TRANSCRIPT

MACQUARIE GROUP LIMITED 2017 OPERATIONAL BRIEFING

7 FEBRUARY 2017

[START OF TRANSCRIPT]

Karen Khadi: Good morning, everyone, and welcome to Macquarie's 2017 Operational Briefing. My name is Karen Khadi and I head up Investor Relations.

Before we get started, can I kindly please ask that you check that your phones are either placed on silent, or are switched off.

In the audience today, we have with us institutional investors and analysts, teleconference participants including members of the press, and webcast viewers. So, welcome to you all.

The purpose of these operational briefings is to hear some of the Group's and regional heads present on various aspects of their businesses in more detail. This year's briefing will start with the usual update on the overall Group since our interim result, followed by a presentation on how Macquarie communicates with the investment community. We will then hear from operating groups, Banking and Financial Services and Macquarie Capital, as well as hear a regional update on our operations in Asia.

The format of today's session will be as follows. I'll introduce the speakers for each session before they come up and present, and then I'll open the floor for Q&A on the conclusion. Once that finishes I'll introduce the next round of speakers and so on.

In addition to today's presenters, in the front row here we have some of Macquarie's senior management team, including some of the operating group heads who are also available for questions.

On arrival this morning, you should have all hopefully received a pack containing the documents that we lodged with the ASX, including the presentation that we'll be going through. The aim is to finish today's briefing by midday.

So, with formalities now out of the way, I'd like to introduce the first section of today's briefing, which is a Group update since the interim result and outlook update, presented by our Chief Executive Officer and Managing Director, Nicholas Moore. He will be followed by our Chief Financial Officer, Patrick

Upfold, who will speak on how Macquarie communicates with the investment community. Thank you.

Nicholas Moore: Well thank you, Karen, and welcome everybody. It's great to see so many familiar faces here this morning for our operational update. As Karen mentioned, I'll give a bit of an overview in terms of our third quarter performance, and then I'll lead into Patrick and the other speakers, who'll be providing a more in-depth look at some of the elements of our business.

Now, my first slide is something that is familiar. As you've heard me say on many occasions before, you can't understand Macquarie unless you have regard to the different groups within Macquarie and what's actually driving their income.

Now for seven years it's been unchanged. It's actually slightly changed today in that we've actually combined two of our market groups together. So, our Securities Group, our Equity Markets Group has been combined with our Commodities and Financial Markets Group, to make a new Commodities and Global Markets Group.

So, that change you can see on the front page. So rather than the six groups we used to talk about before, it's just the five groups we'll be covering today.

Now, turning to the overview for the third quarter. As we say there, satisfactory trading conditions for the quarter. In terms of looking at the two different groups of businesses, we have the annuity businesses, and what we're saying is that third quarter was up on where we were this time last year. But year-to-date we're slightly behind where we were last year.

People who have been following the story of course will recall we had those very strong performances fees in the first quarter a year ago, and of course we haven't - we didn't expect we'd catch those up over these three quarters and we haven't. So, we're slightly behind as a result of those strong performance fees coming through.

From a capital markets-facing viewpoint, the quarter is behind where we were last year, and again year-to-date we're slightly behind, and again year-to-date, we - it partly or largely is a result of the very strong start we had to the year last year. The Asian markets in particular were particularly strong; we saw very good trading conditions there.

The good news is the rest of the markets group have been able to actually contribute a lot so we're only slightly behind where we were this time last year in that capital markets-facing group.

Now turning to the different divisions, and as Karen said, there's a few of the group heads here today who we can direct specific questions to if necessary.

So, starting with our largest group, Macquarie Asset Management, headed by Shemara who's here, as you can see in the first half, was about 37% of the group. In terms of the trends for this group, very consistent with what we've seen in recent years.

So, assets under management, a bit over $A500 billion, a bit of movement having regard to currency, because of course many of these funds are denominated in foreign currency.

In terms of MIRA, the sorts of trends we've seen in the past continue. New capital being raised, you can see $A1.4 billion; actually being invested, $A1.9 billion, and actually then coming back to investors, $A600 million coming back cover the period, leaving $A11.5 billion of capital to invest in MIRA going forward. So, a very strong position for that business.

Similar story for MIM, you can see $A1.6 billion of new capital being raised for the strategies in MIM. And the smallest group there, MSIS, you can see good progress being made in terms of the infrastructure debt fund. We have commitments of about $A6.1 billion, compared with about the $A3.5 billion of assets we have there. So again, a good path for growth in that asset management business.

Turning to our second business on the page, the Corporate and Asset Finance business, 22% of the first half 2017 in terms of contribution. Basically all going on in line with expectations. Importantly there were two acquisitions in this business in recent times, being the Esanda acquisition as well as the AWAS acquisition; both of them are performing in line with expectations.

The only slightly negative note of course is the movement in currency, in particular the pound. Some of our assets here are denominated in pounds, particularly the energy book in the UK, and obviously that has been impacted at the margin in terms of what's been happening there.

Banking and Financial Services, you'll be hearing from Greg shortly. It's been a great story in recent years in terms of the ongoing growth of that business, which continues over the quarter and continues in the areas that we've identified before.

So, you can see the business banking up 2% over the quarter, deposits up 5% over the quarter, very big step up in terms of the platforms, the wrap platform at 14% over the quarter, largely as a result of that ANZ contract that we were successful in winning some time ago. So BFS, very strong results coming through for the quarter as well.

Turning to the capital markets facing businesses, you can see the first point to note is that there has been good progress in terms of the integration on the securities group into the commodities and financial markets groups, like this new group, so that is progressing well as our expectations were.

In terms of customer activity, we see good levels of customer activity in oil, energy and commodities generally with the volatility in the market, giving rise to good customer flows. The equity markets continue to be subdued however, as we expect.

Macquarie Capital, lots happening there as you can see in terms of our business around the world. We'll be hearing from Tim in terms of the story there. Good story, obviously very strong position here in Australia, number one been confirmed in terms of a whole range of different surveys and globally strong positions, particularly in infrastructure where, again, we had that number one position recently confirmed in terms of independent reviews.

Now in terms of where we're carrying on business around the world, this is our map in terms of where our offices are and where our people are located and of course Australia is our biggest place of business in terms of staff, biggest place of business in terms of income as well, as you'll recall, in recent times. The actual staff numbers, when you compare it with where we were, are off slightly, largely being driven by the sale of the life business that took place in BFS at the beginning of the year. Greg's going to touch on that, so staff largely constant subject to the sale of the life business.

In terms of the next slide, our balance sheet, you can see changes, subtle changes taking place in terms on the balance sheet. What you can see is the trading positions have stepped up over the period, a bit more short debt obviously supporting those, which reflects the high level of customer activity we mentioned earlier.

The next slide details our regulatory requirements and our regulatory ratios and as you can see, they continue to be very strong. Obviously a long term part of the Macquarie story is our very strong regulatory and capital positions. You can see our CET1 ratio well in excess of the minimum, 10.5% under the APRA requirements, 12.6% under a harmonised basis. So, when you compare us with other financial services organisations, often people use this harmonised number, that 12.6%. Leverage ratio, again depending whether you use the APRA 5.3% or the harmonised 6.2%, very, very strong compared with the 3% requirement and the LCR ratio 174%, again a very, very strong number there.

From a regulatory viewpoint, in terms of an update, the regulatory world of course has been changing quite a lot in recent times. In terms of the Basel capital framework, you will be aware there hasn't been an agreement at the moment particularly between the US and the European regulators, so we're still waiting to see what that may be. In terms of new issues on the agenda, we highlight two here, which is the new standardised approach for measuring counterparty credit risk on derivatives. APRA has released a paper on that. As well as that, it has released a paper on the capital requirements for bank exposure to central counterparties. Now we're assessing that, we're obviously working with APRA in terms of potential capital implications of that to Macquarie.

In terms of the Net Stable Funding Ratio, APRA now has finalised its requirement in that regard. It will be effective from 1 January 2018 and of course we continue to expect that we will meet that requirement when it comes in.

In terms of our capital position, overall $A17.5 billion of capital with a $A3.7 billion surplus above the minimum APRA requirement. You can see how it's changed over the period. We had about $A5.7 billion of surplus capital on a harmonised basis. Back in September you can see the increase in earnings coming through, you can see the reduction as a result of the dividend, a small change as a result of hedging, we obviously hedge our capital which can give rise to changes, meaning that our harmonised position is the same as it was back in September at $A5.7 billion, APRA super equivalents, again similar, a $A2 billion deduction from that, taking us down to $A3.7 billion.

If you look in the small print down the bottom, you can actually see what those APRA adjustments are and you can see how they apply to our position and you can compare it with other financial services organisations.

In terms of the short-term outlook, the outlook for the full year end 31 March, we provide an update in terms of what's happening to the different groups. As I said at the outset, to understand Macquarie you really have to understand what's going on in the separate business groups. So, we provide a bit of commentary in terms of what's happening in the operating groups and you can see, our largest group represented on the piece of pie there of MAM, we talk about some of the drivers in terms of that business. As I mentioned before, the very large performance fees last year, not expecting them to be repeated this year. Against that, we have got high levels of investment income and base earnings are coming through at a similar sort of level.

Corporate and Asset Finance, very much in line with expectations; the only point to note to bring out is this FX impact in terms of what's been happening, particularly in Britain. Our Banking Financial Services, ongoing growth happening and not only growth happening this year, but obviously we're seeing the benefit in this year's P&L of the growth that's taken place in prior years and Greg obviously will detail some of that shortly.

In terms of the capital markets facing businesses, a few of the themes going through, which is lower impairments both in Macquarie Capital and Commodities and Global Markets, good customer base as I mentioned before in terms of the markets businesses coming through, good level of principal realisations expected in MacCap and again, Tim will detail those broadly shortly.

So overall, from an operating group viewpoint, we expect to be broadly in line with where we were this time last year. Again, we expect the tax rate to be broadly in line with where we were this time last year, so for the full year ended 31 March, we expect to be broadly in line with where we were last year.

Now there's still six weeks to go obviously of the year, so trading conditions can vary. At this stage we're expecting trading conditions to be broadly in line with what we've seen to date, but obviously if there is a variation there, it could result in a different outcome in terms of where we're going to end up.

From a medium-term viewpoint, unchanged in terms of our view of the world. We continue to believe we're well positioned for superior performance in the medium term. Confidence is driven very much from the ground up in terms of the expertise that we have across the Group. In terms of the annuity businesses, in terms of the capital markets facing businesses, we have really high quality teams, very good customer relationships and we've seen the benefits of this continue to flow year after year. All of that of course is supported by a very strong balance sheet; we have always had a strong balance sheet. It continues going forward and of course perhaps most importantly, a proven risk management framework and culture that covers the whole organisation.

So, that's the end of my presentation. The next slide is something you've seen before in terms of where we have capital deployed across the business and the return we are getting. I'll now hand over to Patrick and at the end of Patrick's presentation, we'll open for questions. Thank you.

Patrick Upfold: Thanks Nicholas and welcome to you all, it's certainly better being in here and looking out there. So, I'm going to give a short presentation today on how we communicate with the investment community. Now operational briefings such as this are a very important part of that communication approach. Of course, these briefings provide an opportunity for the market to hear from some of our most senior leaders and ask questions of them in relation to their businesses and the regions that they represent.

Our overall communication strategy, of course, is much broader and what I want to do today is try and bring together some of the key aspects of our approach. Now before I get started, let me give some context on the environment in which we've operated in, in recent times. So, looking at the graph behind me, you can see that it's been a pretty challenging environment for the last 10 years. The global financial crisis certainly marked the onset of bouts of significant periods of volatility in financial markets and you can see the impact of this volatility on financials, as well as some of the factors that lie behind it.

Now over this period, of course, we all bore witness to a number of responses from government, central banks and regulators globally and these have impacted the way in which financial institutions operate, resulting in a challenge to some business models, for some more than others. In some cases, there's been a significant reduction in returns for many firms. Now the result of all this is that the landscape in which we operate has changed significantly and will continue to change significantly.

Of course, we haven't been immune from this change in landscape. Our markets facing businesses, particularly our securities business, has been impacted by both structural and cyclical factors. Like other banks, the capital and funding requirement to undertake business activity has increased significantly and continues to do so, resulting in us having to exit or modify some of the activities that we've undertaken. The cost of compliance, I've spoken about this before. This has increased fourfold over the last few years and is now over $A400 million. This certainly does impact the profitability of some of the activities.

Our impairment charges increased in this period and remained elevated for part of this period. And, of course, as you're all aware, there's been a number of regulatory matters that we've had to address. Now these challenges that we’ve faced particularly and of course, combined with the changing financial landscape, have elevated really in my mind the importance of communicating effectively with the market.

Now let's look at our share price performance against the chart that we saw before. From the end of 2006 to 2012, our share price largely tracked that of the index. I think this really reflects the fact that we were not differentiated from other financials. Now the diversified financial group, we have a wider range of businesses compared to most other companies. So, my focus, and the focus of the team, has been on improving our explanation of each of these business, both their drivers and the inherent risks involved in them. And providing context for investors on how each of these businesses impact the Group as a whole. Now I think, as the chart highlights, I think investor understanding of Macquarie has developed significantly. And whilst business unit performance drives outcome, the way in which we communicate our story has been important and will continue to be very important.

Of course, this is how we look today and how we present ourselves to the market, and you'll all be familiar with this. Stable earnings, with a significant level of income now coming from our annuity-style businesses. We're geographically diverse, with two thirds of our business being generated now from offshore. And, collectively, these businesses have delivered increasing shareholder returns with solid growth, in particular over the last five years. And of course, the business is supported by a strong balance sheet and that robust risk management framework that Nicholas just spoke about.

Whilst we're the sum of the five operating groups, the mix of business has evolved over time. I think this slide is kind of useful to remind us how it has evolved. Our annuity-style businesses have increased from 25% back in 2007, to over 70% today. That's really just reflecting the organic growth and acquisition opportunities that the three annuity businesses have been able to capitalise on. Our markets facing businesses, however, remain a really important part of Macquarie and we continue to have leading franchises in the areas in which each of these businesses operate.

From a geographic viewpoint, the growth in our businesses has been significant in offshore markets. This is particularly the case in America, as we can see there that the America's contribution to our overall result is now double what it was 10 years ago. A key part of our focus has been explaining this mix of business and this geographic spread of our income to both new and existing investors.

Now the geographic mix has also been reflected in both our share register and our funding base, as shown in these charts behind me here. As you can see, we've a large institutional presence on our register, and most notably international investors. That reflects, I think, the global nature of the business that we undertake. There's a similar story you can see there on the debt side, with a very diverse range of investors. But the key point here being, the majority of them are located offshore, so I certainly spend a lot of time in offshore markets. There's a few other points to highlight on this slide.

Our staff share scheme that sees a portion of staff salary or earnings invested in Macquarie over the long term, and that now sees us holding 7%, or about $A2 billion, of Macquarie stock at today's price. Retail investors make up 25% of our register. They're a very important part of our investor base and it's actually something I'd like to see us grow further over time.
Now all of this support from our investors has allowed us to present an incredibly strong balance sheet, and you've seen this slide before. This has really underpinned our businesses up through a range of different market conditions.

So, this balance sheet, and together with that diversified mix and the approach to risk management, have been a real key factor in 47 years of unbroken profitability. This is a slide I often present to new investors. I think it's worth pausing on this slide for a moment. Because one thing that stands out, you can see that through many of these reporting periods there's been market disruption events. Now not only have we been able to report profitably during these periods, we've often been able to capitalise on opportunities to grow and develop our businesses.

I can just highlight a couple of those ones there that you can see. Some very important acquisitions, Delaware in particular, which the funds management business acquired back in 2010, has been very, very important to the growth of our funds management business today. Then from the markets facing businesses, of course the acquisition of the Constellation energy business in the US has been very, very important in helping us to grow that CGM business.

Actually, and if you have a look at this slide here and you look at the volatility of our income relative to other financial institutions, you'll see that there's a significant level of what I would call stability in our earnings. Indeed, if you compare our earnings to a broad range of financial institutions, you'd find that our volatility is low.

Now when I show this slide to some investors, some of these investors are surprised by the stability of our earnings compared to, not only investment banks actually, but also to domestic and global fund managers. One of the reasons for this is that we're not actually overly reliant on any one business or market. Which, in large part, I think we can attribute to our approach and diversity of our business model.

This is another interesting slide that shows the importance I think of the stability of earnings and that unbroken period of profitability for the Group. What it shows is the rating movements for us and a number of financial institutions over the last 10 years. Now what stands out I think is you can see that Macquarie's rating has remained stable. Whereas other institutions have experienced often reasonably significant moves in their ratings as they respond to some of those challenges which I outlined at the start of this presentation. So, stability of rating is something that our capital providers and our counterparties value very highly and so do we.

However, notwithstanding the stability in our earnings and our ratings and the strength of our balance sheet, we do experience bouts of our own share price volatility, and more often than not that is driven by macro events. Now this slide behind me highlights some of those instances where we've seen that.

In each of the cases here, what I'd point out is there was no change in our earnings guidance in relation to our performance, and really there was no change in the underlying businesses. We can take a close look at one of these. You look at December '15/January '16 there, and during this time, if you recall, the market was experiencing heightened volatility. That was particularly in respect of the sharp decline that we witnessed in oil markets.

Now, understandably, the market at this time became more sharply focused on the impact of this and how it could affect our commodities business. During this time, our share price fell 30%. Just going back to that point, there's no change in our underlying business, and this was reflected through the fact that there was no change in our underlying earnings guidance that was provided to the market over this period. You'll recall that that was for an improved result on the prior year. Now, ultimately, the delivery of our results in accordance with that guidance, together with the dissipating macro concerns, saw a recovery in that share price.

Now why do I highlight all this? Now I've done this because I think to me, what we've learnt from this is that we need to continue to improve the way in which we communicate with the market. This is particularly so in giving more context on the potential impact macro events can have on business unit performance, and most importantly how this might affect the overall Group result. So, clearly my take away from this was that there was more work for me and the team to do on the communication front.

So, what we are trying to achieve with our communication approach is to provide investors with information about each of our businesses so that they can understand Macquarie better. We do this in several ways. We, first and foremost, report relevant information about the performance of each of our businesses and we do that in a clear and timely manner. We provide detail around individual business outcomes. We all [read] that reporting by anticipating emerging areas of interest and providing additional information, and getting back to that point, that really important point, about providing context at that Group level. Let's just look at each of those a little bit more closely.

As many in the room and online will know, we've been very, very consistent in the way in which we've presented our result. I mean there's a look and feel that should be very familiar to you all. Consistency is really important because I think this helps build an understanding of each of our businesses, as it provides a clear focus on those things that actually end up driving the business result. It also provides a readily accessible record that allows you, as our stakeholders, to easily and quickly compare the performance of each of our businesses with the previous period, and you're able to do this over quite a long period of time.

I've mentioned providing more detail around individual businesses. We do recognise that some businesses require more effort than others in explaining them. This might be because investors are less familiar with those businesses, or because it's more difficult to find a comparable business out there. I think a good example of this is what was called the Commodities and Financial Markets business, which of course is now part of the Commodities and Global Markets business. Over the last few years, we've sought to improve the market's understanding of the business drivers for this business, by providing more detailed business reporting. You can see some examples there where we've tried to achieve that. Importantly, we've had the senior executives - such as Andrew Downe, the head of this business, and Nicholas O'Kane who's the head of CGM's largest business, being the energy business - articulate in front of you, in this forum, what their businesses do and how they go about managing risk.

Now another example here is that we've recently raised some capital in respect of the AWAS and Esanda transactions. Now we saw these capital raisings as an opportunity for investors to give us their view on these acquisitions. So, it was important that we provided a very clear and detailed understanding, at the time of these capital raisings, of these businesses so that they could be properly assessed.

We also had the division heads responsible for these acquisitions - so that was Jon Moodie in respect of the cars, and Stephen in respect of the planes - join Garry Farrell at last year's operational briefing to provide a timely update to investors and analysts on how these businesses were performing. Of course, we continue, as we've just seen, to update the market on the progress of these acquisitions, and most importantly how well they're tracking against the original expectations that we set out to the market.

Now as well as helping the market understand individual business, we also seek to anticipate areas of interest and provide additional information. I've given you a couple of examples here. The first on there you can see is our increased disclosure on impairments as I mentioned. They have been heightened in previous years, particularly in respect of the commodities space. So, we sought to provide further information around those.

Of course, our effective tax rate, we've seen that move around, go up and come down, and really that's been a reflection of the expansion into offshore markets. We sought to highlight some of the reasons behind those moves there. So, I think that's been a very useful increase in investor understanding.

The final I highlight here is the performance fees, and of course we had, I think, increasing interest in performance fees, particularly with the upcoming maturity of the earliest significant unlisted fund, being MEIF1, so we sought to provide more information to investors about how to think about performance fees. We wanted to achieve a couple of things here.

Firstly, we wanted to make sure that investors really understood the basis that unlisted performance fees were to be recognised, so we provided quite a bit of detail around that. Then secondly, we just wanted to give some context around the performance fees, and highlight that they are actually quite recurring for us over a long period of time. Every year for the last 20 years we've earned performance fees, and then on average they've been about 50 basis points of EUM. So, that was something that we thought was important to give to investors.

We also took the opportunity at the Operational Briefing again to hear from Martin Stanley who headed up that MIRA business, and Ben Bruck, who heads up the MIM business. They joined Shemara here to talk about their businesses and answer investor and analyst questions about their businesses.

Now I have to provide a lot of information at the business unit level. Context at the Group level is essential to allow us to - to allow an appropriate weighting to be given to each of the businesses. This is why you'll see in all our presentations, and you saw that in the presentation that Nicholas provided today, the emphasis on the contribution that each business unit makes to the overall Group result. I think providing this context enables investors to put the detailed information that we do provide into perspective at the Group level.

Inevitably there will be bouts of volatility. There's not a lot we can do about that. As we emphasise in all our presentations, again Nicholas did that today, we manage our business for the medium to long-term. I think the graph bears out the value in that focus of ours. What you see here is that if you invested in Macquarie at any time since listing, and you continue to hold those shares today, that investment would have outperformed, I think 99% of the time, a range of benchmarks, and most notably there, those that are familiar to you being the ASX 200 and the MSCI World Capital Markets Index.

So, that's a little summary of some of the things that we've been doing from a communication viewpoint. It is a continuous process for us and we're continually looking to improve the way in which we do it. So, we'll keep working away at anticipating areas of interest. We'll continue to reinforce those key messages I spoke about. As always we'll seek to enhance the way in which we communicate with the market, so that we enhance the market's understanding of our business.

With that I'll hand back to Nicholas for questions.

Karen Khadi: First I'll take questions from the floor and then take questions from the teleconference lines as necessary. Those in the audience wishing to ask a question, can I please ask that you wait until you get a microphone before you proceed with your question. A reminder that it is a briefing for the investment community and unfortunately, we won't be taking questions from media.

So, we'll start with questions from the floor.

Question: (Brian Johnson, CLSA) Brian Johnson, CLSA. I'd like to break my question down into four subsets. The first one is the MIRA assets under management, the DONG Wind Farm acquisition and National Grid, was that completed by 31 December, or does that flow through in the next quarter?

Nicholas Moore: Did you hear that Brian? It's not in there.

Karen Khadi: National Grid's not in there, and I think DONG is not by MIRA. So, National Grid is not in that number.

Question: (Brian Johnson, CLSA) Okay, I thought the report was that MIRA was participating in the MacCap consortia?

Karen Khadi: Shemara I just might ask you, thank you.

Shemara Wikramanayake: Sorry, both of those are not in the 31 December numbers, yes.

Question: (Brian Johnson, CLSA) Fantastic. The second one, Patrick, is there's been a lot of concern generally about that steep sell-off in the bond market we saw in this quarter. I think what's significant is that we're not seeing the earnings down today. Could you just run us through why the bond rates moving per se don't really have a big P&L impact?

Patrick Upfold: Yes, well I think hopefully what my presentation has borne out is that we're pretty diversified in the approach to our business, certainly from a credit and lending point of view. We fund our term assets with term liabilities, so we effectively eliminate that risk for us in respect of our assets on that front. Shemara can perhaps talk about the impact in our funds management business, but again putting into context our funds management business and what that represents as part of our overall - the size of our Group.

Nicholas Moore: Perhaps before we turn to Shemara, Brian you know that the - that FI&C business isn't a material part of Macquarie, so we don't have a large portfolio of bonds at any time on the Macquarie balance sheet. That would be effectively unhedged. So, we don't have that same degree of volatility. But as Patrick's saying, if there are bonds they will be in assets being managed by the MAM Group.

Shemara Wikramanayake: It hasn't had a huge impact in our business because - we showed you some pie charts at the last Ops Briefing of our split of revenues between infrastructure revenue, which is about 40%, our equity, which is about - over 30%, the insurance account, et cetera, so our exposure to revenue from fixed income assets is first of all spread around the world and secondly not a massive per cent of our earnings. So, it hasn't had a huge impact. I think the guidance we've given is we expect this year's base fees to be broadly in line with last year, and that’s still the case.

Question: (Brian Johnson, CLSA) Okay. But the impacts of the acquisitions of DONG and National Grid flowing in next year, is that right that that increases the base fees next year?

Shemara Wikramanayake: Because they're inside the funds and they're valued at the asset value, so these are in the MIRA fund, it's not going to have a big impact because we didn't raise money in MEIF. When we invested, we held those assets at MAF, and it's not making a massive impact on the MIRA revenue.

Nicholas Moore: It's similar to those numbers that we put forward, Brian, in terms of MIRA raising $A1.4 billion over the quarter, and investing $A1.9 billion. So, what went into the National Grid numbers will just become part of the $A1.9 billion or whatever the number is going to be in terms of the investment there. But it's $A11.5 billion I think Shemara's got just in MIRA of capital to invest at the moment, and obviously, we've got $A3 billion or so in MSIS to invest as well. So, we have quite a good ability to step up for opportunities.

Question: (Brian Johnson, CLSA) Okay, for the third sub-question, everyone knows it's tough being a stockbroker. You're folding Macquarie Securities into Commodities and Financial Markets to create a new group. Anyone that's got friends around the world will know that Macquarie is taking a significant number of people out of that Macquarie Securities business globally. Is there anything for redundancies that's booked in that this quarter, or does it get booked next quarter?

Nicholas Moore: Yeah, I wouldn't assume there's going to be a lot of redundancies in that group. There will be efficiencies obviously. But I think it's important, Brian, to remember that we have put the back office largely of those two groups together in the past. So there still is a bit of savings that we're probably going to get from a supported viewpoint that will come through. From a front office viewpoint they are - albeit they will be facing the same client with different products, they'll be - there's not a lot of obvious synergies that can come from the front office. There will be some, but it's not going to be a material number in terms of our full-year results.

Question: (Brian Johnson, CLSA) Okay, Nicholas, the fourth and final question is when Macquarie bought AWAS and Esanda, if you add the EPS accretion that had been flagged on a full-year basis, it was about 7%. Now some of that has been chewed up by the decline in the cashbook and even exchange rates during this period, but - and you're saying that AWAS and Esanda are still on line to deliver. Doesn't that apply a fairly substantial uplift next year, or is it being basically fully absorbed by the decline in the book and the exchange rate movements?

Nicholas Moore: Well certainly the - both acquisitions are very much on track in terms of delivering what we expected. You will recall with AWAS, just as an aside, we took on less planes than we thought. We weren't actually able to - at the margin - do you remember, Patrick, how many planes dropped out?

Patrick Upfold: Seven or eight planes.

Nicholas Moore: I think that's right, six or something planes dropped out. So, the portfolio - the actual funding was a little bit smaller from AWAS than expected, but certainly they're operating in line with expectations. As you are saying on the broader book in terms of the lending book, we've seen that lending book come off in recent years. So, we've said the base earnings coming through the lending book will be lower, but against that, the underlying realisations that take place as part and parcel for early repayment and what have you in that book we think will be consistent this year with prior years. So, we've got the step up in the overall capital as a result of the acquisitions. Against that the lending book is slightly smaller than it's been in recent years, and we've broken those numbers down in the presentations.

Patrick Upfold: And the FX.

Nicholas Moore: And FX, of course, out from a pound viewpoint, which as we mentioned in the presentation largely relates to the energy book that we have in the United Kingdom.

Karen Khadi: Question at the front thanks.

Question: (Richard Wiles, Morgan Stanley) Good morning. Richard Wiles, Morgan Stanley. You've said that the profit contribution for the nine months in the capital markets facing businesses is slightly down. On slide 15 you can see in capital markets in the first half Commodities and Global Markets was down $A32 million, Macquarie Capital was up $A35 million. So essentially first half of 2017 was in line with first half of 2016 in the capital markets facing businesses.

You're now down despite the fact that you had that strong Macquarie Securities result in the first quarter of last year. So, it looks like as the year has progressed this markets facing business has got a bit softer. Can I ask you is slightly down material from broadly in line? There doesn't seem to be much difference. Nicholas Moore: No. Slightly down is slightly down.

Question: (Richard Wiles, Morgan Stanley) Okay. So, in the fourth quarter are you going to get the year-on-year benefit from materially lower write-downs? It looks like you had about $A100 million in write-downs in the fourth quarter last year. Do you think that operating conditions are better in the fourth quarter than they were in the third quarter, given your comment about increased volatility?

Nicholas Moore: Well certainly impairments we've been consistent, I think, all year, so we expect impairments to be down this year on where we were last year for both the commodities and global markets business, and also Macquarie Capital. That continues to be the case. In terms of activity levels, as we've said there the - from a Macquarie Capital viewpoint we're saying it's solid levels in terms of principal realisations that we're expecting, and solid in terms of deal flow. Tim can provide a bit more colour on that, but it's going well.

From a commodities viewpoint, as we're saying, the commodities and global markets, equities is weak. I think we all understand that. But what is actually strong is the underlying commodities business and the financial markets business, where they are effectively making up for that very strong year we had in the prior year for the equity markets coming out of China.

So, the way to think about it is the securities is down, not seeing the benefit coming through from Asia as we have in the prior years, that's being made up largely by what's happening in the commodities and the financial markets space. Does that make sense? That's why it's only slightly down in terms of where we were.

Karen Khadi: If you can just pass - thanks. Thanks, Richard.

Question: (Andrew Lyons, Goldman Sachs) Andrew Lyons from Goldman Sachs. Just two questions. Can you perhaps provide an update on the environment for asset disposals and realisations at the moment, particularly looking forward into 2018, and given the political environment globally, and maybe what that means for MAM, CAF and Capital, I assume Tim will talk about capital later though. Then just secondly, just on the NSFR, you noted that you'll meet the requirements by the time it's introduced in 2018, can you just maybe give a bit of an update where you sit at the moment and whether it will require much further evolution of the balance sheet?

Nicholas Moore: No, it won't require much further evolution of the balance sheet, so it's there. I mean there are a few little details at the outset; I don't want to make an absolute statement because there are always a few details out there that will be tidied up with APRA in terms of interpretation between now and then. But yes, we're not seeing there are going to be any challenges in that regard.

In terms of asset disposal markets, maybe the guys can actually comment on it, but broadly speaking, it's fine in terms of what we are expecting to see is actually coming to pass. So, from a MAM viewpoint, we note there $600 million of disposals during the period and I think, Shemara, we were very happy in terms of those disposals?

Shemara Wikramanayake: We are. In terms of MAM, we've done $A600 million this quarter, but we've also disposed quite a lot of assets during the year and there's still very good demand for good infrastructure, defensive, yield-producing assets, so we sold Thyssengas in Europe this quarter, US based fund MIP is going to be realising assets over the next while and we've been selling some assets out of that, been good demand. We've also been selling assets in China and Asia and are continuing to get good demand for it. So, we think probably the demand for defensive yielding assets is going to continue to hold up.

Nicholas Moore: From a CAF viewpoint, as we note there in our commentary, we are seeing realisations that are consistent with our expectations there, so we're not changing any view there. From a Macquarie Capital viewpoint, as we say, there's a solid principal realisation pipeline still expected and that's progressing well.

Tim, I don't know if you'd like to make a comment now or incorporate it later.

Tim Bishop: Yes, I'll pick this up through the course of my presentation, but I think overall market conditions are actually good in relation to asset disposals and more broadly.

Nicholas Moore: I think one of the comments you'll hear from Ben when he talks about what's happening in Asia is this ongoing need for assets which Ben will highlight in terms of very large pools of capital continue to be generated more broadly in the investment community. So, I think they're the sorts of elements that are driving what we're seeing, but certainly it's very consistent with recent history and certainly with our expectation.

Karen Khadi: A question at the back, thank you.

Question: (Frank Podrug, Merrill Lynch) Thank you, Frank Podrug from Merrill Lynch. You pointed out $A400 million a year in compliance-related costs. Now it's early days in the US, but talk of deregulation there. How much of it is genuinely sticky versus stuff we could perhaps see reduced over time?

Nicholas Moore: Well at the moment, I think we just see it as being part and parcel of carrying on business; we're not expecting any change. Steve can make a comment on it, but it is very early days in the US in terms of trying to forecast what that will mean.

I don't know, Steve, did you have a view? Steve Allen is our head of RMG by the way.

Stephen Allen: Yes, no, supposing that I really have a view, I mean obviously there's some talk and at the same time there's still new legislation and new regulation that's been introduced in the last year or two that we're still rolling out. So clearly we're watching it, we're involved in the discussions with people, but it's early days and we'll have to just keep monitoring it in that sense.

Question: (Frank Podrug, Merrill Lynch) Just a second question that's related to that. Again, early days but a lot of talk about tax reform in the US as well, you have a significant business in the US, how do we think about the sensitivity there? You've got on the one hand the potential reduction of the federal tax rate, but then you have offsets on things like removing tax shields, a media CapEx spend, et cetera.

Nicholas Moore: Yes, Patrick can update us on that, but we're a full payer of tax in the US, we're not the beneficiary of any particular shields or concession and obviously we don't have offshore income as local US taxpayers are. From an Australian viewpoint, we pay income on our global - largely on a global income base. So, we're a full payer of US federal tax, so if there was going to be a reduction of federal tax, then we would see the benefit of it.

In terms of our breakup, when we talk about our tax line, we've often said it depends upon where we derive income and obviously that depends upon the tax rate. Now the US, as you saw from Patrick's presentation, is a very large source of our income, so a material fall in the federal tax rate will have a very clear benefit to Macquarie; you'll see it reflected in the effective tax rate. Now at the moment, obviously we've said we expect it to be broadly in line with where we've been in recent years. If it does change, that's where you'll see that tax rate coming down. Patrick?

Patrick Upfold: Yes, I think early days, but just to simply think about it, I think it's just to focus on the tax rate reduction, what that is. We're a net interest receiver in the US, so that probably isn't going to have a significant impact on us. I think it's really just going to come down to what happens with the tax rate and what other changes that go through at the time.

Karen Khadi: Another question at the front, thank you.

Question: (Brian Johnson, CLSA) Brian Johnson, CLSA. Nicholas, reading the UK papers, you read some very disparaging comments about Macquarie of late. Could you just provide us publicly with a formal update on Green Investment Bank where I believe you are now the preferred bidder?

Nicholas Moore: Sure. As you know, Brian, any acquisition we're engaged in would usually be covered by a confidentiality agreement which would prevent us from actually making comments about the specific transaction. In terms of our interest in green energy and green development, Tim will be touching on that in his presentation. It's been a very important category for us in terms of our business. We're interested in a whole range of infrastructure assets and in recent years, obviously, there's been a very substantial investment globally in green generation, green distribution and Macquarie Capital has been very much a part of it and similar MAM, through MIRA, has been very much a part of it. That continues, our interest continues in that space and as I said, fortunately today, we'll actually have Tim addressing it specifically, so it's probably best to listen to Tim's comments on that.

Karen Khadi: Okay, it looks like there are no more questions on the floor and nothing on the lines, so I might take the opportunity…

Nicholas Moore: Sorry, Karen?

Karen Khadi: Oh sorry, apologies.

Question: (Tony Mitchell, Ord Minnett) Tony Mitchell, Ord Minnett. Given that Trump's desire to significantly boost infrastructure spending in the US, what benefit would that have for you in your US operations?

Nicholas Moore: Well it sounds positive, doesn't it? So, I guess the good thing about infrastructure, it's very much on the political agenda on the US, but it is also in Europe, it is in the country and it is in Asia. So, infrastructure is a good asset category, it's a long-term asset category, that's one of the things that's very important to bear in mind. We are an organisation focused on the long term and the medium term, as Patrick said, which is good for infrastructure, but you tend not to see short term spikes; it tends to be a long build. So, if we are going to see more infrastructure investment take place in the US, it will be over quite a few years. You wouldn't normally expect it to take place quickly.

Now here in New South Wales, obviously, we're seeing the benefits of a lot of infrastructure spend taking place, but obviously, that's been put in place over quite a few years of planning and work and investment decisions. So, I think when you think about infrastructure, it's significant to Macquarie, no doubt about it, it touches on a whole range of our businesses. What we've learnt over the years, it's a very long term business and so things are going to start - today you won't actually see them being reflected in our accounts for quite a few years, one would normally expect.

Karen Khadi: Okay, I think now we can move to our next section of the presentation. I'd like to introduce Greg Ward, Head of Banking and Financial Services to present on his operating group. Thank you, Greg.

Greg Ward: Well thanks very much, Karen. BFS, Macquarie's retail arm and for those of you who have been following Macquarie for a long time, you'll know that a lot of the activities here and some of the products date back to the formation of the bank back in 1985 and indeed even older than that. Now I've been the Group Head of Banking and Financial Services now for over three years and in that time we've been shifting our focus towards the Australian market and making a large investment in technology.

Pleasingly, in recent times, we've seen some really good growth from the business, a profit of $A111 million in the first half of 2014, growing to $A261 million in the first half of this year. Now that growth and the success of that business I think in large part due to the very laser-like focus on clients. We put clients at the centre of everything that we do and that is increasingly important, I think, in all consumer businesses, especially our financial services.

Delivering the products to clients through three business lines: personal banking, wealth management and business banking, as you can see on the slide here and what's unique to this business is the partnerships that we have with a whole range of financial intermediaries. Some of these partnerships going back over 30 years, but very important partnerships in terms of the delivery of the services here. We don't have a branch network unlike many of the players in this market, so digital distribution and partnerships are very important aspects.

This slide here gives you some background on the various product lines in the business and the way that the business has evolved over a long, long period of time, as I say, more than 30 years, to really have a full suite of offerings across all the major segments here. There were a number of overseas activities, but they've been wound back in more recent times, recognising we just didn't have the scale to be successful in those operations.

A more recent change was the exit last year of Macquarie Live, a really successful business for the Group, but again, just lacking the scale and the investment required to make that successful and with the change of capital rules, regulatory capital rules, we needed to exit that business. So, the focus now very much on banking and wealth products and doing a limited number of things exceptionally well.

This slide here really shows you the focus on the Australian market and one of the reasons for the focus on the Australian market, of course, is a very large and successful market, I'm sure I don't need to explain that to you and you can see on the left chart there, the growth in this market in recent times, really consistent growth. We expect good growth in this market to continue.

We find in the Australian market high the adoption of digital, a really advanced digital economy. We see the average Australian spending about a day a week online in some capacity and that is offering tremendous benefits for an intangible service like financial services, to be able to deliver customers a far richer experience in the lower cost form.

This slide here is just talking to some of the disruption and innovation that we're seeing from digital disruption and the opportunity that it does present to financial services. We're obviously now in a connected world, a highly-connected world and we're seeing seamless integration of financial service offerings in that world. We ourselves are sending to people instantaneous real-time notifications and transactions directly to their wearable devices and you wouldn't have thought that was the case many, many years ago.

Consumers more and more are experiencing highly personalised experiences. They're logging on every day to Facebook or Netflix or Twitter or whatever it is and they're getting a very rich customer experience. You know yourself, if you use Netflix, it knows what TV shows you like, it's making suggestions, it remembers where you got up to in watching, when you scan the show, it's already loaded it instantaneously. These are really rich experiences that customers experience and more and more, they're coming to expect that from the banking service provider.

So, what we've been doing is putting in technology like Cassandra and DataStax and these are the technologies, they haven't been used in financial services before, but these are the technologies that Netflix or Facebook use to provide that really rich data-driven insight and service to consumers.

Last of what we're seeing is technology innovations that are making the digital experience more human-like, making it far more human in a way these digital services are delivered. We've just introduced natural language processing, a first in financial services and making it much easier to query wealth and banking transactions in normal language, in the language that you speak.

We now have biometrics in our call centres, so that when you call us - call up, your voice is identity, saving that very painful identification process that I'm sure you've all been through when you use a call centre. This slide here just shows you some of the innovations that we have made in financial services. Just some of those and so rather than being a bit apprehensive about the level of disruption and innovation taking place in financial services, we're really excited about the opportunity that that offers.

We have a real track record of innovation here, and I'll just make mention of a few of them on this slide. Right back in 1980, the Cash Management Trust, being the first vehicle to offer retail investors wholesale interest rates. In the nineties, pioneering wholesale mortgage securitisation in this market and then along with Aussie Home Loans introducing mortgage broking. In '95, the DEFT platform. This was a payment platform for rent payments, well ahead of its time, in place before PayPal even and would have been a wonderful thing if we had have saw the potential that the DEFT platform was offering.

More recently, we've enhanced the DEFT platform. It's now powering BPAY on Xero and just this year we've launched AuctionPay, where it will be really easy at last to pay for a property when you purchase it at auction and even easier for real estate agents to deal with taking that money. So, some innovations. Now, all of those opportunities we're delivering through a focus in these areas. We recognise just how important partnerships are to our business and we're investing in new partnerships and trying to leverage those partnerships. We're modernising our technology and making some big investments in technology to support the partners that we work with.

We recognise just the opportunity that digital offers in delivering rich experiences to customers in a really low cost way and we have invested in our teams. We're very lucky that if I look at my leadership team, their average tenure with Macquarie is about 20 years. If I look at the director group, about half of the director group have been with Macquarie for 10 years. We've supplemented that experience by hiring some of the best technologists from around the world to work with that team. This slide shows you some of the recent results, and you can see the first half of this year, $A261 million. We're very pleased with that result. Better than the result we saw in the full year of 2014.

So, we're getting some good growth coming through in this business. Even more pleasing is that the efficiency that we're starting to see, the cost of revenue ratio is improved from 85% to 70%. So, that is a long way to go. A long way to go. We recognise that and we're excited at the prospect of making this business even more efficient. What's also pleasing is that those results and the efficiencies there have been achieved whilst being able to spend a lot more money in our platforms. So, we've been able to re-architect many of these systems that we're using. Some of the architecture has been built right from the bottom up and you can see some really big investments made in 2015 and '16.

That will start abating somewhat in years to come. That really was the peak investment period. We turn now to the personal banking business and this is where we deliver our retail banking products through intermediaries, through white labelled partnerships and some direct distribution. You can see those partnerships listed here: AFG, Aussie, connective, YellowBrickRoad, really the leading mortgage originators in this market and we have tremendous relationships with those businesses.

Woolworths and Jetstar and there's a lot of other brands that we have very important white label partnerships and the benefit of this, of course, is to be able to take our technology and deliver products to their very big customer basis. Recognising the importance of those partnerships, we've invested in open API architecture to enable those partners to deliver a unique experience to their customers leveraging our infrastructure. Our infrastructure is one of the best in the market.

You see there we're the first Australian bank to have real time mortgages and retail deposits capability on the one platform, the only bank to have that here that's offering something unique to their customers and of course it gives us tremendous efficiency benefits in the delivery of those products. This slide here is profiling the mortgage business, part of the retail bank, and you can see in recent times some very good growth, but this is coming off a really low base. We recognise that and we're taking the portfolio here back to levels we saw pre-GFC, so just over $A28 billion now.

Down the bottom of that slide, you can see some of the awards we've won from our partners, so we really are recognised as one of the best participants in the market in terms of partners. That's to say, institutions like iSelect are dealing with a lot of partners across the market and they prefer to deal with us. Now, importantly in mortgages, we're trying to build a sustainable high quality profitable business. That's the objective here. It's not about market share or just sheer volume. It's about having a high-quality business and this slide here is summarising for you some of the quality aspects in this portfolio.

You can see very conservative loan to value ratios, a good mix of repayment types and investor loans versus owner-occupier and split very well by geography with no big exposures. This slide here is profiling the deposits and you can see some - fantastic growth in the last seven or eight years. About 10% per annum. That really continues that 30-year growth rate in the deposit business and it has come about from sustained investment in the platforms here. About 500,000 Australians use the CMA, which is the principal product here, as their cash hub in their business. We also see that about one in four self-managed super funds choose to use the CMA as their central cash hub.

The CMA was one of the first areas where we put in place that open API architecture, allowing intermediaries to plug directly into the CMA to make it really efficient in terms of the administration of their client's self-managed super funds. I'll turn now to a video and this video is - it's not television quality video. This was a video we were using online to attract really advanced digital users to use some of our digital assets to give us feedback in the development improvement of those assets and we got thousands of people came forward and became clients and really were able to help us in the development of the digital assets. This very short video just profiling some of those capabilities.

[Video playing]

The really wonderful thing about that is - and it's a first in banking here - it's not just read only. You get to actually record details, change transaction descriptions, log receipts and keep that online. Once you've used natural language search, you will never do banking the same way again. So, the best way to experience that is to be a customer and I encourage you all to be a customer and try that firsthand. Let me turn now to the wealth management business. Here we're delivering the full suite of financial products, superannuation, cash and advice and personal banking. Now, a lot of this is done through very significant partnerships again. We have wonderful partnerships with some of the largest asset managers in the market

You'll see there 22 institutional white label and private label partnerships with really large asset managers, institutions like Perpetual and ANZ turn to Macquarie to look after all the investment administration using our platforms and we're continuously investing in these platforms. This slide here shows the growth of the platform business in recent time. You can see really significant growth in the last five years or so, up to $A70 billion now. We're really pleased with the pace of growth of this business and even more pleasing is that yesterday's big partnerships are very important, but about a third of the volume here is coming from independent financial advisors.

Now, there are about 7000 advisors using the Macquarie Wrap platform as their platform of choice and it's now the second largest platform in the country. The team here really have the aspiration to make this the predominant largest platform in the market. We turn now to the business bank, so offering the full suite of deposit lending and transactional banking products. This is with professional clients, professional senior clients. So, real estate agents, lawyers, stockbrokers, accountants, engineers and so forth.

So again, partnerships and relationships are very important. We deliver the services here directly through relationship managers and there are two things we've identified that SME clients value the most in picking their business bank. The first thing is deep sector expertise. They want to deal with a business banker that really understands their industry. So, the focus of this business is to be really present in a limited number of industries and have deep sectorial knowledge of those industries. That lets us identify the issues and problems that clients in those industries are facing and provide solutions.

Indeed, the DEFT platform is a great example of that, where we identified issues that real estate agents, strata managers and so forth have and we provide a fully developed solution for them. Other banks have rent collecting systems, but none of them fully integrate in the way that the DEFT platform does. What that says is there is we bank about 35% of real estate agents in the market and about 80% of strata managers. That comes about from really understanding their industry. The other thing that SME clients tell us is they like continuity of tenure of their relationship manager. They want to deal with the same person who's not only an expert in their industry, but has the experience of their business in that industry.

So, we're very fortunate here to have a really skilled team of relationship bankers and you see there, the directors, about half of them have over 10 years' experience with Macquarie and that tenure is highly valued by our business clients. Showing you here on this slide the business lending portfolio. Some - again, some really good growth in recent years. We're very pleased with the growth. What we see when we look at this industry, we see a great level of dissatisfaction with business bankers. I read the Eastern Partners studies and it says that the level of satisfaction is going down in the last three years by about 20%.

It also says that one in two clients would not recommend their business banker to one of their colleagues. That isn't our experience in this business. You see our SME clients are growing and we have a client retention rate of 92% measured over five years, the best in the industry. So, we're very optimistic about continuing growth in this business. Well, that's the retail business. Some good growth over a long time and certainly in recent periods. We think we're very well positioned for ongoing growth. We've got some very special partnerships that we've developed over a long period of time and we're investing in new partnerships. Importantly, we're supporting those partners by investing in leading technology in an open environment allowing them to really leverage that technology. We recognise not the threat, but the opportunity that arises from digital and we've embraced that and we've invested heavily and we have invested in the right people. We're lucky we get great continuity of staff and we've been able to attract some of the best digital brains in the world to join us. That's the end of the presentation, Karen. I'd be - hand back to you and happy to participate in Q&A.

Karen Khadi: Thank you very much, Greg. I will now open the floor for questions, similar format. So, we might start with a question from the back there. Thank you.

Question: (Andrew Triggs, Deutsche Bank) It's Andrew Triggs from Deutsche Bank. Just a question around the slowing of the mortgage portfolio. Could you just give us an idea of what's driven that slow-down? Is it concerns about returns in the market? Is it a reflection of asset back-pricing in the markets there? Or is it just-because deposit growth has actually been - continue to be very strong.

Greg Ward: Yes, I guess we had really substantial growth for a number of years. So now that we're getting up to a more normal level in terms of where this business was historically quite naturally we've seen a lower rate of growth. There has been really aggressive discounting in the market. Our focus has been on quality and returns and so forth. So, we haven't always followed the aggressive prices in the market. We lead with relationship and service here. We don't lead on price. I guess the other thing, just in the last little while we've been putting in place our new origination engine and putting in all the new pipes for that. So, it has suited us to have volumes just moderate a little bit while they were put in place. That is now in place. We'll see good growth going forward but not at the levels that you've seen for the prior three years.

Karen Khadi: A question at the front. Thank you.

Question: (Richard Wiles, Morgan Stanley) Richard Wiles, Morgan Stanley. Greg, you mentioned that the cost to income ratio can go a lot lower. The regional banks here have cost to income ratios sort of below or above 50%. You're not actually that much smaller in terms of size. You don't have a big branch network. So, are there business mix differences or structural differences that would prevent you from getting to 50%? Do you think that's - in the medium to long term is that a plausible target for your cost to income ratio?

Greg Ward: Yes absolutely. Our analysis is very similar to yours. We look very carefully at not just the regionals but the major institutions here and overseas. We look at the digital participants as well because we in a lot of ways are a digital first organisation. We look at Fintech and some of the cost ratios that they're seeking to achieve. So, we're trying to sort of move towards where the industry will be, not where it has been. So, we do see the cost to revenue ratio following from where it is. 50% is not unreasonable. We do have a different mix. Wealth is a higher proportion of our income than some of the other institutions. The advice side of the business is also significant here. That has a higher cost to revenue ratio because of the remuneration requirements. So, the mix is a little bit different but I think certainly a 50% cost to revenue ratio is the sort of thing that we look forward to achieving.

Karen Khadi: I might just take a question from the line and then revert to the floor.

Operator: Thank you. The phone question comes from Scott Manning from JP Morgan. Please go ahead.

Question: (Scott Manning, JP Morgan) Good morning. Just a question on the project spend. You said that you peaked recently. Could you give us an indication of whether that's directly expensed versus capitalised and just what the amortisation profile might be picking up going forward as some of these systems are turned on?

Karen Khadi: Sorry Scott I think that's you, could you please repeat the question? We haven't got the second half of that?

Question: (Scott Manning, JP Morgan) Sure, just on the project spend - to what extent is it directly expensed versus capitalised? Therefore, what's the amortisation headwind of some of that investment going forward? What kind of useful life are you contemplating?

Greg Ward: We pretty well expensed all of the projects. The only exception we made was the core banking project which was a very significant project. The expenditure on that is $A230 million. Of that we've written off already $A130 million. So, we

	have $A100 million left to amortise. The amortisation period is 7 years for that. Any future expenditure on these programs is expensed as incurred. So, we've got a 7-year amortisation on the $A100 million but everything else has been expensed and will be expensed going forward.
Question:	(Scott Manning, JP Morgan) Excellent, thank you.
Karen Khadi:	A question at the front.
Question:	(Brian Johnson, CLSA) Just a related question, is in the last half result we saw quite a big gain on disposal of the Life business which coincidentally seemed to fund a lot of impairment including writing off a lot of capitalised software. That capitalised software that was written off, how much does that - if we were to adjust the earnings for that how much would that automatically lower that cost to income ratio? So, if you were to back out the last company gain and you were to back out the capitalised software you wrote off in the first half, where would the cost to income ratio be? It would be a lot lower, wouldn't it?
Greg Ward:	Yes, it would be lower. I could work it out as you could work it out as well I think. It would be lower. But I haven't done that. I don't have that number to hand.
Question:	(Brian Johnson, CLSA) Thank you.
Karen Khadi:	Just a question at the back. Thank you.
Question:	(Brett Le Mesurier, Velocity Trade) Brett Le Mesurier at Velocity Trade. Greg a year or so ago you were writing a lot of investor interest only loans. You're obviously not so interested in those any more. Can you go through the reasons for that?
Greg Ward:	I think we're still interested in that business. It's a very competitive and dynamic market. Different people are interested at different times. You'll see all sorts of special promotions, offers and rate changes and so forth. I mean there was a period when AMP Bank were not writing investor loans at all of any form. Now they're back in a big way doing that. So, these things sort of change. Our appetite really hasn't changed. We have slowed the number of investor loans a little bit but not - it's more market forces that have caused that sort of shift. We do like investor loans. We like interest only investor loans. We have a lot of those that we still originate. But you're right the proportion has shifted a little bit. Likewise, what also changes for us is the different partners that we bring on, they all have particular focuses. That changes our mix of business as well and that has that impact on the proportions.
Karen Khadi:	A question at the back? Thank you.

Question: (Rachel Bentvelzen, UBS) Hi. Rachel Bentvelzen from UBS. I just wanted to make a comment to start and then have a question. I thought the app looks quite good for people like me who are saving for a house. It looks quite easy to clarify your expenses and work all that out, so that was good. Just on that, I was just wondering what are you spending on innovation in particular? Can you clarify that?

Greg Ward: Well, we have tried to measure the amount we spend on innovation - so how much are we spending to operate things and how much is an enhancement and what is true innovation and so forth. We have things like - well, a number of the features are in this banking app, we think are truly innovative. They're a first to market. OwnersAdvisory, as our robo advice - I mean lots of people have done robo advice, but not like this and so we think that's innovative. We don't get too caught up on it, because when I debate this with my executive team, there's no definition of innovation, so we don't really measure it.

I imagine it's somewhere like 20% of what we spend is - in our mind - innovative, but I don't want you to walk away and take that as gospel, because there is no proper definition of this and we do debate it even within our own team.

Karen Khadi: Just a question in the middle, thank you.

Question: (Frank Podrug, Merrill Lynch). Thank you. Frank Podrug from Merrill Lynch. In terms of technologies being presented to you, where have you seen the bigger developments in the last say, 12 to 18 months? What excites you most and what's the potential upside from that?

Greg Ward: Well we've been really excited about - as I say - it's things like DataStax. I think that data management and data manipulation and using data - we've been very excited about that - container technology- again we find that quite exciting. That has been a real efficiency for us. I mean the cost of technology has come down quite significantly, whether it's storage or even the boxes that we use. Our main box - what we call a Vblock - we could never had contemplated owning something like that before. It was so expensive, but we have - I think Nicole - two Vblocks now.

It's brilliant - this technology that's becoming available to us to use. But the tools like Cassandra - absolutely wonderful - pioneered by Facebook and now used by hundreds of organisations now. Again, this wasn't available five years ago, so there are all sorts of interesting technologies. You've got to understand the efficiencies that come from some of this - even biometrics - the voice biometrics - it's tremendously efficient. We measured that if you ring a call centre, it takes on average about two minutes for you to be identified, because you're asked all your telephone password - you've forgot it. You're asked for some other - what was your first dog - and you can't remember, or your first boyfriend or girlfriend - you've forgotten.

People forget everything. Favourite football team - well that changed last year when Hawthorn lost. So, you spend two minutes on average and of course, there are tens of thousands of calls and that can be done instantaneously. Of course, the way our technology is moving is, you'll have your phone. Your thumb prints your phone to call - to initiate a call - if you've got a problem and that will identify you. So, there's a whole bunch of really simple little things that are tremendously exciting.

Karen Khadi: Okay. It looks like there are no more questions here and none on the line. Thank you, Greg.

Greg Ward: Okay, all good.

Karen Khadi: Now I'd like to introduce the next presentation as Tim Bishop, Head of Macquarie Capital, presenting on his business. Thank you.

Tim Bishop: Well thanks, Karen. This morning, I would like to talk about some of the characteristics that make Macquarie Capital unique and why we believe the position for future growth in our profit. Let's start with an overview of actually what we do. The clients are at the centre or the core of our business. The way in which the business runs and the way in which it's managed, it is all about ensuring that we're positioned to provide the best possible service to our clients. We provide four basic products, being advice - typically in relation to mergers and acquisitions. We underwrite and arrange equity - both public equity and private equity. We underwrite and arrange debt - whether that's leverage finance, corporate debt and project finance.

Finally, we use our balance sheet to invest typically alongside our clients, to help create or facilitate transactions. Our staff generally sit in, in one of those six industry groups that are outlined on that slide. Within those industry groups is where that real deep expertise exists and that sense of client engagement and those deep client relationships exist. Whilst we are a diverse business globally and by sector, we deliberately focus on areas where we have deep expertise. Now what we mean by that, is ensuring that we're engaging with clients who value our expertise, or in transactions or opportunities where our expertise is needed or wanted.

We have a leading market position in Australia and New Zealand and three truly global industry groups or sector groups, being infrastructure, real estate, technology, media, entertainment and telecommunications. Collectively those four groups have contributed a little bit over 75% of our revenue over the last three years. This slide outlines revenue by sector, product and region over the last three years, being FY14, FY15 and FY16. I'll make a few quick observations here. Firstly, from a regional perspective, clearly Australia and the Americas have been the largest contributors of revenue over the last three years. But I would anticipate, going forward, that we will see a significantly increased contribution coming through from both Europe and Asia. That's largely off the back of the investments that we've made in those regions over the last two or three years, and hopefully you'll get a flavour of that during the course of the presentation.

From a product perspective, hopefully what really comes out is that advisory, M&A advisory, is the heart and soul of our business. It's through those deep client relationships at the senior most level that there'll often be other income opportunities come about, those other product opportunities come about. Nicholas has referred to our principal book, in terms of an expectation that impairments will fall and an expectation around our divestment pipeline. So again, going forward, we would anticipate that we would see an increased contribution coming through from a principal perspective in that product box.

I'll spend most of the presentation today talking about those sectors or the industry groups. But one observation I would make is that over 50% of our revenue over the last three years has come from real assets, being infrastructure and real estate. Our profit has grown consistently since fiscal '12 and, whilst we're very focused on costs and containment of costs, the exciting part of this is that growth in profit has really come about as a result of an increase in our revenue. That's a combination of an improvement in our market position and also just generally better execution around the principal book. Not surprisingly, our revenue, in terms of where it drops from a regional perspective, is broadly consistent with where our staff are located as outlined on that slide, and we have a little over 800 transaction executives globally.

I'd like to spend a few minutes on this slide. It's an important slide for us in really trying to articulate what we think is different about the Macquarie Capital business and what we think really makes us unique. The first thing and the most important thing is the quality of our people and the stability of our senior leadership group. So, the executive director group, which is the senior most title within Macquarie Group, the tenure of those EDs have been with Macquarie Capital for a little over 13 years. I personally have worked with a number of my colleagues within Macquarie for over 20 years. That sense of continuity and understanding between that senior leadership group is very important, particularly to managing a global business and the challenges that come with that.

Away from our people, we have a market-leading position in Australia and New Zealand. Clearly, it's our home market. We're very proud of our market position here. We're confident about our market position here, albeit not complacent. We've got the biggest banking team in Australia and a real sense of breadth and depth across what we do here. Number one in infrastructure globally. A leader in private capital in real estate globally. A great history and track record in technology, partnering with entrepreneurs and private equity and financial sponsors. Finally, this ability to use our own balance sheet to invest alongside clients, to help create and facilitate transactions.

I'll now go through each of the six sectors or six industry groups, starting with our largest group, where clearly, we have a great history, being infrastructure. So, over the last three years, infrastructure has contributed a little bit over 40% of our revenue globally. I'll talk through infrastructure through three perspectives. Firstly, the M&A advisory lens; secondly, I'll talk about this theme of asset creation; and, finally, I'll touch on specifically what we're doing in green energy globally.

We are the number one advisor for M&A in infrastructure globally. Whilst I'm sure you're quite familiar with some of the deals that we've been doing in Australia and some of those clients in Australia, I think it's important to recognise that, in infrastructure M&A we have the same market position or same profile outside of Australia as we do have in Australia. Most recently, we're in the process of closing a buy-side advisory role in relation to National Grid up in the UK dash distribution business. That's a circa £14 billion transaction, so clearly a great profile deal for us and consistent with the sorts of things we do in M&A.

I want to pick up on this theme that's quite prevalent throughout our business, this theme around asset creation and helping develop businesses. The context here is, clearly in the world of infrastructure today, we have a lot of capital chasing transactions, typically chasing core infrastructure and low-risk operating infrastructure assets. We see our role as to helping create and develop these businesses, ultimately packaging them up and ensuring they're then transferred to the more natural long-term owners of these assets. It's particularly prevalent in the PPP, in the public-private partnership space, in the PPP business for us.

Historically, we've played a role in this area as an advisor, but increasingly what we're seeing as a real opportunity for us to partner with our clients. To take a little bit more risk, whether that's big-cost risks or development costs, but partnering with those clients and therefore benefitting from some of that upside, as we create these assets and then ultimately transfer these assets to the more natural long-term owners of these assets. A very global business. It could range from toll roads in Slovakia, bridges in the UK, hospitals in Scotland, hospitals in the Sunshine Coast at Queensland, schools in Western Australia, fibre optic cable in the state of Kentucky. So, it's a very diverse business, but with a common skillset that's quite prevalent and global in nature. In terms of how to think about those opportunities, how to develop those opportunities and create those opportunities.

I'll now talk a little bit about what we're doing in green energy. Globally it's a very exciting story for us and an increasingly relevant or material story for us. It's a story that's been ongoing in Macquarie for a long period of time, albeit really over the last three or four years our activity levels have certainly stepped up. Again, you'll see this theme of creating assets or developing assets. So, our role typically in green energy is to get the early formation of these assets. Again, whether it's through development and maybe through construction, in partnership with a client, helping create those assets, and again, once they reach financial close, or maybe even through the construction phase, transferring those assets to the more natural long-term owners of those assets.

While it is more risk that goes at the development end of the spectrum, but the return is obviously commensurate for that risk. Importantly, the dollars per deal at a development end are materially lower than the dollars per deal when you're investing at the operational end of the spectrum.

We have deep technical and operational expertise that exist within Macquarie Capital. It's this partnership that exists between the more traditional bankers, let's call them advisory bankers, and these industry experts with operational expertise. So, a large number of our staff will have construction type backgrounds, engineering type backgrounds, project management skill sets, geologists and the like. The real beauty or the secret sauce here is that partnership that exists between those two different skillsets. The deep operational and technical expertise that has existed in Macquarie Capital for a long period of time, and the more traditional investment bankers. We'll continue to invest in that expertise.

Green energy is a global story for us. We believe the green energy story is here to stay for the foreseeable future. It's not a mainstream industry. It certainly - where a lot of the activity now is going on in the infrastructure space.

In a material way, it started for us in Europe with an offshore wind in the Baltic Sea, which was in partnership with a German utility, moving then to offshore wind in the UK, and more recently biomass facilities in the UK. It's now very much an Asian story. I alluded to earlier the possibility, or the expectation, of increased contribution coming through rom Asia in the coming years, and it's largely off the back of this. With that, is solar farms in Japan, the offshore wind in Taiwan, waste facilities in Korea, and increasingly we're also seeing a strong pipeline coming out of Australia and the US.

Let me turn now to real estate, the second of our truly global industry groups. Again, we anticipate that you'll see a significantly increased contribution coming through from real estate in the future years. That confidence is off the back of the investments that we've made over the last two or three years.

What we do here, is we partner unlisted capital with specialist best in breed real estate operators, and more recently we've been able to participate or invest alongside those - our real estate specialists. We have a long history and deep relationships with the providers of private capital in real estate globally, and some of those names are outlined on this slide. This is something we've been doing for well over 10 years. Traditionally our role was to advise a real estate operator, to help them raise private capital for them to drive their own business. For those real estate operators, it typically transformed their business from maybe just being a developer, into a more integrated real estate business with asset management and funds management capability, and obviously with them receiving fees to do that.

We've been very good at these bespoke transactions that identify exactly the risk appetite or the needs from the private capital side, and understanding who are the best in breed real estate operators globally in these specialised areas.

In the more recent past we've been given the opportunity to invest alongside those clients. As a result of that, we now own significant interest in a number of these real estate operators, ranging from providers of Chinese logistic warehouses, in the case of Logos, to multi-family apartment providers in the US and Europe, in the case of Stonehenge being in Manhattan, and Greystar across the US and Europe. There are a number of examples of that that are not outlined on the slide today.

It's through those investments and through that pipeline that we're working on, that we do anticipate an increased contribution coming through from real estate, as those investments reach maturity.

TMET, the third of our truly global industry groups, a little like the real estate story, in that we anticipate or expect to see an increased contribution coming through from TMET over the next few years, off the back of the investments that we've made over the last two or three years.

The particular emphasis here is around what we're doing in technology. Two things. We partner, and we've got a great track record in partnering with entrepreneurs, and secondly providing flexible capital to private equity or financial sponsors, largely in the US, and a little bit in Europe.

We've got a long history in partnering with entrepreneurs in the technology space, a 20-year-plus history. We're very much part of the eco system with founders, with management, and entrepreneurs in this space, particularly in Australia and Europe. We've got some selected highlights or investments here outlined on that slide. This is very much about providing long term growth capital. So, these are long duration investments that we make as we go on the journey with those partners. Of course, the more success we have enables us to create more opportunities for future investment as our network continues to grow.

The second thing we're finding in technology, it's a little bit centric to the US, but also increasingly in Europe, is in the mid-market private equity firms or financial sponsors, providing flexible capital to those sponsors in technology to help drive, create and facilitate M&A transactions. The companies that are involved there are typically more mature technology companies, robustly profitable, large companies. We're often the M&A advisor to that financial sponsor, and maybe we're providing leverage finance to them as well. The type of equity we might provide to them would be - might be bridge equity, it might be preferred equity, or some other structured capital piece. It really helps them facilitate and drive and create those M&A deals. So, it's a niche for us, but it's a rapidly growing niche. We've got an increasingly very strong market position in that area.

Finally, in relation to resources, industrials and financial institutions, it's largely an Australia story. Outside of Australia it tends to be more targeted approach offshore. From an Australian perspective, clearly across the board we have a leading market position in Australia. Consistent with that we've got a leading market position in these particular sectors; resources, industrials and FIG. We've got real expertise in Australia, specialised expertise in those sectors.

As a result of that we're fortunate enough to have some tremendous clients as corporates in Australia; the leading corporates in each of those sectors in Australia which is reflective of our market position.

When you step outside of Australia largely there's two roles that our people are playing in these groups. They're either helping facilitate cross-border M&A, so accessing the capital flows that go on, particularly in the resources space, or we've got a particular niche.

By way of example, our industrials business in Europe we don't have a broad-based industrials business in Europe, but what we do have is a specialised team in Germany very focused on sell sides for financial sponsors and private equity firms in Germany. Very strong market position in what they do - clearly a particular niche versus having a broad-based offering.

We believe we've got some characteristics that are unique to us; the stability of our senior team is a very important foundation for our business, market leading position in ANZ, number one in infrastructure globally, a world leader in private capital real estate, a great history and track record in partnering with entrepreneurs and sponsors in technology and finally this ability to be able to use our own balance sheet, alongside clients to help facilitate transactions for them.

It's really off the back of those characteristics that give us confidence that we're well positioned for future growth in our profit. Thank you and I will hand it over to Karen to facilitate the Q&A.

Operator: Once again, for the phone parties to register a question please press star one on your phone.

Karen Khadi: A question from the floor; we'll maybe start with a question from the back thank you.

Question: (James Ellis, Credit Suisse) My question is in relation to when you invest Macquarie's capital into client transactions what target return do you look for on Macquarie's equity and secondly over time what returns have you actually generated on a pre-tax, pre-profit share basis?

Tim Bishop: Yes, so the portfolio is typically quite equity oriented, so the nature of investments we make do tend to be more towards the equity end of the capital structure rather than the dead end and therefore we need to be generating returns that are consistent with that risk. So, we think about that broadly in the context of the 20% type IRR.

Through the cycle, we've been able to achieve that. In fact, we've achieved better than that post-impairments through the cycle. So, we feel confident that we've been able to do that historically and there's no reason to think that we can't do that going forward.

Question: (Simon Fitzgerald, Evans and Partners) Good morning, I've just got three brief questions here; given the infrastructure is an important part of the revenue base, could you just elaborate in terms of what sort of revenue sources come from the internal generated or the group's infrastructure franchise?

Tim Bishop: So, given our market position in infrastructure clearly, we've got some expertise and we think that expertise is very relevant for clients and as a result of that it's appropriate that we continue to do work with MIRA. MIRA have been a long-

	standing client of Macquarie Capital and are still a very important client of ours today.
	We respect that relationship and we continue to work very hard on that relationship. That being said the contribution from MIRA to the revenue to Macquarie Capital is materially lower today than what is was in say '07, '08 fiscal years. They're one of many important clients that we have globally.
Question:	(Simon Fitzgerald, Evans and Partners) Also understanding the deal sizes are quite small, could you give us a bit about your risk metrics that you look at and what type of deals that you wouldn't touch.
Tim Bishop:	Sorry I didn't quite get that question?
Question:	(Simon Fitzgerald, Evans and Partners) Yes, just a little bit about the risk metrics that you look for in terms of these deals, but also the certain type of ones that you just would not touch.
Tim Bishop:	Yes, it really gets back to this underlying philosophy of investing alongside our clients. So, we start with that premise and the reason for that - well there's a bunch of reasons, but one of the reasons is as a result of investing alongside our clients we should be definition have a greater understanding of those clients and the industries they're in. If we have history with those clients it typically means we've advised them on prior activity, M&A activities and therefore we know them well. We know that sector well and we know what their objectives are.
	So, we wrap ourselves around with that starting point of having deep expertise off the back of our history and our knowledge of those clients and those situations. Clearly infrastructure and real estate are a big part of what we're doing so that real asset and regular cash flow approach is prevalent across Macquarie Group and it's no different for Macquarie Capital.
Karen Khadi:	I might just take a question from the phone and then come to the floor.
Operator:	Thank you. The next phone question comes from Craig Williams from Citigroup. Please go ahead.
Question:	(Craig Williams, Citigroup) Yes good morning. Look you spent a lot of time today highlighting what is certainly an impressive track record of performance for the business across its history. Broadly over much of that time and certainly over the last iteration of profit growth of the business falling interest rates has been a feature of the economic backdrop. You've capitalised on that with strong performances in your infrastructure, fixed interest funds management and leasing businesses to highlight a handful. Can you please talk about how well

	your group and its businesses are positioned for growth now that we're at the bottom seemingly of that global interest rate cycle please?
Tim Bishop:	Maybe I could talk to - or do you want to go first?
Nicholas Moore:	Sure, I think it was a broad question for the group Craig, I mean I think we've probably had this conversation before, but interest rates are very important and falling rates have been very important in terms of the financial landscape over the last while. As you say, particularly from a debt viewpoint, if we are seeing a turn in the cycle, what that probably means is the debt side of the equation will still be important, but less from a growth viewpoint, and we'll see more on the equity side of the equation across all our businesses', so whether you're talking about MAM or whether you're talking about Tim's business, or any of the other. So, I think one of the areas that Patrick and Karen emphasised of course is the diversity of the business, and that yes, we have investments in the fixed income or fixed income-like area, but as well as that we have obviously, investments in the equity side of the equation. The other point to make as well, which you'll be very aware of when you look at infrastructure assets, and I think there might have been an article on it today in the paper I briefly saw, is that it's not at all clear how they respond in a rising interest rate environment if we are seeing greater demand happen. Simple example obviously are things like roads or airports where if the economy - they're basically being driven off GDP, so if we're seeing higher interest rates because of higher GDP, that will flow into the value of the underlying asset. So, I think it's important to recognise when we are talking about infrastructure it's not just a simple fixed income. Actually, we do see a response on the revenue side as well as the relative value side, having regard to what's coming through. So, a long answer but basically, I think it's saying that given the diversity of the Macquarie Group, we do have exposure both to the debt side of the world and the equity side, and indeed historically if you looked at the Group we've been able to respond very well if risk appetites turn up globally.
Question:	(Craig Williams, Citigroup) Thank you.
Karen Khadi:	Thanks Craig. A question from the centre of the room.
Question:	(Andrew Lyons, Goldman Sachs) Andrew Lyons from Goldman Sachs. Tim, you mentioned that you've made some investment in particular parts of the business in recent years that you expect to drive growth going forward. Can you maybe just talk about the investment needs of the business going forward,

particularly how you expect head counts to evolve over the next couple of years, and also any other cost pressures that you see in the business?

Tim Bishop: Yeah, I mean people are obviously the most important part of our business, and getting those decisions right really drives everything that we do, making sure we've got the right quality of people, and making sure they're set up for success in terms of what Macquarie does and what we do. We feel good about where we're at on that now, and so it's hard to believe there will be any material changes in head count, whether that's an increase or a decrease. We feel very good about the footprint that we have and the activity levels that we have going on around the world.

Nicholas Moore: One of the areas maybe - I think you touched on it in the presentation, but one of the growth areas has been the non-investment banker, as it were, joining the group, the people with the technical expertise in terms of construction and engineering and all that.

Tim Bishop: Yeah, I mean we have a group within Macquarie Capital. We actually call it MacPro, is the term we give it internally. That's that dedicated group that I alluded to in my presentation, our real operational and technical expertise. That sort of expertise has existed in Macquarie Capital for a long period of time, but we're really continuing to invest in that expertise and grow that expertise. We're big believers in this theme that actually the role that we can play where we're most needed or highly valued is in trying to create assets and trying to help facilitate the development of those assets. But for us to do that we've got to make sure we've got both sides of that expertise married up, being bankers and operational and technical expertise.

Question: (Andrew Lyons, Goldman Sachs) So I guess to the extent that you see FTE as still a largely variable cost, have there been any other fixed cost pressures that have sort of shifted the dynamic over the last few years, or looking forward, that you expect to?

Tim Bishop: There's been nothing material from a cost side over the last few years. There were clearly some changes a number of years ago, but over the last few year’s costs have remained - head count has remained reasonably constant. Just also remembering we are a relatively simple business in terms of operational support. What I mean by that, technology spend is relatively low compared to other groups, and so the reliance upon the support functions is a little lower for us than maybe some of the other groups.

Karen Khadi: If we could just pass the…

Question: (Richard Wiles, Morgan Stanley) Richard Wiles, Morgan Stanley. Tim, you've grown your international revenue to about two-thirds of total. I assume that's a lot higher than it was 10 years ago. A lot of the global investment banks over that period have had real constraints from capital funding, massive fines, reduced ability to undertake certain activities. It hasn't necessarily occurred in the investment banking division, but do you think the prospect of reduced regulation for some of your global competitors will make them more effective competitors in your segment, or do you think they're not as relevant as the used to be?

Tim Bishop: Well it's always competitive. I should start by saying that. We tend not to think too much about what everybody else is doing. We're just very focused on what our clients are doing, and how we can help those clients achieve their goals within the skillset that we have. It always is competitive. I'm sure it always will be. Some competitors will be more competitive on a given day versus other years. But we don't spend too much time dwelling on that. We just focus more on what we're doing.

Question: (Richard Wiles, Morgan Stanley) Just a follow-up to that, if some of the US and European banks need to hold less capital than they might have otherwise expected, do you think they'll compete more aggressively with you in the principal investment areas? Do you think that your target of IRRs of 20% may be threatened by competitors coming in and competing in that space?

Tim Bishop: We certainly haven't seen any evidence of change, let me say that. So, there's been no evidence of any change in the landscape for that.

Nicholas Moore: It's probably worthwhile also pointing out Tim that in terms of 20%, that's obviously a very round number. We do look, and we've always stressed this in the past, at every deal on an individual basis, and it depends very much on the risk of the transaction in terms of the return. So, some transactions obviously you'd expect to get a higher return, and some you would expect a much lower return, having regard to the risks around that particular asset. So, I think I wouldn't take away from this presentation there's sort of a very clear, that it's 20% we do and 20% we don’t, it doesn't work like that at all. It's a very variable return having regard to all the risks associated with it, which means it could be substantially lower or substantially higher, depending upon the circumstances.

Karen Khadi: We might take one more question and just conscious of time, we've got one more speaker, so this might be the last question for this section, thanks.

Brian Johnson: (Brian Johnson, CLSA) Tim, Brian Johnson, CLSA. If you have a look at your business it is a bit different because you actually co-invest. When you co-invest, presumably you've got to put away capital for it; when you crunch out the numbers for your division and you've got to make some assumptions, but it's probably doing about 10%, 11% ROE, whereas Macquarie's probably doing around 14% at the moment.

I get the fact that you're holding the capital in respect of the future realisations, could you just clarify for us what is the value of the equity portfolio that you've got, how many investments are in it? Then you've kind of taunted us on the slides by actually mentioning PEXA, Nuix and you don't mention Quadrant Energy, but that's been in the paper that the IPO is coming. Can you give us a feeling just on those three names that have all been in the newspaper about what are the IPO prospects on those?

Tim Bishop: Yes, so I think the first question was in relation to the amount of capital that we have tied up. We don’t separately disclose the amount of capital we have in our principal book, albeit you'll see in our capital side, Macquarie Capital, I think in Nicholas' presentation earlier today, it sits at about $A1.6 billion as at the six months to the end of September. When you look at the composition of our revenue, it's clear a lot of that revenue is relatively capital light, so when you think about revenue from certainly the advisory business, it's generally capital light. So maybe when you think about the composition of the principal book, it maybe gives you some proxy for that.

Your third question was specifically in relation to some of the investments. I can't remember your second one, but I'll come back to that. In relation to your first statement, we can't comment specifically on investments that we have. Some of the ones you mentioned have been tremendous stories for us and we're delighted to be partners in them over the very long term and certainly no decisions have been made in relation to exits, but we feel very comfortable with those investments.

So, then you talked about ROE and I guess what I'd point to is the fact that our profit has grown materially since fiscal 2012 and on articulation today, we feel optimistic that that profit will continue to grow.

Karen Khadi: Okay, in the interests of time, thank you very much, Tim, for that presentation. I might now hand over to the last section of today's briefing. I'd like to introduce Ben Way, Regional Head of Asia who will present on the final session. Thank you.

Ben Way: Thanks Karen and good afternoon everyone. I didn't expect to say that. I think as many of you know, in Asian cultures rain is actually a sign of prosperity and good fortune, so hopefully that augers well for the next 15 minutes and let me start, if you like, with the market context. I think, as most people know, the macro outlook for Asia is very positive. Asia really is the GDP engine of the world and I think if you look at the net SDI inflows over the last 15 years in Asia, what you can see is that there's a growing awareness about the attractiveness of Asia as a region.

In terms of what's driving this positive macro story, well the key theme really is urbanisation. In Asia today we're witnessing the largest migration of people in human history. Some 650 million people will move from rural to urban centres over the next 15 years and what that's doing is really driving a big growth in the middle class and as a consequence, savings. Complementing this trend is the fact that Asia is more condensed than ever before. There are 3.7 billion mobile subscribers today and Alibaba now accounts for 25% of all global e-commerce. So, in short, urbanisation, coupled with increasing wealth and connectivity, is changing the way people live in Asia and that's creating significant new opportunities across the region, particularly in things like services and infrastructure.

In terms of the financial services industry, to some extent it's the tale of two stories. In terms of the capital markets, conditions remain challenging; there's slower deal activity, compressed fees and increased competition. It's really only China that stands out and China M&A is likely to slow in the short term, given capital outflow restriction. So, if you look at, say here, the stock market turnover for Asia and you strip out Chinese turnover, you'll see that generally on the grey line, volumes have been pretty flat. But in terms of intense competition, I think last year's IPO of the Postal Savings Bank of China is a good example. That was the largest IPO globally in the last two years and it involved 26 book runners. So, that's the most on record. Two-thirds of those book runners were Chinese financial institutions. This is a new competitive profile phenomenon that we haven't seen previously.

However, if you turn to the asset management market, what you can see is AUM in Asia is growing rapidly, twice that of North America and it's increasingly a very significant global pool of capital. We've pulled out here, I think, a really interesting example of the Chinese insurance market. So, one you can see in terms of the Chinese insurance market that AUM is growing very, very quickly, but there's a very interesting, I think, second trend here which is the change in allocation.

What we can see is the big beneficiary over the last few years has been the alternate sector. That's because when you speak to Chinese insurance company CIOs, they're looking for deployment where they can get yield. So, that's obviously very good if you're in the business of real assets. We think this is the type of trend that will continue and we're not just seeing it in developing markets. If you look at the Japanese pension market, which has about $US3 trillion of assets under management, the same shift to allocations in that market is also occurring.

Turning to our platform, think as many of you would know, we've been in Asia since 1995, so we've been on the ground for 20 years, we've got a broad footprint with approximately 3500 staff in 13 locations in 11 markets. Four of our business groups are operating in Asia. I'll touch on those in a minute. But it's important to note that 50% of our staff are located in our shared services centres in Manila and Gurugram. These teams help us enable our global enterprise. In terms of how the platform has evolved, well as you can see it was initially really a capital market focused platform. Particularly over the last 10 years we've started to diversify that platform as we've built out the annuity-style businesses.

In terms of our operating groups we've got 4 established groups. Starting with the annuity-style businesses in terms of MAM we currently manage $A46 billion of assets under management. To give you a sense of how our business is growing from a MAM perspective in Asia our mirror portfolio of assets has more than doubled in the last three years from 30 to over 60 today. We're also seeing good growth in the MIM businesses such as Asian equities, fixed income and our hedge fund strategies. Importantly MAM has raised more than $A5 billion in Asia in the last 12 months. This capital has primarily been exported to other parts of the world but what it does do is underline how important Asia is increasingly a source of capital for our global network.

[CAF] has been operating in Asia for more than 15 years and is our smallest group. Its main focus is on equipment finance in Korea, Japan and Southeast Asia. In terms of our market facing groups, CGM is our largest group in Asia with 550 people across 11 locations. I think as you all know it provides risk and capital solutions across financial and physical markets. This group has an extensive footprint in Asia. From an equities perspective we have execution capability across 15 exchanges and have research coverage of more than 950 stocks. We obviously have a large commodities and financial markets business where we are providing clients access to markets, financing, financial hedging including in sectors such as energy, metals, mining, agriculture, fixed income and futures.

As Nicholas and Patrick have talked about we think CGM is well positioned to take advantage of future growth opportunities. Obviously our last market facing group is Macquarie Capital. Tim has obviously just spoken about this but in Asia Macquarie Capital has a very calibrated focus structure. We really look at areas where we have strength and a track record. Areas such as infrastructure, real estate principal in greater China. This strategy is really delivering results.

Significant opportunity due to urbanisation obviously exists for us to deploy development capital in scale markets such as Taiwan, Korea and Japan.

I think speaking of Japan, that's an interesting example of a market that's really come alive for us. So, we've been an advisor on 2 of the first 3 government privatisations. We think this is a good example of a market where opportunities are opening up and we're playing to our strengths.

In terms of our overall financial performance what you can see on this slide is that over the last 5 years our income has almost doubled between the financial years of 2012 and 2016. Our performance in the first half of 2017 remained steady. As you can see the annuity-style businesses are making a growing contribution as our AUM ramps up. As we've discussed we think the capital market facing businesses are well positioned to capture future opportunities.

In terms of our people in Asia I think as you all know Macquarie is a people led, people driven business. As you can see here from the key indicators our team in Asia today is more diverse and more experienced than ever before. As an example, 94% of our staff are multilingual. In a region like Asia strong continuity in your teams and your leadership is critically important especially to relationship building. We are also very focused on staff engagement and enablement. We're very pleased to be recognised for a lot of our efforts in the workplace. I suppose the key point here is that we believe across Macquarie that culture drives results. In Asia, like the rest of the world, we're focused on fostering high-performance teams that are meritocratic and diverse.

In terms of risk management, I suppose the key point here is managing risk is embedded in our culture. Nicholas has already talked on this point. Now we apply the same global risk management framework in Asia as we do in the rest of the world. Risk is owned like always at the business at the country and the regional level. I think importantly the types of risk we manage in Asia and the sort of regulatory things we see are consistent with the rest of the world. I suppose one thing we do have to acknowledge about Asia is that it is a very heterogeneous region. It is quite complex. It does have countries with very different levels of economic development.

I suppose to that and what is really important in being able to manage and understand risk is to have local teams. That enables us to quickly and effectively respond to changes both from a defensive point of view but also from an offensive point of view. It allows us to spot new opportunities that we can move into and start to build businesses around.

In terms of our focus going forward there are really 3 pillars. 1) We focus on key markets. We are most active in countries with large populations, with large economies and pools of capital. Countries like China, Korea, Japan and India. 2) We leverage our areas of expertise. We are not in the business of being everything to everyone. We focus on where we have a track record and where we believe we can be impactful. 3) We drive cross-border flows. This has never been more important given the rise of Asia. Underpinning these pillars is our one firm approach. Let me just briefly take you through each one of these pillars.

In terms of our key markets you can see here we've used China as an example. I don't think we need to really answer the question why China given the fact that the numbers and the scale of China I think speak for itself. Having lived and worked in Asia for more than 15 years including on the mainland I fully appreciate that China is a complex market. A lot of people have gone there and haven't been as fruitful as they were expecting. So, if you ask is how do we tackle a market like that, I suppose the answer is this. We have teams, experienced teams, on the ground that are calibrating where the opportunities are and how we can realise them given our strengths. So, if you like we focus on what we are good at. What do we do in China today? Well it's actually changed quite considerably over the last five years. Today we're investing in managing capital onshore. We're exporting capital. We're advising clients in terms of cross-border deals. We're providing commodity products and we're doing research on securities. As you can see from the numbers here and a number of - in terms of our progress, there's good outcomes and we expect good outcomes to continue. In terms of leveraging our expertise, I've used here the example of renewables infrastructure and Tim's already touched on this in his presentation. Urbanisation coupled with strong government policy has prioritised renewables with a key source of energy in most markets in Asia.

Asia is facing today an energy trilemma. It has an energy deficit, but it needs energy to be affordable and it needs to be clean. Over the last two years, 50% of global renewable energy investments have been made in Asia. So, to put this in perspective, last year Japan installed 15 gigawatts of solar panels. On average, China is installing one wind turbine every hour and the world's largest solar farm was recently commissioned in India, yet more than 600 million people across Asia live without electricity. So, you can see the sense of the order of magnitude of the opportunity for us over the years to come. As you can see from this slide, Macquarie is a leading renewable specialist in Asia.

Today we are a developer, a manager, an operator, an investor and an advisor. We currently manage more than 2.5 gigawatts of operating renewable energy and most importantly, as you can see, we have a strong pipeline. We've identified some 7.5 gigawatts of opportunity both in terms of developments and acquisitions. So, I think what this renewable infrastructure is an example of is how we spot opportunities, we play to our strengths to realise opportunities. In terms of driving cross-border flows, what our aim in Asia to do is really to facilitate the flow of capital, commodities and ideas between Asia and the rest of the world.

I think a good example of the importance of Asia's capital to the rest of our network is our fundraise for our fifth European infrastructure investment fund, MEIF 5. For MEIF 5, 30% of investor commitments came from Asia versus 17% to MEIF 4. What you need to remember is that MEIF 5 was a significantly larger fund than MEIF 4 and we think this trend, the outflow of capital from Asia to around the word, is set to continue. So, in terms of our one firm approach, which I think underpins all these pillars, well, what we've used here is our example of our platinum client approach. Now, our purpose at Macquarie is to realise opportunities for our clients.

Our platinum client approach is just one example of how we work with clients to provide them with a comprehensive set of solutions by utilising the full capabilities of our global platform. As you can see from this program, it's delivering results. Our year-on-year revenues are up, as are - as is the capital we're managing. I suppose the key point about this is that when we look at platinum clients or we look at any clients, the idea is not to match them with just one group, but to look at how all our groups can service them and how we can build enduring relationships. So, in terms of summing up where we are at in Asia from a Macquarie perspective, I suppose the first point is the macro outlook remains very positive.

Asia is a growing, dynamic region. Number 2, we are more connected than ever before and that's really enabling us to bring Asia to the world and the world to Asia. Number 3 is that in a region like Asia, given the growth, there are going to be significant opportunities across the region. That makes it a very exciting place to do business, but we acknowledge it isn't without complexity. So, that said, probably our most important point is this: we are focused. We are doing what we're good and where over the medium to long term we can deliver results. Thank you.

Karen Khadi: Thanks, Ben. I'll open the floor and the lines for questions, staring with a question at the back there. Thank you.

Question: (Andrew Triggs, Deutsche Bank) Thanks. Just a quick question on Shenzhen Stock Connect, initial signs that it's fairly underwhelming, but any expectation of an improvement in volumes and whether that will be a driver for the securities business for the remainder of the year? Also, just if there's any signs of life within the Asian warrants business more generally.

Ben Way: So, in terms of, I think, the Shenzhen Stock Connect we've kind of said we've seen the start, which was very similar to actually the Shanghai Stock Connect. So, there was a slow ramp-up there. I think actually most people in the marketplace were surprised about quickly Shenzhen was announced, so they weren't necessarily as well prepared for it as they were with the Shanghai Stock Connect. So, I think it's early days and we'll see how it develops, but I think it's certainly a good sign in terms of giving people such as ourselves more access to Chinese markets, particularly where you don't have an onshore licence in terms of China.

So, I think that's what's happening with the Shenzhen Stock Connect. In terms of the warrants business, the performance is - has not been what it once was, say, going back to 2008, but obviously, we've rolled out warrants businesses in new markets, such as Singapore and Malaysia and those are performing well and gaining good market share.

Karen Khadi: A question in the middle there. Thank you.

Question: (Frank Podrug, Merrill Lynch) Hi Ben, Frank Podrug from Merrill Lynch. Just a couple of questions on the MIRA business. So, at group level, the average base fee rate is just under 100 basis points. Does that differ much in Asia? If so, what are the infrastructure factors that underpin it? Just the second question is are there any nuances around the sourcing, managing, disposing of assets in Asia that make it different from the rest of the world?

Ben Way: In terms of the base fees in Asia, they're broadly in line with the rest of the world. In terms of the way we source opportunities in Asia, say, versus the rest of the world, I think there are probably two differences. One, in Asia there are generally speaking a lot less sort of competitive tender processes run and so I think if you look at our portfolio in Asia over the last three years, about 70% of the acquisitions we've made have been done on a proprietary basis. That comes from our team sourcing those opportunities. So, one of our big advantages in Asia from a from a MIRA perspective is that we do have very local experienced teams in the markets that we want to operate who have been there for many years, who have built relationships, who are credible buyers and sellers of assets and so that allows us to unlock opportunities. That's because for many sellers of assets in Asia, it's not just about price, it's also about feeling comfortable about doing business with a counterparty and also that counterparty being credible in the marketplace. So obviously being the biggest infrastructure manager in the world, that really plays to giving us great credibility in a marketplace more broadly like Asia.

Karen Khadi: There are no questions on the line. Any more questions from the floor? It looks like there are no more questions.

I'd like to thank you all for joining us today. For those of you who are able to stay, we'd like to welcome you for some morning tea or lunch next door. A webcast of this briefing will be on our website later today. Just a reminder, that our next investor briefing will be the full year results which is scheduled for 5 May this year. Thank you.

[END OF TRANSCRIPT]