



Sinking or Floating?

| | |
|------------------------------|---|
| Company/ASX Code | Magellan Financial Group (MFG) |
| AGM date | 20 October 2022 |
| Time and location | 11.30am AEDT The Whiteley Ballroom, Amora Hotel, 11 Jamison St. Sydney, NSW |
| Registry | Boardroom Pty Limited |
| Type of meeting | Hybrid |
| Poll or show of hands | Poll on all items |
| Monitor | Elizabeth Fish assisted by Michael Jackson |
| Pre AGM Meeting? | Yes with Chair Hamish McLennan and Craig Wright (investor relations) |

Monitor Shareholding: The individuals involved in the preparation of this voting intention have shareholdings in this company.

Summary of issues for meeting

The most significant issues for shareholders were the drop in share price from \$53.86 at June 2021 to \$12.92 at June 2022, the reduction in funds under management from \$113.9b to \$61.3b over the same period and the resignation of Mr Hamish Douglass and Dr Cairns.

Proposed Voting Summary

| No. | Resolution description | |
|-----|--|---------|
| 2 | Adoption of Remuneration Report | Against |
| 3 | Re-election of Hamish McLennan as a Director | For |

Summary of ASA Position

Consideration of accounts and reports - No vote required

Financial performance

Magellan Group has featured so frequently in recent headlines that we all knew the results were either going to be very poor or very good. In this case it was neither, despite the media coverage the Group still managed to achieve a statutory after-tax profit of \$383m, a 44% improvement on the previous year.

Performance and management fees were down by 7% and expenses increased slightly. It was a relief to see the return on trading from the two remaining associates, (FinClear and Barrenjoey) was a profit of \$6.6m rather than last year's loss of \$41.7m.

At the pre-AGM meeting the monitors asked if the Board was happy with this return and the response was that the Board has always recognised that Barrenjoey was a start-up and FinClear and Guzman y Gomez (GYG) were reinvesting for growth. This is evidenced by the sale of MFG's

stake in GYG at a 36% premium to MFG's entry price Mr McLennan said. Dividends and shareholder returns are shown in the table below.

Summary

| (As at FYE) | 2022 | 2021 | 2020 | 2019 | 2018 |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| NPAT (\$m) | 383 | 265 | 396 | 377 | 211.7 |
| UPAT (\$m) | 399.7 | 413 | 438 | 364.2 | 268.9 |
| Share price (\$) | 12.92 | 53.86 | 58.01 | 51.00 | 23.30 |
| Dividend (cents) | 179.0 | 211.2 | 214.5 | 185.2 | 134.5 |
| Simple TSR (%) | -72% | -3.5 | 12.2 | 126.8 | -14.6 |
| EPS (cents) | 206.9 | 144.4 | 218.3 | 213.1 | 122.0 |
| CEO total remuneration, actual (\$m) | 1.78 | 2.3 | 1.5 | 1.5 | 4.38 |

The total CEO remuneration for FY22 is a combination of actual salary paid to Dr Cairns to December 2021 and the amount paid to Ms Morton who acted as interim CEO from December 2021 to June 2022.

Key events An on-market buy-back of up to 10 million shares was announced in February 2022. At 30 June 2022, 626,960 shares have been bought back at a cost of \$7,796,000. The buy-back program has a proposed end date of 3 April 2023. Average price per share \$11.91 to \$12.97, with 626,960 ordinary shares being bought back.

A 1 for 8 pro rata non-renounceable bonus issue of options to existing shareholders was announced on 31/3/22 for nil consideration, with an exercise price of \$35.00 per option and expiry date 16/4/2027. The options commenced trading on the ASX on 19 April 2022, under ticker MFGO. 23,219,000 options were issued, 3000 were exercised by 30 June, and the cost of the issue was \$545,000. The bonus issue was announced at Magellan's Interim Results Briefing on 18 February 2022 as part of Magellan's capital management strategy.

In May 2022, the Group sold its share of GYG for a cash consideration of \$136m, net of fees and recorded a gain on sale of \$33.7m.

Magellan FuturePay was closed on 20 July 2022. At the pre-AGM meeting the ASA asked why this decision was taken, given the considerable time spent in developing the product. The monitors were told that given the circumstances, capital and resources needed to support this product over the coming years would be better invested in other parts of the company.

At the pre-AGM meeting the ASA noted that the loan owing from the former CEO Dr Cairns was still outstanding and asked what the Group was doing to recover the balance of \$4,038,000. The original \$5m loan made to Dr Cairns in order to participate in Magellan's SPP was approved by shareholders in October 2019. It is full recourse and interest free. The ASA understands that the term of the loan has been extended to 2029 and the loan will be extinguished through the application of dividends as per the loan agreement.

Key Board or senior management changes

The CEO Dr Cairns left the organisation effective 6 December 2021. He received a payment in lieu of notice, and his statutory entitlements but no performance-based incentive in respect of July to December 2021. The CFO Ms Kirsten Morton acted as interim CEO from December 2021 to June 2022 in addition to her CFO role. Mr David George was appointed Managing Director and CEO on 11 May 2022 and commenced on 19 July 2022.

Hamish Douglass requested a period of medical leave on 7 February 2022. He resigned from the MFG Board on the 21 March 2022 and his executive position of Chief Investment Officer on 15 June 2022. No performance-based incentive was paid to Mr Douglass in respect of the FY22 financial year and he has forfeited \$1.8m in deferred cash bonuses in respect of prior periods. Mr Hamish McLennan was appointed Non-Executive Chairman in place of Hamish Douglass on 19 March 2022. It was announced in February 2022 that Ms Nikki Thomas had re-joined Magellan as co-portfolio manager of Magellan's global equity strategies. Mr Douglass' position as Chief Investment Officer has not been filled as such. The ASA noted from the FY22 Annual Report that Mr Douglass has entered into a consultancy agreement with Magellan Asset Management (MAM) effective from 1 October 2022 to provide geopolitical and macroeconomic investment insights to the Group. At the pre-AGM meeting we asked, given the losses shareholders have had, why would the Board consider having Mr Douglass back in any capacity? The response was that Mr Douglas's involvement with Magellan in a consultancy role provides access to Mr Douglass for investment insights only and he would have no other role in Magellan's business services other than as a resource. There is further comment on the consultancy role in the Notice of Meeting.

ESG

With regard to reporting on ESG, the ASA asked what the challenges are that MFG faces in respect of meeting expectations of reporting. Mr McLennan responded saying that the Board does not currently consider there are challenges and that MFG had recently hired an ESG senior specialist who will give the Group more focus and resource as the reporting obligations increase. He continued, saying that the Group will continue to monitor the global landscape and will take action as needed.

Corporate Governance

At the pre-AGM meeting we asked how the Board assess the skills of Directors and ascertains the skills needed on the Board in particular with regard to the proposed new director.

The response was that there is an annual review of Magellan's Corporate Governance Statement and as part of this review the directors review their skills and competencies as disclosed in Magellan's Corporate Governance Statement. This can be found on the Magellan website. Each Director completes a Board Director questionnaire. The results of the questionnaire are tabled at the Board meeting and discussed. The Board is currently seeking Directors with funds/asset management experience and experience that would complement and supplement the Board skills matrix disclosed on page 7 of the Corporate Governance Statement.

Election or re-election of directors

Mr McLennan was first appointed to the Board of MFG as a non-executive director in March 2016 and appointed Chairman of the Company on 7 February 2022. He is a member of the Audit and Risk Committee and the Remuneration and Nominations Committee. Hamish McLennan has over 30 years' experience in corporate leadership and governance oversight roles both in Australia and

globally. His other NED appointments include: Chairman of REA Group Limited since 10 April 2012, Chairman of HT&E Limited (appointed 30 October 2018), and Chairman of Rugby Australia (appointed June 2020). There are four other non-executive directors on the Board, two of whom are female. While Mr McLennan holds 2 other Chairmanships with ASX listed companies, he does not appear to have had any difficulty in meeting his obligations to MFG. He holds 105K shares in MFG. During this last volatile year, twenty-five Board meetings were held and he attended twenty-four of those. The ASA will vote open proxies in favour of Mr McLennan's re-election and hopes he will speak to the meeting.

Adoption of Remuneration Report

The Remuneration report is clear and easy to understand. All payments are made as cash except for the recently introduced Employee Staff Engagement Retention Program Plan, announced in March 2022, offering certain staff either a cash retention incentive, an employee share options (ESOP) or both. The incentive is that the employee remains continuously employed by MFG at September 2024 and 2025. The exercise price of the ESOP option is \$35.00.

For key management personnel (KMP) remuneration there is a fixed component (FR) and a variable incentive component (VC). Payment of the VC comprises \$100k payable in July 22, with a further \$20k payable in December. The remaining amount is payable in 36 equal monthly instalments over the following three years, conditional on continued employment with MFG. The KMP take home pay is disclosed in table 3.5 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 CEO the report does not disclose quantifiable performance metrics for these KMP. The VI may be in the range of 50 to 100% of FR. The VI amount payable to other KMP is determined by the CEO and Chairman. The published table on P34 in FY22 AR shows the VI awarded as a % of fixed pay rather than as a % of the individual's VI target, which is confusing/unhelpful and does not show the extent to which a KMP met their target or what their target is.

KMP other than the CEO (Dr Cairns) and CIO (Mr Douglass) received 4% increases to FR January 21. There were no increases to KMP in FY22.

The non-executive directors (NED) board member fee is \$77,000. Audit and committees chair and member fees are \$27,000 and \$11,000 respectively. The FY21 Remuneration. Report highlighted a proposed 3% increase in NED fees from July 2021. The actual increase was 7% for MFG Board members, 4% for sub-committee chairs and 10% for sub-committee members. The previous increase, effective July 2019 was 3%.

The ASA will vote open proxies against the remuneration report as the remuneration practices does not align with our guidelines. There are no LTIs and the second half of CEO David George's \$600,000 sign on bonus has no hurdles, and being payable if he is still in job.

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Appendix 1 Remuneration framework detail

| CEO rem. Framework for FY23 | Target* \$m | % of Total | Max. Opportunity \$m | % of Total |
|-----------------------------|-------------|------------|----------------------|------------|
| Fixed Remuneration | 1.8m | 50% | 1.8m | 50% |
| STI – Cash | 1.8m | 50% | 1.8m | 50% |
| STI – Equity | 0 | | 0 | |
| LTI | 0 | | 0 | |
| Total | 3.6m | 100% | 3.6 | 100% |

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. As Mr Hamish Douglass did not serve a full year with Magellan the monitor could not see any benefit in attempting to calculate the proportions relating to Mr Douglass and his temporary replacement.

The details shown are from Mr George's Executive Employment Agreement released on 11th May 2022. Mr George will be invited to participate in the employee Options grant under the Magellan Employee Share Option Plan, he will be offered 4,000 options under the plan. He is also entitled to a \$600,000 sign on payment, payable in FY23.

