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1 June 2021

ASX Limited  
ASX Market Announcements Office  
Exchange Centre  
20 Bridge Street  
Sydney NSW 2000

## **MAGELLAN FUTUREPAY™ LAUNCH PRESENTATION**

Further to the announcement made on 26 May 2021, please see attached a presentation relating to Magellan **FuturePay** ("FuturePay") which will be presented at today's launch event and market briefing.

**FuturePay** will be available for investment on the Chi-X securities exchange from tomorrow, Wednesday 2 June 2021 at 12.00pm under the ticker FPAY. Investments in **FuturePay** can also be made by application directly with Magellan Asset Management Limited, as responsible entity of **FuturePay**.

For further information on **FuturePay** visit [www.magellanfuturepay.com.au](http://www.magellanfuturepay.com.au).

*Authorised by*

Marcia Venegas | Company Secretary

## **About Magellan**

Magellan Financial Group is a specialist funds management business established in 2006 and based in Sydney, Australia. Magellan's core operating subsidiary, Magellan Asset Management Limited, manages approximately \$110 billion of funds under management at 30 April 2021 across its global equities, global listed infrastructure strategies and Australian equities strategies for retail, high net worth and institutional investors and employs over 130 staff globally. Magellan Financial Group Limited is listed on the Australian Securities Exchange (ASX Code: MFG) and has a market capitalisation of approximately \$8.5 billion. Further information can be obtained from [www.magellangroup.com.au](http://www.magellangroup.com.au).

# Magellan FuturePay

*A growing monthly income, now and into the future*



June 2021

Brett Cairns, CEO



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The challenge

# Investing for income and growth

Once savings have been accumulated, many investors face a challenge:

*How do you maintain ready access to your savings and invest to receive a regular and predictable income that keeps pace with inflation, without eroding your capital base?*

- Number of areas where this applies, eg estate planning, help pay known expenses
- Retirees, in particular, have built their savings and are looking to effectively re-establish a regular **PAY** cheque, for a period in the **FUTURE** which is unknown

# What do retirees look for from their savings?



Regular income that keeps up with inflation to meet their everyday costs of living and enjoy a lifestyle



Capital growth to ensure it lasts into the future which is unknown and perhaps a bequest wish



Ready access to savings if required which can provide peace of mind

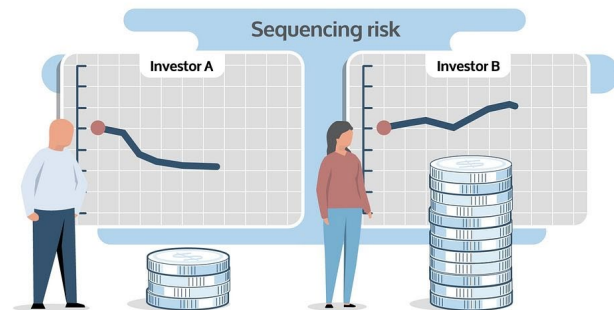
# Why is this difficult to achieve?

Because the desired attributes result in competing goals

- Obtaining **predictable income** often means accepting lower income, with limited or no growth
- **Investing for growth**, often means accepting less predictable income and increased risk
- Insurance based solutions (such as annuities) can provide predictable income but often at low rates of return and at the cost of limited or no **access to capital**

# Source of the problem

- At the heart of this problem is market volatility
- When **accumulating**, volatility is your friend:
  - Adding regular amounts helps when prices are low
  - More invested, more compounding
  - Dollar Cost Averaging
- When **withdrawing**, it's the opposite – volatility is your enemy:
  - Withdrawing regular amounts detracts when prices are low
  - Less invested, so less compounding when prices recover
- **Sequencing Risk – the sequencing of returns now matters when withdrawing**





# How to manage the problem

## Portfolio

Temptation is to remove volatility from the investments, but left with no little or no growth and eroding capital

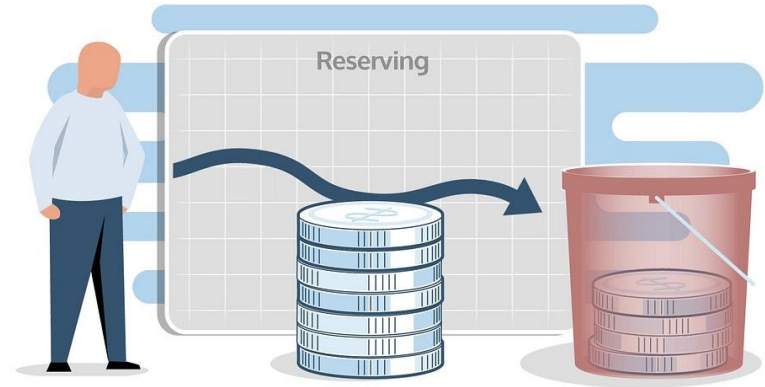
- So **reducing volatility** in the portfolio **without sacrificing growth** is a key step; and
- A **focus on downside protection** in particular, where sequencing risk hits hardest, is critical

But unlike in accumulation, not just a portfolio approach is needed

# How to manage the problem

## Structural

- **Bucketing** – cash bucket sized in time
- **Reserving strategy** – powerful risk management tool, **but not easy to do**:
  - When to reserve?
  - How much to reserve?
  - When to use reserves? How much?
  - Biases



# The goal

*To develop a single product that captures these risk management techniques and balances the competing objectives effectively and efficiently*



Introducing Magellan **FuturePay**

# Magellan **FuturePay**

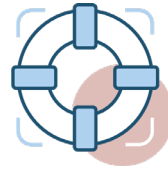
An actively managed fund that aims to deliver...



A predictable monthly income that grows with inflation (fixed dollar amount distribution, not a %)



Driven by returns and capital growth, with a focus on downside protection



Underpinned by a reserving strategy and income support



Together with daily access to your capital

# Solving for market volatility

**FuturePay** approaches the management of **sequencing risk** in two ways:

## Low volatility investing

- **FuturePay** utilises Magellan's proven track record of investing in lower volatility, high quality global companies
- Approach focuses on reducing 'downside risk' – reducing the risk of the value of portfolio falling by as much, or more than, the broader equities market in adverse markets

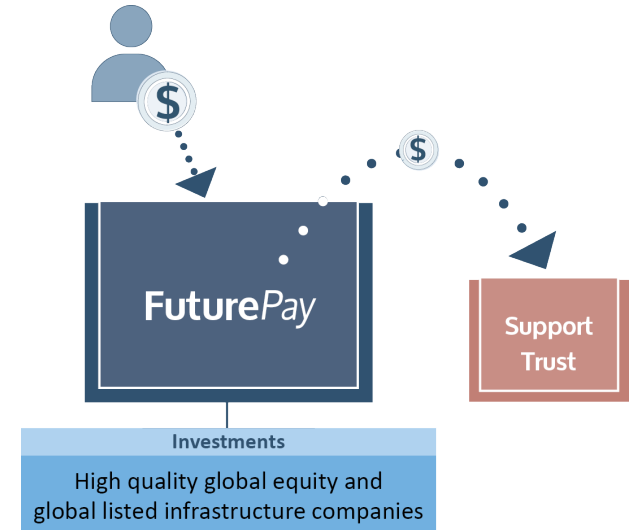
## Reserving strategy and income support

- Building a pool of reserves that can provide income support in adverse markets to avoid the need to sell assets
- **FuturePay** has been uniquely designed to implement an efficient and effective reserving strategy to benefit all members

# How does it work?

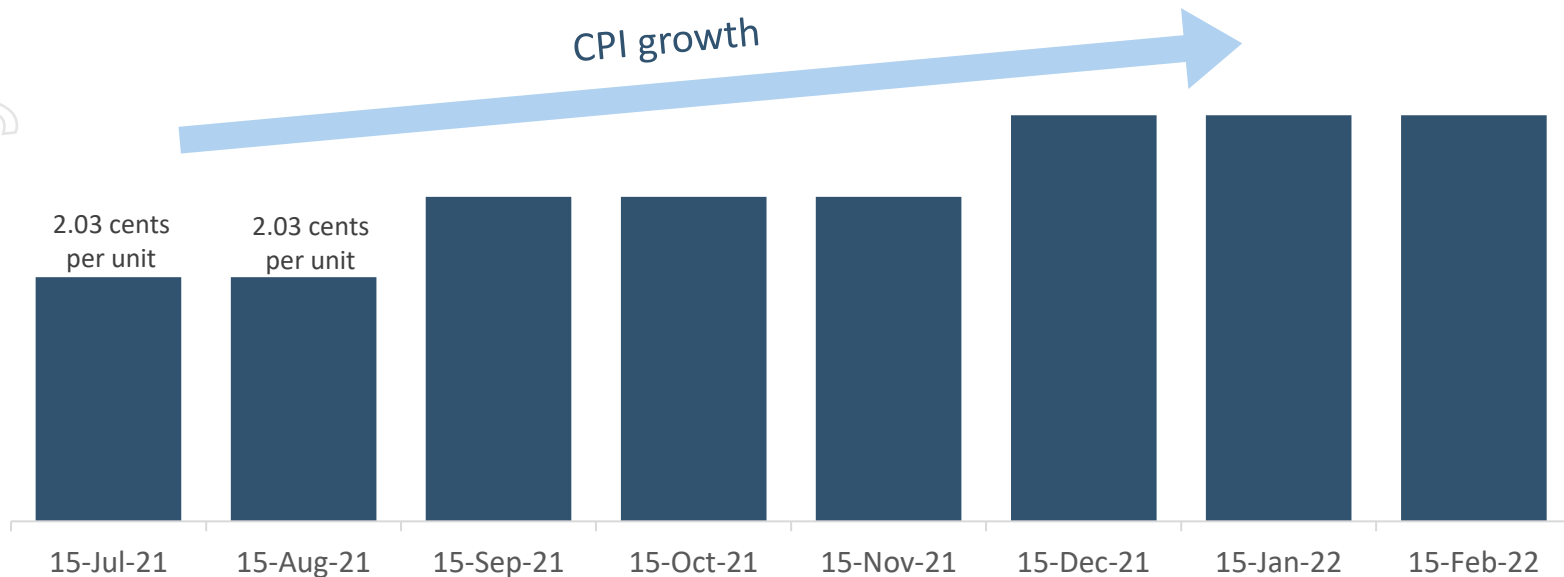
## 1. When you invest in **FuturePay**

- Upon direct investment, **FuturePay** will contribute a relatively small amount of capital to the Support Trust
- Invests in a portfolio of high quality global equity and global listed infrastructure companies



# How does it work?

## 2. During your investment in **FuturePay**



During your investment, **FuturePay** aims to deliver you a predictable monthly income that grows with inflation

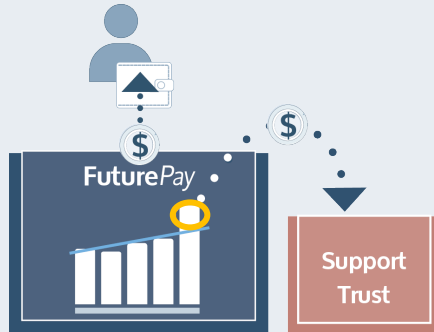


# How does it work?

## 2. During your investment in **FuturePay** (cont'd)

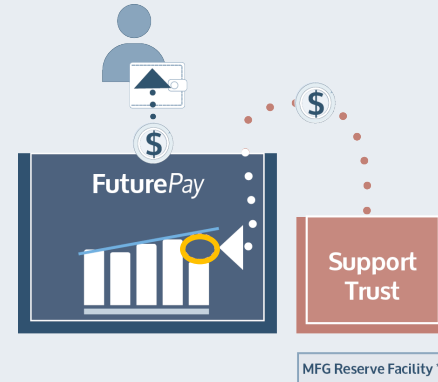
### In rising markets

**FuturePay** will reserve some portion of its outperformance to the Support Trust



### In falling markets

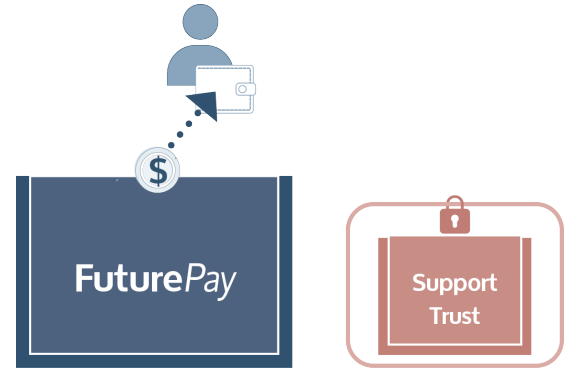
**FuturePay** may receive income support from the Support Trust to assist **FuturePay** in delivering the target monthly income to investors



# How does it work?

## 3. If you exit **FuturePay**

- If you choose to directly redeem your **FuturePay** holding, your exit price will generally reflect the value of **FuturePay**'s investment portfolio
- You leave behind the value of the benefit provided by the Support Trust, which is retained so that remaining investors may continue to benefit from reserving and income support, just as you were entitled to when you were invested



# The Support Trust

- Discretionary Trust, with **FuturePay** as a beneficiary, MFG entity is trustee
- Acts like a mutual fund – funded by investors in **FuturePay** and exists for the benefit of investors in **FuturePay**
- Upfront contribution on investment
- Ongoing contributions from investment outperformance
  - Available to provide **FuturePay** income support
- If an investor redeems from **FuturePay**, they take the value of the investment portfolio and leave behind value of benefit provided by Support Trust – mutualisation
- Treating reserves in this way leads to material efficiency – don't need as much in reserve
- Optimised and disciplined reserving strategy increases effectiveness



# Partnership with Magellan Financial Group

- Building reserves over time is important, particularly at the beginning
- Magellan Financial Group (MFG) recognises this and will commit its own capital to help kick start the Support Trust
- MFG has set aside A\$50 million to be incrementally added to the Support Trust as new units are issued
- This will give **FuturePay** a significant runway for growth
- MFG has further committed a Reserve Facility equal to 2% of **FuturePay** (capped at A\$100m) to provide additional support during poor market conditions



# Distribution Facts

## Distribution frequency

- Monthly
- Ex date at the end of each month
- Paid on the 15th of each month, paid early if not a business day

## Target Monthly Income

- 2.03 cents per unit at inception, growing at inflation quarterly
- Current income yield  $\sim 4.25\%^1$  p.a., based on initial NAV of \$5.75 per unit

# How to access *FuturePay*

An actively managed, listed fund (APIR: MGE9989AU / Ticker: **FPAY**)

- Like many of Magellan's funds it has **two access points**:
  - Via application/redemption directly with the fund (through the unit registry)
  - Via the Chi-X securities exchange (Ticker: **FPAY**), traded like any other listed security
- Being listed on Chi-X provides an important additional benefit:
  - Units are transferred, not redeemed
  - Effectively stepping into someone else's shoes
  - Pricing may therefore reflect value of reserves



# Summary

**The goal:** To develop a single product that captures important portfolio and structural risk management techniques and balances the competing objectives effectively and efficiently

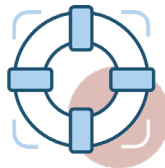
**Magellan solution:** **FuturePay** is an actively managed fund that aims to deliver:



A predictable monthly income that grows with inflation



Driven by returns and capital growth, with a focus on downside protection



Underpinned by a reserving strategy and income support



Together with daily access to your capital

## Independent review: Rice Warner's Review of Retirement Solutions<sup>1</sup>

*"Investing in **FuturePay** provides considerable uplifts on both income and accessible capital through retirement."*

1. Quote from Rice Warner, Review of Retirement Solutions, 5 May 2021 (Section 1.5, page 5 of 118). This Report is an independent assessment focused on quantifying the outcomes for retirement investors using Magellan FuturePay as a component of their retirement strategies. The Report outlines the modelling assumptions and assessment framework used in their analysis.

# Thank you – Q&A

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