

IN-SPECIE DISTRIBUTION AND DIVIDEND POLICY

The Board of Magellan Financial Group Limited ("**MFG**") has undertaken a strategic review of MFG's operations, capital structure and dividend policy.

In-Specie Distribution

As a result of this process, the Board is pleased to announce that MFG proposes to distribute its holdings of Magellan Flagship Fund Limited ("**MFF**") ordinary shares (ASX:MFF) ("**MFF Shares**") and MFF 2017 options (ASX: MFFO) ("**MFF Options**") to all¹ holders of MFG ordinary shares ("**MFG Shares**") (the "**In-Specie Distribution**").

As at 13 December 2012, MFG held approximately 50.2 million MFF Shares (which represents a 14.5% interest in MFF) and 16.7 million MFF Options (or 14.6% of all MFF Options on issue).

The Board believes that this capital management initiative is the most effective means of:

- distributing MFG's surplus capital to shareholders;
- providing MFG shareholders with greater choice through a direct investment in MFF; and
- maximising shareholder value.

MFG's holdings of MFF Shares and MFF Options are not required by MFG's core funds management operations and this capital is considered to be surplus to MFG's future operational requirements. The MFF Shares and MFF Options will be distributed to MFG's ordinary shareholders in proportion to their ordinary shareholdings.

If the In-Specie Distribution is approved, each MFG ordinary shareholder will receive:

- 3.29 MFF shares; and
- 1.09 MFF Options,

for every 10 MFG Shares held on the record date (anticipated to be 7:00pm Sydney time on 13 February 2013).

The In-Specie Distribution will consist of two components: a return of capital and a fully franked dividend². It is expected that the capital component will be approximately 26.73 cents per MFG Share and the dividend component will be equal to the total market value of the In-Specie Distribution per MFG Share less the capital component per MFG Share on the date of the In-Specie Distribution.

¹ Subject to the requirements of foreign securities laws.

² The Board expects that MFG will be in a position to fully frank the dividend component of the In-Specie Distribution based on the current market values of MFF Shares and MFF Options. MFG's ability to fully frank the dividend component will however depend upon the actual amount of the dividend which, in turn, will depend upon the market values of the MFF Shares and MFF Options on the date of the distribution, particularly if the market values of the MFF Shares and MFF Options increase. MFG will provide shareholders with a distribution statement which will specify the amount of the dividend component and the extent to which it is franked.

At the prices of \$0.975 per MFF Share and \$0.17 per MFF Option (being the closing prices on the ASX trading day prior to the date of this announcement), the implied value of the proposed distribution is approximately \$0.34 for each MFG Share, equating to around \$51.8 million in total. The actual value will be set on the date that the MFF Shares and MFF Options are distributed which is anticipated to occur on 19 February 2013.

The financial impact of the In-Specie Distribution on MFG is modest and following the distribution MFG will continue to have a strong balance sheet. Post the In-Specie Distribution, MFG will have consolidated net assets of approximately \$102.2 million (pro-forma as at 30 June 2012).

The dividends MFG receives on its MFF holding are not material in the context of MFG's profitability. MFG shareholders who retain the MFF shares distributed to them as a result of the In-Specie Distribution would instead receive their proportion of those MFF dividends directly.

As the In-Specie Distribution will involve an equal reduction of share capital under section 256B of the *Corporations Act 2001 (Cth)*, MFG shareholder approval will be required. The Notice of Meeting, including an Explanatory Memorandum, will be lodged with the Australian Securities Exchange and the Australian Securities and Investments Commission shortly. It is anticipated that the Extraordinary General Meeting of MFG to approve the In-Specie Distribution will be held on or around 5 February 2013.³

Dividend Policy

The Board's strategic review also encompassed MFG's dividend policy. The Board is pleased to advise that MFG has adopted a future dividend payout target of approximately 75-80% of the profit after tax attributable to MFG's funds management business, subject to available franking credits.

The Board expects that dividend levels for the 2012/13 year will increase from the 4.5 cents per share fully franked paid for 2011/12, provided that the MFG Group maintains its increased levels of funds under management and profitability. Further details regarding a 2012/13 interim dividend are scheduled to be announced in February 2013 at the time of the interim results announcement.

The Board has also decided to continue to increase MFG's investment of its capital into Magellan Asset Management Limited's ("**MAM**") core global equities strategy. The Board has therefore decided to redeploy the capital in MFG's small principal listed equity portfolio by selling that portfolio and reinvesting the proceeds in MAM's global equities funds. The Board believes that this represents a further alignment of MFG's interests with its funds management clients.

14 December 2012



Leo Quintana

Legal Counsel & Company Secretary
Magellan Financial Group Limited

³ MFF's portfolio is managed by Magellan Asset Management Limited under an Investment Management Agreement, which is scheduled to run until 2016. MFF announces to ASX its Net Tangible Asset backing per share each week.