SANDON CAPITAL

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Mr Andrew Formica, Chairman
The Directors
Magellan Financial Group Ltd

Via email: [redacted]

16 October 2023

Dear Mr Formica,

On behalf of the Funds we manage, Sandon Capital Pty Ltd (**Sandon Capital**, **We**, **Our**) has carefully considered the Notice of Meeting for the Magellan Financial Group Ltd (**Magellan**) Annual General Meeting to be held on 8 November 2023. We are communicating our voting intentions to you as a matter of courtesy. We will also seek to persuade other shareholders to vote in the same manner.

We presently intend to vote as follows:

	Resolution	**Vote**
Item 2	Remuneration Report	AGAINST
Item 3a	Re-elect John Eales as a Director	AGAINST
Item 3b	Elect Catherine Kovacs (also known as Catherine Stanton) as a Director	FOR
Item 3c	Re-elect David Dixon as a Director	FOR
Item 3d	Elect Andrew Formica as a Director	FOR
Item 3e	Elect Deborah Page as a Director	FOR

The rationale for each of our decisions is detailed below.

Item 2 – Remuneration Report

We intend to vote AGAINST the resolution to adopt the Remuneration Report for two reasons:

1. Failing to institute improved variable incentive practices, and
2. Having excessive CEO remuneration

The transition from being a founder-led business to an agent-led one is the biggest challenge facing Magellan. This transition, if successfully achieved, will set the foundations upon which Magellan's other challenges can be overcome. On the day the founder departed Magellan, the responsibility for this transition fell to the Directors in office. Shareholders may have been somewhat forgiving of any oversights or omissions during the immediate aftermath of the founder's departure in early 2022.

Now, more than a year later, we are disappointed in the performance of those Directors.

We expected the 2023 Remuneration Report, issued more than a year after the appointment of a new CEO, to be far more conventional. Yet it wasn't – it still carried all the hallmarks of the "old" Magellan.

Failing to institute improved variable incentive practices

Upon the appointment of a new CEO, we think it would have been reasonable for the Remuneration Committee to have immediately begun devising a more appropriate variable remuneration framework, including a long-term incentive plan (LTIP). It didn't.

While a founder-led business, Magellan shareholders tolerated an absence of more traditional approaches to performance-based variable remuneration. After reading various Magellan remuneration reports, we conclude that subjectivity was clearly on display. Indeed, as far back as the 2010 Annual Report, the Remuneration Report stated the "*amount of variable compensation payable to an individual is not dependent on the satisfaction by employees of a performance condition, or the performance of the Group, the Company's share price, or dividends paid by the Company…*"[1]

If we fast-forward to the 2022 Annual Report, by which time the founder had departed, the Share Purchase Plan (SPP) had been suspended[2], yet otherwise the Company reaffirmed its Remuneration Philosophy and Principles. While these had evolved ever so slightly, the Board reaffirmed that it "*does not believe it is appropriate to use measures such as earnings per share or the share price performance of the Group in determining annual variable remuneration.*"[3] The 2023 Annual Report did not report any material improvement.

Magellan has never had a formal LTIP. The SPP, instituted in 2007, sought to "*more closely align the interests of Participants with the interests of shareholders…*"[4] This ill-conceived idea was clearly

[1] Magellan Financial Group Ltd 2010 Annual Report, page 10
[2] As the Board considered it no longer met its intended purposes
[3] Magellan Financial Group Ltd 2022 Annual Report, page 26
[4] Magellan Financial Group Ltd 2007 Annual Report, page 15

instituted in lieu of a more rigorous, robust and transparent approach to providing long-term incentives and alignment.

More than a year since the appointment of the CEO, we expected that some form of LTIP would have been devised and presented to shareholders for approval. The failure to do so led us to decide to vote against the adoption of the Remuneration Report.

Shareholders will continue to navigate in the dark, without any clear insight into the criteria against which the Board thinks corporate performance should be judged. The vague platitudes of returning to funds under management of $100 billion does not constitute a strategy. Furthermore, such a statement betrays a certain naivety as there has been no explanation of how this would correspond to improved shareholder value.

Almost a full year since Mr George articulated his growth strategy, except for an initial grant of 400,000 Employee Options exercisable at $35[5] per share, there are no other long-term incentives in place. The lack of a plan is even more galling as Magellan today is diminished on any number of measures from the business on the day before Mr George's growth strategy was announced.

	Share Price	**FUM**[1]	**Earnings per share**[2]
19 October 2022	$10.82	$50.9 billion	206.9 cents
16 October 2023	$6.55	$35.0 billion	100.0 cents
Change	***-39.5%***	***-31.2%***	***-51.7%***

Sources: Bloomberg, Company announcements
Notes: 1. FUM data are as at 30 September 2022 and 30 September 2023.
2. Earnings per share is as reported in the 2022 and 2023 annual reports.

Magellan shareholders remain none the wiser about what behaviours the Board is seeking to encourage in Mr George and the other key management personnel.

As part of our review of the Remuneration Report, we examined the remuneration reports of other listed funds management companies. Our conclusion is that Magellan's remuneration practices fall short of the standards set by its peers. Other funds management companies report detailed, nuanced and varied remuneration programs. Some recognise the need to tailor their schemes to the functions and responsibilities throughout their organisations.

Features of such plans include, but are not limited to:

(i) investment team incentives with a share of the profits from their strategies, and

[5] We consider this incentive fanciful given how far the exercise price is from the current market price. One might also consider the incentive dangerous given it could encourage highly risky corporate activity.

(ii) executive incentives including equity or equity-like schemes where vesting is linked to achieving or exceeding certain objective financial measures, like earnings per share or total shareholder returns.

We are concerned with the lack of a clear connection between shareholder outcomes and CEO remuneration, more than a year after the CEO has been appointed.

We believe there is a timely imperative for Magellan to devise a long-term incentive plan to be put to shareholders for approval. Such a plan will provide confidence that Magellan staff have appropriate and necessary alignment. It will also provide shareholders with a clear understanding of the behaviours the Board seeks to encourage.

Excessive CEO remuneration

We consider the CEO's base remuneration to be excessive, especially given the lack of a formal LTIP. This is the second issue that led us to decide to vote against the adoption of the Remuneration Report. Magellan's CEO is paid a base salary of $1,800,000. This figure is staggering, not only for its quantum but more so by comparison to the peer group of funds management CEOs in Australia.

The table below illustrates this point.

Company	Mkt Cap ($m)	EV ($m)	CEO Base Salary	STI	LTI
GQG Partners Inc.	4,134	3,884	$952,381	✓	✓
Perpetual Ltd	2,308	2,925	$1,304,911	✓	✓
Platinum Asset Management Ltd	666	346	$525,292	✓	✓
Regal Partners Ltd	523	289	$527,500	✓	✓
Australian Ethical Investment Ltd	468	437	$ 521,212	✓	✓
Average	1,620	1,576	$766,259		
Magellan Financial Group Ltd	**1,209**	**193**	**$1,800,000**	✓	✗

Sources: Market capitalisation data are sourced from Bloomberg as at 16 October 2023
2023 Annual Reports for each company except GQG Partners Inc. (in AUD) and Regal Partners Ltd which used 2022 for remuneration data and 1H2023 Financial Reports for all other data. Enterprise Values (EV) are calculated by subtracting Cash and non-core investments and investments in associates and adding all borrowings to the market capitalisations. GQG CEO base salary is USD600,000 and we have used a USD/AUD exchange rate of 0.63 for translation purposes.

The level of fixed remuneration paid to Magellan's CEO is far higher than any of its peers in both absolute and relative terms. It represents nearly 1% of the enterprise value of the company and is nearly 2% of its revised cost guidance of $95-$100 million.

Given the continued decline of the business, we believe that the Remuneration Committee and the Board need to question the wisdom of such a disproportionate base salary and whether it remains appropriate. Shareholders have an opportunity to communicate their views on this issue by voting on the resolution to adopt the Remuneration Report.

Item 3a – Re-election of John Eales

Very simply, all the reasons we've cited for voting AGAINST the Remuneration Report apply to Mr Eales. As Chair of the Remuneration Committee, we believe he has a greater responsibility than other directors for the oversight of remuneration policies at Magellan and therefore must be held accountable for what we consider failings in Magellan's approach to remuneration.

Items 3b-3e – Election of other directors

We intend to vote FOR the (re)election of the other directors.

We advocated in our initial public presentation for the need for new directors with greater funds management experience. We also recommended the appointment of at least one more female director. Although we have not had the opportunity to meet any of the new directors, it appears the directors standing for election bring experience we consider the company desperately needs.

An influx of new directors should provide for opinions not anchored to Magellan's past. If these directors are elected, a majority of directors will, for all intents and purposes, form a "new guard". The "old guard", which should be held accountable for Magellan's predicament, will be in a minority and their influence will be significantly, and rightly, diminished.

If you have any questions or would like to discuss this further, please do not hesitate to contact me via email at Gabriel@sandoncapital.com.au or via mobile on 0408 936 357.

Yours sincerely,

Gabriel Radzyminski
Managing Director
Sandon Capital Pty Ltd