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## Could Do Better

| Company/ASX Code | Magellan Financial Group |
|---|---|
| AGM date | 21 October 2021 |
| Time and location | 11am AEDT https://web.lumiagm.com |
| Registry | Boardroom Pty Limited |
| Webcast | Yes |
| Poll or show of hands | Poll on all items |
| Monitor | Elizabeth Fish assisted by Michael Jackson |
| Pre AGM Meeting? | Yes with Chair, Hamish Douglass |

Please note any potential conflict as follows: The individuals involved in the preparation of this voting intention have a shareholding in this company.

**Summary of issues for meeting**

ASA's biggest concern was the poor result to shareholders; a negative TSR of 3.5%, due to a drop in share price and the significant cost to shareholders of $6m for the restructure of the global equities retail funds MGF, MGE and MGT into one fund with two unit classes, one open ended unit class and the second a closed ended unit class, as well as recognition of a $42m loss from associates. In addition, ASA was surprised that MFG chose to invest in a Mexican fast food restaurant Guzman Y Gomes.

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

**Summary of ASA Position**

**Financial performance**

It was a disappointing year for Magellan shareholders, while the dividends have decreased slightly, the share price has dropped by 7% at year end.

Funds under management (FUM), the main driver of Magellan's (MFG) revenue, increased in FY by 17% to $113.9bn. The majority of FUM or 85% is held in global equities, the remainder is held in global listed infrastructure and Australian equities. Net profit after tax decreased by 44% to $265m, dividends dropped by 1.5% to $2.11 per share. Costs relating to "Strategic Initiatives" impacted the bottom line by $220m (p54 FY21 AR). A further significant contributor to the disappointing result was a substantial drop in performance fees from $81m in FY20 to $30m in FY21.

At the pre-AGM meeting, ASA asked the Chairman why there had been such a drop in performance fees given the increase in funds under management and the S&P/ASX 200 return of 24% over the year. His response was that it was due to a structural issue, relating to defensive assets. This Global Equity strategy is largely set every six months and Magellan fees are often calculated based upon longer performance periods than other institutions, some are calculated over 3 years as opposed to competing funds being measured over, say, 6-month periods. Short measurement periods can lead to significant volatility and that 3-year periods lead to real transparency. He stressed the waiving of some fees as a result of COVID-19. He said the 3-year numbers look OK. He also said that Magellan funds contain significant defensive assets (up to 50%), which are not suited to the recent rally. He says that all major clients are comfortable with the defensive stance.

As highlighted earlier, MFG restructured the global equities retail funds MGF, MGE and MGT into one fund (MGF) with two unit classes, one open ended unit class and the second a closed ended unit class. The cost of the restructure around $6m has been passed to MFG shareholders not the fund. Subsequent to the meeting ASA asked if these costs were external or internal and were told mostly the costs were for legal, printing and ASX registry services. An additional provision of $157m has been made to cover the discount associated with the exercise of all MGF options. In regard to the options issued as part of the restructure, ASA noted that presently the current MGF unit price (closed class) is $1.75. At 20 September the NAV was $1.97. The exercise price of an MGF option is NAV less 7.5%, thus around $1.82. ASA asked; with options presently trading at $0.014, why would a unitholder exercise an option when it would be cheaper just to buy on-market? The Chair did not have a clear response to this but thought the NAV would probably rise. We also asked if Magellan would look into providing a method for shareholders holding small parcels of options to dispose of them for the market price or close to, and the Chairman said he would look into the matter.

Acquisitions during the year were: a 40% non-diluting (5% voting interest) in Barrenjoey Capital Partners, a newly established full-service financial services firm, a 15% interest in FinClear Holdings a provider of technology infrastructure and ASX market-access services and 12% shareholding in Guzman y Guzman (GyG) an Australian based quick service restaurant chain.

At the pre-AGM meeting we asked why Magellan invested in a quick service restaurant chain as the business seemed to be removed from MFG's area of expertise. The Chairman responded saying, "we invested in GyG to diversify our investment and earning streams. The business is run by outstanding people, We (Magellan) understand the sector very well, they have repeat customers and it is healthy food. Magellan has one person on the board, and we want to make our shareholders money".

With regard to FinClear we asked the Chairman about the SMH August 31 article saying that FinClear had approached institutions in early September in order to "close a $20 million pre-IPO raise." Hoping to raise $300m. We asked if Magellan would contribute to this raising. The Chairman responded saying he thought "MFG would take up an additional share and is delighted with the more than $5m invested so far". He went on to say he believed that FinClear can help address some of the inefficiencies of the CHESS system and that the recent capital raising by FinClear was at multiples much higher than MFG's entry price.

ASA had a query regarding MFG's 5% voting interest in Barrenjoey Capital Partners (BCP) while holding a 40% shareholding. We now understand that the difference between the ownership and voting interest for both Magellan and the other partner (Barclays) was to provide senior managers and founders control of the business. Management and staff hold the majority of ownership and voting rights. MFG has recognised a $42m loss in FY21 from the investment in BCP, as a consequence of set-up costs and sign-on benefits to staff. At the pre-AGM meeting the Chairman said that he was very happy with BCP and forecasted a profitable partnership.

During the year Magellan launched MFG Core Series, a fund available to retail shareholders at a 0.5% management fee and Magellan FuturePay the much delayed product designed to provide predictable monthly income.

**Key Board or senior management changes**

There were no changes in senior KMP. Ms Colette Garnsey joined the Board as non-executive director in November 2020.

**ESG** 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 92 of the Annual Report covers the environment, people and community, additional information on capital and risk management is shown on pages 75-79.

**Summary**

| (As at FYE) | **2021** | **2020** | **2019** | **2018** | **2017** |
|---|---|---|---|---|---|
| NPAT ($m) | 265 | 396 | 377 | 211.7 | 196.2 |
| UPAT ($m) | 413 | 438 | 364.2 | 268.9 | 196.2 |
| Share price ($) | 53.86 | 58.01 | 51.00 | 23.30 | 28.84 |
| Dividend (cents) | 211.2 | 214.5 | 185.2 | 134.5 | 85.6 |
| Simple TSR (%) | -3.5 | 12.2 | 126.8 | -14.6 | 33.5 |
| EPS (cents) | 144.6 | 218.3 | 213.1 | 122.0 | 116.9 |
| CEO total remuneration, actual ($m) | 2.3 | 1.5 | 1.5 | 4.38 | 2.98 |

For 2021, the CEO's total actual remuneration was 25 times the Australian Full time Adult Average Weekly Total Earnings

| **Item 4** | **Adoption of Remuneration Report** |
|---|---|
| **ASA Vote** | **Against** |

**Summary of ASA Position**

The Remuneration Report is clear and easy to read.  As in previous years there are no performance rights or options on offer. All payments are made as cash. For KMP remuneration there is a fixed component (FR) and a variable incentive component (VI). Payment of the VI comprises a cash bonus amount ($60,000 + 55% of the residual), with the remaining amount deferred, and payable in 36 equal monthly instalments over the following three years. The condition is that the employee remains with MFG.  The KMP take home pay is disclosed in table 3.4 of the remuneration report, in the column headed "Total Cash Remuneration". 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. Reward for performance, the variable component, is determined by reference to an employee's individual performance and contribution, as well as overall contribution to the group. Except for the CIO these are not quantifiable performance metrics. The

VI may be in the range of 50 to 125% of FR. The published table on P36 in FY21 AR shows the VI outcomes/awarded as a % of fixed pay rather % of VI target, which is confusing and does not show the extent to which a KMP met their targets.

The Head of Investments, the CIO also Executive Chairman (Hamish Douglass), has a VI 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 FY21 his available VI was 200% of FR and that 80% of target was achieved. This performance criteria has been in place for a number of years and does not capture the losses experienced by shareholders from MGF's strategic initiatives and the $42m loss booked through equity accounting from the losses of associates.

The CEO's VI was 50% of FR and he achieved 100% of target. His performance criteria is detailed at P35 of the FY21AR. The criteria shown does not include any quantifiable performance metrics. It is not clear how well other KMP met their targets, as on p37, VI awarded is shown as % of FR and target is not disclosed. 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 would appear to be requirements of the position.

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 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. Shares are placed in a holding lock until the loan is repaid.

KMP other than the CEO (Dr Cairns) and CIO (Mr Douglass) received 4% increases to FR January 21. From July 2021 Mr Douglass's FR will increase by 9% to $2,731,000p.a. Under a new remuneration agreement it was agreed that the FR of his remuneration will increase by 3% annually until July 2025. P34. The CEO's FR was increased by 6% effective July 2021. ASA notes that Dr Cairns waived a proposed increase in FY21 in addition to his FY20 awarded VI of $772,500 due to COVID-19.

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. The Rem. Report has highlighted a proposed 3% increase in NED fees from July 2021. The last increase, effective July 2019 was also 3%.

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, apart from 2,030 held by the recently appointed Ms Garnsey it is clear this requirement for skin-in-the-game has been met.

ASA voted in favour of the remuneration report in FY19 and FY20, however the results for this current year where MFG shareholders had a negative return of 3.5% while the ASX 200 returned almost 24%, and KMP salaries increased substantially, ASA cannot see how the long-term interests of shareholders has been well served and will vote against the resolution.

| Item 3a | Re-election of Hamish Douglass as a Director |
|---|---|
| **ASA Vote** | **For** |

**Summary of ASA Position** Mr Douglass is the Co-Founder, Chair and CIO of Magellan Financial Group Limited, and Lead Portfolio Manager of Magellan's Global Equity strategies. Mr Douglass was originally appointed to the Board on 21 November 2006 and was Chief Executive Officer of Magellan Financial Group Limited until 4 October 2018. He is also a director of the Victor Chang Cardiac Institute. Mr Douglass has extensive investment experience, detail of which is well laid out in the Notice of Meeting. He holds a Bachelor of Commerce degree from the University of New South Wales. Due to his sixteen-year tenure on the board and the fact that he holds an executive position ASA considers that he is not independent. However, the majority of the other six board members have much shorter tenure, and only one other, the CEO, holds an executive position. As Mr Douglass holds 12% of the Magellan shares on issue, we cannot doubt his skin in the game qualifications. Therefore, ASA will support Mr Douglass's re-election. We hope he will speak to the meeting.

| Item 3b | Election of Colette Garnsey as a Director |
|---|---|
| **ASA Vote** | **For** |

Ms Garnsey was appointed to the MFG board on 30 November 2020. Ms Garnsey holds an Executive MBA from the Graduate School of Business at Stanford University and in 2012 was awarded an OAM for services to businesses and professional organisations. She has had extensive experience in retail, marketing and distribution. There are more background details in the notice of meeting. Current non-executive directorships include three listed companies: Flight Centre Travel Group, Seven West Media, Laser Clinics Australia in addition to Australian Wool Innovation Limited, a not-for-profit organisation. From November 2018 until March 2021 Ms Garnsey was Chairman of Australian Wool Innovation Limited. ASA notes that Ms Garnsey already holds three non-executive directorships and expects that she will assure the meeting she has sufficient capacity to give Magellan Financial Group her best attention. ASA will support Ms Garnsey's election. We hope she will speak to the meeting.

| Item 4(a) | Issue of Shares |
|---|---|
| **ASA Vote** | **For** |

**Summary of ASA Position. s**ubject to and conditional on the approval of Resolution 3(b) and Resolution 4(b), for all purposes, including for the purpose of ASX Listing Rule 10.14, the issue to Colette Garnsey of shares in the Company to a maximum total value of $1,333,333 under the Share Purchase Plan on the terms set out in the Explanatory Notes be approved."

The Board has invited Ms Garnsey to participate in the Company's SPP via a one-offer of fully paid ordinary shares in the Company in the amount of $5m. Details relating to this loan are shown on page 1 of the notice of meeting. In summary: the loan is full recourse and interest free; the loan must be repaid by the 10th anniversary of the loan or earlier if she is to leaves the company. A holding lock is placed on the SPP shares until the loan is repaid and 100% of dividends paid on the shares will be applied against the loan. The number of shares issued will be calculated using the VWAP (volume weighted average price) of traded shares in the Company over the five business days prior to the offer date in July 2021. Given that the loan is full recourse and there is a holding lock on the associated shares until the loan is repaid, ASA will support this resolution.

| **Item 4(b)** | **Provision of a Related Party Benefit to Ms Garnsey** |
|---|---|
| **ASA Vote** | **For** |

**Summary of ASA Position**

As ASA has voted for 4(a) we intend to vote for 4(b)

## Appendix 1
## Remuneration framework detail

| CEO rem. Framework for FY21 | Target* $m | % of Total | Max. Opportunity $m | % of Total |
|---|---|---|---|---|
| Fixed Remuneration | 1.545 | 66.5% | 1.545 | 66.6 |
| Variable Incentive | 0.773 | 33.5% | 0.773 | 33.5 |
| Total | 2.318 | 100.0% | 2.318 | 100% |

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.