

Company/ASX Code	Magellan Financial Group (MFG)
AGM date	22 October 2020
Time and location	Virtual meeting to be held at 11am AEDT
Registry	Boardroom Pty Limited
Webcast	Yes
Poll or show of hands	Poll
Monitor	Elizabeth Fish assisted by Helen Manning
Pre AGM Meeting	Yes, with Hamish Douglass, Chief Investment Officer and Chair, and Head of Investor Relations Sarah Thorne.

Please note any potential conflict as follows: The individual(s) involved in the preparation of this voting intention have shareholdings in this company.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

A good result in spite of disruption

Following a well-established trend, funds under management (FUM) the main driver of Magellan's (MFG) revenue increased in FY20 by 26% to \$97.2bn. Approximately \$5.4 bn of the increase was due to investment performance and another \$862m from the launch of the High Conviction Trust. The majority of FUM or 76% is held in global equities, the remainder is held in global listed infrastructure and Australian equities. Net profit after tax increased by 5% to \$396m and dividends by 16% to \$2.15 per share.

Some benefit to shareholders was achieved through Magellan being declared an offshore banking unit (OBU). This means that assessable offshore income, net of costs, is taxed at a concessional rate of 10%, and that for FY20 the MFG effective tax rate was 23.1%. At the pre-AGM meeting we asked the chairman if he thought many Australian based investment companies would follow MFG's lead. His response was that many already were OBUs.

We noted that cost of taxation services had increased to double that of previous years but were informed that the increase did not relate to just one specific matter, instead a number of different things. We also asked about the 3rd party loan of \$7.5 million disclosed in note 8 and were informed that while the loan has been repaid in the current financial year, it was made to Barrenjoey Capital Partners. Magellan has a 40% interest in that company.

In August 2019 Magellan raised \$275m from institutional investors at \$55.20 per share. The ASA queried why retail investors were not included in the capital raising and we were told it was due to

the volatility of the market, lack of certainty, tight discount and the small capital amount. Magellan raised \$275m and issued 4.98 million shares. The capital raised was used to fund the IPO of the Magellan High Conviction Trust (MHH). The trust which raised \$862m closed on October 3, 2019. MFG paid the full cost of offer, in the order of \$59.5m. The ASA notes that all of the board members have purchased units in MHH.

The impact of COVID-19 on MFG is discussed on p6 of the Annual Report in the CEO's annual letter and note 1c of the financial statements, p42. In summary the note says that market volatility in early March affected funds under management, although no asset impairments have been recorded as MFG's listed investments are classified as level 1. At the pre-AGM meeting Mr Douglass confirmed to the ASA that MFG does not hold level 3 assets. In addition, no staff reductions were made as a consequence of the pandemic although the group elected to freeze salaries and pull back on current year bonuses. Mr Douglass and Dr Cairns have elected to forgo their current year bonuses in full.

Magellan is a signatory to the Carbon Disclosure Project's (CDP) climate change program and the PRI's Montreal Pledge. CDP holds the largest collection of self-reported climate change, water and forest-risk data in an effort to transform the way the world does business to prevent dangerous climate change and protect natural resources. The five page Corporate Sustainability and Responsibility Report starting on page 88 of the Annual Report covers the environment, people and community, additional information on capital and risk management is shown on pages 73-75.

Subsequent to June 30th MFG announced a restructure to simplify MAM's Global Equities retail products, to consolidate specified unlisted open-ended, listed open-ended and listed closed ended funds into two unit classes, an open class and a closed class. Details of the announcement are on the MFG website. MFG is to carry the costs of the consolidation which is in the order of \$1-2m as most of the costs will be generated internally.

Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT (\$m)	396.2	377	211.7	196.2	198.3
UPAT (\$m)	438.3	364.2	268.9	196.2	198.3
Share price (\$)	58.01	51.00	23.30	28.84	22.25
Dividend (cents)	214.9	185.2	134.5	85.6	89.3
TSR (%)	12.2	126.8	-14.6	33.5	33.0
EPS (cents)	218.3	213.1	122.0	114.1	115.5
CEO total remuneration, actual (\$m)	1.5	1.5	4.38	2.98	1.93

For 2020, the CEO's total actual remuneration was 16.8 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Dr Cairns and Mr Douglass have waived their entitlement to variable remuneration in 2020. The amount waived is in the order of \$5.8m.

Item 2	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position The Remuneration report is clear and easy to understand. On the whole, salaries are not excessive when compared to similar organisations. There are no performance rights or options on offer. All payments are made as cash.

The KMP take home pay is disclosed in table 3.4 of the remuneration report. The table includes some non cash amounts for accrued entitlements as well as the deemed interest expense of providing loans to participants in the staff purchase plan, these amounts are easy to eliminate.

Rewards for performance, the variable component, are payable, determined by reference to an employee's individual performance and contribution, as well as the overall contribution of the group. The variable component may be in the range of 0 to 100% of fixed rem. In some cases, the variable component exceeds fixed rem. The Head of Investments has a variable component to his rem. directly tied to the net revenues of the Groups Global Listed Infrastructure business and the performance of the investment strategies for which he has primary responsibility. We note that in 2020 his variable component available was 200% of fixed rem. and that this achieved 100%. Other KMP achieved between 51 and 65% of the available incentive payment.

The longest period of measurement shown in the summary of remuneration outcomes, is three years, applying only to two of the five KMP, the remaining KMP's seem only to be measured on current performance, and specific performance criteria that could appear to be requirements of the position. Prior to FY20 the variable rem. awarded was paid partially as a cash bonus after the release of the Group's annual report. The cash bonus comprises the first \$60,000 plus 55% of the residual, the remaining amount being paid in 36 monthly instalments in the three years following the initial grant. The FY20 awarded variable remuneration was not deferred and was paid in cash, to balance the impact on employees in the current environment where some households had lost income. The ASA would normally prefer variable pay or part of it being paid into equity or deferred.

The CEO's FY20 remuneration framework is as follows:

CEO rem. framework	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	1.545	66.7%	1.545	66.7%
STI - Cash	.773	33.3%	.773	33,3%
STI - Equity	-		-	
LTI	-		-	
Total	2.318	100.0%	2.318	100%

As a response to COVID-19 Brett Cairns has foregone the variable part of this income for 2020 and an increase in salary for 2021. In the 2019 AGM he was awarded an interest free loan to the value of \$5m for the share purchase plan, which was taken up on 14 November 2019, resulting in the acquisition of 103,092 shares at \$48.50 each. The maximum variable component of his salary for 2020 would have been 50% of his fixed salary or \$772,500 based on a set of performance metrics set by the board, which he had achieved in total. (This amount net of tax would have been used to

compulsorily reduce his loan amount of \$5m along with dividends earned on the SPP shares. The loan was reduced by \$95,772 – (presumably from the dividends?).

The SPP (Share purchase Plan) allows employees to invest in MFG shares by providing financial assistance in the form of fully recourse, interest free loans in order to provide alignment for participants of the SPP with the interests of shareholders of the Group. Maximum term for the loan is twelve years for staff and five years for NEDs. Share options are not offered as part of salary packages as the Chairman’s philosophy is that employees with options are not exposed to the downside as shareholders are.

The non-executive directors (NED) board member fee is \$72,100. Audit and committees chair and member fees are \$25,750 and \$10,300 respectively. The MFG Chairman does not receive a fee as he is also an executive. NED fees increased by 3% in July 2019. KMPs FR also increased by 3%. The fees remain comparatively modest. The ASA considers that NEDs should have 1 year of fees in shareholdings after 3 years. Since the lowest number of shares held by a NED is 77,616 it is clear this requirement for skin-in-the-game has been met. There will be no increases to fixed remuneration in FY21 including NED fees.

The ASA voted in favour of the remuneration report in FY19.

Item 3a	Re-election of John Eales as a Director
ASA Vote	For

Summary of ASA Position

Mr Eales was first appointed to the Board of Directors on 1 July 2017. He graduated from the University of Queensland in 1991 with a Bachelor of Arts degree, before embarking on a 10-year international rugby career with the Wallabies from 1991 to 2001, captaining the side from 1996 until 2001. He has served in executive or advisory positions and as an investor and Director in a number of organisations. John co-founded the Mettle Group in 2003 – a corporate consultancy which was acquired by Chandler Macleod in 2007 – and currently sits on the boards of Flight Centre Travel Group and Fuji Xerox – Document Management Solutions and recently stepped down from his role as a Director of Palladium Group.

He continues to serve as a consultant to major Australian companies, including Westpac. John has been a regular columnist in both the Australian Financial Review and The Australian over the last 20 years and is the author of two books, Learning from Legends Sport and Learning from Legends Business. Mr Douglass has said that Mr Eales was particularly helpful in dealing with the media, when the Australian Men’s Cricket Team was found guilty of ball tampering while Magellan was a major sponsor of the team. Mr Eales holds 77,616 MFG shares, valued at approximately \$4.5m. The ASA will support Mr Eales’s re-election and we hope he will speak to the meeting.

Item 3b	Re-election of Robert Fraser as a Director
ASA Vote	For

Summary of ASA Position

Mr Fraser holds 599109 MFG shares, valued at \$34.8m, was appointed to the board in April 2014. He has 30 years of investment banking experience, specialising in mergers and takeovers, corporate and financial analysis, capital management and equity capital markets. Mr Fraser chairs the Audit and Risk Committee, is a member of the Remuneration and Nominations Committee and also Chairman of Magellan Asset Management Limited, a subsidiary of MFG. He holds a Bachelor of Economics and Bachelor of Laws from the University of Sydney. He currently serves on the Boards of ARB Corporation Limited, F.F.I Holdings Limited and MFF Capital Investments Limited. As Mr Fraser presently sits on three other listed companies the ASA hopes he will speak to the meeting as we will need to be reassured that Mr Fraser has sufficient time to deal with any sudden or emerging issues at Magellan in this time of uncertainty.

Item 3c	Re-election of Karen Phin as a Director
ASA Vote	For

Summary of ASA Position

Ms Phin holds 89,312 shares, valued at \$5.2m. She was first appointed to the board in April 2014. Ms Phin is a member of both the Audit and Risk and the Remuneration and Nominations Committees. Ms Phin holds a Bachelor of Arts/Law from the University of Sydney and is a graduate of AICD. She has extensive capital markets experience working as MD and Head of Capital Management Advisory at Citigroup Australia and New Zealand. Other senior executive roles were held with UBS and included time with ASIC as Senior Specialist in the Corporates Group. Ms Phin currently sits on the board of ARB Corporation Limited and Omni Bridgeway Limited and sits on the Australian Takeover Panel. The ASA hopes that Ms Phin will speak to the meeting and will support her re-election.

ASA Disclaimer

This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:

- *makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- *shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.