



Interim Financial Report

for the half year ended 31 December 2017

MAGELLAN FINANCIAL GROUP LIMITED: ABN 59 108 437 592

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The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, the report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Magellan Financial Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

MAGELLAN FINANCIAL GROUP LIMITED

Chairman's Report for the half year ended 31 December 2017

Dear Shareholders,

We are pleased to provide this report for the first half of the 2017-18 financial year. Since our last report to you, our firm has been extremely busy, and we believe, very productive.

In this period, we have completed the \$1.57 billion initial public offering of the Magellan Global Trust ("MGG"); furthered our long-term strategic initiative to increase our presence in the self-directed retail space, by materially increasing our brand awareness through a partnership with Cricket Australia, and associated television and other advertising campaigns; and today announced two strategically important acquisitions.

Overall, we are very pleased with the outcome of the MGG offering. MGG represents an important ASX listed access point of scale for retail investors who are considering using Magellan to manage their global equities investments.

The offering included the issuance of loyalty units which vested to eligible unitholders on 11 December 2017 and were subsequently issued on 15 January 2018. Approximately 40 million loyalty units were issued to some 23,000 direct unitholders representing a 99% vesting rate. There are now over 34,000 direct unitholders on the MGG register.

We would like to thank all those involved in this offering. The offering process, including the loyalty unit issuance, posed some practical challenges, and the collective ability to solve many a problem along the way ensured the offering's success.

Likewise, we are also delighted with our involvement with Cricket Australia and congratulate the Australian men's and woman's teams on their Ashes series wins.

Our sponsorship of the men's Ashes series coincided with extremely strong public interest. Some 866,000 people attended the five test matches, second only to a six-test series played in the 1930's. Channel 9 television audiences across the series totalled more than 14.5 million viewers and there were more than 15 million average daily views on the Cricket.com.au web-site and Cricket Live App combined from a worldwide audience.

Our advertising via on-field signage, various on-line initiatives, including on the Cricket.com.au website, and the running of a television commercial have resulted in a clear jump in the awareness of both global equities investment and the Magellan brand. It has also generated a wealth of data which we will analyse and use to refine our strategy over the coming years.

Building our brand awareness and presence in the self-directed space will take time and a number of steps. While success cannot be guaranteed, we believe this long-term investment is strategically important and will ultimately be very worthwhile.

The two acquisitions mentioned above are: Frontier Partners ("Frontier"), our long-standing distribution partner in the USA; and Airlie Funds Management ("Airlie"), a leading Australian funds management business.

Frontier was founded in Chicago by Bill Forsyth some 25 years ago and has been our distribution partner in the USA since 2011. This partnership could not have been better. Bill and his colleagues are first rate and have played a very significant role in Magellan's success of developing broad and deep relationships with our institutional clients and their advisers.

We are very happy Bill has agreed to extend and deepen our own relationship and that Bill will become Executive Chairman of our North American business. This is a key step for our firm as we continue to strengthen our distribution capabilities in the large and important North American marketplace.

Airlie, which currently manages over \$6 billion, was founded in 2012 by John Sevier and David Cooper, who were joined by Matt Williams in 2016. John and Matt are two of Australia's best fund managers, extremely well known and respected in the industry. Both have long and successful careers, including a lengthy period where they previously worked together to create a formidable investing collaboration.

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We are delighted and extremely proud that Airlie has agreed to join with Magellan. The qualities that Airlie brings are rare and highly desirable. Together we believe our partnership will enhance both businesses and create even better long-term outcomes for our clients.

In this regard, we intend in the coming months to launch the Airlie Industrial Share Fund as an active ETF quoted on the ASX. This will provide retail investors and their advisers access to the skills of Airlie, which previously have been available only to institutional investors.

Whilst both these acquisitions bring different strategic benefits to Magellan, they have one thing in common - the quality of the people.

We have known those associated with Airlie for many years, well before Airlie was established, and have had first hand experience working with Bill during a large part of Magellan's development. We cannot think of better partners with whom to be associated. They exhibit tremendous integrity and trustworthiness and are highly focussed on achieving great outcomes for their clients.

But most importantly, it is obvious they love what they do, a key ingredient for success in our opinion.

Turning briefly to our results, earnings and fully franked dividends per share for the period were 31.0 cents and 44.5 cents respectively. This compares with the corresponding period last year where earnings and fully franked dividends per share were 50.6 cents and 38.4 cents respectively.

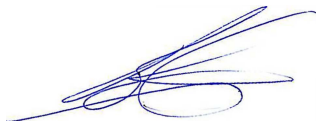
It is important to note that this year we have some significant one-off expenses associated with the MGG offering. Given the one-off nature of these costs, the Board has decided to exclude them in determining the interim dividend. If these one-off costs are excluded, our earnings for the period would be 63.4 per share, an increase of 25% over the same period last year.

This year's interim dividend calculation does not include crystallised performance fees for the period, which totalled \$9.6 million. As previously advised, the Board will consider payment relating to crystallised performance fees for the full year alongside the final dividend.

Average funds under management during the period was \$53.6 billion, a 25% increase over the same period last year. As at 31 January 2018 funds under management stood at \$58.9 billion.

As in previous reports, Hamish Douglass, our Chief Executive Officer, has written a detailed report which follows. This contains more discussion of our results, acquisitions and other initiatives, which we encourage you to read, along with the accompanying financial statements.

We look forward to reporting to you again in our annual report which is scheduled to be released on Thursday 9 August 2018.



Brett Cairns
Executive Chairman

6 February 2018

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Chief Executive Officer's Interim Letter for the half year ended 31 December 2017

Dear Shareholder,

I am delighted to write to you as a shareholder in Magellan Financial Group Limited ("the Group") for the half year ended 31 December 2017.

The past six months have been extremely busy and productive. We completed the \$1.57 billion initial public offering of the Magellan Global Trust ("MGG"), the largest closed end fund raising in Australian history; became the naming rights sponsor for men's Domestic Test Cricket; and recently announced two strategic acquisitions: Frontier Partners in the United States; and Airlie Funds Management, a leading Australian funds management business. We view each of these initiatives as strategically important to the ongoing development of Magellan.

OVERVIEW OF RESULTS

The Group had a successful first half which was characterised by solid growth in:

- average funds under management (which increased by 25% from \$42.9 billion to \$53.6 billion for the six months to 31 December 2017 over the previous corresponding period);
- management and services fees (which increased by 22% over the previous corresponding period to \$178.9 million for the six months to 31 December 2017); and
- profit before tax (excluding performance fees) of the Funds Management business (which increased by 21% over the previous corresponding period to \$129.0 million for the six months to 31 December 2017).

The Group reported net profit after tax of \$53.5 million for the half year ended 31 December 2017 (\$87.0 million for six months ended 31 December 2016). Excluding the one-off MGG offer expenses⁽¹⁾, underlying Group profit after tax grew by approximately 25% to \$109.2 million.

The Directors have declared an Interim Dividend of 44.5 cents per share in respect of the half year ended 31 December 2017 (38.4 cents for the half year ended 31 December 2016).

The Company's policy is to pay Interim and Final Dividends of 75% to 80% of the net profit after tax of the Group's Funds Management business (excluding crystallised performance fees). In addition to the Interim and Final Dividends, the Group will pay an annual Performance Fee Dividend of 0% to 100% of the net crystallised performance fees after tax. Any Performance Fee Dividends will be paid annually alongside the Final Dividend. The payment of dividends by the Group will be subject to available franking credits and corporate, legal and regulatory considerations. The level of payment of Performance Fee Dividends will also be subject to capital needs of the Group.

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

	31 Dec 2017 \$'000	31 Dec 2016 \$'000	Change %
Management and services fees	178,918	146,117	22%
Performance fees	9,584	3,592	167%
Other revenue	7,259	3,811	90%
Revenue	195,761	153,520	28%
Expenses before MGG net offer costs ⁽²⁾	(53,041)	(40,405)	31%
Profit before tax before MGG net offer costs	142,720	113,115	26%
Tax expense before MGG net offer costs	(33,567)	(26,067)	29%
Profit after tax before MGG net offer costs	109,153	87,048	25%
MGG net offer costs (after tax)	(55,702)	n/a	
Profit after tax	53,451	87,048	(39%)
Key Statistics			
Diluted earnings per share (cents per share)	31.0	50.6	(39%)
Diluted earnings per share before MGG net offer costs (cents per share)	63.4	50.6	25%
Interim dividend (cents per share, fully franked)⁽³⁾	44.5	38.4	16%

(1) Offer costs, after tax, for the MGG initial public offering (inclusive of the costs of loyalty units) of \$55.7 million. These offer costs are net of the distribution declared for the half year ended 31 December 2017 on the loyalty units. These one-off expenses have been funded out of available cash and are not included in the Funds Management segment and as such, do not affect the profitability of the Funds Management business.

(2) MGG net offer costs are net of the distribution declared for the half year ended 31 December 2017 on the loyalty units.

(3) Prior half year's dividend includes performance fee component. Excluding the performance fee component, the interim dividend for the half year ended 31 December 2017 increased 20% over the prior corresponding period.

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As at 31 December 2017, the Group is in a strong financial position:

- the Group had investment assets (cash and cash equivalents and financial assets) of \$378.3 million (30 June 2017: \$411.1 million) and shareholders' funds of \$437.9 million (30 June 2017: \$447.6 million); and
- the Group's NTA per share was \$2.54 which reflects the one-off net offer costs of the Magellan Global Trust IPO (30 June 2017: \$2.60).

STRATEGIC UPDATE

Acquisition of Frontier Partners

We are pleased to announce the Group has entered into an agreement to acquire Frontier Partners ("Frontier"). We have enjoyed an extremely valuable partnership with Frontier since we entered into a distribution agreement in 2011 and we are pleased to continue this partnership with Frontier. Bill Forsyth, the founder and principal of Frontier, will become Executive Chairman of Magellan's business in North America. This is an important step for the Group as we continue to strengthen our distribution efforts in North America.

Acquisition of Airlie Funds Management

We are also pleased to announce the Group has entered into an agreement to acquire Airlie Funds Management ("Airlie"). The acquisition allows the Group to broaden its retail business into Australian equities via a first class fund manager with a proven track record and we are delighted that Airlie has chosen to partner with Magellan for the long-term. Airlie was founded in 2012 by John Sevier, one of Australia's foremost investors and David Cooper, formerly CEO of Treasury Group. We are also delighted to welcome on board Matt Williams (former Head of Equities and portfolio manager at Perpetual Funds Management) who joined Airlie in 2016. At 31 January 2018 Airlie had funds under management of over \$6 billion. The transaction will be funded via the issuance of Magellan shares to Airlie shareholders. Airlie will become a wholly owned subsidiary of Magellan and will continue to operate under the Airlie brand.

We will be commencing our first joint endeavour with Airlie through the launch of the Airlie Industrial Share Fund, an Active ETF quoted on the ASX. The Airlie Industrial Share Fund is expected to begin trading on the ASX in the coming months. The launch of the Airlie Industrial Share Fund represents an immediate synergy to the Group and is an opportunity for retail investors to access one of the most experienced teams in Australian funds management.

We look forward to welcoming 25 new employees from Frontier and Airlie to the Magellan team.

We expect that these transactions will be modestly accretive to EPS in the first full year and provide an attractive return on capital. This excludes any benefits over time from the soon to be launched Airlie Industrial Share Fund. Total consideration payable in respect of the acquisitions comprises US\$15 million in cash and approximately 4.5 million Magellan shares. The Magellan shares will be issued post the record date for the interim dividend.

Development of self-directed retail channel

The Group remains focused on developing its retail business and executing its self-directed investor strategy and has made some important progress in the past six months. We now have two important and innovative access points into our global equities and global listed infrastructure strategies on the ASX, through our three Active ETFs and our closed ended listed investment trust, the Magellan Global Trust (MGG).

MGG raised \$1.57 billion in October 2017 from more than 32,000 investors and offers investors a closed ended investment vehicle of scale targeting a distribution yield of 4% per annum. As at 31 December 2017, the three Active ETFs (ASX: MGE, ASX: MHG and ASX: MICH) had a combined FUM of \$1.2 billion with over 20,000 unitholders.

The core focus of our self-directed strategy is to raise awareness of the importance of global investing, whilst building broad awareness of the Magellan brand and our expertise in this asset class. Our partnership with Cricket Australia, to sponsor the men's domestic test cricket series provides a highly scalable platform to raise brand awareness and alongside the 2017/2018 Ashes we launched a television campaign designed to grow awareness of global equities. Throughout the 2017/2018 Ashes series more than 14.5 million people watched the series on television (Channel 9), with more than 866,000 people attending the various grounds. In addition, there were more than 15 million average daily views on the Cricket.com.au website and Cricket Live App from a global audience combined⁽⁴⁾. Overall, we are pleased with the initial feedback and engagement received to date from the sponsorship and television campaign. We have also commenced some new initiatives including targeted digital marketing and look to progress other initiatives this year.

⁽⁴⁾ Source: Cricket Australia

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Funds Management Business

For the half year ended 31 December 2017, the Group's funds management business generated profit before tax of \$138.5 million (\$110.4 million for the six months to 31 December 2016). Profit before tax and before performance fees⁽⁵⁾ grew by 21% to \$129.0 million (\$106.8 million for the six months to 31 December 2016).

The following table summarises the profitability of the funds management business over the past two December half years:

	31 Dec 2017 \$'000	31 Dec 2016 \$'000	Change %
Revenue			
Management fees	176,567	141,817	25%
Performance fees	9,584	3,592	167%
Services fees	2,351	4,300	(45%)
Interest and other income	520	462	13%
	<u>189,022</u>	<u>150,171</u>	26%
Expenses			
Employee expense	25,368	23,471	8%
Marketing expense	6,708	1,519	342%
Fund administration and operational costs	5,368	3,964	35%
US marketing and consulting fees ⁽⁶⁾	4,366	3,756	16%
Occupancy expense	2,651	1,585	67%
Information technology expense	2,062	1,888	9%
Other expense	3,993	3,557	12%
	<u>50,516</u>	<u>39,740</u>	27%
Profit before tax expense	138,506	110,431	25%
Profit before tax and before performance fees⁽⁵⁾	129,031	106,839	21%
Key Statistics			
Average funds under management (\$ million)	53,550	42,909	25%
Average AUD/USD exchange rate ⁽⁷⁾	0.7791	0.7534	3%
Average number of employees	106	104	2%
Employee expenses / total expenses	50.2%	59.1%	
Cost / income	26.7%	26.5%	
Cost / income, excl. performance fees ⁽⁵⁾	28.1%	27.1%	

Revenues for the half year increased by 26% to \$189.0 million. This was driven by a 25% increase in total management fees revenue as a result of a 25% increase in average funds under management over the period due to strong net inflows and investment performance, noting that fees earned in respect of the MGG IPO were for a part period only. Overall the funds management business operated efficiently with a cost to income ratio (excluding performance fees) of 28.1% compared with 27.1% for the six months to 31 December 2016.

Expenses increased by 27% to \$50.5 million. The increase in expenses included:

- an 8% increase in employee expense over the prior corresponding period to \$25.4 million;
- an increase in US marketing fees to \$4.4 million as a result of higher management fees from US clients. We will no longer pay the US marketing and consulting fees post the completion of the acquisition of Frontier. This will partially be offset by non-cash amortisation charges in relation to the acquisition of Frontier; and
- an increase in marketing costs to \$6.7 million. We expect the Group's marketing expense to increase materially in the 2018 financial year (to approximately \$11.0-11.5 million) as we invest in our retail business.

The increased marketing spend is in line with our strategy to increase our penetration with self-directed investors and includes the rollout of a brand advertising campaign to build awareness of and grow the market for investing in global equities, a sponsorship (and supporting initiatives) with Cricket Australia, television and search advertising and the development of our new website.

(5) Adjusts for the current period performance fee impact on revenue and expenses for the 6 month period.

(6) Pursuant to the agreement, Frontier Partners is entitled to receive 25% of net management fees from Frontier MFG Funds and 20% of management fees from all institutional mandate clients in the US and agreed institutional mandate clients in Canada.

(7) Based on daily average of London 4pm exchange rates of the 6 month period.

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The following table sets out total employee numbers:

	31 Dec 2017	30 June 2017
Investment		
- Portfolio Managers/Analysts	29	33
- Dealers	3	3
	32	36
Governance & Advisory	6	5
Distribution	34	35
Risk, Compliance, Legal & Company Secretarial	8	8
Business Support & Control	17	17
Administration	7	7
Total	104	108
Average number of employees	106	104

During the period, we made some changes to refocus our Investment team. This included integrating macro analysis into the financials team and healthcare research into the franchises team. We also decided to cease the development of the international (non-US) low carbon strategy. These changes resulted in a number of people leaving the firm.

We expect Group employee expenses to increase at the lower end of the 5-8% guidance for the 2018 financial year. This excludes the impact of additional employee expenses relating to the acquisitions of Frontier and Airlie. We expect that the aggregate impact of Frontier and Airlie acquisitions will increase employee expenses by approximately \$4.6 million for the six months to 30 June 2018.

Funds Under Management (FUM)

At 31 December 2017, the Group had funds under management of \$57.9 billion, split between global equities (83%) and infrastructure equities (17%). This compares with funds under management of \$50.6 billion at 30 June 2017. The increase in funds under management was driven by net inflows of \$3.5 billion, investment performance of approximately \$4.1 billion less cash distributions (net of reinvestment) of approximately \$0.3 billion.

We closed our core global equities strategies to new institutional investors on 31 December 2017⁽⁸⁾. We expect to continue to see solid inflows from existing institutional clients that have reserved capacity into our global equities strategies over the next 12-24 months⁽⁹⁾. At 31 December 2017 the Group's global equities strategies funds under management were US\$37.6 billion. This compares with the theoretical capacity for our global equities strategies of US\$40 billion, not indexed for market movements, which we outlined in 2013. We believe it is the right time to close our global equities strategies to new institutional investors and feel comfortable that we have sufficient capacity and flexibility to continue to grow our retail global equities funds under management over time.

We are very pleased with the level of interest we are seeing in our global listed infrastructure strategies and expect this to grow over time. The theoretical capacity of our global listed infrastructure strategies is approximately US\$15 billion. At 31 December 2017 the Group's funds under management in our infrastructure strategies were US\$7.6 billion.

We are also pleased with the development of the low carbon strategies. We recently decided to discontinue the international (non-US) strategy and focus on the global and US low carbon strategies. We believe that this leverages our competitive strengths and enables our investment team to remain focused on our core research and continue to deliver excellent results for clients. While it will take time to generate a track record for the low carbon strategies and deliver meaningful funds under management we remain pleased with the early client interest. The revised theoretical capacity of the low carbon strategies, adjusted for the decision to discontinue the international (non-US) strategy, is approximately US\$15-20 billion.

(8) U.S. mutual fund will remain open with some allocated capacity.

(9) Excluding St James's Place which has reserved capacity which can be funded over a longer period.

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The following table sets out the composition of funds under management:

\$million	31 Dec 2017	30 June 2017	31 Dec 2016
Retail	18,026	15,159	13,650
Institutional			
- Australia/New Zealand	5,054	4,939	4,617
- North America	12,560	10,919	10,117
- UK	18,312	16,231	15,024
- Rest of World	3,918	3,349	3,107
Total FUM	57,870	50,597	46,515
Percentage			
Retail	31%	30%	29%
Institutional			
- Australia/New Zealand	9%	10%	10%
- North America	22%	21%	22%
- UK	31%	32%	32%
- Rest of World	7%	7%	7%
Total FUM	100%	100%	100%
FUM subject to Performance Fees (%)	39%	38%	38%
Institutional FUM (%)			
- Active	87%	87%	87%
- Enhanced Beta	13%	13%	13%
Breakdown of FUM (A\$ million)			
- Global Equities	48,195	42,316	39,511
- Global Listed Infrastructure	9,675	8,281	7,004
Average Base Management fee (bps) per annum excluding Performance Fees ⁽¹⁰⁾	66	66	66

It should be noted that our retail business has higher fees than our institutional business and our infrastructure enhanced beta product has lower fees than other institutional mandates.

Retail Funds Under Management

At 31 December 2017, the Group had total retail funds under management of \$18.0 billion. We experienced total net retail inflows of \$1.9 billion for the six months to 31 December 2017, compared with \$1.2 billion for the previous corresponding period. The total net retail inflows include proceeds from the MGG IPO of \$1.57 billion. The Group experienced average monthly retail net inflows (excluding the proceeds of the MGG IPO) of approximately \$55 million over the six months to 31 December 2017, compared with \$207 million over the previous corresponding period.

We have a robust retail business in Australia and New Zealand focused on global equities and global listed infrastructure, with:

- relationships with over 500 independent financial advice firms⁽¹¹⁾;
- strong relationships and extensive representation with 4 of the top 5 major institutionally aligned advice firms (Commonwealth Bank, BT/Westpac, AMP and IOOF). Collectively, these firms have more than 7,000 aligned advisers;
- an ASX quoted version and unlisted version of the Magellan Global Fund. The funds are available as currency hedged and currency unhedged;
- an ASX quoted version of the Magellan Infrastructure Fund, the Magellan Infrastructure Fund (Currency Hedged);
- a closed-ended listed investment trust, the Magellan Global Trust, that aims to deliver investors a consistent cash distribution yield (targeted at 4%);
- separate versions of the Magellan Global Fund available at Commonwealth Bank, BT/Westpac and AMP. Each of these funds will have strong model portfolio representation across these groups;
- a replica version of the Magellan Infrastructure Fund available at Commonwealth Bank and BT/Westpac;
- developed strong relationships with each of the key research firms and have strong ratings from Zenith, Lonsec and Morningstar for both our Global Equity and Global Listed Infrastructure strategies; and
- a highly experienced Australian and New Zealand relationship focussed Distribution team with 13 account managers and offices in Sydney, Melbourne, Brisbane, Adelaide, Perth and Auckland.

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

(11) Includes Dealer Groups that have more than \$200,000 funds under management with the Group.

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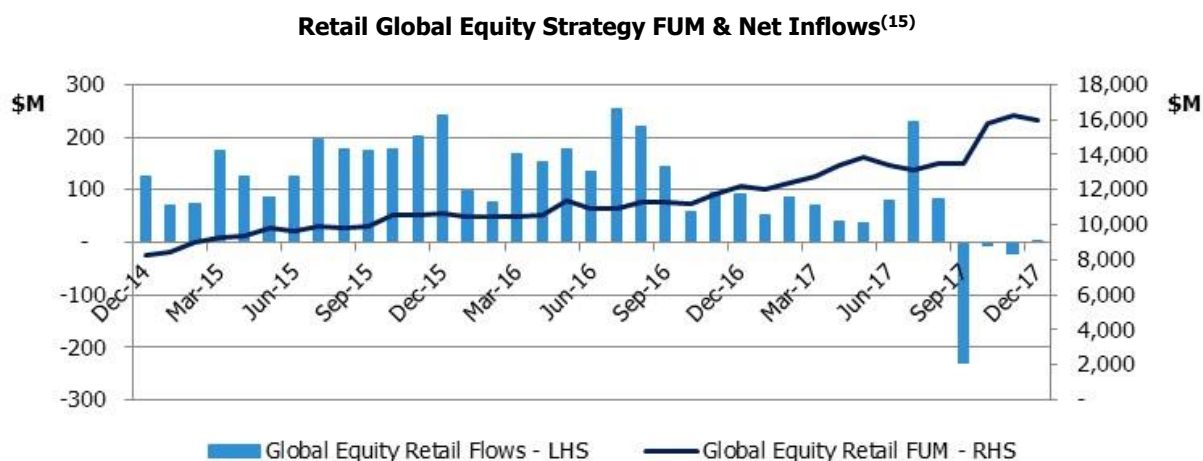
The following table sets out the investment performances of the Magellan Global Fund, the Magellan Infrastructure Fund and the Magellan High Conviction strategy since their inceptions:

Investment Performance for the period to 31 December 2017 ⁽¹²⁾	1 Year	3 Years	5 Years	Since Inception ⁽¹³⁾
	%	% p.a.	% p.a.	% p.a.
Magellan Global Fund	14.2	10.9	18.4	11.3
MSCI World NTR Index (\$A)	13.3	10.9	18.1	5.6
MSCI World Minimum Volatility NTR Index (\$A)	8.6	11.5	18.4	7.0
Magellan Infrastructure Fund	17.4	11.5	14.9	8.7
Global Listed Infrastructure Benchmark (\$A) ⁽¹⁴⁾	14.4	7.3	12.4	6.0
Magellan High Conviction Strategy	23.3	13.2	21.3	21.3

We are pleased with the results to date. Given our medium to long term focus, it is not unreasonable to expect some periods when the funds will not outperform or will lag market benchmarks. Further, given our focus on absolute performance and high-quality/low volatility investments in our Global Equity strategy and our tight definition of what constitutes infrastructure, it can also reasonably be expected that returns may underperform broader based benchmarks in strongly rising markets due to the cap on volatility and our definition of infrastructure. Over the cycle, however, we believe the strategies will produce an appropriate risk adjusted performance while maintaining our focus on capital preservation, particularly in adverse market conditions. These are key tenets of the Group's approach that we believe are well understood by the adviser community and our clients.

The retail component of the Global Equity strategy⁽¹⁵⁾ had funds under management of approximately \$16.0 billion at 31 December 2017. The retail Global Equity strategy experienced total net inflows of \$59 million and average monthly net inflows of approximately \$10 million over the six months to 31 December 2017. This excludes the MGG raising of \$1.57 billion. We believe average flows during the period August to November 2017 were impacted by the MGG raising due to some anticipated switching out of existing funds to fund MGG participation and portfolio rebalancing post the offer. This compares with the retail Global Equity strategy's total net inflows of \$851 million and the average monthly net inflows of \$142 million over the previous corresponding period.

The following chart sets out the monthly retail net inflows into the Global Equity strategy over the past three years:



The retail component of the Global Listed Infrastructure strategy⁽¹⁶⁾ had funds under management of approximately \$2.0 billion at 31 December 2017. The retail Global Listed Infrastructure strategy experienced total net inflows of \$272 million and average monthly net inflows of approximately \$45 million over the six months to 31 December 2017. This compares with the retail Global Listed Infrastructure strategy's total net inflows of \$393 million and the average monthly net inflows of \$65 million over the previous corresponding period. We believe the sustained increase in net inflows is attributable to the strong performance of the Global Listed Infrastructure strategy over many years, the successful launch of the Magellan Infrastructure Fund Active ETF, a greater focus on this strategy in our marketing efforts and a stronger appreciation of infrastructure as an investment class by financial advisers.

(12) 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.

(13) Inception date for the Magellan Global Fund and Magellan Infrastructure Fund is 1 July 2007 and the inception date for Magellan High Conviction Strategy is 1 January 2013.

(14) 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).

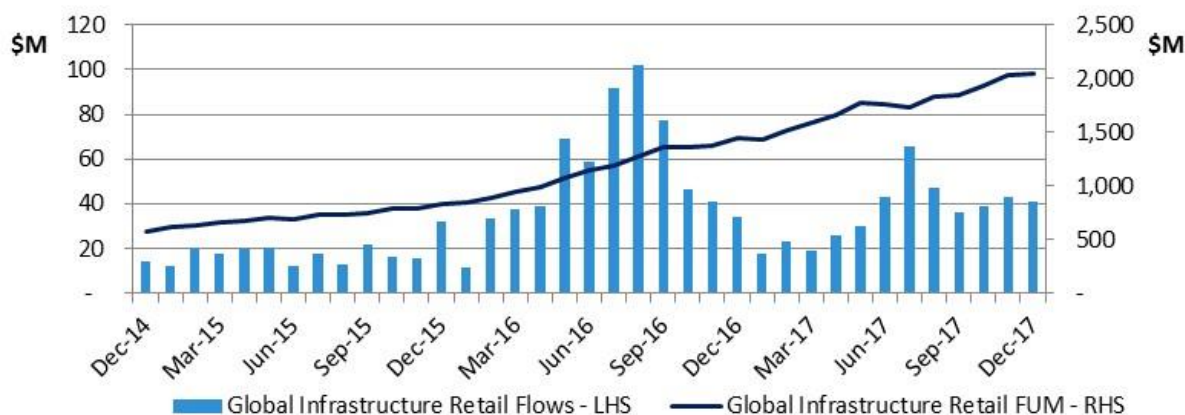
(15) The retail component of the Global Equity strategy includes Magellan Global Fund (retail portion), Magellan High Conviction Fund, Magellan Global Fund (Hedged) (retail portion), Magellan Global Equities Fund (quoted fund), Magellan Global Equities Fund (Currency Hedged) (quoted fund), the Magellan Global Trust and retail separately managed accounts for the Global Equity strategy.

(16) The retail component of the Global Listed Infrastructure strategy includes Magellan Infrastructure Fund (retail portion), Magellan Infrastructure Fund (Unhedged) (retail portion), Magellan Infrastructure Fund (Currency Hedged) (quoted fund) and retail separately managed accounts for the Global Listed Infrastructure strategy.

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The following chart sets out the monthly retail net inflows into the Global Listed Infrastructure strategy over the past three years:

Retail Global Listed Infrastructure Strategy FUM & Net Inflows⁽¹⁷⁾



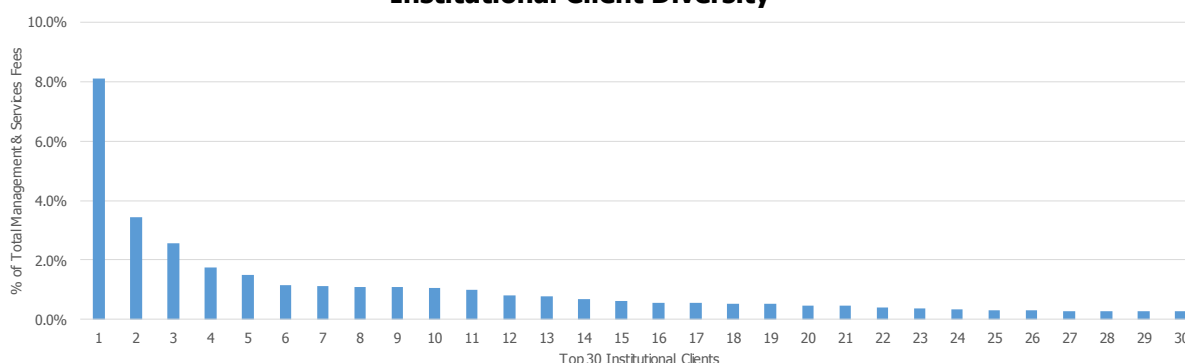
Retail inflows have generally been seasonal and can be lumpy, due to events such as winning a new dealer group that transitions funds to the Group.

Institutional Funds Under Management

At 31 December 2017, the Group had total institutional funds under management of \$39.8 billion from more than 120 clients⁽¹⁸⁾. We experienced institutional net inflows of \$1.6 billion for the six months to 31 December 2017, which compares with net inflows of \$1.8 billion for the six months to 31 December 2016.

The following table and chart sets out the percentage of management and services fees revenue generated by the top 30 institutional clients. The table highlights that our business is highly diversified by client with only three clients representing more than 2% of total management and services fees revenue.

Institutional Client Diversity⁽¹⁹⁾



Cumulative Total Management and Services Fees				
Top Institutional Clients	5	10	20	30
%	17	23	29	33

At 31 December 2017, the Group managed funds from clients in North America of approximately \$12.6 billion (\$10.9 billion at 30 June 2017).

Our Australian/NZ business remains strong. As at 31 December 2017 the Group had total funds under management of approximately \$5.1 billion from clients in Australia/NZ (\$4.9 billion as at 30 June 2017).

We have also made strong progress with clients outside Australia/NZ and North America, managing funds for Rest of World clients of \$22.2 billion as at 31 December 2017 (\$19.6 billion as at 30 June 2017). We remain focused on specific target markets, primarily the UK and Singapore. Our UK business remains strong. At 31 December 2017, the Group had total funds under management of approximately \$18.3 billion from clients in the UK⁽²⁰⁾ (\$16.2 billion at 30 June 2017). The UK infrastructure fund that replicates our Core Infrastructure (Enhanced Beta) strategy has funds under management of approximately \$3.6 billion at 31 December 2017 (\$3.3 billion at 30 June 2017).

(17) The retail component of the Global Listed Infrastructure strategy includes Magellan Infrastructure Fund (retail portion), Magellan Infrastructure Fund (Unhedged) (retail portion), Magellan Infrastructure Fund (Currency Hedged) (quoted fund), Magellan Global Trust and retail separately managed accounts for the Global Listed Infrastructure strategy.

(18) The number of clients includes separately managed accounts and institutional investors in local and offshore vehicles.

(19) Management & Services fees for the 6 months to 31 December 2017 for separately managed accounts and institutional investors in local and offshore vehicles. Excludes Performance fees.

(20) Including UK clients invested in the Group's MFG Global Fund (Irish UCITS fund offered to institutional clients in our target markets, outside Australia and the United States).

MAGELLAN FINANCIAL GROUP LIMITED

Investments in Magellan's Funds and Principal Investments

At 31 December 2017, the Group had total net Principal Investments of \$243.5 million (net of tax liabilities, settlement receivables/payables and accruals), compared with net Principal Investments of approximately \$251.0 million at 30 June 2017.

The Group's Principal Investments include investments in Magellan Unlisted Funds, the ASX quoted Magellan Global Equities Fund, Magellan Global Equities Fund (Currency Hedged), Magellan Infrastructure Fund (Currency Hedged), listed shares, a number of small unlisted investments and surplus cash after allowing for the Group's working capital requirements. We intend to allocate any surplus cash generated by the Group, after allowing for the payment of dividends, to Principal Investments.

Over time we aim to earn satisfactory returns for shareholders through the sensible deployment of the Group's capital, while maintaining capital strength to underpin the business. The Board has established a pre-tax return hurdle of 10% per annum over the business cycle for the Principal Investments. The investment in MGG highlights our philosophy on capital management.

We intend for the Group to maintain a very strong balance sheet including a high level of liquidity to ensure our business will withstand almost any market condition or unforeseen event.

The Group's Principal Investments portfolio has returned pre-tax 16.0%, 11.5% and 18.8% per annum over the last 1, 3 and 5 years respectively. Excluding the effect of the Group's investment in Magellan Flagship Fund, which was disposed of by way of in-specie distribution to shareholders in February 2013, the portfolio returned pre-tax 11.1% per annum since inception from 1 July 2007. The inception date of 1 July 2007 has been chosen to reflect the first purchase date of the investments in the Magellan Global Fund and Magellan Infrastructure Fund.

The following table sets out a summary of the Group's Principal Investments as at 31 December 2017:

MFG Group's Principal Investments

\$million	31 Dec 2017	30 June 2017
Cash	0.3	3.4
Magellan Unlisted Funds ⁽²¹⁾	173.5	160.0
Listed shares/funds ⁽²²⁾	94.9	102.9
Other ⁽²³⁾	0.4	5.0
Total	269.1	271.3
Net deferred tax liability ⁽²⁴⁾	(25.6)	(20.3)
Net Principal Investments	243.5	251.0
Net Principal Investments per share (cents)⁽²⁵⁾	141.3	145.8

I would like to thank all my colleagues at Magellan for the outstanding job they have done over the years. It is a privilege to work with such an incredibly focussed and talented team of people.

Thank you for your ongoing interest and support of Magellan Financial Group Limited.

Yours faithfully,



Hamish M Douglass

CEO and Chief Investment Officer

6 February 2018

(21) Magellan Unlisted Funds includes the Magellan Global Fund, Magellan Global Fund (Hedged), Magellan High Conviction Fund, Magellan High Conviction Fund – Class B, the Frontier MFG Funds, Magellan Wholesale Plus Global Fund, Magellan Wholesale Plus Infrastructure Fund and the MFG Infrastructure Fund – Service Class.

(22) Listed shares/funds include Global Low Carbon Portfolio, Low Carbon (US) Portfolio, Magellan Global Equities Fund, Magellan Global Equities Fund (Currency Hedged), Magellan Infrastructure Fund (Currency Hedged) excluding receivables/payables (refer to footnote 23).

(23) Other comprises receivable/payables and unlisted funds and shares.

(24) Net deferred tax liability arising from changes in the fair value of financial assets and net capital losses carried forward.

(25) Based on the aggregate of 172,332,358 ordinary shares on issue at 31 December 2017 (30 June 2017, it is based on 172,076,468 ordinary shares).

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the half year ended 31 December 2017

The Directors of Magellan Financial Group Limited (the "Company" or "MFG") present their financial report for the Company and its controlled entities which together form the consolidated entity (the "Group") in respect of the half year ended 31 December 2017.

1.1 Directors

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

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

1.2 Dividends

The Directors have declared a fully franked interim dividend of 44.5 cents per ordinary share in respect of the half year ended 31 December 2017 (December 2016: 38.4 cents per share). The amount of the dividend expected to be paid on 20 February 2018, but not recognised as a liability as at 31 December 2017, is approximately \$76,688,000 (December 2016: \$66,077,000).

The Company's policy is to pay Interim and Final Dividends of 75% to 80% of the net profit after tax (NPAT) of the Group's funds management business (excluding crystallised performance fees). In addition to the Interim and Final Dividends, the Directors will pay an annual Performance Fee Dividend of 0% to 100% of net crystallised performance fees after tax. Any Performance Fee Dividends will be paid annually alongside the Final Dividend. The payment of dividends by the Group will be subject to available franking credits and corporate, legal and regulatory considerations. The level of payment of Performance Fee Dividends will also be subject to the capital needs of the Group.

1.3 Review of Financial Results and Operations

The Group's statutory net profit after tax for the half year ended 31 December 2017 was \$53,451,000 (December 2016: \$87,048,000). Excluding the one-off costs of the IPO of the Magellan Global Trust, the Group's net profit after tax was \$109,153,000, an increase of 25.4%.

The Group is in a strong financial position and at 31 December 2017 reported:

- investment assets (cash and cash equivalents and financial assets) of \$378,297,000 (June 2017: \$411,131,000) and shareholders' funds of \$437,856,000 (June 2017: \$447,611,000); and
- NTA per share of \$2.54 which reflects the one-off net offer costs of the Magellan Global Trust IPO (June 2017: \$2.60).

Refer to the Chief Executive Officer's Interim Letter on page 4 for further information on the Group's operations, including details on the Group's strategy and future outlook.

1.4 Significant Changes in the State of Affairs

No significant changes in the state of affairs of the Group occurred during the half year ended 31 December 2017, other than those matters stated in this report.

1.5 Events Subsequent to the End of the Reporting Date

On 5 February 2018, the Group reported on the ASX its funds under management were \$58.9 billion as at 31 January 2018.

Acquisition of Airlie Funds Management Pty Limited

On 5 February 2018, MFG entered into an agreement to acquire 100% of Airlie Funds Management Pty Limited (Airlie). Airlie is a specialist Australian equities fund manager with over A\$6 billion of funds under management, primarily for institutional and high net wealth clients. Airlie was founded by John Sevier and David Cooper in 2012, with Matt Williams

MAGELLAN FINANCIAL GROUP LIMITED

DIRECTORS' REPORT

for the half year ended 31 December 2017

1.5 Events Subsequent to the End of the Reporting Date (continued)

Acquisition of Airlie Funds Management Pty Limited (continued)

joining in 2016. Following the completion of the acquisition, it is intended that Airlie and Magellan will launch the Airlie Industrial Share fund, an active ETF to be quoted on the ASX. The Airlie Industrial Share Fund will leverage Airlie's pre-eminent expertise in Australian equities and Magellan's operational expertise and distribution strength in the retail market. MFG will acquire 100% of Airlie through the issue of MFG shares to Airlie shareholders at the completion of the acquisition, expected on 28 February 2018.

Acquisition of Frontier Partners Group (Frontier)

On 5 February 2018, MFG entered into an agreement to acquire 100% of the Frontier Group, a privately owned group of companies based in Chicago, USA. Frontier has been Magellan's distribution partner in North America since 2011. Frontier was founded in 1993 by Bill Forsyth to assist specialised fund managers penetrate the North American institutional marketplace. Frontier comprises Frontier Partners, Inc., a registered investment adviser that distributes investment strategies to institutional clients in North America, Frontegra Strategies, LLC, a registered broker-dealer and Frontegra Asset Management, Inc., an investment adviser and mutual fund platform. The acquisition of Frontier Partners, Inc. was completed on 5 February 2018. The acquisition of Frontegra Strategies, LLC and Frontegra Asset Management, Inc. are expected to be completed through the course of 2018 subject to regulatory approval and certain other conditions being satisfied. Magellan will cease paying success fees to Frontier Partners and enjoy improved economics in respect of Magellan funds on the Frontier mutual fund platform, following completion of the acquisitions.

Total consideration payable in respect of the Airlie and Frontier Group acquisitions comprises approximately 4.5 million Magellan shares and US\$15 million in cash. The MFG shares will be issued post the record date for the interim dividend. The acquisitions are expected to be modestly accretive to MFG's earnings per share in the first full year.

The final acquisition cost and acquisition accounting will be determined following the completion of the acquisitions.

Other than the above and the interim dividend in respect of the half year ended 31 December 2017 discussed at section 1.2, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this financial report that has significantly or may significantly affect the operations of the Group, the result of those operations or the state of affairs of the Group in future financial years.

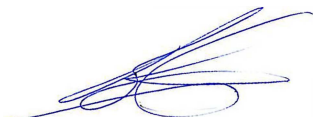
1.6 Rounding of Amounts

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

1.7 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 14.

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



Brett Cairns
Executive Chairman

Sydney
6 February 2018

MAGELLAN FINANCIAL GROUP LIMITED

AUDITOR'S INDEPENDENCE DECLARATION



Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

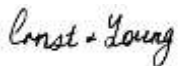
Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

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

As lead auditor for the review of Magellan Financial Group Limited for the half-year ended 31 December 2017, I declare to the best of my knowledge and belief, there have been:

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

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


Ernst & Young


Rita Da Silva
Partner
6 February 2018

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS for the half year ended 31 December 2017

		Consolidated Entity	
	Note	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Revenue			
Management fees	6(a)	176,567	141,817
Performance fees	6(b)	9,584	3,592
Services fees	6(c)	2,351	4,300
Dividend and distribution income		1,692	280
Interest income		1,390	951
Net gain on sale of available-for-sale financial assets		3,839	2,262
Net foreign exchange gain		338	318
Total revenue		195,761	153,520
Expenses			
Employee expenses		25,414	23,501
Non-Executive Director fees		210	169
Marketing expense		6,708	1,519
Fund administration and operational costs		5,496	4,036
US marketing/consulting fee expense		4,366	3,756
Occupancy expense		2,651	1,585
Information technology expense		2,062	1,888
Travel and entertainment expense		964	809
Legal and professional fees		759	740
Auditor's remuneration		422	360
Depreciation and amortisation expense		339	196
Foreign and withholding taxes		60	132
Offer costs relating to capital raising of Magellan Global Trust	11	23,801	-
Offer costs of issuing loyalty units	11	56,965	-
Finance costs		149	-
Other expenses		2,249	1,714
Total expenses		132,615	40,405
Operating profit before income tax expense		63,146	113,115
Income tax expense	5	(9,695)	(26,067)
Net operating profit for the half year		53,451	87,048
Basic earnings per share (cents per share)	3	31.0 cents	53.1 cents
Diluted earnings per share (cents per share)	3	31.0 cents	50.6 cents

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

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME for the half year ended 31 December 2017

	Consolidated Entity	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Note		
Net operating profit for the half year	53,451	87,048
Other comprehensive income for the half year		
<i>Items that may or have been reclassified to profit or loss in future years, net of tax</i>		
Net changes in the fair value of available-for-sale financial assets	21,350	18,324
Net (gain)/loss on sale of available-for-sale financial assets	(3,839)	(2,262)
Income tax benefit/(expense) on the above items	(5,278)	(4,843)
Exchange differences on translation of foreign operation	(18)	14
Other comprehensive income for the half year, net of tax	12,215	11,233
Total comprehensive income for the half year	65,666	98,281

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

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

		Consolidated Entity	
		31 Dec	30 Jun
		2017	2017
	Note	\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents		106,951	146,243
Financial assets	7	28	1,775
Current tax asset		19,181	-
Receivables		68,455	71,290
Loans - share purchase plan		2,715	1,940
Prepayments		1,116	926
Total current assets		198,446	222,174
Non-current assets			
Financial assets	7	271,318	263,113
Loans - share purchase plan		10,190	7,817
Property, plant and equipment		596	877
Total non-current assets		282,104	271,807
Total assets		480,550	493,981
Liabilities			
Current liabilities			
Payables		15,880	22,336
Provisions		600	880
Income tax payable		-	4,863
Total current liabilities		16,480	28,079
Non-current liabilities			
Net deferred tax liabilities		23,303	15,651
Deferred lease incentives		1,826	1,831
Provisions		1,085	809
Total non-current liabilities		26,214	18,291
Total liabilities		42,694	46,370
Net assets		437,856	447,611
Equity			
Contributed equity	10 (a)	121,050	115,250
Available-for-sale reserve		52,941	40,708
Foreign currency translation reserve		(101)	(83)
Retained profits		263,966	291,736
Total attributable to members of the Group		437,856	447,611
Total equity		437,856	447,611

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

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year ended 31 December 2017

Attributable to Equity Holders of the Consolidated Entity					
	Contributed Equity	Foreign currency translation reserve	Available for sale reserve	Retained Profits	Total
2017	\$'000	\$'000	\$'000	\$'000	\$'000
Equity - 1 July 2017	115,250	(83)	40,708	291,736	447,611
Net profit for the half year	-	-	-	53,451	53,451
Other comprehensive income for the half year	-	(18)	12,233	-	12,215
Total comprehensive income for the half year	-	(18)	12,233	53,451	65,666
Transactions with owners in their capacity as owners:					
Issue of securities:					
- under share purchase plan (SPP)	5,539	-	-	-	5,539
- transaction costs arising on share issue	(16)	-	-	-	(16)
Dividends paid	-	-	-	(81,221)	(81,221)
SPP expense for the half year	277	-	-	-	277
Total transactions with equity holders in their capacity as equity owners	5,800	-	-	(81,221)	(75,421)
Equity - 31 December 2017	121,050	(101)	52,941	263,966	437,856
2016					
Equity - 1 July 2016	111,073	(52)	21,359	222,989	355,369
Net profit for the half year	-	-	-	87,048	87,048
Other comprehensive income for the half year	-	14	11,219	-	11,233
Total comprehensive income for the half year	-	14	11,219	87,048	98,281
Transactions with owners in their capacity as owners:					
Issue of securities:					
- under share purchase plan (SPP)	4,004	-	-	-	4,004
- transaction costs arising on share issue	(110)	-	-	-	(110)
Dividends paid	-	-	-	(61,401)	(61,401)
SPP expense for the half year	145	-	-	-	145
Total transactions with equity holders in their capacity as equity owners	4,039	-	-	(61,401)	(57,362)
Equity - 31 December 2016	115,112	(38)	32,578	248,636	396,288

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

MAGELLAN FINANCIAL GROUP LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS for the half year ended 31 December 2017

		Consolidated Entity	
	Note	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Cash flows from operating activities			
Management and services fees received		169,549	136,534
Performance fees received		18,287	2,330
Interest received		1,025	726
Dividends and distributions received		4,901	394
Tax paid		(30,775)	(31,320)
Payments to suppliers and employees (inclusive of GST)		(58,717)	(46,207)
Offer costs paid	11	(80,603)	-
Net cash inflows/(outflows) from operating activities		23,667	62,457
Cash flows from investing activities			
Proceeds from sale of available-for-sale financial assets		17,396	8,003
Purchase of available-for-sale financial assets		(4,036)	(15,188)
Net matured term deposits classified as loans and receivables		1,744	1,419
Payments for property, plant and equipment		(70)	(341)
Proceeds from sale of property, plant and equipment		16	-
Net cash flows from foreign exchange transactions		7	4
Net cash inflows/(outflows) from investing activities		15,057	(6,103)
Cash flows from financing activities			
Proceeds from issue of securities		574	1,978
Proceeds from repayment of share purchase plan loans		1,741	1,676
Dividends paid	4 (a)	(80,761)	(61,030)
Net cash inflows/(outflows) from financing activities		(78,446)	(57,376)
Net increase / (decrease) in cash and cash equivalents		(39,722)	(1,022)
Effects of exchange rate movements on cash and cash equivalents		430	324
Cash and cash equivalents at the beginning of the half year		146,243	120,362
Cash and cash equivalents at the end of the half year		106,951	119,664

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2017

1. Summary of Significant Accounting Policies

This condensed interim financial report is for Magellan Financial Group Limited (the "Company") and its controlled entities (the "Group") for the half year ended 31 December 2017.

The Company is a for-profit entity limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded.

(a) Basis of Preparation

The condensed interim report for the six months ended 31 December 2017 is a general purpose financial report and has been prepared in accordance with AASB 134: *Interim Financial Reporting*, the *Corporations Act 2001* and other mandatory professional reporting requirements. It is presented in Australian dollars (\$) and was approved by the Board of Directors on 6 February 2018. The Directors have the power to amend and reissue the financial report.

This condensed interim financial report does not include all the information and disclosures normally included in the annual financial report. Accordingly, this report should be read in conjunction with the 30 June 2017 Annual Report and any public announcements made in respect of the Group during the half year ended 31 December 2017 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

(b) Changes in Accounting Policy, Accounting Standards and Interpretations

i) New and Amended Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period and with finance costs being recognised for the first time in the Group's financial statements at 31 December 2017, note 1(c) on finance costs has been included.

None of the standards and amendments which became mandatory for the first time in the interim reporting period commencing 1 July 2017 resulted in any adjustments to the amounts recognised in the financial statements or disclosures.

ii) Accounting Standards and Interpretations Issued But Not Yet Effective

The Australian and International Accounting Standards issued but not yet mandatory for the 31 December 2017 interim reporting period have not been adopted by the Group in the preparation of this interim financial report. An assessment of the impact of the new standards and interpretations which may have a material impact on the Group is set out below:

- **AASB 9: Financial Instruments (AASB 9) (effective 1 July 2018)**

AASB 9 contains new requirements for the classification, measurement and de-recognition of financial assets and liabilities, replacing the recognition and measurement requirements in AASB 139 *Financial Instruments: Recognition and Measurement*. Under the new requirements the four current categories of financial assets will be replaced with two measurement categories: fair value and amortised cost, and financial assets will only be measured at amortised cost where very specific conditions are met. Equity securities are measured at fair value through profit or loss unless an election is made at initial recognition, to present fair value changes in other comprehensive income. This option is irrevocable and applies only to equity instruments which are not held for trading. Gains and losses in other comprehensive income are not recycled on disposal of the securities, however the cumulative gain or loss may be transferred within equity.

AASB 9 was revised in December 2014 to include new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. It also introduced a new expected-loss impairment model that requires credit losses to be recognised when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

At 31 December 2017, the Group continues to evaluate the classification, measurement and disclosure requirements of this standard, the financial and disclosure impacts of which are yet to be determined. Further information will be provided in future financial reports as management finalises its assessment. The adoption of the standard is however expected to result in a change in the presentation of fair value movements within the Consolidated Statement of Profit or Loss and Consolidated Statement of Other Comprehensive Income and may also impact the required disclosure in the notes to the financial statements.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2017

1. Summary of Significant Accounting Policies (continued)

b) Changes in Accounting Policy, Accounting Standards and Interpretations (continued)

ii) Accounting Standards and Interpretations Issued But Not Yet Effective (continued)

• AASB 15: Revenue from Contracts with Customers (effective 1 July 2018) (AASB 15)

AASB 15 supercedes the revenue recognition guidance in AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related interpretations. Although AASB 15 is principles-based, it is a significant change from the current revenue requirements and will involve more judgements and estimates. The core principle in AASB 15 is that an entity recognises revenue at an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange for selling goods or services to customers. AASB 15 has also introduced specific criteria for determining whether to capitalise certain costs, distinguishing between those costs associated with obtaining a contract (e.g. sales commissions) and those costs associated with fulfilling a contract.

The Group does not anticipate subsequent to adoption of AASB 15 from 1 July 2018 onwards there will be any material change to the timing or manner of recognition for management, services or performance fees. The recognition of interest income, investment gains/losses and foreign exchange gains/ losses are unaffected as they are excluded from the scope of AASB 15.

• AASB 16: Leases (effective 1 July 2019) (AASB 16)

AASB 16 supercedes the lease accounting guidance in AASB 117 *Leases* and related interpretations. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. The definition is based on the premise of control, where a lease is identified when a customer has the right to (1) obtain substantially all of the economic benefits from the use of the identified asset; and (2) direct the use of the identified asset.

AASB 16 will provide a single model for accounting for leases by lessees. Leases other than low value and short-term leases must be recognised on the balance sheet of lessees. The lessee will recognise an asset, reflecting its right to use the underlying asset, and a liability, in respect of its obligation to make lease payments. Expenses in respect of leases will include amortisation of the right-of-use asset and interest expense in respect of the lease liability.

The Group anticipates the adoption of AASB 116 from 1 July 2019 onwards to result in increased disclosure in the financial statements. The Group expects that whilst there will be a requirement to gross up for the recognition of right of use assets and lease liabilities on the Consolidated Statement of Financial Position on adoption, these amounts are expected to approximately offset each other on initial recognition on 1 July 2019 and the net impacts on the Statement of Profit or Loss on prior, current and future financial years are also not expected to be material. The Group expects to apply the modified retrospective approach on transition and reflect any impacts on transition to the new standard on a cumulative basis as an adjustment to the opening balance of retained earnings at 1 July 2019, the adoption date. Comparatives would not be restated. For practical expediency those lease contracts previously accounted for as leases under AASB 117 and Interpretation 4 identified and ongoing as at 1 July 2019 would continue to be accounted for as lease contracts in accordance with the new standard.

(c) Finance costs

Finance costs include interest paid or payable on borrowings along with ancillary costs incurred in connection with the arrangement of borrowings. Finance costs are expensed as incurred and in the case of a commitment fee, on a straight line basis over the commitment period.

(d) Rounding of Amounts

The Group is of a kind referred to in the *Australian Securities & Investments Commission's Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that Legislative Instrument, or in certain cases, the nearest dollar.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the half year ended 31 December 2017

1. Summary of Significant Accounting Policies (continued)

(e) Critical Accounting Estimates and Judgements

The preparation of the financial statements requires the Directors to make judgements, estimates and assumptions that affect the amounts reported in the interim financial statements. 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, the result of which forms the basis of the carrying values of assets and liabilities. As such, actual results could differ from estimates.

The main areas where a higher degree of judgement or complexity arises or where assumptions and estimates are significant to the Group's financial statements are:

- **Valuation of unlisted investments**

The valuation techniques used, which involve estimates, are discussed in detail at note 8 of these financial statements and note 19(h) of the 30 June 2017 Annual Report; and

- **Income tax expense**

The Group's tax expense and income tax provision for the half year ended 31 December 2017 involves a degree of estimation and judgement in respect of certain expenses relating to the initial public offering of Magellan Global Trust (MGG) which were borne by MFG, as the tax treatment cannot be finally determined until the Group receives a response to its private tax ruling request lodged with the Australian Taxation Office. This is not within the control of the Group. Although the Directors believe the Group's tax position adopted in these financial statements is correct, this gives rise to an uncertain tax position at reporting date. Refer to note 11 for further details.

Offshore banking unit

Magellan Asset Management Limited is an Offshore Banking Unit (OBU) which is subject to a concessional tax rate of 10% on certain income and expenses. For further details on the OBU refer to note 1(h) in the 30 June 2017 Annual Report.

In the Group's interim financial statements, the income tax expense and related balances have been estimated using the Group's composition of assessable offshore banking (OB) income over adjusted total assessable income for the half year ended 31 December 2017. This composition may however change and therefore only the Group's actual assessable OB income over adjusted total assessable income for the full financial year ended 30 June can be used to determine the Group's effective income tax rate. Any change in the composition of assessable income will result in either a higher or lower general OB deduction for the full financial year ending 30 June 2018 and therefore change the Group's reported effective tax rate at 31 December 2017 (refer note 5 for further details).

Apart from the above and as the Company's cash and cash equivalents are provided by highly rated financial institutions, none of the other assets or liabilities are subject to significant judgement or complexity due to the timing of when revenues or expenses are accrued and recognised.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the half year ended 31 December 2017

2. Segment Information

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

Funds Management

The funds management activities of the Group are undertaken by the controlled entities Magellan Asset Management Limited (MAM) and MFG Services LLC (MFGS). For further details on these entities refer to note 9 (a).

The funds management activities undertaken by MAM, comprise acting as:

- Responsible Entity and Investment Manager for the following managed investment schemes offered primarily to Australian and New Zealand investors (collectively, the Unlisted Magellan Funds):
 - Magellan Global Fund
 - Magellan Global Fund (Hedged)
 - Magellan Infrastructure Fund
 - Magellan Infrastructure Fund (Unhedged); and
 - Magellan High Conviction Fund;
- Responsible Entity and Investment Manager for Magellan Global Equities Fund (MGE), Magellan Global Equities Fund (Currency Hedged) (MHG) and Magellan Infrastructure Fund (Currency Hedged) (MICH) which are registered managed investment schemes quoted on the Australian Securities Exchange (ASX) under the AQUA rules, and offered primarily to Australian investors (the ASX Quoted Funds);
- Responsible Entity and Investment Manager for Magellan Global Trust (MGG) which is a registered managed investment scheme listed on ASX, and offered primarily to Australian Investors (Listed Trust);
- Trustee and Investment Manager for the Magellan Core Infrastructure Fund (MCIF), which is an unregistered managed investment scheme offered to Australian wholesale investors;
- Investment Manager for the MFG Global Fund and MFG Select Infrastructure Fund, funds authorised under the European Communities (Undertakings for Collective Investment in Transferable Securities (UCITS)) and offered to global institutional clients (the MFG Global Funds);
- Investment Manager for the MFG Infrastructure Fund, a US domiciled open-end mutual fund, offered to US Investors;
- Sub-adviser to the Frontier MFG Global Equity Fund, Frontier MFG Global Plus Fund and the Frontier MFG Core Infrastructure Fund, which are offered to wholesale investors in the United States (the Frontier MFG Funds);
- Investment research and administrative services provider to MFF Capital Investments Limited (MFF), and investment research provider to a mandate; and
- Investment Manager or Sub-adviser to other external wholesale client mandates.

MFGS acts as a service company providing MAM with services of investment analysts and distribution personnel based in the United States of America. MFGS employs US based personnel and is the lessee of US premises.

Non-Executive Director fees relating to the MAM Board are included in the Funds Management segment. Current tax liabilities and deferred tax assets/liabilities that arise from the operations of the Funds Management business are based on the relevant tax rate and included within the Corporate segment.

Principal Investments

The principal investment portfolio is comprised of the Company's investments in the ASX Quoted Funds, Listed Trusts, the Unlisted Magellan Funds, the Frontier MFG Funds, a select portfolio comprising Australian and international listed companies, cash, other investments and net deferred tax assets/liabilities arising from changes in fair value of these investments. Investments in ASX Quoted Funds and Unlisted Magellan Funds may comprise a controlled fund or associate, usually arising where the Group has initially provided seed capital for the fund.

Corporate

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

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2017

2. Segment Information (continued)

(a) Segment financial results

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

	Consolidated Entity			
	Funds Management (A)	Principal Investments	Corporate	Consolidated Entity
31 December 2017	\$'000	\$'000	\$'000	\$'000
Segment revenue				
Management fees	176,567	-	-	176,567
Performance fees	9,584	-	-	9,584
Services fees	2,351	-	-	2,351
Interest income	143	2	1,245	1,390
Dividend and distribution income	-	500	-	500
Net gain/(loss) on sale of available-for-sale financial assets	-	3,839	-	3,839
Net foreign exchange gain/(loss)	377	(39)	-	338
Total segment revenue	189,022	4,302	1,245	194,569
Segment expenses				
Employee expense	25,126	-	11	25,137
Employee expense - SPP	242	-	35	277
Non-Executive Director fees	125	-	85	210
Other expenses	25,023	128	1,074	26,225
Total segment expenses	50,516	128	1,205	51,849
Total segment operating profit before income tax expense	138,506	4,174	40	142,720
Other comprehensive income				
Net changes in fair value of available-for-sale financial assets	-	21,350	-	21,350
Net (gain)/loss on sale of available-for-sale financial assets	-	(3,839)	-	(3,839)
Exchange differences on translation of foreign operations	(18)	-	-	(18)
Other comprehensive income for the half year, before tax	(18)	17,511	-	17,493
Total comprehensive income for the half year, before tax	138,488	21,685	40	160,213

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

	Consolidated Entity 31 Dec 2017 \$'000	31 Dec 2016 \$'000
Segment operating profit before income tax expense	142,720	113,115
<i>Individually significant items:</i>		
Offer costs relating to capital raising of Magellan Global Trust ^(B)	(23,801)	-
Offer costs of issuing loyalty units ^(B)	(56,965)	-
Interim distribution income from Magellan Global Trust ^(C)	1,192	-
Total net offer costs	(79,574)	-
Operating profit before income tax expense	63,146	113,115
Income tax expense	(9,695)	(26,067)
Net operating profit for the half year	53,451	87,048

(A) includes elimination of \$3,436,000 income and \$3,436,000 expense under the transfer pricing agreement between MAM and MFGS within the Funds Management segment.

(B) offer costs incurred in relation to the Magellan Global Trust IPO (refer to note 11) and are shown separately on the face of the Statement of Profit or Loss for the half year ended 31 December 2017.

(C) relates to the distribution declared for the half year ended 31 December 2017 on the loyalty units. Refer to note 11 for further details.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2017

2. Segment Information (continued)

(a) Segment financial results (continued)

	Consolidated Entity			
	Funds Management (A)	Principal Investments	Corporate	Consolidated Entity
31 December 2016	\$'000	\$'000	\$'000	\$'000
Segment revenue				
Management fees	141,817	-	-	141,817
Performance fees	3,592	-	-	3,592
Services fees	4,300	-	-	4,300
Interest income	212	25	714	951
Dividend and distribution income	-	280	-	280
Net gain/(loss) on sale of available-for-sale financial assets	-	2,262	-	2,262
Net foreign exchange gain/(loss)	250	68	-	318
Total segment revenue	150,171	2,635	714	153,520
Segment expenses				
Employee expense	23,348	-	8	23,356
Employee expense - SPP	123	-	22	145
Non-Executive Director fees	100	-	69	169
Other expenses	16,169	72	494	16,735
Total segment expenses	39,740	72	593	40,405
Total segment operating profit before income tax expense	110,431	2,563	121	113,115
Operating profit before income tax expense	110,431	2,563	121	113,115
Other comprehensive income				
Net changes in fair value of available-for-sale financial assets	-	18,324	-	18,324
Net (gain)/loss on sale of available-for-sale financial assets	-	(2,262)	-	(2,262)
Exchange differences on translation of foreign operations	14	-	-	14
Other comprehensive income for the half year, before tax	14	16,062	-	16,076
Total comprehensive income for the half year, before tax	110,445	18,625	121	129,191

(A) includes elimination of \$2,864,000 income and \$2,864,000 expense under the transfer pricing agreement between MAM and MFGS within the Funds Management segment.

(b) Segment assets and liabilities

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

	Consolidated Entity			
	Funds Management (A)	Principal Investments	Corporate	Total
31 December 2017	\$'000	\$'000	\$'000	\$'000
Total assets	94,908	269,082	116,560	480,550
Total liabilities	18,593	25,556	(1,455)	42,694
Net assets	76,315	243,526	118,015	437,856
30 June 2017	\$'000	\$'000	\$'000	\$'000
Total assets	104,900	271,318	117,763	493,981
Total liabilities	25,751	20,279	340	46,370
Net assets	79,149	251,039	117,423	447,611

(A) the Funds Management segment maintains a minimum of \$20,000,000 in liquid assets (including cash and cash equivalents to meet regulatory and operating requirements) (June 2017: \$20,000,000).

At 31 December 2017, MFG's net investment in the funds management business activities was \$13,204,000 (June 2017: \$13,204,000), with \$12,500,000 capital invested in Magellan Asset Management Limited and \$704,000 capital invested in MFG Services LLC. Both entities are controlled by MFG. Refer to note 9(a) for further details.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2017

3. Earnings Per Share (EPS)

	Consolidated Entity	
	31 Dec 2017	31 Dec 2016
Basic EPS		
Net profit attributable to shareholders (\$'000)	53,451	87,048
Weighted average number of shares for basic EPS ('000)	172,204	163,839
Basic EPS (cents)	31.0	53.1
Diluted EPS		
Net profit attributable to shareholders (\$'000)	53,451	87,048
Weighted average number of shares for diluted EPS ('000)	172,204	171,904
Diluted EPS (cents)	31.0	50.6
Reconciliation of earnings used in calculating EPS		
Net profit after income tax expense used in the calculation of basic and diluted EPS (\$'000)	53,451	87,048

Weighted average number of shares

The reconciliation of the weighted average number of shares on a fully diluted basis used to calculate diluted EPS is below:

Weighted average number of ordinary shares on issue used in calculating basic EPS ('000)	172,204	163,839
Add adjustments: equivalent number of MFG Class B Shares ^(A)	-	8,065
Weighted average number of shares used in calculating diluted EPS ('000)	172,204	171,904

(A) There was no adjustment for MFG Class B Shares in the half year ended 31 December 2017 as the MFG Class B Shares were fully converted on 22 November 2016. In the half year ended 31 December 2016, the Class B Shares were considered to be potential ordinary shares up until conversion and were included in the determination of diluted earnings per share to the extent they were dilutive.

Non-IFRS EPS Calculation

The following adjusted EPS calculation has excluded net offer costs from the Magellan Global Trust IPO:

	31 Dec 2017	31 Dec 2016
Adjusted Basic EPS		
Net profit attributable to shareholders (\$'000)	53,451	87,048
Adjustments:		
Net offer costs incurred in relation to Magellan Global Trust IPO ⁽ⁱ⁾	79,574	-
Tax expense on net offer costs	(23,872)	-
Adjusted net profit attributable to shareholders (\$'000)	109,153	87,048
Weighted average number of shares for adjusted basic EPS ('000)	172,204	163,839
Adjusted Basic EPS (cents)	63.4	53.1
Adjusted Diluted EPS		
Net profit attributable to shareholders (\$'000)	53,451	87,048
Adjustments:		
Net offer costs incurred in relation to Magellan Global Trust IPO ⁽ⁱ⁾	79,574	-
Tax expense on net offer costs	(23,872)	-
Adjusted net profit attributable to shareholders (\$'000)	109,153	87,048
Weighted average number of shares for adjusted diluted EPS ('000)	172,204	171,904
Adjusted Diluted EPS (cents)	63.4	50.6

(i) Refer to note 2(a) for the composition of offer costs.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2017

4. Dividends

(a) Dividends declared and paid during the half year

	Consolidated Entity	
	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Fully franked final and performance fee dividend for the year ended 30 June 2017:		
- final dividend: 41.5 cents per ordinary share: paid 28 August 2017	71,413	-
- performance fee dividend: 5.7 cents per ordinary share: paid 28 August 2017	9,808	-
Fully franked final dividend for the year ended 30 June 2016:		
- 38.0 cents per ordinary share: paid 26 August 2016	-	61,401
Total dividends declared and paid during the half year	81,221	61,401

The final dividend of \$81,221,000 paid on 28 August 2017 (December 2016: \$61,401,000 paid on 26 August 2016) included an amount of \$460,000 (December 2016: \$371,000) relating to the dividend entitlement of share purchase plan (SPP) holders. This amount was not paid in cash but rather applied directly against the holders' SPP loan balances.

(b) Dividend declared

On 6 February 2018, the Directors declared a fully franked interim dividend of 44.5 cents per share in respect of the half year ended 31 December 2017 (December 2016: 38.4 cents per share). The amount of the interim dividend expected to be paid on 20 February 2018, but not recognised as a liability, is approximately \$76,688,000 (December 2016: interim dividend of \$66,077,000).

(c) Imputation credits

The imputation credit account at 31 December 2017 is as follows:

	Consolidated Entity	
	31 Dec 2017 \$'000	30 Jun 2017 \$'000
Imputation credits		
Imputation credits at reporting date	37,654	41,226
Imputation credits that will arise from net payment of income tax payable	3,586	7,591
Total imputation credits available for subsequent reporting periods based on a tax rate of 30% (June 2017: 30%)	41,240	48,817

The payment of the interim dividend declared by the Directors on 6 February 2018 will reduce the imputation credit account balance shown above by approximately \$32,866,000.

5. Income Tax

At 31 December 2017, the Group's estimated effective tax rate was 15.4%, which includes taxes paid net of tax credits in foreign jurisdictions (December 2016: 23.0%). This is below the Australian company tax rate of 30% primarily as a result of MAM's qualifying offshore banking (OB) income, net of costs, attracting a concessional tax rate of 10% given its OBU status. For the six months to 31 December 2017, the effect of the concessional tax rate of 10% was \$9,249,000 (December 2016: \$7,008,000). OB income also represented a larger proportion of the Group's total net profit, primarily due to the one-off offer costs of the Magellan Global Trust IPO. These factors resulted in the effective tax rate and the reduction in income tax expense for the half year ended 31 December 2017 to \$9,695,000 (December 2016: \$26,067,000).

The effective tax rate for the full financial year ending 30 June 2018 may change as it depends upon the composition of qualifying OB income and outcome of the private tax ruling request. Refer to note 1(e) for further detail on the factors that may affect the Group's effective tax rate.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2017

6. Revenue

(a) Management fees

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

	Consolidated Entity	
	31 Dec	31 Dec
	2017	2016
	\$'000	\$'000
Magellan Global Fund	62,246	53,941
Magellan Global Fund (Hedged)	2,915	2,244
Magellan Infrastructure Fund	6,590	4,818
Magellan Infrastructure Fund (Unhedged)	3,354	2,646
Magellan High Conviction Fund	3,204	2,171
Magellan Global Equities Fund	6,191	4,357
Magellan Global Equities Fund (Currency Hedged)	385	253
Magellan Infrastructure Fund (Currency Hedged)	605	149
Magellan Core Infrastructure Fund	269	477
Magellan Global Trust	4,831	-
MFG Global Funds	7,981	7,576
Frontier MFG Funds	6,531	4,812
Other mandates	71,465	58,373
Total management fees for the half year	176,567	141,817

(b) Performance fees

Performance fees were also earned on the following funds and mandates as the total shareholder return, market index and/or relative hurdles were met:

	Consolidated Entity	
	31 Dec	31 Dec
	2017	2016
	\$'000	\$'000
Magellan Global Fund	54	35
Magellan Global Fund (Hedged)	168	22
Magellan Infrastructure Fund	2,211	-
Magellan Infrastructure Fund (Unhedged)	1,363	-
Magellan High Conviction Fund	2,952	1,361
Magellan Global Equities Fund	-	1
Magellan Global Equities Fund (Currency Hedged)	20	-
Magellan Infrastructure Fund (Currency Hedged)	268	-
MFF Capital Investments Limited	1,000	-
Other funds and mandates	1,548	2,173
Total performance fees for the half year	9,584	3,592

(c) Services fees

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2017

6. Revenue (continued)

(d) Management, services and performance fees by geographic location

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

	Consolidated Entity	
	31 Dec	31 Dec
	2017	2016
	\$'000	\$'000
Australia	122,647	96,180
United Kingdom & Ireland	34,113	27,089
United States	24,447	20,795
Canada	2,436	2,634
Asia	4,859	3,011
Total management, services and performance fees	188,502	149,709

(e) Management, services and performance fees by investor type

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

	Consolidated Entity	
	31 Dec	31 Dec
	2017	2016
	\$'000	\$'000
Management and services fees		
- Retail	103,168	83,523
- Institutional	75,750	62,594
Performance fees		
- Retail	8,111	3,420
- Institutional	1,473	172
Total management, services and performance fees	188,502	149,709
Total Retail	111,279	86,943
Total Institutional	77,223	62,766
Total management, services and performance fees	188,502	149,709

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2017

7. Financial Assets

	Consolidated Entity	
	31 Dec	30 Jun
	2017	2017
	\$'000	\$'000
Current		
(i) Financial assets classified as loans and receivables		
Term deposits ^(A)	28	1,775
Total current financial assets	28	1,775
Non-Current		
(ii) Available-for-sale financial assets		
Investments in listed shares (by domicile of primary stock exchange)		
- United States	2,529	14,301
- United Kingdom	78	728
- Australia	-	76
- France	48	847
- Switzerland	45	1,508
- Netherlands	22	242
- Germany	42	225
- Other	-	474
Investments in ASX listed trust		
- Magellan Global Trust ^(B)	2,656	-
Investments in ASX quoted funds^(C)		
- Magellan Global Equities Fund	62,172	56,837
- Magellan Global Equities Fund (Currency Hedged)	18,741	16,965
- Magellan Infrastructure Fund (Currency Hedged)	11,177	10,655
Total listed/quoted investments	97,510	102,858
Investments in unlisted funds^(C)		
- Magellan Global Fund	111,517	103,160
- Magellan Global Fund (Hedged)	816	739
- Magellan High Conviction Fund ^(D)	33,467	29,905
- Magellan Wholesale Plus Global Fund	6,955	6,434
- Magellan Wholesale Plus Infrastructure Fund	5,371	5,124
- Frontier MFG Core Infrastructure Fund	5,920	5,799
- Frontier MFG Global Plus Fund	8,133	7,534
- Magellan Infrastructure Fund - service class	1,373	1,304
- Other	81	81
Investments in unlisted shares		
- Other	175	175
Total unlisted investments	173,808	160,255
Total non-current financial assets	271,318	263,113

(A) Comprises term deposits of \$28,000 (June 2017: \$1,775,000) which are held with major Australian banks pledged against bank guarantees in respect of the Group's future lease obligations. In the event that the Group does not meet its lease payments, the banks have the right to apply the deposits in settlement of the amount paid by the banks under the guarantees.

(B) Relates to 1,613,070 units in Magellan Global Trust which were acquired on 13 October 2017 by MGT Investment Corp Limited a wholly owned subsidiary of MFG. At 31 December 2017, this represented a 0.2% interest in the Trust (June 2017: nil). Refer to note 11 for further details. This investment is accounted for as an available-for-sale asset.

(C) At 31 December 2017 the Group held the following % of the funds as an investment: Magellan Global Equities Fund 6.3% (June 2017: 6.7%), Magellan Global Equities Fund (Currency Hedged) 29.7% (June 2017: 31.4%), Magellan Infrastructure Fund (Currency Hedged) 7.7% (June 2017: 12.6%), Magellan Global Fund 1.2% (June 2017: 1.2%), Magellan Global Fund (Hedged) 0.2% (June 2017: 0.2%), Magellan High Conviction Fund 7.1% (June 2017: 9.1%), Magellan Wholesale Plus Global Fund 1.0% (June 2017: 1.1%), Magellan Wholesale Plus Infrastructure Fund 64.7% (June 2017: 88.0%), Frontier MFG Core Infrastructure Fund 1.7% (June 2017: 1.8%), Frontier MFG Global Plus Fund 1.8% (June 2017: 1.9%) and Magellan Infrastructure Fund – service class 100% (June 2017: 100%).

(D) On 14 November 2017, MFG seeded the new Class B unit class in Magellan High Conviction Fund (MHCF) with \$100,000 by way of a switch from its current investment in this fund. The Group's investment in both Class B and MHCF units remains accounted for as an available-for-sale asset.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2017

7. Financial Assets (continued)

Reconciliation

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

	Consolidated Entity	
	31 Dec 2017 \$'000	30 Jun 2017 \$'000
Current		
Opening balance at 1 July	1,775	1,719
Cash placed on term deposit	28	1,939
Matured term deposits	(191)	(1,883)
Reclassified from/(to) cash and cash equivalents in the Statement of Financial Position	(1,584)	-
Closing balance	28	1,775
Non-current		
Opening balance at 1 July	263,113	206,221
Acquisitions	4,262	35,687
Disposals	(13,568)	(7,154)
Net changes in fair values of investments	17,511	28,359
Closing balance	271,318	263,113

8. Fair Value Measurements

The Group classifies the fair value measurements of financial assets and financial liabilities using the three level fair value hierarchy set out below, to reflect the source of valuation inputs used when determining the fair value:

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

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

	Note	Consolidated Entity	
		31 Dec 2017 \$'000	30 Jun 2017 \$'000
Assets measured at fair value			
Available-for-sale financial assets			
- Level 1: listed shares/units and ASX Quoted units		97,510	102,858
- Level 2: unlisted funds - Magellan and Frontier MFG Funds	(i)	173,552	159,999
- Level 3: unlisted funds - other	(ii)	81	81
- Level 3: unlisted shares - other	(iii)	175	175
Total financial assets		271,318	263,113

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2017

8. Fair Value Measurements (continued)

(i) Unlisted funds – Magellan and Frontier MFG Funds

The fair value of investments in the Magellan Unlisted Funds operated by the Group and the Frontier MFG Funds is determined with reference to the redemption price at reporting date. They are categorised as Level 2 in the fair value hierarchy on the basis that the inputs into the redemption unit price are directly observable from published price quotations.

(ii) Unlisted funds – Other

Investments in Unlisted funds – Other comprise an investment in a single private equity fund. As there is no active market for these units, the fair value is a Directors' valuation that is determined with reference to the unit price of the fund. A discount is applied to the fund's redemption unit price, as determined by the fund's investment manager, to reflect the illiquidity of the units. The Directors believe the estimated fair value, based on other unlisted fund's valuation undertaken by that fund's investment manager and the discount assumptions applied, is reasonable and appropriate.

(iii) Unlisted shares - Other

Investments in Unlisted shares – Other comprises a shareholding in an unlisted funds management business. As there is no active market for the shares, the Directors have valued this investment at cost after giving consideration to that company's most current unaudited net asset position.

There were no transfers between any of the three levels in the hierarchy during the half year ended 31 December and full year ended 30 June, and the Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of each reporting period.

The reconciliation of the fair value movements within level 3 is shown below:

	Consolidated Entity	
	31 Dec 2017 \$'000	30 Jun 2017 \$'000
Opening balance - 1 July	256	256
Net changes in fair value	-	-
Closing balance	256	256

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2017

9. Controlled Entities and Interest in Other Entities

(a) Controlled Entities

The Group's controlled entities are set out below:

Name of entity	Country of incorporation and principal place of business	Ownership interest	
		31 Dec 2017	30 Jun 2017
Magellan Asset Management Limited	Australia	100%	100%
Magellan Capital Partners Pty Limited	Australia	100%	100%
MGT Investment Corp Pty Limited	Australia	100%	-
MFG Services LLC	United States of America	100%	100%

MAM and Magellan Capital Partners Pty Limited have share capital consisting solely of ordinary shares that are held directly by MFG, which also holds all the voting rights. The country of incorporation is also the principal place of business.

MFGS, a Delaware limited liability company, was formed on 3 August 2015. MFGS is a service company operating in the United States of America and provides MAM with investment research and distribution services. MFGS has share capital consisting solely of one common interest that is held directly by MFG, and the proportion of ownership of MFGS equals the voting right held by MFG.

MGT Investment Corp Pty Limited (MGTI) was formed on 9 August 2017 and is a special purpose vehicle that was incorporated to subscribe for the loyalty units for eligible unitholders of the Magellan Global Trust under the priority offer. Refer to note 11 for further details. MGTI has share capital consisting solely of ordinary shares held directly by MFG, and the proportion of ownership of MGTI equals the voting rights held by MFG.

Transactions between MFGS and MAM are subject to transfer pricing arrangements. Transfer pricing is determined on a cost plus basis.

The Group incorporates the assets, liabilities and results of all controlled entities in accordance with the accounting policy described in note 1(b)i) in the Group's 30 June 2017 Annual Report.

(b) Interests in Other Entities

The Group's investments in other entities are set out in note 7.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2017

10. Contributed Equity

		Consolidated Entity	
		31 Dec 2017 \$'000	30 Jun 2017 \$'000
	Note		
Ordinary Shares	(a)	121,050	115,250
Total contributed equity		121,050	115,250

Consolidated Entity				
	31 Dec 2017 Number '000	30 Jun 2017 Number '000	31 Dec 2017 \$'000	30 Jun 2017 \$'000
(a) Ordinary Shares				
Opening balance	172,076	161,189	115,250	111,073
Shares issued on exercise of MFG 2016 Options ^(A)	-	391	-	-
Shares issued on conversion of MFG Class B Shares	-	10,305	-	-
Shares issued under Share Purchase Plan (SPP) ^(B)	256	191	5,539	4,004
SPP expense for the period	-	-	277	283
less: transaction costs arising on share issue	-	-	(16)	(110)
Closing balance - Ordinary Shares	172,332	172,076	121,050	115,250

(A) Whilst the MFG 2016 options expired on 30 June 2016, 391,353 shares relating to MFG 2016 options exercised on 30 June 2016 were issued on 4 July 2016.

(B) 255,890 ordinary shares in total were issued in September and November 2017 under the SPP. Of the 172,332,358 ordinary shares on issue at 31 December 2017, 1,123,445 ordinary shares are held by employees and Non-Executive Directors under the SPP (June 2017: 986,993).

Terms and conditions

(i) Ordinary shares

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

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2017

11. Magellan Global Trust Capital Raising

On 9 October 2017, Magellan Global Trust (MGG) raised \$1.57 billion from an initial public offering (Offer). MGG is a closed end fund which invests in a portfolio of between 15 and 35 high quality global equity stocks and has the ability to manage equity market risk by holding up to 50% of the Trust's gross assets in cash and cash equivalents and borrowing up to 20% of the Trust's gross assets.

On 12 October 2017, units in MGG were allotted and on 18 October 2017, MGG commenced trading on the Australian Securities Exchange. The costs of the Offer were paid by MFG, which ensured the opening cash net asset value per unit of MGG was equal to the application unit price of \$1.50.

The Offer comprised a broker firm/general public offer and a priority offer. The priority offer was only available to existing Group shareholders or unitholders in Magellan funds as at 1 August 2017. Under the priority offer, unitholders were entitled to additional loyalty units worth 6.25% of the value of their initial unit allotment providing those units were held on 11 December 2017 (eligible unitholders).

MGT Investment Corporation Pty Limited (MGTI), a wholly owned company of MFG, subscribed for the loyalty units of MGG to facilitate the issue of the additional loyalty units to eligible unitholders under the priority offer. On 13 October 2017, 39,747,290 loyalty units were allotted in MGG at an issue price of \$1.50 and for a total cash consideration of \$59,621,000. On 11 December 2017, 38,134,220 loyalty units vested to eligible unitholders and these units were subsequently allotted as ordinary units on 15 January 2018. The remaining 1,613,070 units have been retained as an investment by MGTI (refer to note 7 for further details).

The net offer costs borne by the Group totalled \$79,574,000 comprising offer costs relating to the IPO of \$23,801,000, the cost of issuing loyalty units which amounted to \$56,965,000 offset by the distribution on the loyalty units of \$1,192,000 for the half year ended 31 December 2017. The costs have been recognised as an expense in the Group's Statement of Profit or Loss for the half year ended 31 December 2017 and treated as fully deductible in the current year. As a result, a deduction of \$23,872,000 has been included in the calculation of the Group's income tax expense for the half year ended 31 December 2017. As a result, the net offer costs after income tax expense was \$55,702,000. The Group has lodged a private tax ruling request with the Australian Tax Office (ATO) to obtain certainty regarding the tax treatment of these offer costs.

At the date of this report, the Group is awaiting a response from the Australian Tax Office on the private tax ruling request it lodged to clarify the tax treatment of expenses incurred as part of the Magellan Global Trust offer costs in October 2017. As a result, there is an uncertain tax position at reporting date. Whilst the Directors' believe the tax position adopted in these financial statements is correct, if the Australian Taxation Office form a different view on the tax treatment of the offer costs, all, or part, of the costs would remain deductible against income of the Group but over a longer period of time rather than in the current financial year and treated as a capital loss. Utilisation of all, or part, of the capital loss would be dependent on the Group's profitability and also its ability to generate capital gains in the future.

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the half year ended 31 December 2017

12. Contingent Assets, Contingent Liabilities and Commitments

(a) Commitments

The Group has entered into non-cancellable operating leases for its office premises in Australia (Sydney, Melbourne, Brisbane, Adelaide and Perth), and office equipment along with a commitment under a sponsorship agreement.

The Group's total commitments, which include minimum lease payments in relation to non-cancellable operating leases, are as follows:

	Consolidated Entity	
	31 Dec	30 Jun
	2017	2017
	\$'000	\$'000
Within one year	7,262	2,674
Later than one year but no later than five years	17,546	10,822
More than five years	12,108	13,767
Total commitments	36,916	27,263

(b) Contingent assets and contingent liabilities

The Group intends to pay the Magellan Global Trust (MGG), at each distribution period where a DRP is offered by MGG, an amount to ensure unitholders in MGG suffer no dilution where a MGG unitholder participates in the DRP. At each distribution date, the amount is equal to the 5% discount to MGG's NAV per unit multiplied by the number of units participating in the DRP. It is not practical to estimate the future cost to the Group as there is uncertainty as to the level of participation in the DRP, the NAV per unit and whether the DRP will be offered. The amount payable by the Group to the Magellan Global Trust and recognised in the statement of financial position was \$205,000 in respect of the distribution for the period ended 31 December 2017 (refer to note 11).

The Group has also lodged a private tax ruling to clarify the tax treatment of certain expenses incurred as part of the Magellan Global Trust IPO in October 2017. Refer to note 11 for further detail.

Other than the above, the Group has no other material contingent assets or contingent liabilities as at 31 December 2017 (June 2017: nil).

(c) Guarantees

In October 2017, MFG issued a letter of support whereby it undertakes to provide support and assistance as required to ensure MGT Investment Corp Pty Limited complies with its obligations in the Subscription and Commitment deed. Furthermore, the guaranty provided by MFG to the landlord of the Group's New York office premises ceased in October 2017 as it was no longer required (June 2017: \$1,707,000).

13. Financing Facility

At 31 December 2017, MFG had access to a \$50m revolving credit facility. This facility may be drawn in either Australian dollars or United States dollars at any time up to 31 January 2021. At 31 December 2017, this facility was undrawn and finance costs of \$149,000 were incurred in relation to this facility (December 2016: nil).

MAGELLAN FINANCIAL GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the half year ended 31 December 2017

14. Events Subsequent to Reporting Date

On 5 February 2018, the Group announced to the ASX its funds under management were \$58.9 billion as at 31 January 2018.

Acquisition of Airlie Funds Management Pty Limited

On 5 February 2018, MFG entered into an agreement to acquire 100% of Airlie Funds Management Pty Limited (Airlie). Airlie is a specialist Australian equities fund manager with over A\$6 billion of funds under management, primarily for institutional and high net wealth clients. Airlie was founded by John Sevier and David Cooper in 2012, with Matt Williams joining in 2016. Following the completion of the acquisition, it is intended that Airlie and Magellan will launch the Airlie Industrial Share fund, an active ETF to be quoted on the ASX. The Airlie Industrial Share Fund will leverage Airlie's pre-eminent expertise in Australian equities and Magellan's operational expertise and distribution strength in the retail market. MFG will acquire 100% of Airlie through the issue of MFG shares to Airlie shareholders at the completion of the acquisition, expected on 28 February 2018.

Acquisition of Frontier Partners Group (Frontier)

On 5 February 2018, MFG has entered into an agreement to acquire 100% of the Frontier Group, a privately owned group of companies based in Chicago, USA. Frontier has been Magellan's distribution partner in North America since 2011. Frontier was founded in 1993 by Bill Forsyth to assist specialised fund managers penetrate the North American institutional marketplace. Frontier comprises Frontier Partners, Inc., a registered investment adviser that distributes investment strategies to institutional clients in North America, Frontegra Strategies, LLC, a registered broker-dealer and Frontegra Asset Management, Inc. an investment adviser and mutual fund platform. The acquisition of Frontier Partners, Inc. was completed on 5 February 2018. The acquisition of Frontegra Strategies, LLC and Frontegra Asset Management, Inc. are expected to be completed through the course of 2018 subject to regulatory approval and certain other conditions being satisfied. Magellan will cease paying success fees to Frontier Partners and will enjoy improved economics in respect of Magellan funds on the Frontier mutual fund platform, following completion of the acquisitions.

Total consideration payable in respect of the Airlie and Frontier Group acquisitions comprises approximately 4.5 million Magellan shares and US\$15 million in cash. The MFG shares will be issued post the record date for the interim dividend. The acquisitions are expected to be modestly accretive to MFG's earnings per share in the first full year.

The final acquisition cost and acquisition accounting will be determined following the completion of the acquisitions.

On 6 February 2018, the Directors declared a fully franked interim dividend of 44.5 cents per share in respect of the half year ended 31 December 2017 (refer to note 4(b) for further details).

Other than the above, the Directors are not aware of any other matter or circumstance not otherwise dealt with in this financial report that has significantly or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future financial years.

MAGELLAN FINANCIAL GROUP LIMITED

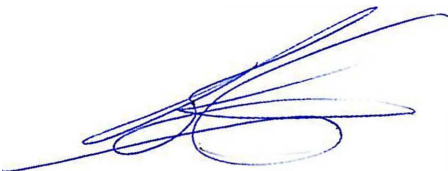
DIRECTORS' DECLARATION

In the Directors' opinion,

- a) the financial statements and notes set out on pages 15 to 37 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
 - (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

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



Brett Cairns
Executive Chairman

Sydney, 6 February 2018

INDEPENDENT REVIEW REPORT



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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Magellan Financial Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2017 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

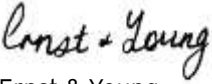
MAGELLAN FINANCIAL GROUP LIMITED

INDEPENDENT REVIEW REPORT



Independence

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



Ernst & Young



Rita Da Silva
Partner
Sydney
6 February 2018

MAGELLAN FINANCIAL GROUP LIMITED

CORPORATE INFORMATION

Directors

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

Company Secretary

Geoffrey Stirton

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Share Registrar

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Securities Exchange Listing

Australian Securities Exchange
ASX code (ordinary shares): MFG

Website

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

Corporate Governance Statement

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