,849

<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 \$906,000 in respect of share purchases that had not settled as at 30 June 2022.

<sup>3</sup> Includes 1,378,354 ordinary shares held by SPA participants (June 2021: 1,196,445). Refer to note 10 for further details.

<sup>4</sup> Includes 1,480,060 ordinary shares subject to voluntary escrow which expires in respect of 655,646 shares on 1 March 2023, in respect of 98,438 shares on 2 October each year until 2025 and in respect of 430,662 shares on 23 November 2031 (or such other date determined under the terms governing the issuance of those shares).

# Notes to the Financial Statements

For the year ended 30 June 2022

## Ordinary Shares

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.

## Share Buy-back

On 16 March 2022, the Company announced its intention to undertake an on-market share buy-back of up to 10 million ordinary shares, representing up to 5.4% of the shares on issue. During the year ended 30 June 2022, the Group bought back and cancelled 626,960 ordinary shares at a total cost of approximately \$7,796,000. The shares were acquired at an average price of \$12.43 per share, with prices ranging from \$11.91 to \$12.97. The total acquisition cost, inclusive of after-tax transaction costs, was deducted from contributed equity. The on-market buy-back program has a proposed end date of 3 April 2023.

## MFG 2027 Options

On 14 April 2022, each eligible shareholder received one option for every eight ordinary shares held at 7 April 2022 for nil consideration. A total of 23,218,530 options were issued by the Company. The options are listed on the ASX (ASX code: MFG0) with an exercise price of \$35.00. Each option entitles the holder to acquire one ordinary share in the company and is exercisable at any time prior to their expiry date at 5pm (Sydney time) on 16 April 2027.

The options are not entitled to dividends, and ordinary shares issued on exercise of the options rank equally with all other ordinary shares from the date of issue. Ordinary shares issued on exercise of the options are only entitled to receive a dividend if such shares have been issued on or prior to the applicable record date for determining entitlements.

## Employee Options

Information relating to the MFG Limited Employee Share Option Plan, including details of the options issued and lapsed during the financial year and options outstanding at the end of the reporting period, is set out in note 18.

## 17. Reserves

	30 June 2022 \$'000	30 June 2021 \$'000
<b>Profits reserve</b>		
Opening balance at 1 July	345,089	356,925
Transfer from retained earnings	382,323	388,907
Payment of dividends	(414,179)	(400,743)
Closing balance at 30 June	313,233	345,089
<b>Share-based payments reserve</b>		
Opening balance at 1 July	-	-
Recognised in employee expenses	1,283	-
Closing balance at 30 June	1,283	-
<b>Foreign currency translation reserve</b>		
Opening balance at 1 July	(102)	3,382
Recognised in other comprehensive income	3,344	(3,484)
Closing balance at 30 June	3,242	(102)
<b>Total reserves</b>	<b>317,758</b>	<b>344,987</b>

## Profits Reserve

The profits reserve consists of profits transferred from MFG's accumulated retained profits that are preserved for future dividend payments. The profits reserve will reduce when dividends are paid from this reserve.

## Share-based Payments Reserve

The share-based payments reserve is used to recognise the fair value of options issued to employees under the MFG Limited Employee Share Option Plan over the vesting period (refer to note 18).

# Notes to the Financial Statements

For the year ended 30 June 2022

## Foreign Currency Translation Reserve

The foreign currency translation reserve comprises foreign exchange differences arising from translation of the financial statements of the Group's US-based operations to Australian dollars.

## 18. Employee Share Option Plan

During the financial year, the Magellan Financial Group Limited Employee Share Option Plan ("ESOP") was established as part of broader employee engagement and retention program. Participation in the ESOP is at the Board's discretion and no individual has a contractual right to participate or to receive any guaranteed benefits.

Under the ESOP, participants have been granted options which vest on 1 September 2024 provided the participant has not given or been given notice of termination of their employment. Once vested, the options may be exercised until 16 April 2027 provided the participant remains employed with satisfactory performance. Options are granted under the ESOP for no consideration and carry no dividend or voting rights. If exercised, each option is converted into one ordinary share at an exercise price of \$35.00 per option.

On exercise of their options, participants can pay the exercise price in cash and be issued an equivalent number of MFG shares or, alternatively, can elect to set off the total applicable exercise price against the market value of the equivalent number of shares which they are entitled to receive on exercise ("cashless exercise"). Under a cashless exercise, the market value of the shares is calculated as the volume weighted average MFG share price in respect of the 10 trading days ending on the day before the exercise date. The number of shares issued to a participant who elects the cashless exercise alternative will be equivalent in value to the number of options exercised, multiplied by the excess of the market value over the \$35.00 option exercise price.

Set out below is a summary of options granted under the ESOP:

	Number of options	Weighted average exercise price
Outstanding at 1 July 2021	-	-
Granted	8,327,500	\$35.00
Lapsed	(125,000)	\$35.00
<b>Outstanding at 30 June 2022<sup>1</sup></b>	<b>8,202,500</b>	<b>\$35.00</b>
Exercisable at 30 June 2022	-	-

<sup>1</sup> The options outstanding at 30 June 2022 have a contractual life of 4.8 years.

## Fair Value

The assessed fair value at grant date of options granted during the year ended 30 June 2022 was \$1.512 per option (June 2021: nil). The fair value at grant date was independently determined using a binomial tree model under the Black-Scholes-Merton framework that takes into account the exercise price, the term of the option, the share price at grant date, price volatility of the underlying share, dividend yield and the risk-free interest rate for the term of the option. The model inputs for options granted during the year ended 30 June 2022 include:

	Assumption
Grant date	11 April 2022
Expiry date	16 April 2027
Share price at grant date	\$16.62
Exercise price	\$35.00
Expected share price volatility <sup>1</sup>	42.0%
Expected dividend yield	7.6%
Risk-free interest rate	2.9%

<sup>1</sup> Expected price volatility is based on historic volatility over a period commensurate with the remaining life of the options, adjusted for the impacts of extraordinary periods of volatility not expected by the Directors to occur in the future.

## Classification and Measurement

Over the vesting period, the fair value of the options is recognised as an employee expense within the Consolidated Statement of Profit or Loss and Comprehensive Income, with a corresponding entry recognised in the share-based payments reserve within equity. Where an option holder ceases to be an employee before the option has vested, the cumulative employee expense recognised in previous periods is reversed. There is no reversal of employee expense for vested options that subsequently lapse or expire unexercised.

# Notes to the Financial Statements

For the year ended 30 June 2022

The total share-based payment expense recorded in respect of options issued under the ESOP for the year ended 30 June 2022 is \$1,283,000 (June 2021: nil).

## 19. Dividends

	Cents per share	Franking % <sup>1</sup>	Total \$'000	Date Paid
<b>During the year ended 30 June 2022</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
Total prior year final and performance fee dividend paid	114.1		209,709	
Interim dividend paid	110.1	75%	204,470	8 March 2022
<b>Total dividends declared and paid during the year<sup>2</sup></b>	<b>224.2</b>		<b>414,179</b>	
<b>During the year ended 30 June 2021</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
Total prior year final and performance fee dividend paid	122.0		222,382	
Interim dividend paid	97.1	75%	178,361	25 February 2021
<b>Total dividends declared and paid during the year<sup>2</sup></b>	<b>219.1</b>		<b>400,743</b>	

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

<sup>2</sup> Includes dividends of \$2,892,000 which were not paid in cash but rather applied directly against the balances of SPA loans (June 2021: \$2,220,000) (refer to note 10) and a further \$29,468,000 which were not paid in cash as they were delivered in shares in relation to the DRP participation (June 2021: nil).

### Dividend Declared

On 17 August 2022, the Directors declared a total dividend of 68.9 cents per ordinary share (80% franked at the corporate tax rate of 30%) in respect of the six months to 30 June 2022 (June 2021: 114.1 cents per ordinary share 75% franked). The dividend comprises a Final Dividend of 65.0 cents per ordinary share and a Performance Fee Dividend of 3.9 cents per share (June 2021: Final Dividend of 102.6 cents per ordinary share and a Performance Fee Dividend of 11.5 cents per ordinary share).

A dividend payable to shareholders of the Company is only recognised for the amount of any dividend declared by the Directors on or before the end of the financial year, but not paid at reporting date. Accordingly, the Final Dividend and Performance Fee Dividend for the six months to 30 June 2022 totalling approximately \$127,526,000 are not recognised as liabilities and will be paid on 6 September 2022.

### Imputation Credits

The Group has a total of \$39,363,000 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 year. The dividend declared by the Directors on 17 August 2022 will be partially franked out of existing franking credits, or out of franking credits arising from the payment of income tax.

# Notes to the Financial Statements

For the year ended 30 June 2022

## 20. Subsidiaries

	Country of incorporation/ Principal place of business	% equity interest <sup>1</sup>	
		30 June 2022	30 June 2021
Magellan Asset Management Limited	Australia	100	100
Magellan FuturePay Pty Limited <sup>2</sup>	Australia	100	100
Magellan Capital Partners Pty Limited	Australia	100	100
Magellan Capital Partners No. 2 Pty Limited <sup>3</sup>	Australia	100	100
Magellan Capital Partners No. 3 Pty Limited <sup>3</sup>	Australia	100	100
Magellan Capital Partners No. 4 Pty Limited <sup>3</sup>	Australia	100	-
MFG Services LLC <sup>4</sup>	United States of America	100	100
Frontier North American Holdings Inc. <sup>5</sup>	United States of America	80	80
Frontier Partners Inc.	United States of America	100	100
Frontegra Strategies LLC	United States of America	100	100
Frontegra Asset Management Inc.	United States of America	100	100
MFG High Conviction Master Fund GP LLC	United States of America	100	100

<sup>1</sup> The proportion of ownership interest is equal to the proportion of voting power held.

<sup>2</sup> Magellan FuturePay Pty Limited (formerly MRTF Pty Limited) is the corporate trustee of FuturePay Support Trust.

<sup>3</sup> Magellan Capital Partners No. 2 Pty Limited, Magellan Capital Partners No. 3 Pty Limited and Magellan Capital Partners No. 4 Pty Limited have share capital consisting solely of ordinary shares that are held wholly and directly by MFG, which also holds all the voting rights.

<sup>4</sup> MFG Services LLC ("MFGS") is a service company and provides MAM with investment research and distribution services.

<sup>5</sup> Frontier North American Holdings Inc. ("FNAH") is the US holding company of the Frontier Group. FNAH is 20% owned by a former shareholder of the Frontier Group. MFG has a call option over the remaining 20% of the issued share capital of FNAH, the acquirer of the Frontier Group and a controlled entity of MFG. The minority shareholder of FNAH, Mr Bill Forsyth, holds a put option over his interest in the issued share capital of FNAH. The options can be exercised by either party during the period 1 January 2026 to 31 March 2026, at an exercise price based on a multiple of annualised average earnings for a specified period. In addition to the above, MFG holds a further call option to purchase the remaining 20% of the issued share capital of FNAH for \$1. This option can be triggered at any time prior to 31 December 2025 in certain circumstances. At the date of this report, the Group has no expectation that this call option would be triggered. The Group has determined that it has a present ownership interest in the non-controlling interest of FNAH.

Inset names in the previous table indicate that shares are held by the company listed immediately above. All material subsidiaries have a 30 June reporting date. Transactions between MAM and foreign entities are subject to transfer pricing arrangements.

The Group's investments in other entities are set out in notes 7 and 8.

### Key Judgement

Certain subsidiaries of the Group provide fiduciary and/or investment management services to funds in which the Group holds an economic interest. Such interests are not considered to be interests in controlled entities and consequently have been recognised in the Consolidated Statement of Financial Position as financial assets held at fair value through profit or loss. This classification involves the use of judgement in assessing whether the Group controls each relevant fund, including consideration of the nature and significance of various factors such as the exposure of the Group to variability of returns, compensation to which Group entities are entitled, the scope of the Group entities' decision-making authority and the rights held by third parties to remove the Group entities as Responsible Entity/Trustee or Investment Manager.

### Principles of Consolidation

The consolidated financial report of the Group comprises the financial statements of the Company and its subsidiaries. Subsidiaries are entities over which the Group has the power to govern the financial and operating policies, is exposed to variable returns from its involvement in the entity and has the ability to affect those returns. Assets, liabilities, income and expenses of a subsidiary are included from the date the Group gains control until the date control ceases. All inter-entity assets, liabilities, equity, income, expenses and cash flows relating to transactions within the Group are eliminated in full on consolidation. When necessary, adjustments are made to the results of subsidiaries to bring them into line with the Group's accounting policies.

### Foreign Subsidiaries

On consolidation, the assets and liabilities of foreign subsidiaries whose functional currency differs from the presentation currency are translated into Australian dollars at the rate of exchange at reporting date. Exchange differences arising on translation are recognised in comprehensive income and accumulate in the foreign currency translation reserve within equity. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the Consolidated Statement of Profit or Loss and Comprehensive Income.

# Notes to the Financial Statements

For the year ended 30 June 2022

## 21. Related Parties

Magellan Financial Group Limited is the ultimate parent entity of the Group. The related parties of the Group include its subsidiaries, associates, key management personnel ("KMP"), close family members of KMP and any entity controlled by those entities.

### Transactions with Related Parties

Management and performance fees from investment funds managed by subsidiaries of the Group are set out in note 4.

Transactions with associates are set out in note 8.

Other transactions that occurred between entities of the Group are fully eliminated on consolidation of the Group and include:

	30 June 2022 \$'000	30 June 2021 \$'000
<i>Revenue recognised by parent entity</i>		
Dividends <sup>1</sup>	411,795	495,474
Reimbursed expenses	300	253
<i>Expenses recognised by parent entity</i>		
Expense reimbursements	38	20
<i>Equity contributions (from)/to subsidiaries</i>		
Cash	(94,604)	205,011
Non-cash	-	66,033
<i>Transactions between subsidiaries at international transfer prices</i>		
Service fees and recharged expenses	25,068	24,907

<sup>1</sup> Comprising dividends from MAM of \$388,000,000 and MCP3 of \$23,795,000 (June 2021: \$495,000,000 from MAM and \$474,000 from MFGS).

All transactions with related parties are conducted on standard commercial terms and conditions. Receivable and payable balances at year end are unsecured and will be settled in cash. No guarantees have been given or received between entities in the Group.

### KMP Remuneration

	30 June 2022 \$'000	30 June 2021 \$'000
Short-term benefits		
Salary	5,754	5,766
Cash bonus	3,576	4,525
Post-employment benefits	144	134
Termination benefits	2,903	-
Long-term benefits	201	82
Share-based payments	35	-
Other benefits	910	461
<b>Total remuneration paid to KMP</b>	<b>13,523</b>	<b>10,969</b>

The KMP of the Group are listed in section 3.1 of the Remuneration Report and the remuneration of each KMP is included in section 3.5 of the Remuneration Report.

# Notes to the Financial Statements

For the year ended 30 June 2022

## 22. Financial Instrument Risk Management

The Group's operating and investing activities expose it to various forms of financial instrument risk including:

- the risk that money owed to the Group will not be received (*credit risk*);
- the risk that the Group may not have sufficient cash available to pay its creditors as they fall due (*liquidity risk*); and
- the risk that the value of financial assets and liabilities will fluctuate as a result of movements in factors such as market prices, interest rates and foreign exchange rates (*market risk*).

The Board has an approved risk management framework including policies, procedures and limits and uses different methods to measure and manage these risks that are discussed in detail throughout this note.

The Group's primary exposure to financial instrument risk is derived from the financial instruments that it holds as principal. In addition, due to the nature of the business, the Group's exposure extends to the impact on investment management and other fees that are determined as a percentage of funds under management and are therefore impacted by the financial instrument risk exposures of the Group's clients. This note deals only with the primary exposure of the risks from the Group's holding of financial instruments and not the secondary exposure impacting the Group's revenue.

The investment portfolios of funds managed by MAM are monitored on a daily basis in accordance with the investment objectives and mandates of those funds. Further details of the risk management objectives and policies applied in respect of the Group's managed funds can be found in their product disclosure statements ("PDS") and in the case of the Frontier MFG Funds, in their prospectuses.

### Credit Risk

Credit risk refers to the risk that a counterparty will fail to meet its contractual obligations resulting in financial loss to the Group. Market prices generally take counterparty credit into account and therefore the risk of loss is implicitly provided for in the carrying value of financial assets and liabilities held at fair value.

The Group's maximum exposure to credit risk is the carrying amount of all cash and cash equivalents, financial assets, receivables and SPA loans recognised in the Consolidated Statement of Financial Position as well as the value of any undrawn loan commitments which are accessible to counterparties at reporting date.

Additionally, MAM in its capacity as Trustee and Responsible Entity of the Magellan Funds (as set out in note 2) has appointed The Northern Trust Company ("NT") as custodian. NT is required to comply with the relevant provisions of the *Corporations Act 2001*, applicable ASIC regulatory guides and Regulatory Instruments relating to registered managed investment scheme property arrangements with custodians. As at 30 June 2022, the credit quality of NT's senior debt is rated by Standard and Poor's as A+ and by Moody's as A2 (June 2021: A+ and A2 respectively).

### Cash and Cash Equivalents

The Group minimises its credit risk by ensuring cash and term deposits are held with high credit quality financial institutions as determined by a recognised rating agency. As at 30 June 2022, the Group's cash and term deposits were held with major Australian and international banks rated no lower than AA- by Standard & Poor's or Aa3 by Moody's (June 2021: AA- and Aa3, respectively).

### Financial Assets

The Group mitigates its credit risk by ensuring the majority of its financial assets are held with Magellan Funds for which MAM is the Trustee or Responsible Entity.

MFG has entered into an International Prime Brokerage Agreement ("IPBA") with Merrill Lynch International ("MLI"), a subsidiary of Bank of America. The services provided by MLI under the IPBA include clearing and settlement of transactions, securities lending and acting as custodian for MFG's investment assets. The IPBA with MLI is in a form that is typical of prime brokerage arrangements. MFG has granted MLI a fixed charge over the Company's right, title and interest in the assets held in custody with MLI, as security for the performance of its obligations under the IPBA. In the event of MLI becoming insolvent, MFG would rank as an unsecured creditor and, to the extent MLI has exercised a right-of-use over MFG's securities, MFG may not be able to recover such equivalent securities in full. In addition, cash which MLI holds or receives on behalf of MFG is not segregated from MLI's own cash and may be used by MLI in the course of its business. In the event of MLI becoming insolvent, MFG would rank as an unsecured creditor and may not be able to recover the cash in full. At 30 June 2022 and 2021, MFG held a negligible cash balance with MLI.

### Loans and Receivables

The Group manages credit risk by regularly monitoring receivables and SPA loan balances.

# Notes to the Financial Statements

For the year ended 30 June 2022

Fee receivables arise as a result of the Group's investment management activities and are typically paid between 15 and 45 days of being invoiced. These counterparties generally do not have an independent credit rating and the Group assesses credit quality taking into account each debtor's financial position, past experience and other available credit risk information. Historically, default levels have been insignificant and unless a client has withdrawn its funds, there is an ongoing relationship between the Group and the client.

SPA loans are secured by the MFG shares issued to participants under the SPA as well as MFG 2027 Options issued to SPA participants in respect of those shares. Additionally, whilst the SPA loan is outstanding, the Group is entitled to both the dividends received from the secured shares and 100% of the after-tax cash retention bonuses paid to employees in September 2024 and September 2025.

The Group's credit exposure is therefore limited to any shortfall represented by the difference between the face value of SPA loans and the aggregate value of the MFG shares, MFG 2027 Options, dividends and after-tax cash retention bonuses securing those loans for each SPA participant. At 30 June 2022, the total SPA loan shortfall was \$11,614,000 (June 2021: \$nil). As the SPA loans are full recourse, the Group is entitled to recover any shortfall from the SPA participant.

Expected credit losses ("ECL") are estimates of the shortfalls expected to result from defaults over the relevant timeframe. Given the long-term nature of the SPA loans, the Group estimates ECLs over the life of the financial instruments. For an SPA loan the ECL is calculated by multiplying the shortfall amount to which the Group is exposed by the assessed probability of default. As there has never been an historical default of an SPA loan, the Group determines the default probabilities to apply to SPA loans having regard to the default probabilities published by the major Australian banks in respect of retail lending.

At 30 June 2022, the Group applied probabilities of default to its SPA loans ranging from 2.5% to 4% (June 2021: 2.5% to 4%) resulting in an aggregate recognised allowance for ECLs of \$375,000 (June 2021: nil). For each 1% increase in the applied probability of default, the Group's total allowance for ECLs would increase by \$116,000.

## *Undrawn Loan Commitments*

The Group has provided Barrenjoey with up to \$50,000,000 of working capital finance under an unsecured revolving facility that matures in September 2023.

## *Liquidity Risk*

Liquidity risk is the risk that the Group may not be able to meet its financial obligations in a timely manner or may be forced to sell financial assets at a value which is less than their worth.

The Group manages liquidity risk by monitoring rolling cash flow forecasts in order to maintain sufficient cash reserves to meet future obligations and regulatory capital requirements. Additionally, the Group has access to an undrawn credit facility (discussed below) and liquid equity investments held in the Fund Investments portfolio.

As at 30 June 2022, the Group had an obligation to settle trade creditors and other payables of \$15,478,000 (June 2021: \$13,043,000) within 30 days (refer to note 12). A further obligation of \$18,483,000 (June 2021: \$11,576,000) is payable between 30-150 days for the Group's tax instalment and final income tax payment. On 6 September 2022, \$127,526,000 is expected to be paid in respect of the Final and Performance Fee dividend (refer to note 19). Finally, the Group's obligation to fund the discount offered on MGF options (refer to note 14) is classified as a current liability because the Group has no control over when options might be converted by the holders of those instruments. The Group had cash of \$419,922,000 (June 2021: \$211,577,000) and a further \$64,654,000 (June 2021: \$114,122,000) of receivables to cover these liabilities.

The Group's reported current assets of \$489,560,000 and current liabilities of \$201,296,000 result in a net current asset surplus of \$288,264,000. Accordingly, the Group has sufficient liquid funds and current assets to meet its current liabilities.

The Group has access to a \$150,000,000 floating rate facility provided by a major Australian bank which may be drawn at any time up to 19 February 2024. During the year, the borrowing capacity under the facility was reduced from \$210,000,000 following an assessment by management of the level of financial support deemed necessary to meet the Group's obligations under the MGF Partnership Offer and commitment to Magellan FuturePay. Commitment fees apply when the facility is undrawn. For the year ended 30 June 2022, these commitment fees amounted to \$1,680,000 (June 2021: \$2,135,000) and were recognised within finance costs.

At 30 June 2022, the facility was undrawn and all financial covenants were complied with during the year.

# Notes to the Financial Statements

For the year ended 30 June 2022

## Market Risk

The value of the Group's financial assets and liabilities is exposed to movements in market prices, foreign exchange rates and interest rates.

### Price Sensitivity

The value of investments held in the Fund Investments portfolio (refer to note 7) changes as a result of movements in equity prices in local currency (caused by factors specific to the individual stock or the market as a whole), exchange rate movements, or a combination of both. Additionally, certain financial liabilities held by the Group change as a result of movements in the estimated unit prices of the funds to which they relate.

Over the past 10 financial years, the annual performance of the MSCI World Net Total Return Index has ranged between +39% and -14% (in USD) and +33% and -6% (in AUD). The past performance of markets is not always a reliable guide to future performance, and MFG's Fund Investments portfolio does not attempt to mirror the global indices, however this wide range of historic movements in the indices provides an indication of the magnitude of equity price movements that could occur within the portfolio.

For illustrative purposes, an increase of 10% in market prices would have had the following impact on the recorded value of the Group's financial instruments:

	30 June 2022 \$'000	30 June 2021 \$'000
Financial assets at fair value through profit or loss	26,561	31,677
Financial liabilities at fair value through profit or loss	(7,101)	(12,493)
<b>Impact on net profit after tax/other comprehensive income and equity</b>	<b>19,460</b>	<b>19,184</b>

A decrease of 10% in market prices would have an equal but opposite impact on net profit, comprehensive income and equity.

### Foreign Exchange Sensitivity

The Group holds the following types of financial assets and liabilities for which fair value changes arise as a result of movements in foreign exchange rates:

- Cash and term deposits denominated in a foreign currency;
- Financial assets denominated in a foreign currency (refer to note 7) as well as related dividend/distribution receivables and outstanding settlements for sales/purchases;
- Management and performance fees receivable denominated in a foreign currency; and
- Payables denominated in a foreign currency.

The Group's foreign currency transactions are primarily conducted in the following currencies: Australian dollars, United States dollars, British pounds, Euros and New Zealand dollars.

For illustrative purposes, if the Australian dollar strengthened by 10% relative to each currency to which the Group had an exposure, with all other variables held constant, the impact on net profit after tax and equity would have been:

	30 June 2022			30 June 2021		
	Increase(decrease)			Increase(decrease)		
	USD \$'000	GBP \$'000	Other \$'000	USD \$'000	GBP \$'000	Other \$'000
Cash and cash equivalents	(626)	(6)	(15)	(548)	(7)	(15)
Financial assets	(2,895)	(11)	(42)	(3,503)	(16)	(82)
Receivables	(1,694)	(234)	(1)	(674)	(907)	(28)
Payables	132	4	18	74	4	21
Employee benefits	17	-	-	238	-	-
Lease liabilities	8	-	5	15	-	8
<b>Total impact on net profit after tax and equity</b>	<b>(5,058)</b>	<b>(247)</b>	<b>(35)</b>	<b>(4,398)</b>	<b>(926)</b>	<b>(96)</b>

# Notes to the Financial Statements

For the year ended 30 June 2022

A decrease of 10% in the Australian dollar relative to each currency would have an equal but opposite impact on net profit after tax and equity.

The Group has indirect exposure to foreign currency via its investment in funds that are denominated in both Australian dollars, such as the Group's Australian funds, and US dollars, such as the Group's international funds (refer to note 2). This is because the underlying investment portfolios of these funds comprise equities predominantly denominated in foreign currencies and with operating exposure to global currencies. As a result, the fair values of these funds are influenced by currency movements. The sensitivity analysis disclosed above disregards the indirect impact of the foreign currency movement on the underlying fund portfolios.

In addition to its investments, the Group's management and performance fees are also indirectly exposed to fluctuations in foreign currency where fees are invoiced in a different currency to the underlying funds under management. As at 30 June 2022, approximately 82% of the Group's funds under management was exposed to movements in the Australian dollar relative to other currencies (June 2021: 84%).

## Interest Rate Sensitivity

The Group's primary exposure to interest rate movements relates to its cash and term deposits. Term deposits are of relatively short duration and their fair value would not be materially affected by changes in interest rates.

Cash and cash equivalents held by the Group are predominantly held with Australian financial institutions and the value of cash balances is sensitive to the RBA cash rate.

The Group does not hold any financial assets or liabilities for which a change in value as a result of interest rate movements would impact on the Group's recorded net profit or equity.

## Fair Value Disclosures

The Group classifies financial assets and liabilities that are measured at fair value into the following three levels, as prescribed under 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. 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.

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>30 June 2022</b>				
Magellan Fund investments <sup>1</sup>	310,361	63,674	-	374,035
Seed portfolios	4,708	-	-	4,708
Unlisted entities <sup>2</sup>	-	-	695	695
Financial liabilities at fair value through profit or loss	-	(133,349)	-	(133,349)
<b>Total financial assets and liabilities at fair value</b>	<b>315,069</b>	<b>(69,675)</b>	<b>695</b>	<b>246,089</b>
<b>30 June 2021</b>				
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.

# Notes to the Financial Statements

For the year ended 30 June 2022

During the year ended 30 June 2022, 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.

## 23. Commitments and Contingent Assets and Liabilities

### Commitments

The Group has extended loan commitments to certain related parties, which remain undrawn at reporting date (refer to note 22). All other commitments relate to non-cancellable payments under short term and low value lease agreements as set out below:

	30 June 2022 \$'000	30 June 2021 \$'000
Within one year	21	24
Later than one year but no later than five years	-	7
More than five years	-	-
<b>Total</b>	<b>21</b>	<b>31</b>

### Contingent Assets and Liabilities

The Group has contingent assets and liabilities in respect of the following items:

- Dividend Reinvestment Plans of Magellan Funds:* 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 year ended 30 June 2022 no amount was paid (or payable) by the Group for discounts relating to MGF and MHH DRPs (June 2021: \$1,400,000).
- Deferred proceeds in respect of GYG divestment:* refer to note 8
- Deferred conditional bonuses and cash retention incentives:* refer to note 13.

# Notes to the Financial Statements

For the year ended 30 June 2022

## 24. Parent Entity Information

	30 June 2022 \$'000	30 June 2021 \$'000
<b>Assets</b>		
Current assets	353,212	186,948
Non-current assets	792,123	937,304
<b>Total assets</b>	<b>1,145,335</b>	1,124,252
<b>Liabilities</b>		
Current liabilities	158,729	170,939
Non-current liabilities	-	-
<b>Total liabilities</b>	<b>158,729</b>	170,939
<b>Net assets</b>	<b>986,606</b>	953,313
<b>Equity</b>		
Contributed equity	672,090	608,224
Reserves	314,516	345,089
Retained earnings	-	-
<b>Total equity</b>	<b>986,606</b>	953,313
Net profit after income tax expense for the year	382,323	380,399
<b>Total comprehensive income for the year</b>	<b>382,323</b>	380,399

The financial information for the parent entity, Magellan Financial Group Limited, has been prepared on the same basis as the Group's consolidated financial statements, except for investments in subsidiaries. Investments in subsidiaries are accounted for at cost less impairment expense, in the financial statements of the parent entity. Dividends received from subsidiaries are recognised in the parent entity's profit or loss rather than being deducted from the carrying amount of the investment.

### Contingent Assets and Liabilities

At 30 June 2022, MFG has a contingent liability in respect of the dividend reinvestment plans of Magellan Funds (refer to note 23).

# Notes to the Financial Statements

For the year ended 30 June 2022

## 25. Auditor Remuneration and Independence

	30 June 2022 \$'000	30 June 2021 \$'000
<b>Australia - Ernst &amp; Young</b>		
Fees for audit and review of statutory financial reports of:		
MFG Group and controlled entities	175	236
Magellan Funds in Australia	294	259
	469	495
Fees for regulatory audits required to be performed by the auditor	9	9
Fees for other audit related assurance services <sup>1</sup>	83	79
Fees for other assurance services	-	118
Fees for other services:		
Taxation compliance services <sup>2</sup>	151	135
Taxation advisory services <sup>3</sup>	149	19
	300	154
<b>Total Australia</b>	<b>861</b>	<b>855</b>
<b>Overseas - Ernst &amp; Young, Plante Moran</b>		
Fees for audit of statutory financial report of:		
Frontegra Strategies LLC	19	29
Magellan Funds in Ireland	64	65
	83	94
Fees for other services:		
Taxation compliance services <sup>2</sup>	-	-
Taxation advisory services <sup>4</sup>	66	63
	66	63
<b>Total overseas</b>	<b>149</b>	<b>157</b>
<b>Total auditor remuneration</b>	<b>1,010</b>	<b>1,012</b>
Percentage of total auditor remuneration paid as non-audit fees to the Group's auditors	44.5%	40.9%

<sup>1</sup> Comprises various audits (ICR audits, debt covenant audit, compliance plan review, GS007 controls review) required under legislation, regulation or contractual arrangements where the Board determines the auditor is best placed to undertake those audits.

<sup>2</sup> Comprises review of income tax returns for both the Group and the Magellan Funds and review of annual unitholder distributions of the Magellan Funds.

<sup>3</sup> Comprises of transfer pricing review and withholding tax advice.

<sup>4</sup> Comprises assistance with the UK and German tax calculations and lodgements for MFG Investment Fund plc.

### Independence and Non-Audit Services

The Group's external auditors are Ernst & Young and Plante Moran and the Audit & Risk Committee ("the Committee") has responsibility for monitoring the independence and objectivity of the external auditors. All auditors confirmed their independence during 2022 and prior to issuing their opinions on financial reports. In addition, no Committee member has a connection with the external auditors.

A key factor in ensuring auditor independence is the Committee's consideration of the non-audit services performed by the auditors. The Committee preserves independence and objectivity by maintaining a policy on the engagement of non-audit services provided by an auditor and restricts the auditor to providing services that are closely related to the audit. Every audit and non-audit service is considered and approved in writing by the Committee, or the Committee's Chairman acting as a delegate. This is based on a written recommendation from management. There is no delegation of approval provided to management for any engagement provided by the auditor. Particular consideration is also given to where the Group's auditor also performs services for its associates and/or key third party providers, for example fund administrators and custodians. Where this occurs, the Group ensures the signing audit partner is not common to both parties. Approval is provided before work commences and reported to the Committee at the next scheduled meeting along with details regarding the nature of service, quantum of fee and projected total non-audit fees for the financial year. This is undertaken in addition to the auditor confirming that no prohibited non-audit services have been provided.

The Committee considers there may be circumstances where the auditor may hold specific expertise, know-how or company knowledge which provides a compelling benefit to the Group through its appointment. In the current and prior financial year, non-audit

# Notes to the Financial Statements

For the year ended 30 June 2022

services provided by Ernst & Young were routine tax services, namely the review of the Group's income tax returns and annual distributions of the Magellan Funds, ad hoc assistance with lodging foreign withholding tax registrations in Taiwan and routine tax surveillance reviews. The view was that Ernst & Young's appointment in fact offered greater risk management by providing a higher level of detection of risks or errors given its holistic and detailed understanding of the Group and current issues along with the tax partner being an industry leader.

Other non-audit services not required by regulation mainly comprises assurance services in respect of a review of controls and compliance plan and an audit of the indirect cost ratios for the Magellan Funds. The Committee considered these services were most appropriately performed by Ernst & Young as they support the statutory audits as well as provide the external auditor with relevant insights on aspects of the Group's Australian business and are not considered to present a risk to auditor independence.

It is important to note that the Magellan Funds do not incur audit or non-audit fees and therefore unitholders of the Magellan Funds do not incur this additional cost. Rather those fees are paid by the Responsible Entity of the Funds, MAM, a wholly owned entity of the Group. As a result, this significantly increases non-audit fees reported by the Group and these will continue to increase in future years when new funds are launched or the negotiated fee rate increases.

Subject to the Group's external auditors maintaining independence, the Committee considers it is most important to ensure that the highest level of risk management is provided to the Group and, where possible, that the services are delivered efficiently for the benefit of the Group's shareholders. The Committee does not view auditor independence as a binary matter and therefore does not believe a fixed 50% threshold of non-audit fees exceeding total audit fees is the only relevant consideration when determining if non-audit services are excessive and, by inference, whether auditor independence is at risk.

## Oversight of External Auditors

A key part of the Committee's work consists of overseeing the relationship with the Group's external auditors, including safeguarding independence and approving non-audit fees and their appointment.

Ernst & Young was appointed external auditor of the Australian entities and Irish funds in 2008. The external audit was last put out to tender in 2018, which aligned to the auditor's 10 year anniversary, and Ernst & Young was reappointed auditor as it scored highest across all requirements and the Board was satisfied that appropriate safeguards were in place to ensure the required independence of Ernst & Young. The next external audit tender will take place within 10 years of Ernst & Young's re-appointment. Ms Clare Sporle has served as lead audit partner since August 2019. In accordance with the *Corporations Act 2001*, the next rotation of the lead partner is planned to occur after the completion of the 30 June 2024 financial year audit.

In 2012, Plante Moran was appointed auditor of a US subsidiary, Frontegra Strategies Inc., and an audit tender will occur in 2022, in line with the 10 year anniversary.

As there is no contracted tenure with the Group's external auditors, an audit tender can be called at any time.

# Notes to the Financial Statements

For the year ended 30 June 2022

## 26. Subsequent Events

Other than the items noted below, 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.

### Final Dividend and Performance Fee Dividend

Refer to note 19 for details of the dividend declared in respect of the six months ended 30 June 2022.

### Magellan FuturePay Closure

On 12 July 2022 the Group announced the termination of Magellan FuturePay which took effect on 20 July 2022 ("Closure Date"). Investors in Magellan FuturePay on the Closure Date received a final payment comprising their pro-rata share of the net proceeds on wind-up. Investors who would otherwise have received less than their original investment, after taking into account distributions received, also received an ex gratia payment from the Group. The total ex gratia payment funded by the Group was \$88,000. The final distribution was paid to investors on 27 July 2022.

Due to the closure of the fund, the Group has been released from the following financial obligations:

- The commitment to provide up to \$50,000,000 to assist Magellan FuturePay capitalise the FuturePay Support Trust was terminated with effect from the Closure Date. At the date of termination, the unutilised portion of the commitment was \$48,567,000.
- The funding facility extended to Magellan FuturePay by the Group was terminated with effect from 12 July 2022. At no time during the financial period was the funding facility utilised.

### Funds Under Management

On 4 August 2022, the Group reported to the ASX that its funds under management was \$60.2 billion as at 29 July 2022.

# Directors' Declaration

For the year ended 30 June 2022

In the Directors' opinion,

- a. the financial statements and notes set out on pages 45 to 84 are in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the year ended on that date; and
  - ii. complying with Accounting Standards, the *Corporations Regulations 2001*, International Financial Reporting Standards as disclosed in note 1 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 the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the year ended 30 June 2022.

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



**Hamish McLennan**  
Chairman

Sydney  
17 August 2022



**Building a better  
working world**

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

### **Report on the audit of the financial report**

#### **Opinion**

We have audited the financial report of Magellan Financial Group Limited (the Company) and its subsidiaries (collectively, the Group), which comprises the consolidated statement of financial position as at 30 June 2022 and the consolidated statement of profit or loss and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a. Giving a true and fair view of the consolidated financial position of the Group as at 30 June 2022 and of its consolidated financial performance for the year ended on that date; and
- b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### **Basis for opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the 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 financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the audit of the financial report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the

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procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

## 1. Management and performance fee revenue

### Why significant

The Group's key revenue streams are management and performance fees earned by Magellan Asset Management Limited (MAM), a consolidated subsidiary, through the investment management agreements in place with third parties and Magellan Funds.

For the year ended 30 June 2022, management fees were \$588,594,000 and performance fees were \$11,472,000 which equates to 106.3% and 2.1% of total revenue and other income respectively.

Revenue from management and performance fees is earned and calculated in accordance with the Investment Management Agreements and Constitutions of the funds. Performance fees, however, are dependent on the portfolio outperforming certain hurdles and are only recognised in the statement of profit or loss and comprehensive income when MAM's entitlement to the fee is highly probable, which is at the end of the relevant performance period.

Due to the quantum of these revenue streams and the impact that the variability of market-based returns can have on the recognition and earning of performance fees, this was considered a key audit matter.

Disclosures relating to these revenue streams are included in Note 4 to the financial report.

### How our audit addressed the key audit matter

Our procedures included:

- ▶ Recalculating management fees, on a sample basis, in accordance with contractual arrangements;
- ▶ Assessing the performance fees recognised for the period to 30 June 2022 from funds and mandates, on a sample basis, and assessing whether they met the relevant recognition criteria. This included assessing the inputs into the calculation model, its clerical accuracy and examining the methodology applied in accordance with contractual arrangements; and
- ▶ Assessing the adequacy of the disclosures in Note 4 to the financial report in accordance with Australian Accounting Standards.

## 2. Investments in associates

### Why significant

The Group classifies investments in entities over which it has significant influence as associates in the statement of financial position and applies equity method accounting in line with AASB 128 *Investments in Associates and Joint Ventures*. The Group's associates account for 13.1% of total assets. The Group recognised a gain of \$17,002,000 on dilution of its interest in an associate and a gain of \$33,655,000 on disposal of its interest in an associate. Together with the equity accounted profits this made up 11.9% of the Group's net profit before tax.

The Group's accounting for its associates, including the determination that the Group has significant influence over the entities, equity method accounting and impairment assessments was considered a key audit matter due to the quantitative impact on the Group's financial statements.

### How our audit addressed the key audit matter

Our procedures included:

- ▶ Evaluating the Group's assessment of significant influence over the investments, and the accounting treatment and presentation thereon;
- ▶ Testing the appropriateness of the equity accounting for the Group's investments in associates. We issued audit instructions to associate's auditors covering matters significant to the Magellan audit. We performed a review of the auditor's final report to assess whether procedures were performed in line with instructions and the conclusion reached was appropriate for the purposes of our audit;
- ▶ Assessing the gain on dilution of the Group's interest in an associate by confirming the change in shareholding and the value of the dilutive share issuance with the associate's auditor;
- ▶ Assessing the gain on disposal of an associate by obtaining the relevant transaction agreements, agreeing the cash movement to bank statements, and recalculating the gain;
- ▶ Evaluating the Group's assessment of impairment indicators relating to their investments in associates; and
- ▶ Assessing the adequacy of the disclosures in Note 8 and Note 21 in accordance with Australian Accounting Standards.

## 3. Investment existence and valuation

### Why significant

The Group has a significant investment portfolio consisting of listed equities and investments in Magellan Funds. As at 30 June 2022, the value of these non-current financial assets, as shown

### How our audit addressed the key audit matter

Our procedures included:

- ▶ Obtaining and considering the assurance reports on the controls of the Group's administrator in relation to investment

in Note 7 to the financial report was \$379,438,000, which equates to 30.6% of the total assets held by the Group.

As described in Note 7 to the financial report, the Group's investments are classified as 'financial assets at fair value through profit or loss' ("FVTPL") in line with AASB 9 *Financial Instruments*.

Pricing, exchange rates and other market drivers can have a significant impact on the value of these financial assets and the financial report, therefore the valuation of the investment portfolio was a key audit matter.

management services and considering the auditor's opinion, their objectivity and the results of their procedures;

- ▶ Agreeing all investment holdings to third party sources at 30 June 2022;
- ▶ Agreeing the fair value of investments in the portfolio held at 30 June 2022 to independent pricing sources for listed securities/funds. For unlisted funds, on a sample basis, we agreed the investment prices to available redemption information; and
- ▶ Assessing the adequacy of the disclosures in Note 7 and Note 22 to the financial report in accordance with Australian Accounting Standards.

#### 4. Goodwill impairment assessment

##### Why significant

Goodwill has been recognised as a result of the Group's historical acquisitions, representing the excess of the purchase consideration over the fair value of assets and liabilities acquired. On acquisition date, the goodwill has been allocated to the applicable Cash Generating Units ("CGUs").

The group has goodwill of \$105,288,000 as at 30 June 2022.

Goodwill must be tested for impairment on at least an annual basis. The determination of recoverable amount requires judgement on the part of management in both identifying and then calculating the value of the relevant CGUs.

Recoverable amounts are based on management's view of variables and market conditions such as future price and assets under management growth rates, the timing of future operating expenditure, and the most appropriate discount and long-term growth rates. As such it was considered a key audit matter.

##### How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ Assessing the Group's determination of the CGUs to which goodwill is allocated;
- ▶ Assessing the methodology used in the impairment model to calculate the recoverable amount of each CGU;
- ▶ Agreeing the projected cash flows used in the impairment models to the Board approved plan of the Group;
- ▶ Comparing the Group's implied growth rate assumption to comparable companies;
- ▶ Considering the accuracy of historical cash flow forecasts;
- ▶ Assessing the methodology and assumptions used in the determination of the discount rate, including comparison of the rate to market benchmarks;
- ▶ Testing the mathematical accuracy of the impairment model for each CGU;
- ▶ Considering the Group's sensitivity analysis and evaluating whether any reasonable foreseeable change in assumptions could lead to a material impairment; and
- ▶ Assessing the adequacy of the disclosures in Note 9 in accordance with Australian Accounting Standards.

### **Information other than the financial report and auditor's report thereon**

The directors are responsible for the other information. The other information comprises the information included in the Company's 2022 annual report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the directors for the financial report**

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

For the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosures about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communications.

## Report on the audit of the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 22 to 42 of the directors' report for the year ended 30 June 2022.



In our opinion, the Remuneration Report of Magellan Financial Group Limited for the year ended 30 June 2022 complies with section 300A of the *Corporations Act 2001*.

### **Responsibilities**

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

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  
17 August 2022

# Corporate Sustainability and Responsibility Report

For the year ended 30 June 2022

Magellan is committed to acting responsibly and ethically in all areas of its business. Magellan seeks to engender a culture of building trust with everyone who does business with the Group.

## Responsible Investment

Magellan is committed to responsible investment and became a signatory to the United Nations supported Principles of Responsible Investment ("PRI") in March 2012. The PRI is the globally recognised accord for responsible investing. Magellan's Responsible Investment Principles, which are available on the Group's website, outline and summarise Magellan's approach to responsible investing, ESG integration, engagement and proxy voting.

Environmental, Social and Governance ("ESG") issues are considered to be a natural component of Magellan's investment process, as gaining a robust understanding of these issues is a key part to assessing the outlook for future cash flow generation and risks facing investors. Magellan's investment process seeks to identify high quality companies and places lower value on pro-cyclical companies in the resource, materials and oil and gas sectors. This approach is a natural filter which tends to reduce exposure to carbon intensive companies and material ESG issues. The Magellan Investment Team's research reports also include a discussion of climate change risks and opportunities facing companies, if material, and includes a company's emissions intensity. Magellan maintains an ESG Policy, which outlines how ESG issues are incorporated into Magellan's investment analysis framework and investment process.

In September 2016, Magellan launched the first of a series of Sustainable investment strategies that implement a proprietary low carbon overlay. Magellan believes it is highly likely that the world will move further towards addressing climate change risks by reducing carbon emissions. Climate change is therefore an increasingly important issue for global companies and investors, with the potential to affect profoundly business models through government regulation (e.g. carbon pricing), technology and changes in consumption patterns. Importantly, there are also significant opportunities for companies to profitably deploy capital into areas that meet the needs of a decarbonising world. These factors directly and indirectly impact the relative cost of companies' products and services, customer demand and pricing power. Magellan's Sustainable strategies provide investors with a high quality, attractive risk-adjusted return-focused portfolio with materially lower carbon factor risk than global markets.

As a long-term investor, Magellan is committed to engaging with portfolio companies on material ESG matters. During the financial year ended 30 June 2022, Magellan engaged with many portfolio companies on a number of material ESG topics. These are summarised in the table below:

Strategy <sup>1</sup>	Engagement (#S)	Engagement (% ESG Discussed)	Portfolio (% Companies Engaged on ESG)	Climate Change	Diversity, Equity & Inclusion	Social Licence	Labour Mgmt <sup>2</sup>	Responsibility for Content & Data Privacy	Governance
Global	~400	62%	88%	47%	44%	21%	24%	15%	85%
High Conviction	~400	62%	100%	54%	46%	15%	31%	38%	100%
Core International	~400	69%	60%	35%	26%	13%	17%	8%	50%
Sustainable	~300	59%	94%	53%	31%	25%	17%	14%	92%
Core ESG	~300	59%	59%	32%	23%	10%	16%	10%	45%
Select Infrastructure	~300	79%	97%	88%	21%	65%	32%	0%	79%
Core Infrastructure	~300	79%	54%	47%	12%	31%	16%	1%	42%

<sup>1</sup> The level of engagement reflects the importance of a particular risk to the company and sub-industry. In addition, the level of engagement on ESG issues is also considered in the context of the relative size of Magellan's investment.

<sup>2</sup> Including supply chain management

# Corporate Sustainability and Responsibility Report

For the year ended 30 June 2022

Magellan considers proxy voting rights as an important power which, if exercised diligently, can enhance client returns. Magellan believes these should be managed with the same care as any other asset managed on behalf of its clients. Magellan maintains a Proxy Voting Policy and a set of Corporate Governance Principles which outline its approach to proxy voting and engagement with portfolio companies. A summary of proxy voting for the period ended 30 June 2022 is provided below:

Category <sup>1</sup>	With Management	Against Management
Board Related (1,530)	98%	2%
Compensation (319)	88%	12%
Shareholder Proposals (114):	78%	22%
- <i>Environmental</i> (12)	58%	42%
- <i>Social</i> (59)	85%	15%
- <i>Governance</i> (43)	74%	26%
Capital Management (130)	94%	6%
Audit/Financials (329)	95%	5%
Other (122)	92%	8%

<sup>1</sup> Statistics based on ballots that are not subject to re-registration requirements.

In addition, Magellan's Australian Equities business, Airlie Funds Management, also maintains a set of Responsible Investment Principles, an ESG Policy and a Proxy Voting Policy which outline how the Airlie Investment Team integrate ESG risks and opportunities into their investment decision making and how it acts as a responsible owner by engaging with portfolio companies and voting proxies. Consideration of ESG issues is a component which is implicit in Airlie's investment philosophy and selection process with the aim to account for all relevant ESG issues in the same balanced way it does other key risks facing a company. These policies can be found on the Airlie website: [www.airlifefundsmanagement.com.au](http://www.airlifefundsmanagement.com.au).

Airlie recognises corporate governance is an important part of share ownership and that Airlie has a responsibility to act with the best interests of clients in mind. One way Airlie represents its clients in matters of corporate governance is through the proxy voting process. A summary of Airlie's proxy voting for the period ended 30 June 2022 is provided below:

Category <sup>1</sup>	With Management	Against Management
Board Related (169)	97%	3%
Compensation (135)	87%	5%
Shareholder Proposals (23):	91%	9%
- <i>Environmental</i> (9)	100%	0%
- <i>Social</i> (7)	86%	14%
- <i>Governance</i> (7)	86%	14%
Capital Management (18)	100%	0%
Audit/Financials (13)	100%	0%
Changes to Company Statutes (16)	81%	19%
Other (6)	100%	0%

<sup>1</sup> May not add to 100% as Management do not provide a recommendation for all resolutions.

## Environment

Magellan understands the importance of mitigating its impact on the environment and is committed to environmental sustainability. Magellan welcomes the reporting framework of the Task Force on Climate-related Financial Disclosures (TCFD) and looks to align its reporting to this framework, whilst recognising that certain requirements are yet to crystallise.

Magellan's Board of Directors assesses the Group's appetite for climate-related issues under "environmental risk" as part of an annual review of risks impacting the Company. Given the nature of Magellan's business and as a services firm of 135 employees, with approximately 85% of employees based in the head office in Sydney, Magellan has a relatively small environmental footprint and the Board has determined that this risk is not material to Magellan's operations. Environmental risk is reviewed annually by the Board as part of the review of the firm's risk management framework.

There are three main areas where Magellan's environmental footprint lies – premises, energy and travel. Magellan aims to ensure that, where possible, business operations are conducted in an environmentally sustainable way. For example, Magellan's head office is a

# Corporate Sustainability and Responsibility Report

For the year ended 30 June 2022

5-star NABERS<sup>2</sup> rated office building. Magellan also continues to build awareness amongst its employees and focuses on areas where it can make an impact, including recycling and minimising printing.

Magellan is a signatory to the Carbon Disclosure Project's ("CDP") climate change program. CDP holds the largest global collection of self-reported climate change, water and forest-risk data in an effort to transform the way the world does business to prevent dangerous climate change and protect natural resources. Magellan also recently gained membership to the Investor Group on Climate Change (IGCC) and has also become a signatory to the Net Zero Asset Managers Commitment.

## Greenhouse Gas ("GHG") emissions by Scope (metric tonnes CO<sub>2</sub>e)

	Calendar Year 2017	Calendar Year 2018	Calendar Year 2019	Calendar Year 2020	Calendar Year 2021
Scope 1	0	0	0	0	0
Scope 2	134	135	139	122	113
Total GHG emissions	134	135	139	122	113
Total per employee	1.29	1.07	1.07	0.90	0.81
Total per A\$ million of revenue	0.4	0.3	0.2	0.2	0.1

As outlined in the table above, Magellan's GHG emissions are relatively small, particularly on a per employee and per A\$ million of revenue basis. Magellan's Scope 1 & 2 emissions intensity for calendar year 2021 of 0.1 tonnes CO<sub>2</sub>e per A\$ million dollars of revenue puts Magellan among the lowest emissions intensity companies globally.

Within Magellan's Funds Management business, as discussed in the section titled "Responsible Investment", Magellan considers Environmental issues as a natural component of its investment process, particularly where such issues may impact the future cash flows of the companies in which it is invested. Research reports compiled by the Investment Team include a discussion of climate change risks facing companies, if material, and includes a company's emissions intensity. If a material risk is identified, the Investment Team will incorporate cash flow impacts (either to capital expenditure or earnings margins) to reflect the cost to the company of addressing or remediating the exposure. In general, the majority of Magellan's investment universe is unlikely to be exposed to material transition risks, however there are some companies in the infrastructure, industrials and transportation sectors which have a greater exposure to transition risks. These risks will be incorporated into Magellan's assessment of future cash flows when transition risks are assessed likely and material. Magellan aims to engage with portfolio companies where it considers a material potential environmental issue has arisen with the objective of reducing risk exposures and enhancing certainty of long-term cash flow generation.

Further, within the Airlie investment process, when assessing company specific risks and opportunities associated with climate change, the Airlie Investment Team considers factors such as emissions intensity, physical and transition risks as well as the quality of the company's climate change mitigation activities within its assessment of business quality. Additionally, the Airlie Investment Team will test a company's stated transition plan, the costs of the plans and include carbon prices when incorporating the risks and opportunities as part of the valuation process.

The development of Magellan's Sustainable strategies offers investors the opportunity to invest in a high quality, attractive risk-adjusted return focused portfolio with materially lower carbon factor risk than global markets.

<sup>2</sup> NABERS is a national rating system that measures the environmental performance of Australian buildings, tenancies and homes. NABERS is managed nationally by the NSW Department of Planning, Industry and Environment, on behalf of Federal, state and territory governments.

# Corporate Sustainability and Responsibility Report

For the year ended 30 June 2022

In May 2017, Magellan became a signatory of the PRI's Montreal Pledge. Under the Pledge, Magellan commits to measure and publicly disclose the carbon footprint of its actively managed investment portfolios which are outlined in the table below:

	Carbon footprint as at 30 June 2022 (tonnes CO <sub>2</sub> e per \$US million revenue) <sup>1</sup>
Magellan Global Fund	114
Magellan Sustainable Fund	17
Magellan High Conviction Fund	13
Magellan Infrastructure Fund	751
Airlie Australian Share Fund	108
MFG Core International Fund	120
MFG Core ESG Fund	29
MFG Core Infrastructure Fund	1,016
Magellan FuturePay	510
US Sustainable strategy	20

<sup>1</sup> Portfolio carbon intensities are calculated using the weighted average carbon intensity method.

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It is important to note that the above reported carbon intensities are at a point in time, and that over time these could lie within a range of intensities, depending on the strategy, the investment universe and relative valuations within that universe. Much higher carbon intensities do not, of themselves, indicate companies exposed to higher decarbonisation risks. Indeed, the opposite could be true, for example regulated utilities companies that currently have fossil fuel power generation would likely report high carbon intensity, but these utilities could be investing substantial capex into renewable energy sources and earning an attractive regulated return on those investments. Over time, these utilities would show material reductions in their carbon intensity as renewables became an increasing part of their energy generation mix.

## People

As a funds management company, Magellan's people are integral to the success of the business. Magellan takes an active involvement in staff wellbeing, staff engagement and career development.

### Remuneration

Magellan's Remuneration Report on page 22 of this Annual Report outlines Magellan's approach and philosophy to employee compensation. The remuneration philosophy is centred on fair compensation for performance and contribution that achieves business outcomes and is underpinned by four principles:

- Promoting staff behaviour that is in the best interest of clients;
- Attracting and retaining outstanding staff;
- Building a culture that rewards performance while maintaining Magellan's reputation and mitigating risk; and
- Encouraging staff to think and act like long-term owners of the Group.

During the period, Magellan introduced a staff engagement and retention program to retain staff and maintain business stability during what has been a challenging period. Under the program, staff will benefit from three initiatives, comprising:

- A retention bonus plan paid in two instalments in September 2024 and September 2025, subject to standard conditions including that they remain employed by Magellan on those dates;
- Amendments to the terms of loans offered to employees under Magellan's voluntary Share Purchase Plan (SPP), described in section 3.2 of the Director's Report, including to extend the maximum life of the loans and to remove the requirement to direct a portion of an employee's annual bonus towards the repayment of their SPP loan; and
- The issue of up to 10 million options to staff pursuant to an employee share option plan (subject to standard conditions around vesting and continued employment).

These initiatives are in addition to Magellan's competitive remuneration packages and are a part of Magellan's overall goal to be an employer of choice. During the period, Magellan made a decision to suspend further offers of voluntary SPP loans to staff. However, the Board believes options issued to staff with a strike price at a significant premium to recent trading prices and a 5-year term creates significant alignment of the long-term interests of staff with shareholders. As at 30 June 2022, approximately 85% of employees had an individual shareholding in Magellan.

# Corporate Sustainability and Responsibility Report

For the year ended 30 June 2022

Magellan is focused on ensuring pay equity at the time of hire. Magellan also conducts an annual review of employee remuneration which compares employees in the same role and level to highlight any pay inequalities and adjusts compensation based on this review if required. Variances in compensation should reflect relative performance of employees.

## Engagement and Retention

Magellan implements a number of other initiatives to promote staff engagement and retention. Magellan's employee engagement strategies are based on equality principles which are applied to remuneration, benefits and total rewards, training and development, health and safety and access to flexible working.

Magellan launched its inaugural Employee Pulse Survey in December 2021 and an employee intranet was rolled out in June 2022 as a medium for timely communication and feedback. Magellan's Investment Team, Distribution Team and the Airlie Team hold offsite team meetings on a regular basis.

Middle and senior management seek regular feedback from employees and Magellan also undertakes annual performance reviews with all employees to discuss performance against a set of internal performance objectives and to identify development areas as well as any training requirements. Based on Magellan's relatively small size by number of employees (135 employees as at 30 June 2022), Magellan considers that these forums are appropriate to receive transparent feedback from employees.

Magellan strongly believes that staff engagement and satisfaction go well beyond direct financial compensation. Magellan's annual leave policy encourages staff to take their full statutory requirement over each annual period by providing an additional week of leave if they do so. Other health and wellbeing benefits include annual executive health checks for staff aged 45 years+, annual skin checks and annual flu vaccinations. The Group's recognition and rewards program includes whole of company semi-annual celebrations (Australia & NZ), Annual CEO award, \$25k service award for 10 years of service, Magellan gift for significant birthdays and bespoke arrangements recognising gratitude for exceptional employee efforts.

Magellan is committed to providing a flexible and family friendly working environment. Magellan recognises the importance of family friendly working conditions and offers a range of initiatives to support its employees before and after the birth/adoption of a child. Magellan's aim is to reduce the impediments parents face in returning to work and give employees the flexibility to choose the arrangements which best suit their circumstances.

Magellan's Paid Parental Leave Policy provides up to 15 to 18 weeks (depending on the length of employment), for permanent employees who have the primary responsibility for the care of their child and who have worked for Magellan for at least 12 months continuously at the time of the birth or adoption of that child. Employees receive superannuation payments on both their paid and unpaid portion of parental leave for the first 12 months of parental leave. Employees on paid parental leave are eligible for the annual remuneration review and variable incentive whilst on leave. In addition, if an employee returns to work during the period of paid parental leave, Magellan will continue to pay the remaining period of paid parental leave in addition to their base salary and other entitlements. Magellan offers a "Keep in Touch" Program with employees who are on paid parental leave.

Magellan also offers a childcare reimbursement of up to \$150 per day for primary carers for the first 26 weeks after returning to work, when returning to work within 12 months from the commencement of paid parental leave. All primary and secondary carers are entitled to a 12 month subscription to Juggle Street to source local nanny or babysitting options for their families.

Magellan understands the importance of family and provides family leave for all permanent employees. Under family leave, if personal/sick leave has been used, employees can apply for family leave. Family leave is paid leave so employees can take time out to care for a family member or manage a family situation. The amount of family leave an employee can take will be reviewed by Magellan management on a case-by-case basis.

At Magellan, culture is very important and the Group continues to monitor retention rates. Under the equality principles, Magellan aims to understand the reasons for any resignations via exit interview data.

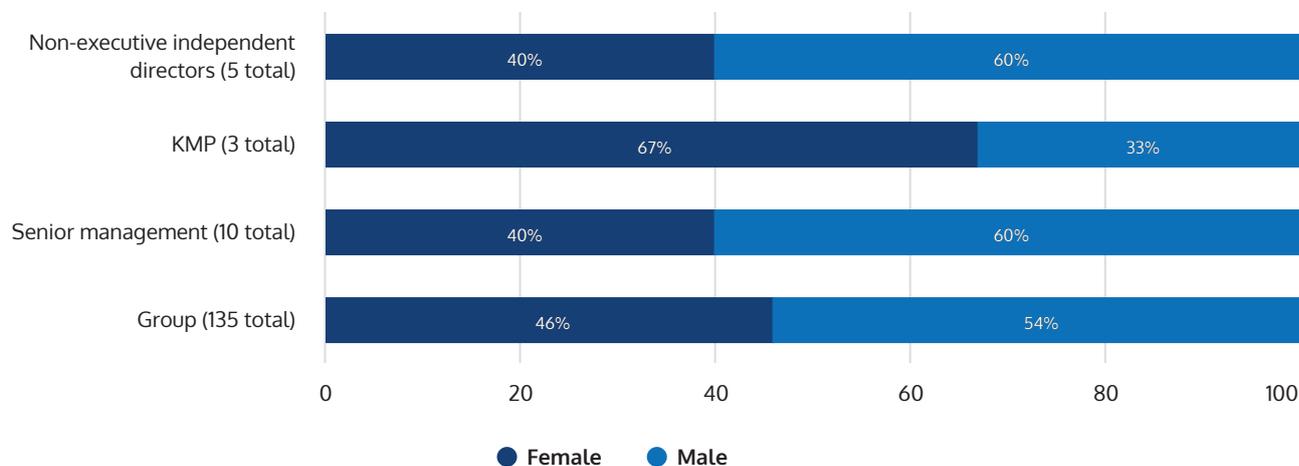
## Diversity

Magellan is committed to workplace diversity and recognises the value of attracting and retaining employees with different backgrounds, knowledge, experience and abilities. Magellan maintains a Workplace Diversity and Inclusion Policy that outlines the Group's commitment to diversity and inclusion in the workplace and provides a framework to achieve the Group's diversity goals for the business. The Group's policy is to recruit and manage on the basis of competence and performance regardless of age, race, gender, nationality, religion, sexuality, physical ability or cultural background. The policy can be found on Magellan's website: [www.magellangroup.com.au](http://www.magellangroup.com.au).

# Corporate Sustainability and Responsibility Report

For the year ended 30 June 2022

The Board annually reviews the measurable objectives it sets to achieve improvement in the diversity of employees and has set objectives for female representation of 33% for independent directors, 40% for senior management (classified by Magellan as direct reports to the CEO) and 40% for the overall Group. The gender representation across the Group as at 30 June 2022 is shown below:



Magellan also participates in the annual Workplace Gender Equality Reporting process, which under the Workplace Gender Equality Act 2012, requires non-public sector employers with 100 or more employees to submit a report to the Workplace Gender Equality Agency ("WGEA"). Magellan's participation not only meets its Australian compliance obligations, but also contributes to the WGEA's dataset on gender equality in Australian workplaces. The process also allows us to identify gender equality issues and put action plans in place. A copy of the report can be found under the Shareholder Centre on Magellan's website: [www.magellangroup.com.au](http://www.magellangroup.com.au).

Magellan has introduced a MFG Asset Management Internship Program with an aim to promote, engage and attract more diverse talent into investing roles, with an initial focus being on women. Magellan's Internship Program will be designed to provide students with an understanding of what it's like to work within Magellan's Investment Management team and working life at Magellan. The pilot program in 2022 will consist of:

- A four-week paid internship for one (female) student within the Investment team; and
- A partnership with the University Network for Investing and Trading ("UNIT") on promoting Investment Management as an engaging career choice.

Magellan's intention is ultimately to rollout the Internship Program across various sector teams within Magellan's Investment Team.

## Health and Safety

The health and safety of the Group's employees is of paramount importance. Following successful implementation of working from home arrangements during the first wave of the COVID-19 pandemic in March 2020 (and during the subsequent state-by-state lockdowns of 2021), Magellan has continued to offer employees the flexibility to work from home. Whilst working from home, the Group's employees have stayed connected via virtual communication platforms and working remotely has not changed Magellan's commitment to maintaining its high level of client service and compliance obligations. Magellan's Employee Assistance Program, a free counselling service available for employees and their families, has been promoted during this time. To further support employee wellbeing, during the year, Magellan provided employees with access to The Resilience Project corporate program. This digital program focuses on helping employees develop mental health strategies during uncertain times, using evidence-based practices in resilience including gratitude, empathy and mindfulness.

In late 2021, Magellan initiated its Return to Workplace Plan. Magellan recognises individual employees have different preferences about working from home and working from the office, but also believes there is great importance for the company's culture of working together in the office. Magellan, therefore, has initiated a flexible working approach for all employees, whereby employees are asked to be in the office three days a week and, in agreement with their manager, can choose to work from home or in the office for the remaining days of the week. Of course, employees are asked to work from home during any governmental public health orders or guidance.

Magellan maintains a Work Health & Safety Policy which outlines the obligations and responsibilities of Magellan and its employees with respect to compliance with the Work Health & Safety regulation.

# Corporate Sustainability and Responsibility Report

For the year ended 30 June 2022

Magellan also undertakes annual workplace conduct training to ensure that all employees and the Board clearly understand what is expected from them in terms of behaviour and conduct and that the workplace remains a safe environment for all employees.

Magellan's Workplace Conduct Policy details the Group's approach in relation to harassment in the workplace, including bullying, discrimination, sexual harassment, workplace violence and vilification, and provides procedures for dealing with complaints.

## Community

Magellan believes an active contribution to community is important. Magellan does not generally make corporate donations as the Group believes it is more appropriate to focus on delivering satisfactory returns and leave it to individuals to determine the charities to which they donate. Magellan prefers to focus its efforts on employee participation in fund raising initiatives.

Magellan's efforts over the past financial year include employee participation in Steptember raising funds for Cerebral Palsy.

Magellan is also a participating fund manager in the Future Generation Global Investment Company Limited ("FGG"). FGG is an ASX listed investment company that invests in global equities investment strategies managed by prominent, Australian fund managers. Participating fund managers manage the capital entirely pro-bono so that 1.0% of net assets each year can be donated to Australian non-profit organisations committed to young Australians affected by mental health issues. In the 2022 financial year, this equated to approximately \$1.1 million in respect of funds managed by Magellan. Magellan is a foundation member and received an initial allocation of ~10% of the assets under management at the time of the initial public offering of FGG.

Magellan is also a Core Fund Manager to Hearts & Minds Investments. Hearts and Minds Investments Limited ("HM1") is an ASX listed investment company and as a Core Fund Manager, Magellan provides HM1 with its top three security recommendations on a quarterly basis. HM1 foregoes any investment fees and instead makes a donation equal to 1.5% of net assets each year to certain charities.

## Cybersecurity and Privacy

The cybersecurity threat environment is constantly evolving and managing cyber risk is one of Magellan's highest priorities. To protect client information and corporate data, Magellan employs leading cyber security solutions and maintains a formal information security governance framework. Complementing the data protection and monitoring mechanisms it has in place, Magellan is continuously assessing its multi-layered protection measures against the ever-changing threat environment.

Magellan established an Information Technology Risk Committee (ITRC) in early 2017 as a key governance body to enhance the governance and oversight of Magellan's information technology risk management activities. The committee comprises key executives within Magellan and meets quarterly to discuss cybersecurity risks, controls, policies, regulatory requirements, and any changes to the environment that might affect the Group's overall cybersecurity posture. Magellan's Board is provided with the minutes of these meetings and any analysis undertaken.

Magellan's cybersecurity defence framework is aligned to the Australian Cyber Security Centre's 'Essential Eight framework' and it has implemented all Essential Eight strategies. Magellan has also mapped its approach to the National Institute of Standards and Technology (NIST) cyber security framework. All client data is held in ISO27001 certified data centres located within Australia. Magellan applies the principle of role-based least privilege with respect to data and systems access to ensure staff can only access the minimal data set required to perform their role. Privileges are regularly re-certified.

As an independent assessment of the Group's cybersecurity protection, Magellan engages an external consulting firm specialising in IT security to conduct annual 'penetration testing' of the Group's environment. Magellan maintains a Cybersecurity Incident Response Plan that is tested annually and contains defined security roles, responsibilities, and procedures to follow if an event should ever occur.

As part of the Group's Cybersecurity Program, all employees are required to complete cybersecurity awareness training upon joining the firm as part of their induction process and on an annual basis thereafter. This ensures staff are aware of cyber-attack techniques and of the need always to follow security best practices. Magellan also performs periodic social engineering tests on employees using simulated email phishing and telephone-based phishing, to test the efficacy of the Group's cyber-awareness training.

Third party risk management is a key component of Magellan's information security program. All third-party relationships undergo a rigorous security risk assessment as part of the due diligence process before being engaged. This includes an assessment of their cybersecurity posture and data privacy/data access controls. The Group repeats the technology-focused due diligence process for all critical third-party service providers on an annual basis.

# Corporate Sustainability and Responsibility Report

For the year ended 30 June 2022

## Modern Slavery

Magellan published its first Modern Slavery Statement in 2021. The Statement can be found under the Responsible Investing section of Magellan's website: [www.magellangroup.com.au](http://www.magellangroup.com.au). All staff complete annual training on modern slavery.

# Corporate Information

As at 17 August 2022

## Directors

Hamish McLennan – Chairman  
Robert Fraser – Deputy Chairman and Chairman of MAM  
David George – Chief Executive Officer and Managing Director  
Robert Fraser – Deputy Chairman and Chairman of MAM  
John Eales AM  
Colette Garnsey OAM  
Karen Phin

## Company Secretary

Marcia Venegas

## 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 and options are listed on the Australian Securities Exchange (ASX: MFG and MFGO)

## 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 Registry

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 and option holders 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 share and option holders the ability to receive electronic notifications about their holdings. This shift away from paper-based communications may make it easier for investors to manage their holdings and benefit the environment by reducing waste.

To access the portal and electronic notifications, investors will need their broker to opt them in. Investors should contact their broker to see if they have this service enabled. If an investor has not opted in, they will continue to receive CHESS holding statements and notifications by mail. Once an investor has opted in, investor statements and notifications will be available through the ASX CHESS Statements Portal and they will no longer receive paper statements.

# Shareholder Information

As at 11 August 2022

## Analysis of Holdings

### Fully paid ordinary shares

Holdings ranges	Number of holders	Number of shares	Percentage of shares on issue
1-1,000	40,279	14,545,335	7.86
1,001-5,000	12,919	28,385,712	15.33
5,001-10,000	1,520	11,139,184	6.02
10,001-100,000	1,003	23,837,570	12.88
100,001 and over	87	107,181,073	57.91
<b>Total</b>	<b>55,808</b>	<b>185,088,874</b>	<b>100.00</b>
Number of holders with less than a marketable parcel of securities	2,823	54,737	

### MFG 2027 Options

Holdings ranges	Number of holders	Number of options	Percentage of options on issue
1-1,000	53,720	5,963,670	25.69
1,001-5,000	1,434	2,822,861	12.16
5,001-10,000	184	1,290,546	5.56
10,001-100,000	191	5,336,322	22.98
100,001 and over	15	7,802,301	33.61
<b>Total</b>	<b>55,544</b>	<b>23,215,700</b>	<b>100.00</b>

### Options issued to employees under the MFG ESOP

Holdings ranges	Number of holders	Number of options	Percentage of options on issue
1-1,000	-	-	0.00
1,001-5,000	6	30,000	0.34
5,001-10,000	7	70,000	0.81
10,001-100,000	82	4,202,500	48.43
100,001 and over	24	4,375,000	50.42
<b>Total</b>	<b>119</b>	<b>8,677,500</b>	<b>100.00</b>

# Shareholder Information

As at 11 August 2022

## Twenty Largest Holders

Fully paid ordinary shares	Number of shares	Percentage of shares on issue
<b>Holder Name</b>		
Midas Touch Investments Pty Ltd	21,242,277	11.48
HSBC Custody Nominees (Australia) Limited	19,849,303	10.72
Magellan Equities Pty Limited	17,025,961	9.20
JP Morgan Nominees Australia Pty Limited	10,310,475	5.57
Citicorp Nominees Pty Limited	7,783,892	4.21
BNP Paribas Nominees Pty Ltd	3,478,146	1.88
National Nominees Limited	1,864,281	1.01
Mr David Doyle	1,500,000	0.81
Aljamat Pty Ltd	1,310,000	0.71
Jash Pty Limited	1,163,886	0.63
Netwealth Investments Limited	917,868	0.50
Nota Bene Investments Pty Ltd	825,000	0.45
BNP Paribas Nominees Pty Ltd Hub24 Custodial Services Ltd	746,006	0.40
Emmanuel Capital Pty Ltd	630,000	0.34
ACE Property Holdings Pty Ltd	600,000	0.32
Glenn Hargraves Investments Pty Ltd	575,000	0.31
Est. Mr Philip Alan Kenneth Naylor	566,089	0.31
Mr Domenico Giuliano	559,218	0.30
Mr Christopher Andrew Anderson & Mrs Virginia Ivy Anderson	540,000	0.29
Marsev Pty Limited	539,944	0.29
<b>Total shares held by the 20 largest shareholders</b>	<b>92,027,346</b>	<b>49.73</b>
<b>Total ordinary shares on issue</b>	<b>185,088,874</b>	

MFG 2027 Options	Number of options	Percentage of options on issue
<b>Holder Name</b>		
Midas Touch Investments Pty Ltd	2,419,598	10.42
Magellan Equities Pty Limited	2,128,248	9.17
HSBC Custody Nominees (Australia) Limited	717,783	3.09
Citicorp Nominees Pty Limited	551,143	2.37
JP Morgan Nominees Australia Pty Limited	395,627	1.70
Marsev Pty Limited	203,761	0.88
Q & N Investments Pty Ltd	200,436	0.86
UBS Nominees Pty Ltd	195,093	0.84
Mr David Doyle	187,500	0.81
National Nominees Limited	167,973	0.72
Aljamat Pty Ltd	163,750	0.71
Jash Pty Limited	145,486	0.63
Nota Bene Investments Pty Ltd	134,375	0.58
Netwealth Investments Limited	123,180	0.53
Mr Ernst Kohler	105,420	0.45
Mr James Henderson Allen	100,000	0.43
Dinwoodie Investments Pty Ltd	100,000	0.43
Mr Nicholas Dermott McDonald	100,000	0.43
HSBC Custody Nominees (Australia) Limited - A/C 2	78,786	0.34
Emmanuel Capital Pty Ltd	78,750	0.34
<b>Total MFG 2027 Options held by the 20 largest option holders</b>	<b>8,296,909</b>	<b>35.73</b>
<b>Total MFG 2027 Options on issue</b>	<b>23,215,700</b>	

# Shareholder Information

As at 11 August 2022

## Substantial Shareholders

Shareholder	Number of shares	Percentage of shares on issue
Hamish Douglass, Midas Touch Investments Pty Ltd and associates <sup>1</sup>	21,452,502	11.59%
Chris Mackay, Magellan Equities Pty Ltd and associates <sup>2</sup>	17,522,248	9.46%

<sup>1</sup> Date of last substantial shareholder notice lodged on 1 July 2022.

<sup>2</sup> Date of the last substantial shareholder notice lodged on 2 October 2020.

## Voting Rights

Under the Company's Constitution, the voting rights attaching to ordinary shares at a meeting of shareholders are:

1. each shareholder is entitled to vote in person, by proxy, by attorney or by representative;
2. on a show of hands, each shareholder present in person, by proxy, by attorney or by representative is entitled to one vote; and
3. on a poll, each shareholder present in person, by proxy, by attorney or by representative is entitled to one vote for every share held by the shareholder.

In the case of joint holdings, only one joint holder may vote.

Neither the MFG 2027 Options nor options issued to employees under the MFG ESOP confer on the holder a right to receive notices of general meetings (except as may be required by law), nor any right to attend, speak at or vote at general meetings of the Company.