TRANSCRIPT

MACQUARIE GROUP LIMITED RESULT ANNOUNCEMENT

FOR THE FULL YEAR ENDED 31 MARCH 2018

4 MAY 2018

[START OF TRANSCRIPT]

Sam Dobson: All right, well good morning everyone. My name's Sam Dobson, I'm Head of Investor Relations from Macquarie, for those who don't know me. I'd like to welcome you to our FY18 results presentation today. If I can start with a bit of housekeeping, if you wouldn't mind either turning off your phone or putting it to mute, that would be appreciated.

Joining me here today obviously to present the results, Nicholas Moore, our CEO and Managing Director, Alex Harvey, our CFO, who will go through the results. We've also got senior members of the Macquarie leadership team in the front row, so if there are any questions for those guys, I'm sure they'd be happy to take them.

Without any further ado, I'll hand over to Nicholas. Thank you.

Nicholas Moore: Well thanks Sam and welcome everybody to our results presentation for the year ended 31 March 2018. It's great to see so many familiar faces in the audience, supporters for many years, John in particular, thank you very much for coming. It's been a very good story over the years for Macquarie, a story of growth and we're delighted to welcome you all here.

Now my presentation starts in the normal way with slide 6. We've slightly changed the format this year, but it's the same information, basically addressing everybody to the five different business groups within Macquarie because as we've always said, you can't understand Macquarie unless you truly turn to the five different business groups. Obviously they're operating in different markets and responding to market conditions differently. As you see, we've broadly separated them into two groups, the annuity-style businesses that make up about 70% of the total and the capital markets facing businesses that broadly make up about 30% of the total. Now we will be referring to the five different business groups throughout the presentation and explaining what we've seen over the last 12 months and at the conclusion we'll be talking about how we see them for the next 12 months and going forward.

Turning to the last six months' results, the second half results, you can see $A1,309 million, up 5% on where we were in the first half and up 12% on where we were in the second half last year. You can see the composition of this. The total operating income was up 2%, expenses were up 2%, given the operating leverage in the business of course, the operating profit was up higher than that at 3%. The tax rate was actually down, as you can see the effective tax rate in the second half was 24.9%, so a fall in the income tax expense and therefore the profit attributable to our shareholders was up 5%. Basic earnings per share, of course, up 5% as well. Pleasingly, the annualised return on equity for the half, annualised, was 16.9% and the Board declared a dividend of $A3.20 for the second half.

Now turning to the drivers of that and as I say, we always look at the five different businesses in terms of how they were performing over that period. You see in total they were down about 10% on where they were in the first half. Now this is not unexpected. We said in the first half, we called out the very large performance fee that we received in MIRA and MAM and that, as a result of that, we see this first half/second half story coming through, so because of that, MAM was down in the second half compared with the first half. CAF was also down in the first half compared with second half, largely as a result of the timing of the recognition of income on the principal or in terms of repayments or realisations that take place there. BFS was also slightly down second half versus first half. We'll talk about that in a second, but you can see that's largely driven by higher expenses and the bank levy.

Turning to the capital markets facing businesses, you see they were up strongly on the first half and also strongly on where they were this time last year. Commodities showed an improved result, albeit higher expenses coming through as a result of the Cargill acquisition. Macquarie Capital we'll talk about, a very strong result in the second half. Investment-related income in particular featured there in terms of the realisations taking place in that business. Now we note down the bottom that although the contribution from the operating groups was down 10% as I mentioned earlier, obviously the bottom line result was up 5%. This is as a result of lower central costs coming through, lower central corporate costs, as a result of higher earnings on capital, US dollar of course, lower profit share, lower provisions and lower tax flowing through to the Group result.

Now turning to the full year result and as you can see, very pleasing $A2,557 million result, up 15% on where we were last year. Looking at the drivers of that result, you can see the net operating income up 5%, expenses up but at a lower rate of 3% mean the operating profit before tax was up 12%. Our income tax expense was up, but as I mentioned earlier, the income tax effective rate was down to 25.7% compared to 28.1% last year. Therefore the profit for our shareholders was up 15% for the year. Earnings per share also up 15% during the year, annualised return on equity, as you can see here, at 16.8%, up 11%. Very pleasing results and total dividends for the year are $A5.25, up 12% on the dividend that we paid out last year.

Now turning to those five different groups we talked about before in terms of how they fared over the years, you can see overall the annuity-style businesses were up about 6% on where they were last year and you can see all of them having very strong results coming through. MAM's result last year was a record and so obviously another record this year. Obviously the performance fee, very big feature in terms of what's happening in MAM, but there were also higher impairments there. CAF up on where it was last year, up just a little bit; we'll talk about that. Different compositions in terms of what's coming through in terms of the asset book and in terms of the principal book.

In terms of Banking and Financial Services, up on last year and as we say later on, it's very important to see that up is reflecting the growth that has taken place in the business over many years now and particularly pleasing that we had a one-off profit last year as a result of the sale of the life business that wasn't repeated this year. So seeing the results step up is a positive number.

In terms of the capital markets facing businesses, you see overall they're up 11% which is a good story of course coming through. That's being driven by CGM results, good profitability. It was down on where it was last year largely as a result of the timing of the recognition of income in the commodities business, particularly related to the storage and the transportation contracts that we have here. Macquarie Capital strongly up on where it was last year and we'll detail that shortly.

In terms of the last five years, you can see the step up that's taken place, good steady step up in terms of operating income as you'll expect driving the step up in profit that we're seeing, earnings per share of course following and dividends per share following as well over that period.

In terms of the change in the composition of the income of the business, you can see it's been pretty constant in recent years with the 30%/70% mix. You can see how the annuity-style business grew back in 2014 and 2015 and as I mentioned last year, actually the capital markets facing businesses was growing at an 11% rate in the last year versus the 6% in the annuity-style businesses, but obviously the 6% is off a bigger base from the point of view of the annuity-style businesses.

In terms of assets under management, assets under management up during the year, up to just a bit under $A500 billion. The step up is largely as a result of positive market movements and favourable currency movements that took place during the period.

Now in terms of where we make our income around the Group, this chart sets out where our people are, where we've made the income and we've also added to it this year the assets we have under management, particularly in the MIRA business and actually the people that they employ in those businesses. So here in Australia, obviously our number one place in terms of income, 33% of our income being derived here, almost half our staff here. That's over 6,600 people based here in Australia. Our second largest place from an income viewpoint is Europe and you can see 29% of our income in Europe, about 1,800 staff; in America 27% of our income, about 2,500 staff and in Asia, 11% of our income, about 3,500 staff. Now obviously those staff in Asia are supporting the whole Group in terms of the activities that they're engaged in. You can also see, as I mentioned before, the assets and businesses that we're managing around the globe and the very substantial number of people being employed in many different countries of the world.

We've also added a new slide this year in terms of our Australian business. Obviously we're all based here in Australia, it's very important to us. You can see the 10 locations we're carrying on business in Australia, including of course our head office here in Sydney. In terms of the proportion of our income from Australia, as you can see, it's 33% of the top line revenue. After expenses, it's about 30% of the contribution of the groups coming through from Australia. At the bottom we've actually broken out what we do here in Australia, just some of the things we do in Australia, divided between the bank and the non-bank activity. From the bank obviously we've got the very strong BFS business, growing our businesses there and we'll talk about that shortly, very much driven from a digital viewpoint in terms of actually being able to provide excellent services for our clients, whether it's on their iPhone or on the Wrap platform.

The non-bank activities we've listed here as well, including our asset management business, that almost has $A100 billion of assets we're managing here, as well as that, our leading broker and equity research team, you will have seen in the newspaper a lot of stories coming out of our conference this year, one of the leading conferences from an Australian research viewpoint. Then of course the activities of Macquarie Capital in this market, always been a very strong leading market player in this market in terms of the advisory ECM businesses, but in addition to that, of course, our co-investing with clients in the growth technology space, we've seen some reports of that and the energy space, so we've seen businesses such as Nuix and PEXA getting a bit of press recently and of course, Quadrant Energy, as another investment that the team has been developing over the years, so very important business for Macquarie.

In terms of the change of the mix of our business from a geographic viewpoint, this slide sets it out and what you can note obviously is the growth that's happened particularly in Europe in recent years.

Now turning to the five different businesses that drive the result, starting with Macquarie Asset Management, it's our biggest business of course, 33% of the Group's income comes from Macquarie Asset Management and you see the net profit contribution was up 10%. This step up very much driven by those performance fees I mentioned before and you can see them listed here at $A566 million. Performance fees as a result, of course, of our management resulting in a result for our investors above the benchmarks that have been set. So the lion's share of the outperformance of course flows to the investors, but part of it gets shared with us through these performance fees.

Looking at the MIRA business overall, you can see the equity under management is over $A86 billion now, pleasingly up 12% on where we were this time last year. That's as a result of raising $A15.5 billion of new equity during the year. That said, we actually gave back $A8.7 billion to our investors during the year, giving rise of course to the performance fee we talked about earlier. Importantly, we invested over $A11 billion across 18 different acquisitions around the world during the year, so the team continues to be very active not just in raising capital, but of course investing it in what we think are very good businesses and assets around the world. We also note here the acquisition of the GLL Real Estate Partners, a €7 billion real estate asset manager based in Germany with assets in Europe and the United States. At the end of the year, we're still the largest infrastructure manager globally.

Turning to MIM, you can see the assets under management there, very substantial $A333 billion, up 4% on where we were last year. That growth is largely due to positive market movements. Strong performance coming out of the funds, you've got a whole range of different strategies listed here, very strong performance and you can see that reflected in the Lipper awards and the other awards at the bottom of the column there. Strong fund performance, good distribution and you can see the mandates flowing through as a result of that performance and that good distribution business that the team has built up. We also note here the acquisition of a new fund manager, ValueInvest Asset Management in Luxembourg, it has €4 billion of assets under management there, we think it's a very good team and we're very pleased to have bought that business during the year.

In terms of the MSIS business, continues to grow, particularly the infrastructure debt business, you can see we have $A6.2 billion under management there and we've been recognised as one of the leading infrastructure debt managers in the world, so very good milestone for the guys in MSIS.

Now turning to our CAF business, as you can see it represents 24% of the Group's earnings, up 1% on where we were this time last year. In terms of the books you can see our asset management portfolios broadly in line with where we were last year at about $A30 billion. When you look at the slides that Alex will present shortly you will see a change in the composition of the book. You can see the aircraft portfolio coming down a little bit, you can see the telecommunications portfolio stepping up and the energy portfolio stepping up over that period and the motor vehicles here in Australia also coming up over the period. But at the end of the year we're still at the $A30 billion style of number.

Principal Finance had another good year. We can see the actual portfolio continue the trend we've seen for quite a few years now in terms of stepping down but the profitability of the business continues to still be very, very strong indeed. You can see the new activity in terms of $A1.2 billion of new business being put on the books over the last 12 months. Half of that primary in terms of actually originating directly with clients and half of that being generated in the secondary market.

A range of notable transactions we list there in terms of what was realised during the year. Again, in Alex's presentation, you will see the composition of the principal book in terms of what sort of categories we've invested in and they are categories of course that will be familiar from a Macquarie viewpoint, infrastructure, real estate, assets of those nature.

Now turning to Banking and Financial Services. As I mentioned, a very good performance up 9% on where we were last year. Very good, particularly as I mentioned before, last year we had the one off benefit of the sale of Macquarie Life. Obviously not in this year's results and a step up of profitability represents the growth of those books we've been talking about over the years. The growth of the mortgage book, the growth of the assets of the wrap platform and the growth of the business banking business.

We again saw growth in all those three businesses during the year. You can see the mortgage book up 14% on where it was last year, the wrap platform up 14% on where it was last year and business banking loan volume is up 12% on where they were last year. So the growth we've seen over the last few years continues this year. As I mentioned earlier and as we said in our presentation in February, technology is a really important part of Macquarie particularly in this banking and financial services area where substantial investment has been made and continuing to be made in terms of delivering really great products for our clients.

From the point of view in the Personal Banking hopefully people have seen the apps that we have available. You can see it too was awarded the best digital banking offering out there in the marketplace. People can keep track of knowing their bank accounts, they can keep track of their personal investments and also keep track of all their spending. So a really powerful application there on the personal banking side.

The wrap of course, the capability of wrap, continues to step up as we continue to invest in the wrap platform and business banking we're using technology, as Greg explained in February, to deliver really great services and to help the businesses that we are supporting in terms of providing technology to actually make their businesses better and easier to manage. So great developments in banking and financial services.

In terms of the Commodities and Global Markets business you can see it's down 6% on where it was last year, but we do highlight in our slide looking at commodities. Finance you can see at the bottom there. The impact or the accounting recognition of some of the transportation and storage contracts has resulted the way we recognise the income on those on an accrual rather than a mark to market basis. There's about $A144 million worth of income that hasn't been recognised that will be recognised in the years to come and that would reflect obviously a stronger contribution by the Group.

So the Commodities Markets and Finance business had a good 12 months. Fixed Income and Currencies had a good 12 months as well. Our credit market subdued. It's been subdued for a number of years now and continues to be. Very pleased to see the profitability in Cash Equities and Equities Derivatives. Both the derivatives business and the cash equity businesses are profitable and we note there are a number of their strong market positions they have particularly in the region and futures continues to grow. So it's about 8% of the commodities and global markets group continue to grow and we also note our number one position here in the Australian market.

Turning to Macquarie Capital and you see a very substantial step up in profitability, up 45% on where we were last year to $A700 million. In terms of the drivers for that, we've got details in terms of what's being done on the advisory side in the middle of the page. You can see when you look at the numbers, broadly in line with where we were last year from an advisory revenue. A change of composition in terms of DCM and ECM and advice of course in terms of how it works, but basically the numbers broadly consistent year on year.

The step up in results very much driven by the realisation of balance sheet positions and they in turn are very much driven by the strategy that the team has been engaged in in the renewable green space. Again, this was highlighted in the February presentation in terms of the work that the team has done in terms of building that renewables business, building it in Europe. Obviously notable during the year the acquisition of the Green Investment Bank, stepping up the number of people and the assets that we have in the UK and in Europe. Very active as well in Asia. Active in the US and here in Australia as well in the renewable space.

So lots of activity. A very strong growth story happening there. A number of other growth stories happening there as well including in real estate and a whole range our specialisations team is focused on globally. So a great result from Macquarie Capital.

Now those five businesses of course are supported by our balance sheet. A very strong balance sheet. We've always had a strong balance sheet and that continues. As we've said before we want to make sure that all the term assets we put on our balance sheet are funded by term liabilities and equity and that's continued of course this year. You can see the balance sheet has stepped up year on year but the underlying conservatives in terms of how we run our balance sheet has continued. You can see the term funding additional almost $A22 billion for term funding raised during the year, ensuring that we are maintaining that mix.

Now turning to our capital position on a harmonised basis. This time last year we were at $A7.4 billion and now we're at about $A6.3 billion on a harmonised viewpoint. You can see how the capital changed during the year. Obviously we paid out $A2 billion to shareholders and MEREP. You can see the hybrid buyback that we notified you about earlier of $A300 million. This year's profitability of course of $A2.55 billion. The business growth, we'll talk about that in a second, of $A1.4 billion, resulting in the number going from $A7.4 billion to $A6.3 billion.

From an Australian APRA viewpoint of course the surplus isn't $A6.3 billion, it's $A4.2 billion because we've had this super equivalent adjustment we've made here, this $A2.1 billion of super equivalent. Now when we look at our $A4.2 billion surplus of course we have declared a dividend. That dividend is to come out of that $A4.2 billion when the dividend is paid.

Now in terms of the business growth we talked about, where did the business growth take place? This chart is a new chart and shows where the business was deployed across the business. You can see MAM grew its capital requirements by $A500 million during the year. You can see that from an organic needs and as well as that we had the acquisitions that we talked about earlier. CAF gave a bit of money back coming from the reduction in the Principal Finance book we talked about earlier, $A200 million coming back there. BFS, the growth of those businesses we talked about before, the mortgage book growing by 14%, the loan book growing by 14%, and the loan book growing by 12%, resulted in BFS' capital requirements stepping up by $A300 million. Commodities, the demand stepped up by $A400 million, reflecting in part the Cargill acquisition that took place during the year. Macquarie Capital you can see the step up there. A big step up of capital of $A900 million, particularly related of course to the Green Investment Bank acquisition taking place in Europe.

Now we know there's results of this growth in capital. Macquarie did not purchase any shares under its share buyback program announced with the first half results. The program remains in place but with any share purchase subject to a number of factors including the Group's capital surplus position, market conditions and opportunities to deploy capital by the business. Obviously we've seen lots of opportunities to deploy the capital via the business over the last 12 months.

In terms of our regulatory ratios they continue to be strong as you can see here. On an APRA viewpoint you can see 11.0% CET1 ratio, on a harmonised basis 13.5%. Leverage ratio again 6.0% and 6.9% depending on an APRA or a harmonised basis, LCR ratio 162%, NSFR 112%, so continue to have very strong ratios.

In terms of the dividend, as I mentioned before, we have declared a dividend of $A3.20, 45% franked. The total dividend for the year on that basis is $A5.25, 45% franked, up from $A4.70 last year. That payout is 70% which is right in the middle of our 60% to 80% range, so our policy remains unchanged in terms of dividend.

I'd like to hand over to Alex for a more detailed review of the results. Thank you.

Alex Harvey: Thanks Nicholas and good morning to everyone. I'd like to add my welcome to Nicholas's. Welcome to you and obviously my first results as a CFO so I'm delighted to be here. As Nicholas said I'll do a more detailed review of the results and the financial management for the Group.

Starting with the income statement and some of the key drivers. I thought it might be useful to start with a second half comparison with the first and then move on to draw some conclusions to the full year result. So you can see net interest and trading income up on the second half. That reflects the growth in the BFS business, the average loan volumes and also deposits. Also an increased earnings on capital as a result of the movement in US dollar interest rates. We obviously saw the continued reduction in interest margin coming through for the Principal Finance business but up half on half in terms of the investment in trading income.

Commission income down as we talked about previously. Something you'll see is the feature of the second half result is the increased impairments and I'll talk to that in a little more detail in a moment. In terms of other income, a big step up in other income. Largely that is the contribution from the realisation of the Macquarie Capital balance sheet position that I will detail in a moment. In terms of employment expenses, broadly in line in terms of the half. We had a higher average head count although we had a lower performance based component of remuneration in the second half reflecting the performance of the operating groups.

So in terms of operating profit before tax, up to $A1.76 billion from $A1.7 billion for the first half. You will notice tax expense down in the second half of the year. Largely that reflects the continuation of the geographic composition of other income and also some permanent differences that came through in the second half. So profit attributable to MGL shareholders up 5% for the half.

Turning that into the full year results. Again, picking up the interest in trading income in line across the year. Fee and commission income up, which is largely the performance fees that we talked about in the first half coming out of the MAM business. Impairments and provisions down over the course of the year and other income slightly down. Really the realisations coming through the CAF business in the Principal Finance business in

Europe and the US and the Macquarie Capital business around the world. So those stepped up and obviously we didn't have a repeat of the one off gains through the Macquarie Lifestyle last year.

Employment expenses up for the year. Up in relation to average head count and of course profit share reflecting the contribution of the groups. In terms of income tax expense, up in dollar terms by 2%. In terms of the effective tax rate, the expected tax rate is 25.7% for the year in comparison to 28.1% for the prior year and that really reflects the geographic composition of our income and the nature of some of the income we derive from our activities around the world. So profit attributable to Macquarie shareholders up 15% for the year.

Looking at the income statement a slightly different way just to give people a sense of the composition of where it comes from a Group viewpoint. Step ups from MAM, Macquarie Capital and also BFS. A reduction in the contribution from CGM and you can see in line in terms of CAF and a slight increase in dollar terms from tax expense.

Turning now to the segments starting with our largest segment MAM. The business achieved nearly 10% growth over the course of the year. A big contribution coming from performance fees in the first half from our MEIF stable funds in Europe particularly and also MQA and a number of other funds around the world.

Underlying base fees were up net of FX which is really a reflection of the market movements. Impairments up mostly or largely as a result of the impairment that we've taken in relation to MIRA's in Macquarie infrastructure company in the US, and expenses up as a result of average headcount and some transaction costs that came through MIM during the course of the year. But nonetheless, a very strong result.

In terms of some of the underlying drivers, we talked about this many times, the asset management volumes up $A15 billion on the year, and you see on the left-hand side of slide, MIM up $A14 billion, that's largely market-related movements over the course of the year.

Pleasingly, MIRA asset management up by a small amount, $A1 billion, but of course we saw some realisation of assets coming through the MIRA business over the course of the year, including the tens asset, which was a significant amount of assets under management, so that really reflects their ability to deploy capital in new assets through the course of the year. So overall, a pleasing step up in assets under management.

Key driver from of course our MIRA business, is our equity under management. You can see it's stepping up $A9 billion across the period. Very encouraging capital raise of $A15.5 billion, and we saw raisings in Europe, we saw raisings for MIC for in the US. We saw very encouraging, a step up for our Asian infrastructure fund, $US3.2 billion, and some capital raisings here in Australia. So good geographic diversity in terms of that business.

You see that capital coming back, that's nearly $A10 billion, $A9.3 billion, which is obviously an encouraging sign, you're seeing our investors and us being able to deploy our investors' capital into assets, generate returns, and then return that capital to them at the appropriate time.

We've seen a big movement in listed security movement through the year down, obviously that largely reflects the fall in the value of MIC in the US, and we will benefit from some FX gain. So up at $A86.2 billion at the end of the year.

Turning now to our CAF business, starting with the Asset Finance business. Up $A32 million on the prior year. That largely reflects the gains that came through from the disposal of our US commercial vehicles business toward the end of the year. Otherwise the book is stable on prior year, and a good results, and I'll come to the composition of that book in a moment.

From Principle Finance viewpoint, we saw the reduction in the net interest margin coming through, with the book size offset of course by a realisation and the repayments that came through as part of the activities of principle finance during the year. The impairments provision is down, and as a result the result was up about 1% for the 12 months. Some of the key drivers from an Asset Finance viewpoint, we thought it'd be useful to share with people. Obviously the Asset Finance book in total is broad and stable.

You can see that motor vehicles disposal coming through that $A900 million that was the US commercial vehicles that we disposed of during the year. We also see the big step up in the TMT assets coming through, which is very encouraging, as well as the energy asset, the smart metre assets, and a return to our growth in our resources business, reflecting the improved economic climate for those industries.

So overall, a good result in terms of flat, and I think the other thing that's shown in the slide of course is the diversity of that business.

In terms of the Principle Finance business, as we've talked about before, we're seeing the reduction obviously in the book size, and this year was no exception, down 31%. Encouragingly, the team were able to put $A1.2 billion of new transactions on the balance sheet, so that's very encouraging for the future.

On the right-hand side we've given you a pie chart, just setting out the industries where principle finances' book is invested in, I guess most relevantly from this slide you can see corporate real estate and mortgages, infrastructure, airports. These are all sectors of course that from a Macquarie viewpoint we've had a long involvement with, and very familiar across the organisation, and are represented very fully in where principle finance is invested, the funding and the assets on the balance sheet.

Turning now to the Banking and Financial Services business, up on last years' result. Very pleasing result, volume growth in our mortgages, volume growth in our business lending, and also in our wealth management platform. So that's encouraging across the board, we've seen volume growth at each of those segments. You can see that we didn't have the repeat of the last insurance sale this year. You can see the bank levy impact there, $A16 million, that's the bank levy from 1 July this year, so it represents nine months. You see expense is stepping up a little bit in relation to most of the headcount, and we're seeing that just supporting the growth of the business going forward.

Encouragingly, all the underlying drivers are up over each of the last four years, and so that's a good sign in terms of the capabilities we have in the market, the responsiveness of our customers to what we're offering, and it's obviously a good sign in terms of the outlook for that business going forward.

Turning now to the first of our capital markets businesses, our Commodities and Global Markets business, you see down 6% for the period. Just breaking that down a little bit, we had lower investment income coming through this year, had a significant amount of investment income last year. If you look at the commodities business, a couple of stories to bring out there I think. From a risk management viewpoint we obviously had lower volatility, less client activity, particularly in our global oil business, and you see that reflected there. That was offset by improved performance in our gas and power business in North America, and also our bulk commodities business. Encouragingly, our commodity investor products business had a significant growth in asset value over the course of the year, so they were the offsets to that fall from mark and global oil, and the volatility.

Lending and finance down a little bit on the prior year.

Turning now to the inventory management piece. Our team, particularly in the US, and North American gas and power team was able to identify opportunities, price dislocations between producer regions and consumer regions over the course of the year, and able to take advantage of those price dislocations, to generate good returns.

As we've mentioned earlier, we also had a reduction in that as the result of the timing of income recognition associated with our toll and transports agreements that support that inventory management business in the US and elsewhere in the world.

Our credit markets and interest rates down, but of course people will recall that was a significant result last year, up $A208 million from the contribution in FY16. So we've seen subdued conditions this year in credit markets and rates, and that's coming through, offset by better performance in our equities business, and also our futures business. So overall, CGM down 6%.

One of these we've talked about a lot with our CGM business of course is the client focus that we have, and so we thought it'd be useful just sharing, just in absolute numbers, the clients across each of the major categories of CGM's business. So we're seeing growth in Commodities, growth in Financial Markets, and growth in Cash.

One of the things that people will recall is that when we put the MSG business together with the Commodities business several years ago, we talked about the opportunities between the client based that are addressed by the two differences. Pleasingly, we are seeing opportunities where we're viewing the clients in financial markets, 30% of the clients, for instance, in financial markets are also dealing with us in another area of our CGM business. So we're seeing encouraging signs there.

From Macquarie Capital business, result up 45%. Substantial growth associated with the realisation of our balance sheet, some of our balance sheet positions, and we saw that build-up of those positions over the last few years. It was very pleasing to see the realisation of them over the last 12 months. We saw realisations in our Green energy, we saw realisations in infrastructure, technology and also insurance. So that was a very encouraging sign.

From the broader advisory business, subdued markets from an M&A viewpoint, and an ECM viewpoint, I don't think that's a surprise to many, but a really encouraging sign in terms of our DCM business, particularly in the US, with a big step up in terms of its contribution from prior years.

Expenses up a little bit, largely related to headcount, GIG acquisition that occurred during the year, and also some expenses associated with transactions over the course of the year. So Macquarie capital up substantially for the 12 months.

We thought it'd be useful to just set out for people a little bit of slide in terms of the utilisation of capital within Macquarie Capital. We talked about the realisations, the third block there, that's obviously the activities really has generated the gains that I've just talked about. Very pleasingly, the team in Macquarie Capital were able to deploy $A1.4 billion of capital into new positions, and that's obviously very encouraging in terms of how those positions will unfold over the years to come.

You can see that light blue box there in the investments area, that really is the growth in our green investing business, which is a continuation of a story that the team have been working on for many years now. Solar development, wind development, biomass, and the geographies are expanding, not just in Europe and the US, but also in Asia, and of course we've been active down here in Australia as well.

We saw a pickup in our real estate activity, and that's largely the supporting of specialist real estate operators around the world, in growing their real estate businesses, their real estate footprints, and so we're partnering with them to help do that. So an encouraging sign in terms of capital going out the door into investments that hopefully will grow in value in years to come. So at the end of the day, $A2.6 billion of capital invested in Macquarie Capital business.

The impairment and provision expense is down year-on-year across most groups. You can see obviously the MAM impairment there, $A191 million move on the prior year. Largely that reflects the adjustment in the carrying value for MIRA's interest in Macquarie Investment Company in the US, and a couple of other smaller impairments that came through during the period. But generally speaking, the direction of trend is continuing from that of the years gone past, a reduction now, impairments and our provisions across the Group.

In terms of compliance, this is the slide that we've put up for a few years now, compliance costs continue to go up, both in terms of projects and business as usual. You can see a feature of this year really is the increased expenditure on method two, and also the increased expenditure in relation to IFRS nine, and the new financial instruments that are instrument standards. So those two projects coming through during the year, but you can also see the growth in business as usual compliance, and overall our increased spend on compliance activities, as you'd expect.

In terms of the balance sheet highlights, it clearly remains very, very strong well-funded balance sheet, return assets covered by term funding, sale of deposits and equity story that you're very familiar with. Big step up in terms of the fund raisings over the course of the period, we raised nearly $A22 billion. That compares to about $A10.5 billion in the prior year, and really pleasingly we saw really strong support around the world, particularly for the Group issuance. So about $A11.5 billion of that $A22 billion was raised for the Group, and we saw a really good support from global investors in relation to Macquarie paper, so that's encouraging.

In terms of the issuance strategy, we talked a lot about this before, obviously diversified funding base, and diversified in terms of tenor. This year is no exception, I talked about that before with the global acceptance of the Group, in particular, we've raised $A5.6 billion in the US just over the last few months, which is - Australian dollars in the US over the last few months, which is a really encouraging sign in terms of investors wanting to believe in the Macquarie Group story, and providing funding for us. So that's encouraging.

In terms of the term profile, we've pushed out the average duration out to 4.6 years, which is up from that 4.2 in the middle of 2018 financial year.

Customer deposit growth, we talked about, continue to be an important source of funding for the balance sheet, about 37% of the funded balance sheet represented by our customer deposits.

In terms of the loan, the lease portfolio on a funded basis up $A8 billion across the period. We're seeing growth obviously in the retail mortgages spaces, as we've talked about. We're also seeing growth in our operating leases which is really the net of the depreciation on our aviation assets, and then a step-up in the TNT and the energy assets that I talked about. So we're seeing growth in the funded assets on the balance sheet which should lead to returns in the years to come.

Equity investments at $A6.8 billion at the end of the year, up from $A5.0 billion at the beginning of the year, down from $A7.6 billion at September. A couple of things that are worth highlighting there. I think on the second line investments acquired to seed assets for the new MIRA products and mandates.

As we talked about at the half year results, we obviously put assets on - MIRA puts assets on the balance sheet ahead of the creation of the vehicles that will be the long term ownership of those assets. Some of the assets that we had on our balance sheet at the half included South Australian land titles and our Endeavour Energy asset. Those assets have come off over the second half and gone into those long term ownership vehicles that we talked about.

The other encouraging sign of course is the step-up in Macquarie Capital in the green energy component in the middle of the slide there. Another $A400 million of equity investments on the balance sheet as at the end of the period.

In term of regulatory and tax update, from a regulatory viewpoint the key update really is in relation to the application of unquestionably strong - APRA released a discussion paper in February this year in relation to draft proposals around the unquestionably strong regime. The industry is obviously commenting on that discussion paper. The expectation is that that will be - that process will be completed by the end of the year and that unquestionably strong will be a feature of our regulatory regime by the beginning of January 2020.

Based on the existing guidance, Macquarie's surplus capital position remains sufficient to accommodate the likely additional requirements. In addition, APRA has released guidance in relation to its leverage ratio and the requirement is 4% from July 2019, which of course we meet by a considerable margin as was set out in the slides earlier.

The US tax reform - we updated the market at our operational brief and we saw a reduction in the federal income tax rate in the US from 35% down to 21%. We expect, based on the historical composition of income - to the extent that that was repeated going forward we expect that tax change to result in a 3% to 4% reduction in our effective tax rate. Now obviously what actually emerges will depend on the geographic composition of our income and the nature of our income, but it gives you a guide based on history.

One accounting standard really to talk about and that's the adoption of financial instruments AASB.9 from 1 April 2018. This of course is the standard that's trying to bring forward the recognition of provisions particularly loan assets to try and incorporate it - bring into the P&L the impact of a deterioration in credit at an earlier stage would otherwise be the case under AASB.139.

So that standard we'll adopt from 1 April 2018. The way to transition to that as a result of that transition - we'll have an adjustment to our shareholders' equity. That adjustment is $A125 million after tax, and that'll be an adjustment to the opening shareholders' equity for the 2019 financial year. There's obviously no impact as a result of this standard during the course of this year.

In terms of capital ratios, we've already talked about them from a CET1 viewpoint. Very strongly capitalised on APRA Basel 3 basis and of course 13.5% in terms of harmonised Basel 3. So very strongly capitalised. As is usually the case, a high composition of unencumbered liquid assets, over $A30 billion, and a strong liquidity ratio as is usually the case.

From a capital management viewpoint the Board has resolved to purchase shares to satisfy the equity, the staff equity requirements this year. They'll be approximately $A460 million. The MEREP buying period will commence on 14 May and expected to be completed by the end of June.

As has been the case for the last couple of years, we will also offer Macquarie staff a staff share sale facility. During the period of time that that facility is open staff will be - to the extent they want to sell the shares will be selling through that facility. Any MEREP buying for the current year, MEREP issuance will be satisfied first through the acquisition of shares from that share sale facility, and staff will be given the volume weighted average price. To the extent that staff don't sell sufficient shares to accommodate the buy-in required for the MEREP this year, then we will purchase shares on market.

No discount will apply to the second half dividend reinvestment plan and shares are to be acquired on market.

The final thing is we intend to redeem a hybrid issue that we did in June of 2013. Macquarie Group capital notes - we intend to redeem those notes and replace them with a new hybrid, an MCN3. We will offer holders of MCN notes the opportunity to rollover those notes into the new security and we expect to launch that offer shortly.

I think we covered the share buyback so I'm going to hand back to Nicholas.

Nicholas Moore: Thanks Alex, and as usual I'll provide some comments on the outlook. Short term outlook first and the medium term outlook second.

In terms of the short term outlook, we go back to the five different business groups. We talk about some of the factors that will be affecting their results for the year to come.

Starting with our largest Group, Macquarie Asset Management, you can see that we expect our base fees to be up on where we were last year, partly as a result of the recent acquisitions we made. Our performance fees, as you'll recall last year, were particularly strong so we're not expecting the performance fees and the investment related income to be the same as last year net of impairments.

In terms of the Corporate and Asset Finance book, as we saw before, the leasing book is broadly in line with where it was this time last year. We note reduced loan volumes in principal finance, in turn ultimately the profitability during the year will be determined by the level of early pre-payments and realisations in the Principal Finance book.

From Banking and Financial Services, obviously we've seen very good growth in terms of those books over the year and we saw them again last year, the 14% in terms of the mortgage book, 14% in terms of the wrap platform and 12% in terms of business banking.

That obviously is a good driver for profitability this year, but we note there could be some NIM pressure due to higher costs in the business. We're continuing to invest in this business to grow it going forward. From the capital markets facing businesses, obviously the ultimate result will be very impacted by market conditions which of course we can't control.

Overall though from a Commodities and Global Markets viewpoint we expect strong customer base that result in good flows coming into this business over the period. The improved result in equities we expect to flow through again this year assuming market conditions remain the same, and reduced impact of the timing revenue cognition I talked about before, and Alex mentioned, in terms of those transportation and storage contracts.

From a Macquarie Capital viewpoint, obviously it was up substantially last year on the prior year. At the moment we're assuming market conditions should be broadly consistent in terms of the advisory style of income and ECM and DCM, but we do note we also have a solid pipeline of asset realisations expected during the year from Macquarie Capital.

From a corporate centre viewpoint, basically everything we expect to be largely consistent with where we were before, with the exception of the tax rate which we've noted earlier we expect the tax rate to be stepping down slightly as a result of what's happened in the United States with reduction of the tax rate in the US.

So when we bring all those different factors together we come to the conclusion that at the moment we expect to be broadly in line in the year to come with the year that we've just concluded.

That outlook in terms of being broadly in line of course is contingent on a whole range of factors we can't control, including market conditions, the impact of foreign exchange of course, potential regulatory changes and tax uncertainties and the geographic composition of our income.

In terms of the medium term outlook, our position has been unchanged here for many years as people will know. We remain confident in terms of the ability of the Group to deliver superior performance in the medium term. That confidence is very much driven by the deep expertise we have in many major markets around the world. It's that expertise that allows us to deliver good outcomes to our customers in all the different businesses we carry on business.

We can see that coming through on the annuity-style businesses at the moment where strong profitability continues year after year, and the capital markets facing business we can obviously see as the markets come back and we can see our profitability coming back in those businesses. We saw it particularly this year of course with Macquarie Capital.

We're continuing to see a range of costs initiatives across the Group, but we are benefitting from the costs initiatives that have taken place in prior years. Of course we do have a very conservative balance sheet. That has a cost to it. We're maintaining that conservative balance sheet so we are maintaining that cost.

Finally of course what's underpinned the success of Macquarie for 49 years is this very important risk management framework and culture, which of course is continuing going forward and really provides a lot of the confidence for us in terms of our outlook.

In terms of the ROE for our businesses, we've updated this in terms of showing where we have capital deployed across the business, the sort of returns we're getting. So in the annuity-style businesses you see we have about $A9 billion deployed in those businesses and last year we estimate that the return of those for shareholders was about 23%.

In the capital markets facing businesses, we have about $A6 billion of capital and last year we estimate that provided a return to shareholders of about 15%. Now of course as well as that we have the Group's surplus I mentioned before impacting upon the final return on equity for our shareholders.

Now that's the end of the presentation. I'll be very happy to take questions. Thank you for your attention.

Sam Dobson: Thanks Nicholas. We'll start with questions from the floor and then we'll go the phone lines. Andrew?

Question: (Andrew Triggs, JP Morgan) Thank you. It's Andrew Triggs from JPMorgan. Just a question in terms of the guidance. This year obviously sees a good tailwind from a lower tax rate. Also I guess the question therefore around asset realisations also looked to be relatively strong if you look at the commentary.

Is the main drag therefore expected to be lower performance fees? In that context, the other income line - which did end up holding in quite well this year but that remains at a fairly elevated level - your thoughts on whether that other income line can be held at this level for the next year.

Nicholas Moore: Well we have broken down on slide 55 how we see all the different moving parts, and addressing your question, so, yes, we do note Macquarie Capital sort of high point of asset realisations are expected so we can tick that.

Yes, a lower tax obviously benefits through the US tax rate we've had for a quarter in terms of where we sit in terms of our income from the United States, but of course going forward we'll have the benefit of that for a full year. We've mentioned that would result in a lower effective tax rate we expect, subject of course to the profitability of our US business.

In terms of the other features, you're quite right, we do note that performance fees are expected to be down from very strong levels last year. It's very hard to forecast performance fees. Of course we do have assets - we do have valuations we look at, but ultimately it depends upon the market that you're realising those assets in to determine the performance fees, so it's a bit uncertain.

We do note of course that from a Cap viewpoint that Principal Finance book is lower than it was last year. Now that means the earnings from that book in terms of interest margin will be lower. We know that. What we don't know of course is what sort of realisations will take place during the year. They play an important part of the profitability of the business.

We also note the growth, as I mentioned before, in terms of the banking and financial services business. Those books grew by 14% for mortgages, 14% by wrap and 12% for the lending business, so that provides us obviously a tailwind coming into the year in terms of performance of banking and financial services.

We do note of course that we are investing in this business so we have seen costs step-up in terms of what we're doing there. So a whole range of different factors and that's why we're summarised it on this slide here on slide 55, giving you the drivers of our business and allowing people to make their own estimate in terms of how the market conditions will actually impact on our result for the full year because that, of course, is something we all have different views on.

Sam Dobson: John.

Question: (Jon Mott, UBS) Jon Mott from UBS. A question, when you stand back and look at Macquarie over a number of years, you're obviously a very large manager and owner of long duration assets. The environment of interest rates over the last seven or eight years has been very, very beneficial. But if you look forward, we look like we're going to have a period of real interest rate rises, and you're seeing that play out in the US.

So we know that there's a natural hedge when you get nominal inflation and nominal interest rates that when you get real interest rate rises it can change the environment quite dramatically. Can you just run through each of your businesses and what the impact would be if we start to see a normalisation in real interest rate rises across each of the different business units?

Nicholas Moore: Sure. It's a very good question and one I think we've talked about a little bit in the past. So why don't we go around the different businesses. Fortunately, as Sam said, we have all the group heads here and they can give their view. Our biggest business, of course, is MAM and interest rate is an issue that we've talked about a lot from an infrastructure viewpoint. As you've mentioned before, there are positives and negatives. As you know, the base rate going up is a negative from a valuation viewpoint, but if it's going up because there's greater revenues coming into the business that's a positive and obviously you've got nominal debt versus real income coming through on the other side. So that can be a positive.

But, Shemara, would you like to give your view? I mean, it's - we've talked a lot about this. We've provided research on this in terms of net what the impact will be. Noting, of course, we're all speculating, of course, because we're talking about a market that we're not in yet. Shemara.

Shemara Wikramanayake: Yes. I mean, I think it's basically as Nicholas said. So the revenue line tends to benefit in times of rising interest rate, whether it's inflation driven or real interest rate driven if GDP is what's driving the interest rate increase. So I think we shared some research we've done. We can do it on real interest rate as well, but basically the big driver is when you've got real interest rates increasing with GDP - also GDP growth increasing, which is what we're seeing, that tends also to benefit our assets because we're finding with patronage assets it's all round the world that they are feeding investment case at the moment in terms of traffic, whether it's at our airports, our roads, our ports. With the utility assets, yes, the inflation factor is important in terms of the rate we set, but at the moment we are finding that our assets are performing particularly well.

As I say, the analysis we've done - we can give you stuff focusing more on just the GDP driven growth, but we've looked at it in times where there's both inflation and real interest rate increase but GDP increase - if we don't have both of those then it's a very different environment.

Question: (Jon Mott, UBS) So you don't actually think it's a huge headwind if the economies slowly improved around the world, but you do see a straightening of your curves and a normalisation of interest rates, you think you've got enough of a hedge there from the income to offset the valuation impact?

Shemara Wikramanayake: Yes. Also, I think as Nicholas said, because we're very high profit margin businesses if you've got your revenue line growing at a rate and your expense line growing at a rate, your profit line's typically growing at a faster rate. So in terms of performance of the assets, it's generally a good climate. Some assets will benefit; others won't. But generally the asset classes and the portfolios we have around the world will do better. Then there'll obviously be implications for prices going into assets and prices exiting assets as well because it has implications for markets. That really will go to the - which premium you get or the return premiums to the risk.

In this point of a cycle, what we're finding is there's a lot of money chasing core assets. The returns for the risk are different. In our core funds we're typically investing now in the asset classes where we're sourcing our proprietary things like European fund. We bought a Danish listed telco cyber business. In the US we've invested in data centres. So we're going into asset classes that we see delivering greater returns for risk in this environment.

Nicholas Moore: Yes. We're asking the same questions you are, Jon, I think is the answer. We don't know, obviously. The big impact, as Shem said, is what's going to happen to the overall financial market. So we can speculate in terms - looking at research in terms of how things will move, but ultimately, of course, it's a market and market moves for reasons that aren't always predictable or apparent. In terms of the capital market facing businesses, obviously more growth, more risk appetite traditionally has been good for those businesses. If you look at how they've performed year on year, they're up 11% of course in the better market conditions.

Now, will that continue, of course, we don't know. It depends upon market conditions, and that's why we're providing this break-up for analysts to make - and investors to make their own decision in terms of how the markets will play out. From a retail banking viewpoint here in Australia, Greg, I don't think we're expecting rising interest rates. I'm not sure that we're expecting that will have a material impact. I don't know if you heard that. Greg said it's a small benefit on deposits, probably higher impairment coming through which will offset that, so it's probably not a major impact. From a CAF viewpoint, Ben and Gary, have you got a view on this?

Yes. So I don't know if you got what Ben said. He said it's uncertain in terms of how it will play out. It's something with every asset, I might say, that when we do look at putting these assets on the book we do run these scenarios in terms of what the impact will be in terms of the value of those assets and any subsequent realisation. Certainly we're very active in terms of Tim Bishop's book from the Macquarie Capital viewpoint. A lot of those infrastructure renewable assets - and so we do ask questions and we try to anticipate what will happen in different scenarios.

So Patrick and his team, and Steve Allen who's here as well, who formally ran our RMG group runs a whole bunch of different views in terms of what will happen, but it's all with the caveat, of course, we really won't know until we get there.

Sam Dobson: Richard.

Question: (Richard Wiles, Morgan Stanley) Good morning. Richard Wiles, Morgan Stanley.

Nicholas Moore: Hi, Richard.

Question: (Richard Wiles, Morgan Stanley) I've got a couple of questions for Nicholas. Starting with Macquarie Capital, you highlighted the increase in the capital that you've got in that business, driven by some of the investments you're making. So my first question is just how does - how do you think about the return on that increased capital in that division? Are you just looking to exceed your cost of capital, or do you think that those investments will actually lead to an improvement in the ROE from the Macquarie Capital division?

Nicholas Moore: Sure. Well, as we've said before, we don't have a cost of capital across the entire group. We look at every business and every asset we put on the business and we ask ourselves, what's the appropriate risk return for that asset? It's very clear to see that in Macquarie Capital and, as I mentioned, from an RMG viewpoint when they look at these assets, all these assets are different - all different in terms of risk, all different in terms of returns as a consequence. So we're asking ourselves, is this a good risk return in terms of doing what we're doing?

As you know, and as we've talked about before, and Tim gave a very good presentation as you'll recall back in February talking about the growth for the renewables where a lot of this capital is flowing, there we're actually using the deep expertise of the team that we have already in place, added to, of course, by the acquisition of the Green Investment Bank, to actually be in the process of working these projects through the development stage of the equation. Now, obviously the risk return of a development asset is different. If you're then dealing with an existing asset it's different than a DCM transaction or an ECM transaction.

So the way we think about the business is very much breaking it down asset by asset, development by development, and making sure that we are comfortable with the risk we're taking. When I say, making sure we are comfortable, it's looking at the risk return. But also, of course, what we always do is say, what's the worst case it - what can happen in the worst case viewpoint, and making sure that from a business viewpoint this is something a business can accommodate and the overall group can accommodate. So we're running the - what we think will happen, what's the risk return on a normal basis, then we stress it, of course, up and down. Then we say, what's the worst case position here?

So it's quite a complex process. We go through a very thorough process. As I mentioned, our internal team within Macquarie Capital is involved. RMG, of course, is involved to give an independent view in terms of how that works.

Question: (Richard Wiles, Morgan Stanley) My second question relates specifically to the green energy investments. In your commentary on the slide you said that there'd been something like $A2.5 billion in investments and $A1.5 billion of realisations. The green energy portfolio started at just $A0.5 billion. So that's a huge level of activity, both investment and realisation relative to the starting point. Do you think that will continue going forward or was that huge level of activity more a reflection of the purchase of the Green Investment Group during the period?

Nicholas Moore: Well, the Green Investment Bank obviously was a step. It was a big step up in terms of what we're doing there. But there's a couple of points. We've been doing this renewable activity for some years now - a long time. I can't remember. How many years would we have been doing this renewable?

Company Representative: Seven, eight, nine.

Nicholas Moore: Seven, eight, nine years. So we've been very active in it for that period of time. As you say, the Green Investment Bank, as we highlight, was a big - a notable transaction with a lot of capital coming onboard. But that said, those - they're people we've brought onboard who are very skilled who are actually actively engaged in terms of doing development in Europe but also in Asia. As I mentioned, in the United States and here in Australia. So we think this - the whole renewable trend is a very big one. The presentation - as I mentioned - Tim gave earlier in February talking about the need for our energy to transition out of effectively coal, and we've seen it go into gas, and now we're seeing into renewable.

That's a massive investment taking place around the world. Our team - Tim's team is very heavily engaged. Tim, I don't know if you'd like to comment in terms of what we're doing there.

Tim Bishop: Yes. I mean, I think, Richard, we feel optimistic about the activity levels globally. It's not one market specific. I think, as we've mentioned in February, we're quite excited, for example, with what's going on in Asia and particularly around Japan, Korea, and Taiwan, a combination of solar, waste and wind assets. As Nicholas said, our role is very much around asset creation. There's obviously risk that goes with that, but that creates a real buffer, we think, in terms of the margin that we can generate or the profit that we can generate per asset. I think that there's a slide - I think it might be 41 or something - where it breaks down the capital that we've invested.

You can see that we also spent a - there's a reasonable amount of divestments made during the year. You can see that we've also invested quite a lot and, therefore, that gives us an expectation around future profitability of those investments.

Nicholas Moore: The other point to make, Richard, of course, is it's just not MacCap that's involved in this renewable space. It's impacting all the different business across the world but certainly across Macquarie. So Ben's business has been very active in terms of lending money to renewable developers and renewable needs. As well as that, in terms of Gary's business obviously the smart meters and a whole range of other energy related assets, we're increasingly adding to our balance sheet. Shemara's business, of course - Shemara, how many renewable assets would you be managing at the moment?

Shemara Wikramanayake: Well over 20. We've got over 11GW of renewable in the portfolio and this year we invested in geothermal, solar, wind. So it's something that's continuing obviously. So…

Nicholas Moore: So when you look across Macquarie - and, of course, commodities of course have always been very engaged in - it's been working in the renewable area for a very long period of time. That's very important to them as well. So if you look across all our businesses, this transition that - this renewable transition is impacting on all our businesses, and we are seeing the results flow through in terms of where we're deploying capital and where we're deploying our resources at the moment and also in terms of the profitability of the business.

Sam Dobson: We'll take another question from the room then we'll go to the line. Brian.

Question: (Brian Johnson, CLSA) Two quick questions. Brian Johnson, CLSA. The first one I was wondering, Tim, could we just get you to refresh our thinking on the principal investments business, what the target IRR is, basically what's the hold period and just a comment as to how well you think the book is performing relative to those metrics.

Then the second one, we've seen the franking tickle up to 45% but we know going forward the US - because the tax rate will be a bigger proportion of the earning - can I just get a feel on what happens to the franking capacity going forward? Does it go back to 40%?

Nicholas Moore: Well, on the franking capacity we do have a forecast. Obviously when we stepped it up from 40% to 45% we thought it would be sustainable having regard to our Australian business. We break out our Australian business in the presentation obviously. We think the 45% is sustainable otherwise we wouldn't have stepped it up to that. Yes we hope - we're optimistic we will continue to grow the business outside but we can't predict that rate of growth outside Australia.

So at the moment in terms of where we're sitting being broadly in line for the year to come from where we've just been a 45% expectation we think is a realistic one. As I mentioned in terms - Tim can talk about the returns on the investments but as we mentioned before there's not one number that sits across the group or across any of the different groups. It's all asset by asset. Tim?

Tim Bishop: Yes I was going to say the same thing Nicholas - I mean we - as Nicholas alluded to earlier I mean it's driven by each and every asset and the risk profile for that asset. Development assets are very different than operating assets. Technology assets are different than an offshore wind farm for example. So we obviously feel better about the performance for the year just finished clearly because that revenue line is up. But we remain optimistic about the coming year as well given the investments that we've made. You can see again from that earlier slide that the breakdown of capital that's been invested in Macquarie Capital, particularly in green energy, over the last 12 months gives us optimism for the next few years.

Sam Dobson: We've got a couple of questions on the line so we'll take those now please.

Operator: Thank you. The first phone question comes from Frank Podrug from Merrill Lynch. Please go ahead.

Question: (Frank Podrug, Merrill Lynch) Good morning guys. Two questions. First Greg has previously spoken about the opportunity to alternately improve the cost efficiency of BFS bringing it closer to that of the retail banks. Obviously scale differences mean it won't ever be as low but it remains in the mid-sixties. Staff costs rebound at this half as you invest in growth. Do you still believe you can achieve that original goal in coming years? If so, how soon and how much?

The second question, one for Nicholas. A couple of years ago you called out green shoots in real world activity in Europe. That was back at a time when everyone was pretty bearish on the macroeconomic outlook there. In retrospect it was pretty prescient of you. Is there any region, segment, industry right now where you're seeing similarly encouraging opportunities that are under-appreciated by the market? On the flip side is there anything that concerns you that you think people are underestimating?

Nicholas Moore: Gosh that's a big question. Well certainly Europe - I mean it's kind of you to give us credit for that insight - but Europe has performed well. It's performed well for us and of course more broadly. I think it has surprised people a little bit in terms of the upside there. Globally we continue to be positive in terms of the global outlook. We note obviously there is a lot of discussion taking place about trade and other matters. But broadly obviously the GDP growth globally we saw last year was strong.

When we look at the different economies around the world, as you say Europe is impressing on the upside. The US, I heard this morning I think the unemployment numbers - I look at Ric Deverell - but I think the unemployment numbers in the US are the lowest they've been since 1972 I think. So an amazing performance coming out of the US.

China of course critically important for Australia and for our growth continues to grow well and continues to be good performance which of course is driving in part the strong performances we're seeing in commodities including LNG.

So globally I think we feel good about the world from an underpinning viewpoint. In terms of the areas that Macquarie is focused on, we had that presentation in February where we picked those three themes that we think are reflective of what's happening in the world and reflective of what's happening here in this country. So the themes as you recall was infrastructure. As you know, you look out the window in Melbourne; you look out the window here in Sydney and there's no shortage of apparent infrastructure investment taking place.

I'm looking out the window here and the building that was behind us 12 months ago is now gone. It's going to be a new station called Martin Place Station. So the infrastructure investment happens, demographic growth happening here in this country.

You've got wealth growth happening around the world. So I think we feel positive in terms of the urbanisation story and the urbanisation in terms of what Shemara is doing, in terms of what Tim is doing, in terms of what Ben is doing, in terms of all the teams, a lot of it is about urbanisation.

Secondly from an energy viewpoint that has been a growth story for Macquarie. So if you think about how our energy business grew particularly in the United States it was very much on the unconventional gas actually, the developments taking place around the market and our ability of our teams to actually be able to deliver good solutions for the customers operating in those businesses. That has grown from that electricity and gas focus into oil more recently. So we think the energy demand will increase.

But as we've been talking about before the switch from traditional fuels into renewables is just a massive switch. It's just a massive switch. We're seeing it across so many different businesses that we're engaged in, that we're working with, not just our own business but so many different businesses out there where the energy profile they're looking at is changing as a result of this renewables story. That is driving a lot of what we're doing.

The final element of course is in technology. So as a group we're spending as we mentioned $A1 billion a year in technology. Greg obviously is developing - if you think about Greg's business it's not a bricks and mortar bank. Obviously it's a bank that's very focused on delivering great technology solutions to our customers whether they're business customers or retail customers. That needs a lot of spend by us. We're very actively engaged in terms of that spend.

From the financial markets viewpoint we are continuing - you are seeing - you will see in your own business - the cost of servicing clients is coming down. The costs of trading, all these different elements just keep coming down with technology.

From a MacCap viewpoint obviously you've seen our success in terms of supporting great technology growth stories here in Australia and globally. Now there's been some press recently about PEXA which has been a long term story we've been engaged here in Australia. We're replacing paper based conveyancing with electronic conveyancing - obviously long overdue. That's something Tim's team have 25% interest in. There's a company called Nuix that's obviously focused on cyber security.

So I think when you look at where we're active it's a good reflection in terms of where we think a lot of the drivers for the world are. Now there are other drivers outside that of course. When we talked about what we're doing in those three spaces we didn't make it as an exclusive list. But they're just some of the areas that as a group we're focused on and we're feeling confident about given that backdrop as I mentioned before in terms of the world being positive.

No you also had a question in terms of the BFS and the cost. I'll hand over to Greg for that.

Greg Ward: Thanks Nicholas. Yes the thesis we talked about before in terms of lower cost to income ratios for BFS we expect to continue. So we saw the BFS cost to income ratio go down this period notwithstanding that investment that was made in additional staff to support the ongoing growth this year and also next year. So in terms of the banking side, the personal bank and business bank, the cost to income ratios now are lower than 50%. We expect that to trend down further in time and of course to get to lower than 40%. So we see that on track.

In the wealth side the cost to income ratios are above 70%. Very competitive on the platform side where they did dip lower than that, in the high sixties and of course higher in the private bank and the advisory business. So overall we do expect the cost to income ratio to continue to trend down.

Question: (Frank Podrug, Merrill Lynch) Thanks Greg.

Company Representative: Thanks guys. One further question on the line.

Operator: Thank you. The next phone question comes from Andrew Lyons from Goldman Sachs. Please go ahead.

Question: (Andrew Lyons, Goldman Sachs) Thanks and good morning. Just a question maybe for Shemara just about the amount of equity you have available to deploy. In FY17 and FY18 you've seen a pretty significant step-up in the amount of capital raised and therefore capital invested versus the previous couple of years. Just two questions.

Firstly do you see this step-up in the last two years as sustainable? Secondly, can you perhaps update us on any industries or geographies that you see as particularly opportune at the moment?

Shemara Wikramanayake: Thanks Andrew. Yes in terms of the run rate you're right. We've been in MIRA raising at over $A15 billion a year the last couple of years and getting double digit billions invested. I think that's just a reflection of a bunch of things that are going on that the allocations across the industry to infrastructure are still growing. There are more and more people allocating to the sector and growing their allocation because it's still a mason asset class and an appealing one in this economic cycle.

Our track record across our regional funds is looking very good now. So we are the largest manager and we're getting a very high level of regular follow-up investments into our funds. As you know we run the funds regionally so we've got the US series, the European series, the Asian series, the Aussie and then the global feeder. All of them are getting good in-flows. So in terms of do we expect the rate to continue on the investment side - on the capital raising side we do expect the rate to continue. We've got target raisings that are similar this year.

On the investing side as well we're getting investors very quickly. So in this last year we raised our second Asian fund as Alex mentioned of $US3.3 billion. That's already $US1.75 billion invested. We're finding very good quality investments; the Philippine geothermal, the roads in India, the tank farms in Singapore.

We also had raisings for our super core fund. We bought a Finnish energy network there to go with the follow-on - a bit of national grid we're doing. So we're finding good opportunities to invest there. We operating the fourth in our series of US funds. There again - I mentioned we'd invested in data centres. So we are still finding good investment opportunity. I think the whole world is getting more challenged to invest well. But the advantage we have is we have 500 people on the ground in each of these regions sourcing - typically bilateral a lot of this is proprietary investment opportunities we're sourcing by knowing people particularly in Asia.

In terms of where I think the biggest growth is, I mean all of the regions are managing to get invested and grow but I think it is moving into those less congested areas, so Asia particularly we're a leader by a long way. In Europe we're going more out of Western Europe into Central Europe and finding good opportunities there. But also in Western Europe I mentioned the Danish telco. We're finding opportunities again that are proprietary to invest.

In the US we're looking more into Latin America but also new asset classes like data and fibre. So I think our expectation at the moment if you look at next year is that that we will continue to raise at a similar rate. We've got our sixth European fund probably coming soon. The fifth one is all invested and got that fourth US raising. We've got the second Asian getting invested quickly. We've got the global feeder now raised and a second one to look at. So we have quite a long list of things we expect to raise for next year as well as invest.

Hopefully that answers it but the short answer is we expect the momentum to continue.

Question: (Andrew Lyons, Goldman Sachs) Thanks Shem.

Nicholas Moore: Thank you.

Question: (Brendan Sproules, Citi) Hi it's Brendan Sproules from Citi. Just a question on your compensation ratio. It sort of dropped in the second half below 38%. Over the last couple of years that's come down meaningfully. When you look forward are you seeing that maybe rise up? Or have we found a new level now?

Nicholas Moore: No Brendan as we've talked about over the years that the compensation ratio went up when our revenue went down. The way to think about that is we have a fixed portion of compensation. Then we have a variable portion. So when our revenue fell back 10 years ago or 9 years ago the compensation ratio went up. Even though the performance amount came down dramatically the fixed element continued. Now as the revenue has stepped up in recent years obviously the fixed portion as a proportion of all the revenue is getting smaller obviously. The amount that we're paying out in performance obviously is only a portion. So if the revenue steps up we would expect the compensation ratio to have done what it's done recently.

Now going forward in terms of the mix, as we said it very much depends upon where the profitability is coming from in the businesses.

So different businesses have different cost to revenue ratios, as you know, Greg was just talking and so that will determine in part what the ratio will be going forward, whether we make money in the asset management area, whether we make money in the Macquarie Capital area, Greg's description of what's happening in Banking and

Financial Services where there revenue's going up and the cost base is staying relatively fixed, you can see the different levers that that has on the compensation ratio.

What we've said before, we wouldn't use the compensation - the compensation ratio is just an outcome of all these different businesses in terms of how they're performing. We do present it as an overall Group viewpoint, but we would say it's not a guide. It's not a guide to anything really, it's just the sum of a whole bunch of different businesses and how they're responding to market conditions. But broadly speaking, if revenue's going up, you'd expect the compensation ratio to be coming down for that point we mentioned. At a certain point, though, obviously it will step up if the revenue keeps coming in and start going back the other way of performance. The performance comes in, subject of course to where that growth is coming from. So I hope that makes sense.

Question: (Brian Johnson, CLSA) That makes me feel really good as a shareholder. Nicholas, last year Macquarie got a bit of stick about the REM report. Have you already spoken to the proxy advisers here and what's the - can you just give us a feeling about how you're going to ascend yourselves this year if needed or are they all in agreement? Then the second one is that when we have a look at the BFS business, it's kind of unusual for an Australian bank but you've got more deposits than loans, we can see the deposit growth is really strong, the CMA, other deposits are growing faster than the CMA and deposit margins are improving. Is that all suggesting us that Greg's business, the margin, the NIM is going up not down?

Nicholas Moore: Well why doesn't Greg talk to - Greg, I don’t know if you've got the question there from Brian. He's basically saying given our deposit business is so strong, we can increase deposits and therefore our NIM should be going up rather than going down, I think is the question, the excess of deposits, which we're obviously using in the business.

Greg Ward: Yes, we've got a bit of an excess of deposits and this year we'll have seen that the lending books grew greater than the deposit book, so we are using the excess deposits and in fact because investments markets improved, we saw the CMA go down just a little bit, not the number of accounts, the number of accounts being opened is growing as well as it ever has. There was good growth in the business lending deposit book, but we do expect the deposit growth to continue. What we're seeing is that the mortgage growth and the business lending portfolios continue to grow and that will over time use the deposits

What we're foreshadowing here of course is as we've pretty well grown into a lot of those deposits and most of the deposits are the CMA, which is pretty well playing the cash rate or close to the cash rate and the pressure we see in the wholesale rates with the LIBOR influence BBSW rise, we're not really expecting our NIM to go up; we're probably seeing some NIM pressure.

Nicholas Moore: In terms of remuneration, we think our remuneration practises are market-leading practises. Obviously a lot of work goes into them on an ongoing basis. They're based on long-standing principles, as you know Brian, coming back to the idea of the partnership between the shareholders and staff and long-term alignment, it's reflecting that and that's always, I think, seen to be a very positive element of it. In terms of changes at the margin changes and detail, that's an ongoing process. The area responsible of course is the Board, Peter, our Chairman and Michael Hawker, the head of our board remuneration committee, obviously look at all those issues with the rest of the Board in terms of what's most appropriate in terms of its structure. So long-standing principles in terms of what drives it, in terms of how it's implemented and how it's communicated to the market, that really is the responsibility. So Peter, would you like to make a comment?

Peter Warne: Thanks Nicholas. To answer your question directly, the feedback we had last year was not at all in relation to our remuneration framework, it was purely on matters of disclosure. Despite having a history of shareholders being very happy with our disclosure, last year we did have one proxy adviser that thought we had more we could have disclosed. As a result of that, over the last 12 months, we have approached many of our shareholders, all our large shareholders and all the proxy advisers to pursue that issue and see what additional disclosure our shareholders would like to see, if any. Hence in our remuneration report this year, you will see additional disclosures that we've made that we haven't in the past and we believe that will satisfy all our shareholders and proxy advisers.

Question: (David Ellis, Morningstar) I've got a couple of questions to do with the BFS business. Obviously it's been called out a few times this morning the strong growth in the Wrap platform, up 14% and strong growth in Australian mortgages, up a similar amount. In light of the Royal Commission and the considerable focus and criticism on the financial advice industry in Australia, particularly the major banks and AMP, how do you see potential changes to the industry structure that could impact or likely impact Macquarie businesses going forward in the financial sector and also in mortgage broker sector?

Nicholas Moore: It's a good question. Obviously we have been paying attention to the Royal Commission and obviously it's opening up a whole range of questions and issues that we're discussing internally. Greg, I don’t know if you'd like to address the specific issues raised?

Greg Ward: Yes, of course. Obviously we are monitoring very closely the developments in the Royal Commission and also amongst all the regulatory bodies. So if we think of the mortgage space, there's been reports from the Productivity Commission, there's been reports from the Competition Commission and there's been a range of inquiries into the mortgage broking space, including around remuneration models, so we've been watching that very, very closely and all the developments around responsible lending obligations and how they're fulfilled and so forth.

So it's a little early to tell how that will play out exactly. I think there's an ongoing role for mortgage brokers. People have enjoyed the service provided by mortgage brokers I think overall as a community and it has increased competitiveness of mortgage rates over time. So we think that's a very important segment of the market which we continue to support, but there will be developments in that and we're very well placed for that. We also have a direct business where we sell direct mortgages from our own sales team as well and that's a team that's been expanding. We have 40 direct sales people now that sell Macquarie mortgages as well, so we're not just using mortgage brokers.

In terms of the platform, our platform is unlike a lot of the platforms in the market, it's an open architecture platform. So there are about 760 different mutual fund offers on the platform. Indeed, on our platform, only around 5% of the product on the platform is a Macquarie managed fund; the vast majority are other fund managers' funds. We have about 2,500 independent financial advisers that use the Macquarie platform, so we think we're very well placed, if there is any pressure on vertically integrated models because this is a service to the industry, so we feel very good about our platform offering.

Our financial advice business is relatively small and of course it's mainly geared to wholesale clients and our private bank obviously to wholesales clients, so we have a very small financial planning arm and most of the revenue there is wholesale driven.

Sam Dobson: All right, if there are no further questions, thank you all for attending and we'll obviously be available later in the day. Thanks very much.

Nicholas Moore: Thank you.

[END OF TRANSCRIPT]