TRANSCRIPTION

MACQUARIE GROUP LIMITED RESULT ANNOUNCEMENT

FOR THE FULL YEAR ENDED 31 MARCH 2019

3 MAY 2019

[START OF TRANSCRIPT]

Sam Dobson: Good morning everyone and thank you for joining us for Macquarie's full year 2019 result. If I can just, a bit of housekeeping, if you can turn your mobile phones to silent or turn them off, that would be appreciated. Today, we'll go through the results with our CEO, Shemara Wikramanayake; our CFO, Alex Harvey, will take you through the results; and obviously we'll have a chance for Q&A at the end of the briefing. We have about an hour-and-a-half, so hopefully that will be enough time to get through everything. We have our Group heads in the front row, most of the Group heads, so they'll be happy to answer your questions as well.

Thank you and I'll hand over to Shemara.

Shemara Wikramanayake: Thanks Sam and welcome everyone to our 50th year of delivering results and also our 50th year of unbroken profitability. As usual, we will start with just looking at an outline of our five operating businesses which we always say are key to understanding Macquarie and as we go through this year's results and outlook, we'll be doing that through the five businesses.

Not a lot has changed in relation to the five businesses in terms of the outline of what they do, but what I would note on this slide is the annuity-style business has again delivered very solidly and contributed 53% of our earnings. What's changed is that we had a very strong year, as you will have seen, from our markets-facing businesses and they stepped up from a 30% contribution to 47% over this year.

I'll now go through the results in terms of half on half, second half on first half and then the year on year numbers. Kicking off with the half on half, as you can see we delivered $A1.672 billion in the second half and that's up 28% on the first half and a 28% increase on both profit attributable to shareholders and earnings per share. That was driven by a 19% increase in operating income and a 15% increase in operating expenses, which then you see the operating leverage of the 27% increase in pre-tax profit. The tax rate is up 35% delivering that net profit increase of 28% after tax. The other couple of things I'd note is that the return on equity annualised was 19.5% in this second half, up 20% and the Board has declared a second half dividend of $A3.60 so that our total increase on the first half is 67%.

In terms of contribution to that second half result, you can see that both the annuity-style businesses and the markets-facing businesses both stepped up strongly in the second half compared to the first half; annuity-style businesses up 25% and the markets-facing businesses up 51%, so that the contribution from the operating groups was up 36% in total on the first half.

Then looking at it year on year, the result for the full year for FY19 was $A2.982 billion. That was up 17% on the previous year, both at profit attributable to shareholders and earnings per share. That was driven by a 17% increase in our net operating income and a 19% increase in total operating expenses and Alex will talk through the detail of this more when he goes through the financial results after I finish. The operating income before tax, up 12%; tax charge broadly in line with the previous year, so the effective tax rate was down from 25.7% to 22.8% and the return on equity was 18% in this year, up 7% on the 16.8% from the previous year. The dividend for the full year then comes to $A5.75 which is up 10% on the previous year's dividend.

Looking at the contribution from the operating groups for that result, you can see that all up they were up 21% compared to FY18. Looking through the groups, the annuity-style businesses were down 4% on last year, with MAM down due to the increased base fees being offset by slightly higher operating expenses and a lower contribution from the combination of performance fees and investment-related income and that was mostly because we had a particularly strong year in FY18 in terms of that category of contribution.

The CAF business, the Asset Finance business was down. We didn’t have a repeat of the US Vehicle Leasing business sale that we had in FY18 and the Principal Finance business was broadly in line, particularly due to the realisation of the Energetics business in CAF Principal Finance after many years of investing in and developing that business and realising it. In the Transportation business, the portfolio is broadly in line.

BFS increased across our deposits, our loan portfolios in Retail and Business Banking and also our Funds on the Platform, offset partly by a decline in our Vehicle Finance portfolio and also increased investment in technology expenses in that business to keep delivering and developing our offering to our customers.

The markets-facing businesses up strongly, 76% up on FY18. In CGM we were up principally because of our Commodities and Financial Markets business having had a strong first half; that continued into the second half and another strong performance, together with strong results from our Futures business and Fixed Income and Currencies business, offset to some extent by reduced results in our Cash Equities business due to market factors that you will all have seen.

Macquarie Capital also up on FY18 and that was due to increasing our fee and commission part of our business, but also a big step up in our investment related income due to, as you saw, very strong realisations this year, including the Quadrant and the PEXA realisations.

That increased strong performance from our operating businesses builds on five years of ongoing increase in operating income profits, earnings per share and dividends per share.

In this next slide you can see the contribution or the mix from the various operating businesses driving that consistent increase. The big thing to note is at the bottom right-hand side there in FY19, in the grey bars you can see we've had very strong step up in FY19 from both of our markets-facing businesses.

The annuity businesses of course continuing to deliver consistently and you can see assets under management up to $A551 billion, which is up 11% on the previous financial year and that was driven by investments in the MIRA business, as well as FX and market movement impacts and that was partially offset by the realisations of assets in the MIRA funds and the net flows in MIM.

Then a couple of slides looking at rather than the business operating group diversification, the regional diversification. You can see here where we make our income by region as well as where our people and our assets are and

Australia is still the largest contributor at 34%, in fact a little bit stronger this year because of the realisations we had here. The Americas and EMEA continuing to contribute strongly at around 30% each and as we mentioned at the Operations Briefing, a lot of room to grow in those regions, so we're a small share of big regions. Asia, a solid 9% contribution, but also I'd note with Asia as we mentioned at the Operations Briefing, it provides support to the whole global platform through both capital for our business around the world and our shared services team being there supporting our global operations.

The changes in the diversification by region over the year were mostly driven by that step up in Australia with the realisations I mentioned and the Americas because of the strong results in our Commodities business.

Looking at each group and what drove results over the year, starting with Macquarie Asset Management business as usual, we were down 4% but the business has finished the year in a very strong position. MAM contributed 24% overall this year and MIRA is at $A116.9 billion of equity under management at the end of the year, having raised $A18.9 billion this year, also investing $A10.9 billion and realising $A8.7 billion, to finish up with $A25.5 billion of equity to deploy at the end of the year. The other thing I'd note about MIRA is that we really started expanding our real estate platform over the year with both the GLL acquisition that closed during the year and also the fiduciary real estate business from Macquarie Capital moving across into MIRA. In Macquarie Investment Management, the assets under management are up 8% there to $A361 billion and that was largely driven by foreign exchange and market movements and the acquisition of ValueInvest. I'd also note that at the end of the year in April, we announced that we'd agreed to acquire the assets of Foresters, the mutual fund assets and manage part of their general account, which once it closes, will add another US$12.3 billion to the assets under management in MIM.

Then the CAF business contributing 17% to the Group, as I mentioned, was down on FY18. The Asset Finance portfolio, however, is up 2% on the previous year and that's through growth in all of our portfolios, so across technology, energy, resources as well and the ship finance business. On the Principal Finance side, the book is down a bit due to loan repayments and realisations, down 12% and that included the large Energetics realisation, but the Transportation Finance book is up 5% to $A9.2 billion and that included the investment we were able to make in the Rotorcraft portfolio during the year. In addition to that, I'd note that in April again, we announced that we have entered into an agreement to bring a third party investor in for 25% of our portfolio and deconsolidated our air finance portfolio. What that does is give us opportunity to continue to grow that business with third party capital, which is an exciting development.

The last of the annuity businesses, Banking and Financial Services, contributing 12% over the year, we were up 3% there and I particularly note at the bottom of the page that our deposit base was up 17% and so were all our portfolios across the Banking business, our Mortgage portfolio up 18%, the Business Banking book up 12% and the Funds on the Platform up 4%. That was offset partially by a 5% decline in our Vehicle Finance portfolio, partly due to the decline in new car sales which you'll all have seen, as well as lower dealer finance.

Turning to the markets-facing businesses, the Commodities and Global Markets business, in Andrew's final year, contributed 25% and was the largest contributor to Macquarie out of the Operating Groups this year and even more compellingly was up 65% on the previous year. Now a big driver of that was the strong result across the commodities platform, which included the North American Gas and Power, the Global Oil and the EMEA Gas and Power businesses and I'd particularly note the strong contribution from the North American Gas and Power business, which was driven by the supply demand imbalance across some of the US regional centres. We also had strong results in that business with the growing franchise in the Fixed Income and Currency business and the Futures business and a step up in the results from credit, as I mentioned, partially offset by the equities contribution, given the market conditions.

Macquarie Capital, again stepping up a lot, 89% to contribute 22% of Macquarie Group's income in also Tim's last year as Group Head of that group; both the business lines in that group contributing strongly. The Advisory, Capital Raising and Balance Sheet Investments business had an increase in fee and commission income across all of its regions and some of the notable things that we were involved in; here in Australia, we had the Wesfarmers demerger of Coles and we had Nine Fairfax merger that we advised on; in the Americas we advised KKR on its acquisition of BMC Software; and in the EMEA region, we acted for a consortium in the take-private of the John Laing Infrastructure Fund. So meaningful transactions and a growing presence for us offshore in addition to the strong position we have here in Australia. We also had the PEXA realisation in that business which drove a strong result. Then in Infrastructure and Energy business line in Macquarie Capital, again a strong result, driven by a high level of realisations. We mentioned all the renewable assets that we realised at the Operational Briefing and we also had the Quadrant realisation there. Pleasingly, the platform continues to grow with the investment in the Conergy portfolio in Asia and investments in Green Energy at $A1.1 billion over the year to March 2019 and again, Alex will take you through in more detail the realisations and investments in that book, but the book continues to be at the same level we've had throughout the year.

That's the contribution from the five operating groups. Now that's supported by our ongoing strong balance sheet and capital position. The funded balance sheet remains strong and our term funding continues to exceed our term assets, with another $A13.3 billion of term funding raised over this year. Also, our deposit position continues to grow, up 16% to $A56 billion across the Group. In addition, our capital position has strengthened from the end of last year with $A6.1 billion of capital now above our regulatory minimum, increasing from $4.2 billion last year and that was driven partly by the $A3 billion of profits that we generated approximately this year, offset by the $A1.8 billion of dividends, $A1.3 billion of hybrid issue which you saw and $A0.8 billion absorbed into the businesses to fund their growth.

That $A0.8 billion is broken down in this slide in terms of which of the operating businesses that went into. Just briefly going through them all, with MAM what we had was investment in MIRA in terms of alignment capital into our funds as well as our real estate book, offset by obviously the realisations we had and also a decrease in underwriting positions we had; short term underwriting positions for seed assets in the MAM business. In CAF, as I mentioned, we invested in the Rotorcraft portfolio we acquired, but that was offset by the realisations in the Principal business, including Energetics and loan repayments and it was also assisted by the CAF Principal Finance and Transportation Finance businesses being transferred to the non-bank. BFS we invested in the increasing Mortgage and Business Banking loan portfolios, partially offset by the reduction in the Vehicle Finance portfolio and in CGM, the increased trading activity meant that we had more capital put into market risk given the volatility in that area and that was offset by realisations of equity positions and some impairments again, which Alex will take you through. Macquarie Capital, we had $A1.5 billion of investments, net of $A1.5 billion of realisations, which included Quadrant and PEXA. Then lastly, in the Corporate area, we invested capital into the Martin Place development, which is being quiet kindly for this presentation, but normally we'd hear it bustling along in the background.

Also with our capital ratios, we remain well above our regulatory minimum, so the CET1 ratio in particular at the bank level 11.4% and 14.3% at a harmonised level. We're also sitting above our regulatory minimums on the leverage ratios, LCR and NSFR.

As I mentioned the Board has declared a final dividend of $A3.60, taking the full year to $A5.75, payout ratio of 66%, which is within the range of 60% to 80% that we've guided to the market.

Before I hand over to Alex, I just wanted to finish by noting some of the management and leadership renewal changes that we've had across the Group. As we mentioned previously, Andrew Downe, who is here with us today and flown in from Singapore this morning, is stepping down as Group Head of CGM and from the Executive Committee as of 31 March 2019. He's continuing to run the Cash Equities business and support Nick in the transition. He has made a massive contribution to Macquarie, 37 years with us, 22 of those on the Executive Committee and shaped what has become in his final year, as I said, the biggest contributing group to Macquarie. We're also fortunate that Andrew has been transitioning with Nick to succeed him for some time, with Nick having been on the Executive Committee since June 2017. Nick has had 24 years with us and worked all over the world and most recently he's been heading the Commodities and Financial Markets business out of Houston. He's been building that business since 2007 and it also stepped up to give a huge contribution this year. Andrew and Nick are now working closely to help Nick spread across the rest of the CGM business as he takes over from Andrew.

Also we announced this morning that Tim Bishop, who has been leading Macquarie Capital for a long time, will also be handing over the Group Head and the Executive Committee role at the end of May this year. Tim came over with the Banker's Trust investment and has been with us 20 years and on the Executive Committee for about a decade and has been heading up Macquarie

Capital since 2012. So seven years. The group has really transformed in that period since Tim took over. The earnings have grown materially. Tim also has been grooming leadership under him. Dan Wong, based in London, and Michael Silverton, based in New York, will take over as the joint Group Heads of Macquarie Capital and join the Executive Committee. Both of them, like Nick O'Kane, have been with us 20 years, have worked all over the world in a lot of regions and business lines for us and importantly, like Nick, have built the big divisions - well, a couple of huge divisions inside Macquarie Capital with Dan heading that Infrastructure and Energy Group globally from London which was a big contributor to earnings. Michael Silverton, from New York, heading the America, Europe and Asia group in the fee and commission business which also made a strong contribution.

So we're very fortunate to have had many years of contributions from Andrew and Tim who are both here with us. And also fortunate that they're leaving us with succession from a deep bench in Nick, Dan, and Michael.

With that, I'll hand over to Alex to take you through financial analysis of the results in more detail.

Alex Harvey: Thanks Shemara. Good morning ladies and gentlemen. As Shemara said, I'll take you through a bit more of the detail for the financial analysis for the year ended March 2019.

Starting with income statement by key drivers, I thought I'd start with the second half in comparison with the first half and then turn to the full year result.

So net operating income for the second half up 19% on where we were for the first half of 2019. Key driver is the fee and commission income up 8% from where it was for the first half. You can also see a significant step up in the investment income, up over $A1.1 billion versus where it was in the first half. As Shemara mentioned, you can see a step up in the credit and impairment charges. These are a small number of positions across our CGM business and Macquarie Capital that were underperforming over the recent period so we had to take impairment through our profit and loss this half. So you can see that coming through. Operating expenses for the period up 15% resulting in operating profit before tax up 27% on where we were this time halfway through the year. Income tax expense you can see up about 35%. Obviously, that's reflective of the increased profitability coming through the group and the geographic nature of income coming through the P&L. So effective tax rate for the second half of 23.2%. The bottom line profit attributable to shareholders up 28% on where we were for the first half of 2019.

Now turning to the full year result on a similar basis. Net operating income up 17% for the period so strong growth in net operating income. You can see that being driven by net interest and trading up 15%; fee and commission income up 18% from where it was in 2018. You can also see that step up in investment income coming through; about 70% step up in investment income for the full year on where we were in 2018. So a strong result from a revenue viewpoint. In terms of operating expenses, up 19% for the period and I'll spend a bit more time in a moment just talking about the components of that. Operating profit before tax up 12%. Tax rate for the year overall, 22.8%; really reflecting the geographic composition of income, the nature of income coming through and the full year benefit of reduction in the federal income tax rate in the United States. You can see net profit up 17% for the full year period to March 19.

Turning now to the operating expenses. As I said, up 19% for the full year. I've given you a breakdown of some of the key components there. Obviously in the middle of that page you can see employment expenses up nearly $A600 million on where they were for the full year 2018. That's reflective of the acquisitions that the group made over the year. It's also reflective of the average headcount up over the period of time. And of course, increase in performance based compensation that came through, reflective of the improved performance of the group. You can see the impact of foreign exchange; unfavourable foreign exchange movements, about a 5% depreciation in the Aussie dollar against other currencies across there, so you can see that coming through. You can see the impact of AASB15, which is a new accounting stand on revenue recognition. Previously we were able to net off the expenses. We now have to gross up revenue and gross up expenses so you can see that coming through the operating expenses. We also had an increase of nearly $A340 million in the other category, which really is reflective of business activity which has been going on across the group. The higher technology spend, and I'll spend a bit of time on this as we go through the groups. Indirect tax expense, and some one-off items and legacy items that we took through the P&L over the course of the year.

In terms of the income statement by Operating Groups, you can see again, obviously the overall result up 17%. You can see the key drivers there; CGM up 65% for the period; Macquarie Capital up 89% for the period; offset by about a 4% reduction in the contribution from the annuity-style businesses and an increased contribution from Corporate. Corporate reflects mainly higher performance-related compensation and shared-based payments expense, as well as other corporate expenses coming through the P&L over the last 12 months.

Turning now to each of the operating groups, starting with Macquarie Asset Management. As Shemara said, 24% of the group, are down 4% on where we were for FY18. You can see base fees up 15% from the prior year, reflecting the acquisitions the group made during the period, the deployment of capital in the MIRA business, and favourable foreign exchange movements coming through there. Performance fees up 28%. The growth story from a performance fee viewpoint was the diversity of the fees. They came from all of the major operating regions within the MIRA business. So that was great to see that coming through the P&L. We also saw lower investment related income. People will recall last year we had the reclassification gain on MQA as well as on MIC coming through there and an increase in operating expenses, largely reflective of the headcount increase, unfavourable foreign exchange movements in the acquisitions that were made over the course of the year, as well as an investment the Group is making in the technology platform supporting their business around the world.

In terms of the key drivers, assets under management of course are a key driver across the Group, up 11% over the period. You can see on the left hand side of the chart, MIM up nearly $A28 billion, reflective of the ValueInvest acquisition coming through this year, favourable foreign exchange impacts and market movements, offset by some decline in assets in a couple of our strategies, particularly in the US fixed income strategy as well as the quant hedge fund strategy in Asia and Asian Equities, that came through during the period.

In terms of the equity under management for MIRA, a record result, nearly $A117 billion, $A116.9 billion of equity under management as at March of 2019. Equity raised $A19 billion and again a great result around the world in terms of raising funds for our European platform, raising funds for our US platform, as well as the locations of capital raising. Particularly notable is the contribution of our Asian business to funds being raised around the world for our MIRA businesses. You saw the benefit of the platform acquisition with GLL Real Estate acquisition coming in during the year, as well as the transfer of the Macquarie Capital Real Estate platform to MAM during the course of the 12 months. Overall up 36% at nearly $A117 billion.

From a Corporate and Asset Finance viewpoint, down 10% on where we were this time last year. A couple of key drivers there; people will recall in 2018 I'm sure we had a release of a collective provision that came through the P&L last year; we didn't have that this year so the huge step up is reflective of that not repeating. From Asset Finance viewpoint, again I think people will recall last year we disposed of the US Motor Vehicles business. That didn't recur this year. We also had some legacy expenses in relation to a lending transaction coming through the Asset Finance book this year and that was offset by step ups in the contribution from our TMT business and also from our Energy business around the world. Principal Finance and the Transportation business broadly in line with where it was at this time last year.

In terms of the key drivers, the Asset Finance portfolio is basically flat. You can see some step up in contribution from our TMT leasing business in particular and from the Energy Meter's business in the UK, offset by a small decline in our MSIS business which is now sitting in Corporate and Asset Finance as people will be aware.

In terms of the Principal Finance portfolio, it's obviously the old Principal Finance portfolio plus the Transportation portfolio. You can see on the left-hand chart there the Principal Finance portfolio down 12% from where it was last year, reflective of the run off of the loan book in Principal Finance that we've seen over the last few years. In terms of the Aviation portfolio, up 5% this year. Again, as Shemara mentioned, we were successful in acquiring the Rotorcraft portfolio, so you can see that coming through there, that $A700 million and that's offset by the depreciation coming through that book as well. So overall, our Principal Finance portfolio is flat on where it was this time last year.

In terms of Banking and Financial Services, up 3% for the period. We saw continued good growth in our Mortgages business, up 15% in average volumes and our Business Banking up 12% in average volumes over the last 12 months. We are also continuing to see a growth in our Business Banking deposits which is great to see. Offset by a lower contribution from the Wealth Management component. As I think people are aware, we have been refocusing that business on the higher net worth segment and so there's some costs associated with doing that this year. That decline was offset by an increase, in the contribution of our assets under administration on our Wrap platform during the year. You can see the step up in Technology expenses which is really a reflection of the continued investment that the Group is making in providing the best possible services to its clients around the world, so overall up 3% for the period.

In terms of the key drivers, all moving in the right direction. Obviously a slight decline from a Vehicles viewpoint which is reflective of car sales and a lower exposure to dealer and floor plan finance, but other than that all heading in the right direction which is great to see.

In terms of the first of our markets-facing business, the Commodities and Global Markets business, obviously a very strong result on where we were in FY18, up 65% driven by the Commodities business up nearly $A900 million in terms of contribution. You can see that coming through in a couple of areas. Strong results across the client hedging activity, their risk management solutions and really that's reflective of the volatility that we saw coming through; gas markets, oil markets and more generally across the agriculture, metals and mining sector during that year. So that provided opportunities for us to provide hedging solutions for our clients. We also saw a significant step up in the contribution in terms of inventory management and trading and as Shemara mentioned, a lot of that came out of our North American Gas and Power business. We were able to see that continuation of the supply demand imbalances across US regional centres. We also saw some opportunities in our Oil business, our Physical and Financial Oil business, this year again reflecting I think the volatility that we are all aware of coming through oil markets over the course of the last 12 months. It’s great to see continued contribution from FX, Credit and Rates. This is a story that's been building over the last few years, we’ve been able to provide particularly structured FX type solutions to corporate clients and private equity clients in various markets around the world. We saw an increase in the impairments over the period. As I mentioned before, a small number of commodity related exposures that sit in CGM. We looked at the performance of those businesses in recent times and had to take an impairment through our P&L and an increase in operating expenses reflective of not just the increase in headcount, which we've seen supporting the growth of the business, but also the increase that the Group is making in technology investment, again to provide that state of the art service to clients around the world.

From a client base view, we have put this up for the last few years, it's an important story obviously. We are seeing an increase in the clients we are dealing with across all categories; Commodities, Financial Markets and Futures and obviously from a Cash Equities perspective, a reasonably stable story over the last few years. The reason this is important is that the business is a very client-orientated business. It's about more clients, it's about providing more solutions to those clients and it's of course about doing more repeat business with those clients. Over the last 12 months we have seen a step up in the amount of repeat business that the Group is doing with their client base so it is great to see the underlying driver of the business coming through.

In terms of Macquarie Capital, another very strong result, up 89% on where we were at this time last year. You can see a significant step up in the investment-related income, 112% step up from where we were last year. I think everyone in this room will be familiar with the Quadrant and the PEXA story. I guess the thing that stands out for me in looking at this is really the diversity of that story because you're seeing green energy investments being realised in the UK, being realised in places like Sweden, you're seeing the team in the US actually realise some investments that we made in the green energy space over there, as well as in Asia and down here in Australia with the Waste to Energy facility that we are building in Kwinana in Western Australia. The other thing about this is we are seeing some realisations coming through our Private Equity Co-investment business that we have talked about before and they are mainly in the United States, so a great result from an investment viewpoint. Another thing that I think is very encouraging is the step up in fee and commission income. We had a step up in income across M&A, ECM and DCM around the world, so that's great to see. Impairments up a little bit, again, a small number of underperforming investments that we had to take through the P&L, but overall up 89% on where we were this time last year.

In terms of the drivers of the business going forward, obviously on one hand you've got the fee and commission income and I just talked about that, the other piece of course is the principal investing activity that Macquarie Capital does. It is a harvest and investing activity and one of the things that's very pleasing I think to see is that the capital we've got exposed to Macquarie Capital activities around the world have not only been able to realise that during the year, in the way I just talked about, but the team has also been successful at deploying capital in new situations that hopefully will mature and realise profitably for us in the years to come. You can see the big step up in green investment over the period of time, as well as a step up in the technology-type investments that the team has been making and the infrastructure investments over the course of the last 12 months. It's great to see that continuation.

I'll take you now to a few other matters. Costs and compliance; this is a feature of our industry as I think everyone would be aware. 14% up on where we were last year. I guess I'd make two other comments. The second half there's been an acceleration in spend on compliance; the second half project compliance up 22% from where we were in the first half and the business as usual compliance up 7% is a feature, an important part of our organisation and we are very focused on these activities covered on this slide.

In terms of the balance sheet highlights, again, a very strong balance sheet as you've come to expect. A great result from a deposit viewpoint, up 16% on where we were in March of 2018 and that growth in deposit is really what's funding the growth in our BFS Mortgages business and our Business Banking business and so that's great to see that continued story of deposits coming through. The funded balance sheet, the term funding, again we've been active this year. We have been very well supported by the bank markets and the bond markets and in particular people have seen we did two hybrid issues this year that were well received raising a net $A1.3 billion of funding over the course of the year, so it's been an active period.

Diversity of issuance is important and tenor. You can see that set out on this page. One of the things that's interesting from a type viewpoint, if we look at the wagon wheel there, the equity and hybrids are up at 32% of the funding, up from 25% last time we spoke to you. The other thing that's great I think about this page is in terms of the term funding beyond one year, that's now 5.6 years, that was 4.6 years when we sat here in September. So we have diversified and we have extended the term of the funding that's supporting the Group's growth activities around the world.

Customer deposits we have probably covered off. It's a great long-term story I think for me, up 8%, roughly 8% compounded rate over the last seven years so it's a really interesting and important story for the Group.

The Loan and Lease portfolio up about $A8 billion. This is largely reflective of the growth in BFS Personal Banking and also in the Business Banking component of BFS.

The Equity portfolio down $A800 million from when we sat here in March of 2018. I think the most important thing, at the time I talked about assets we had on the balance sheet that were being recycled into MIRA funds and you can see that in the second line down there. We had $A800 million of exposure to assets that were going to come off the balance and into MIRA funds. That's actually happened over the last 12 months and so that's reflective mainly of the reduction between $A6.8 billion and $A5.9 billion in terms of equity investments at 31 March.

In terms of the regulatory update. There's obviously a lot on this slide, I won't go through each of them. There is a lot of work going on, APRA and ourselves and the industry across a range of different streams of activity. Much of this will be familiar to this audience because we've talked about it before. Over the last six months we have seen a discussion paper released on loss absorbing capital. I note that Macquarie Bank expects to be subject to additional LAC requirements with a final quantum to be determined by APRA as part of the resolution planning process. I also note that APRA intends to consult on the framework for recovery and resolution over the course of the rest of the calendar year. Most importantly, based on our current expectations it is the case that we expect that the surplus capital position that Shemara set out before will accommodate likely additional capital requirement from these initiatives. I also note the banking executive accountability regime commences to apply to Macquarie from 1 July 2019 and we are getting ourselves in a position to be ready to meet that timeframe. Also from a regulatory viewpoint we thought it made sense to make mention of the fee for no service review and the remediation program that we have been undertaking in BFS. That program is now complete from our perspective and has been passed to the independent expert and to ASIC to finalise. We expect that we will need to refund about $A3 million in fees and interest and we have commenced that refund process as we speak. In terms of Brexit we applied for four licences, three of those licences we've achieved, one we're still awaiting, which is the licence from CBI in relation to our banking activities in Europe. I also thought it would be worthwhile just mentioning in relation to Germany, Macquarie continues to cooperate with German authorities in relation to the historical German lending transaction in 2001. We note that no current staff members have been interviewed. The total amount is not material to Macquarie and has been provided for. I also thought it would be worthwhile mentioning that as we've previously stated, Macquarie has resolved two dividend trading matters between 2006 and 2009. I think people will be aware the industry-wide investigation related to dividend trading continues and we continue to respond to requests for information about our activities in these markets. The profits from these activities were not material to the group.

In terms of accounting standards, I won't dwell on this, we adopted in particular the new Accounting Standard AASB 9 in relation to financial instruments. You can see the impact of that coming through our opening shareholders' equity and retained earnings for this year.

Capital remains strong at 11.4% and 14.3% on the Harmonised Basel III basis. Liquidity ratio remains strong as you have come to expect.

Capital management, just to finish, the board, a couple of things to note here, in relation to the Macquarie Group Employee-Retained Equity Plan, the board has resolved to purchase approximately $590 million worth of shares to satisfy the MEREP issue this year. We'll commence that buying on 13 May. We've also offered as people know a staff share sale agreement, which enables staff who are getting vested stock released from MEREP, to cross that stock into our buying to satisfy the current year MEREP. Our dividend reinvestment plan for the second half of '18 and the first half of '19, the DRP shares were acquired on-market. The board has resolved the DRP will be in place with a 0% discount for the second half of 2019 dividend, and that those shares will be acquired on-market.

With that, I'll hand back to Shemara. Thank you.

Shemara Wikramanayake: Thanks, Alex. So in terms of the outlook I'll kick off with the short-term outlook and then move onto the medium-term outlook. As usual in terms of the short-term outlook we look at this based on the factors impacting each of our five Operating Groups and the Corporate level.

So starting with Macquarie Asset Management, we expect both base fees and performance fee and investment-related income to be broadly in line with the result in FY19, and this is because the base fees benefit obviously from the deployment of capital in the MIRA business and the acquisitions across the MIM and the MIRA business coming through for the full year. That's offset by the realisations and returns of capital in MIRA and the internalisation of Atlas Arteria. For performance fees, a strong year again in FY19 and we expect that to be broadly in line for FY20.

With Corporate and Asset Finance, as you saw the Asset Finance portfolio ended the year broadly in line, which will drive results in the Asset Finance business. But in the Principal Finance business we had reduced loan volumes at year end and also the timing of realisations is expected to result in that business delivering a number that is going to be down on FY19.

Banking and Financial Services, again, as you saw we end the year with higher deposit loan portfolio and platform volumes, but we expect the competitive dynamics in that business to drive margin pressures.

Then turning to the market-facing businesses, it's important to note that the franchise across this business continues to grow, and so we have a strong customer-base now that we think will drive consistent flows in the Commodities business, the Fixed Income and Foreign Exchange business and the Future's businesses. But in the Equities business we expect the market environment to remain challenging. We also expect reduced impairments, but it's important to note that we do not expect a continuation of the strong market conditions that we saw in FY19 in the Commodities and Global Markets business.

With Macquarie Capital, we also expect the market conditions to be broadly consistent with what we experience in FY19, which will drive our fee and commission income, but in terms of the investment-related income due to the very high level of realisations that we had in FY19, we expect that component to be down in FY20.

At the corporate level, we're expecting the compensation ratio to stay consistent with historical levels and the effective tax rate based on the present mix of income we think will also be broadly in line with FY19.

So when we put that all together, as we've guided, we expect the result for FY20 to be down slightly on FY19. That of course as ever remains subject to the completion rate of transactions, market conditions, impact of foreign exchange, potential regulatory changes and tax uncertainties and the geographic composition of income.

But when we turn to the medium-term, we continue to be confident that we're well positioned to deliver superior performance over the medium-term, and that's driven by the deep expertise we have across a very diverse range of products, sectors and markets. That will be supported by our strong and conservative balance sheet and with our proven risk management framework and our ongoing program to identify cost-saving initiatives and efficiency.

I was just going to finish as usual by looking at the return on capital over the medium-term of our annuity-style and market-facing businesses in the whole group. You can see in the annuity-style businesses we now have $A9.2 billion invested in those businesses of capital, 22% return over the last 13 years and 22% again this year. So the consistent performance we expect from that business is continuing to be delivered. The market-facing businesses, $A5.9 billion invested, we have a 16% 13 year average return on equity from those businesses. This year stepped up to 23% for the reasons Alex and I have discussed through the presentation.

Now, in terms of the net 18% that we have returned to shareholders on ordinary equity, we obviously have to take into account the $A0.6 billion of capital that we have at the corporate level and the $A6.1 billion group surplus that impacts that.

So that's the end of our formal presentation. We'll hand over to questions and I'll hand back to Sam and I should just note that in addition to having Tim, who is Chairman now of Macquarie Capital but has been leading the group for a long time, and Andrew who is now focusing on the Cash Equities and Asian part of CGM but who has been group head for a long time, we have them available to speak to us. We have Martin Stanley for MAM out here from the UK; for CAF we have Garry Farrell and Florian here. We've got Greg Ward, who can cover BFS and we also have Mary Reemst here for the bank side; and we have Nicole, I think Patrick is here - no we don't have, that's right, Patrick is interstate and Alex and myself are available to answer questions for you.

Sam Dobson: Thanks very much, Shemara. So as we've done previously, we'll take questions from the room to start with and then we'll go to the lines and then come back to the room. So I'll give you a moment for some questions. Jon?

Question: (Jonathan Mott, UBS) Thank you, Jon Mott from UBS. Just a couple of quick questions on the balance sheet movements. The first one, I think you said Alex there was a comment there's a small number of impairments, which mainly came due to underperformance in the near term. It sounds like you've had a couple of assets which have just had a bit of soft period and you've taken the opportunity just to write those down. It looks a little bit conservative, so wouldn't mind getting your view on that. Secondly, is that a result of the ability to do that, given the gains on sale in other parts?

Following on from that is the equity investments which you call out on slide 48. If you exclude MIRA, it looks like you're down about 10%, 15% on those assets, so is this again an opportunity where the markets conditions were fantastic over the last 12 months or so, that you’ve had a chance to realise a lot of gains on sale and clear a few of these assets out which were probably not pristine?

Alex Harvey: Thanks Jon. In relation to the impairments, I mean obviously at each balance date we go through a review of our books and make sure that we feel like the underperformance or the performance of those businesses is reflected in the carrying value. I think over the course of the last six months, there were a small number of positions across Macquarie Capital and across CGM where the performance of the business wasn't what we expected and having looked at that at the balance date, we felt that it was appropriate to write that down. It’s obviously not conservative or otherwise, it's just the nature of the way we account for the organisation's assets. In relation to the ability to do this, I think I probably answered that. We go through a review of these assets at each balance date.

In terms of the equity investments, you're right, I think what we did see was a drop off in the equity, I think it is a function, as we've said in the presentation, there were some realisations that we were able to make over the course of the period and conditions were good and we're therefore happy with those. What we did see, though, as I said, if you look at the capital, particularly in the Macquarie Capital business, that stayed fairly constant and so whilst there have been some realisations, the team have been able to find opportunities, particularly in green energy, in infrastructure and in technology to actually invest. As we talked about before, a little bit of that investment is earlier stage development activity, so whilst the balance sheet commitment might have come down, there are some projects that should mature as we take them through development, all the way through to financial close.

Sam Dobson: James Ellis

Question: (James Ellis, Bank of America Merrill Lynch) Thank you, it's James Ellis from Bank of America Merrill Lynch. Just a question on the profit share, so during the half and also the year, the compensation expense ratio edged a little bit lower but the return on equity was high. Now acknowledging profit share is not entirely driven by ROE, just wondering how should we think about that?

Then related to that, in a result that seemed to have a number of individually large gains or transactions in there, how do you think about those profit flows and where they get allocated in terms of profit share, the team responsible, the profit share for the broader Group and to shareholders thereafter?

Shemara Wikramanayake: Yes, look in setting profit share, we take into account the performance of each of the individual groups and the return on equity, the stability of that profit, but also market factors because we are in a market for talent in many, many regions around the world and many sectors. We take both of those into account and set profit shares for each of the groups. The profit share for the whole Group depends on the mix of business that we have each year by geography and by operating group, so those are the main factors that drive how we set profit share.

Sam Dobson: Andrew.

Question: (Andrew Triggs, JP Morgan) Thank you, Andrew Triggs from JP Morgan. In a similar vein to Jon's question, just in the operating expense line it noted some legacy-related expenses, just some flavour on what those relate to. Then second question around the dividend, obviously it's a very strong capital position in the period, you called out a number of uncertainties on capital, but just that 66% payout ratio, more reflecting that uncertainty or perhaps allowing some room for acquisitions from here?

Alex Harvey: So in relation to the dividend one, to take that first, obviously when we look at the dividend, if you look at the second half in comparison to the first half, it was obviously up 67% as Shemara talked about. As we said, the Board sets dividend policy, we're obviously looking at utilisation of capital across the Group. I think much more, probably the other thing that's in our mind is just the mix of net profit between the first half and the second half. As I think the

Board thinks about that going forward, obviously depend on the results, but if you look at the first half payout ratio at 56% and the second half up into the 70s, that's a little inconsistent with where we're seeing net profit contribution across the two periods. So we'll think about that going forward.

In relation to the legacy expenses, obviously from a Corporate viewpoint, as you've seen over the years, we have booked expenses in Corporate where they're not aligned with an existing business in an operating segment and those legacy expenses came through this year which is in relation to some historical lending transactions that we were involved with.

Sam Dobson: Simon.

Question: (Simon Fitzgerald, Evans and Partners) Good morning, Simon Fitzgerald here from Evans and Partners. I just wanted to explore the equity investments just a little bit further. Obviously they've been a pretty material feature of results in the last few years now, with that investment income at $A2.1 billion. I was wondering if you could give any sort of detail in terms of the average holding period of those investments or a minimum or typical type of holding period for those investments? I guess I'm just trying to think a little bit more about the vintage that's within those equity investments there.

Alex Harvey: Well maybe I'll have a go and then I'll hand to Tim. I mean obviously there are a range of positions in that business so if you take something like PEXA, for the sake of example, that was a business that we built over a long period of time, incrementally increased our exposure of that business as the size of the business built. That was probably a seven or eight-year journey. So some of those private equity where we're actually building technology platforms tend to be quite long, they're longer term type investments. The Green Energy activity tends to be, depending on where it is, tends to be two to three years in terms of development through to financial close and then to operation. So it depends on the type of activity, I think, in terms of our hold. Probably overall, you might say the book is 2.5 years in terms of the average duration of the book. Do you want to add to that?

Tim Bishop: Thanks, I'm not sure I have a lot more to add to that. I think Alex has articulated it well. I mean it's sort of two broad categories of investments. We've got investments that are more private equity oriented alongside of our clients, which might involve technology and as Alex said, they're probably longer duration, they are typically five-year plus type investments. Then we've got the green energy investments and as Alex has said, increasingly they are at the development end of the spectrum, which means that the quantum of the investment per project is probably smaller, but we're expensing a lot more of that, so our expenses will trend up. Then we have some typical points at which we can exit when they reach financial close or at some point through the construction period. They're probably more two to three years, as Alex said. It's a bit driven by whether it's offshore wind, which is longer, solar is more of a 12-month - 18-month type timeframe.

Sam Dobson: Brian.

Question: (Brian Johnson, CLSA) Brian Johnson, CLSA, I've got three questions, two of which are really quick and one which is a little bit longer. Just when we have a look at basically slide 31, we can see performance fees coming through in MEIF1, MEIF3, GIFII, can I just confirm that the full gain on Brussels Airport and the sale of DCT Gdańsk, was that taken in this period or is there a little bit left over to come in the next quarter?

Shemara Wikramanayake: Those processes have not completed in terms of the sales on both Brussels and Gdańsk so what we've recognised in this period is, as we're required to under the accounting standards, that portion of it, there is a highly improbable risk of reversal, so we would be recognising the amount that we have a very, very high confidence in. Assuming those processes go through and complete, we should recognise further performance fees, but obviously at this point when we don't see those extra fees as being highly improbable risk of reversal because there are factors required, approvals, et cetera, before those complete.

Question: (Brian Johnson, CLSA) So there is more to come.

Shemara Wikramanayake: Assuming the conditions to completion are met, there should be more performance fees, but we have to wait and see how that plays out.

Question: (Brian Johnson, CLSA) Okay, the next is a really quick one, slide 33

Shemara Wikramanayake: And sorry, Brian, I would note that we have said that we expect in the MAM business, so the performance fees and investment related income in FY20 to be broadly in line with FY19, so we take all that into account.

Question: (Brian Johnson, CLSA) Slide 33, which is the EUM, we can see there that, and I'm just a little bit concerned this may well be a typo, you've got equity raised $18.9 billion and under that, you say that includes the GLL acquisition.

The next one over is you've got the platforms acquired, is that one in the wrong spot?

Alex Harvey: Yeah, that is right, Brian. The platform acquired is the $A11.7 billion which is the GLL acquisition coming through, plus the acquisition of the infrastructure fund as well in there.

Question: (Brian Johnson, CLSA) Okay, so in the outlook for the commentary, what have you assumed happens with this great wad of cash we've got sitting in this business? Have you assumed that some of it gets deployed, all of it?

Shemara Wikramanayake: The $A25 billion. When we say we expect the base fees to be broadly in line, we have taken into account deployment of some of that cash. But Martin is sitting in the front row, so I might let him comment on the $A25.5 billion and which fund it sits in and expectations for investment.

Martin Stanley: Yes, so we're expecting some of the dry powder to be deployed as we go through the year on a sort of normal basis really, so that obviously depends on the level of deal flow that we're seeing around the world and at the moment, that's very strong, particularly in the Americas. But we're expecting a normal level of activity to get to the numbers that we're talking about for next year.

Shemara Wikramanayake: Martin did mention at the operations briefing that a lot of that money has been raised quite recently with our large US fund just closing at $US5 billion, with the large European fund being recently advanced in its raisings and I think you said we normally take three to four years to invest the capital in each fund, so a portion of it we'll expect to invest.

Question: (Brian Johnson, CLSA) Final question. Shemara, I've been following Macquarie for a long time and I always used to like to talk to your predecessor about long-suffering shareholders and I was looking forward to coming in today and not being able to say that, but your share price is down about $7, down a lot. But that being said, it had run very hard going into this result. Two questions flow from that. The first one, Alex for you, is basically when we have a look at it, we've got a big hunk of Macquarie's staff expense are the shares that are allocated, what did that run up in the share price basically do to the staff expense line in dollars that was expensed?

The second one, Shemara and I haven't read everything, but my understanding is the Performance Share Units (PSU) basically were determined - the vesting had previously been determined by the historic rolling four year EPS growth and ROE. Is the change today just saying that they will now vest over the future four years? So are we really just extending the alignment from four years trailing to four years backwards, four years forward?

Alex Harvey: Thanks Brian. We obviously don't break out specific components of the share based payments expense. It does contribute a little bit to the step up in share based payments expense but it's not that much. It's in I guess the tens of millions rather than anything else.

Shemara Wikramanayake: And with the PSU, basically the Board is determined to push out the vesting of the PSU to a cliff vest arrangement compared to what we had previously. So the vesting period has been extended but the measurement of performance is still the same hurdle that we always had.

Question: (Brian Johnson, CLSA) So the quantum of it is four years backwards EPS growth and basically peer relative ROE?

Shemara Wikramanayake: I'll let Nicole Sorbara who is here in the front row give more detail, but what you have is basically right.

Nicole Sorbara: Yes, so we had previously 50% of the PSUs were vesting in over three years and 50% were vesting over four years. So the change now is that they're all vesting at year four. And we have the two hurdles. So we have a relative ROE and that is tested at year four and if we don't meet the hurdles then we don't, but there's no retesting. Then the other one is EPS growth over that four year period.

Sam Dobson: We'll take one more in the room and then we'll go to the line. Anthony.

Question: (Anthony Hoo, Deutsche Bank) Morning, it’s Anthony Hoo at Deutsche Bank. Could I ask two questions? Firstly, just on the asset management business. On slide 32, you've shown us the change in AUM. Just on the net flows piece, which is negative, are you able to break that down a bit in terms of what's driving that and the particular areas and your expectations going forward for that?

Then second question, just on Air Finance, the sale of 25% Air Finance. What impact has that had on the numbers here today and on the next few periods?

Shemara Wikramanayake: I'll kick off on the asset management question and then let Martin comment. But basically, in the MIM business, the outflows are principally in a quant hedge fund business that we discontinued, some outflows in our Asian equities, and then US fixed income.

But in terms of the outlook, we have more than 75% of our funds in the MIM business materially beating their benchmark. So we would expect to have decent flows in those businesses. Martin, anything to add?

Martin Stanley: No, I think that's about it really. Nothing really additional. There's strong flows in some of the very strong products that we've got in the US so we're feeling pretty good about the situation that we're seeing in those other product areas as well.

Shemara Wikramanayake: Then in terms of the Air Finance book, I wasn't sure which slide you were referring to but the portfolio, as we mentioned, is up about 5% including the Rotorcraft portfolio that we acquired. Going forward, we've had an external investor come into part of the Air Finance book. So taking - that was probably what you were referring to is the 25% third party investor.

So we have an investment there on the balance sheet at the moment. We brought someone in for 25% of that. We've done that because we see a lot of opportunity to keep investing in the Air Finance area and it probably is going to start exceeding the capacity of our balance sheet.

So we're moving that more to an asset-managed offering rather than a principal investment offering. That should hopefully keep the income levels growing from that so the returns on equity are higher as we move to managing third party money to invest in that.

The skill set we have, which is sourcing the assets, managing them, taking them through to exit, realising them will continue to be generating return for the Macquarie shareholders.

Alex Harvey: Only thing to add, it had no impact on the current year financial results, other than it's recorded as a Held for sale asset in the balance sheet.

Shemara Wikramanayake: Sorry, if that was your question, just a balance sheet impact. Not a P&L this year; the deconsolidation. But the earnings impact we hope will be in future years.

Sam Dobson: Okay, we'll go to the line first and I'll come back, Andre. We've got one question on the line.

Operator: Thank you. Your first telephone question comes from Brendan Sproules from Citi Group. Please go head.

Question: (Brendan Sproules, Citi) Good morning. It's Brendan from Citi. Look, I've just got a follow up question on your performance fee guidance. I was wondering if you could give us a feel from the MIRA business some of the unlisted funds that we'll be attempting to realise asset sales during the FY20 year and that could probably underpin the guidance that you've provided today?

Shemara Wikramanayake: Yeah, I'll let Martin, he's here from London, I'll let him speak to that.

Martin Stanley: We're feeling very good about performance fees in this coming year, I have to say. So that MEIF1 and MEIF3 performance fees that we've seen during the course of this year were a result of the realisation of the final assets there. Someone referenced Brussels Airport. So we've got to go through the final completion of that process at the moment. It's also subject to, not only EU merger control approval, but it also requires the Belgian Government to approve the operating license change for the incoming buyer. So that's where the complications are around that. But we're feeling good about that from a perspective of getting that completed. The Gdansk sale process that was also referred to, so we're also feeling good about that but that's also got some approval processes to go through as we go through the next month or so.

Then as we look forward into the year, we've also got some performance fees expected across the wider portfolio, and we've had terrific performance from our US funds platform. And we've made a number of realisations which are in train at the moment.

So overall, when we look at the picture for this coming year, we're feeling good about where we sit today on performance fees.

Shemara Wikramanayake: I think you've previously guided that the performance fees have typically been about 50 basis points of equity under management which we've been delivering since you guided that. So it comes from a whole variety of places.

Martin Stanley: That's right, and of course you've got the associated investment income that comes off the back of that as well.

Question: (Brendan Sproules, Citi Group) Thank you.

Sam Dobson: Okay, there's no more questions on the line. Andrei.

Question: (Andrei Stadnik, Morgan Stanley) Good morning, Andrei Stadnik here from Morgan Stanley. I wanted to ask a question, but first just around the commodities revenues. The commodity revenues about $A2 billion this year, up from $A1.1 billion the year before. So your sense from markets might not continue going forward. But in terms of where likely the commodities revenue's going to fall, will it be closer to the $A2 billion or closer to the $A1.1 billion?

Shemara Wikramanayake: Well, as I mentioned when I went through the short-term outlook, we have seen a growth in our franchise in terms of our customer base across the portfolio. But what we saw in FY19 was a high level of volatility, which means our customers are needing more services from us in risk management, hedging, et cetera, and it gives us the opportunity to make greater trading income. So we'll have a combination of a lift in the underlying platform offset by an unlikely experience of the level of market conditions that we saw in the previous year. That includes both the volatility, and then we also mentioned in the US Gas and Power that we had due to constraints in transportation infrastructure, a conducive environment as well. So I might also let Andrew, who's here, elaborate on that, Andrew, if you want to give any further comment.

Andrew Downe: Sure, I think, Shemara, you've largely covered it. What I would say is that there has been an underlying growth in the diversity of the activities that we undertake in the client base that we service. So we do see some underlying growth in the franchise that means the base level is probably picking up over time. But as Shemara said, during the year we were also fortunate of some constraints in North America, broadly speaking quite a lot of volatility in the oil price, in particular, that have helped drive market conditions to be fairly favourable, and we're just forecasting that that may not continue.

Shemara Wikramanayake: But I think now you have 160 products across Commodities and Global Markets. We've seen growth not just in the Commodities business that had a material step-up, but in the Fixed Income and Currency business, the Futures business. So all of those in terms of the franchise are stepping up.

Andrew Downe: Correct. So not just across commodities, but across the whole platform, broadly speaking, we think that core earnings, if you like, of the franchise are gradually, as a sort of baseline, picking up.

Question: (Andrei Stadnik, Morgan Stanley) Thank you. My second question. It looks like you took the opportunity to invest in the business given stronger revenues and called out that other costs up about $A340 million this year. Can you give a bit more colour on where the investments are headed and what kind of benefits do you expect in the longer term?

Alex Harvey: Yes, we did call out the step-up in other expenses. I mean obviously part of that, Andrei, is the acquisition that came through during the period, the GLL, the ValueInvest, The Infrastructure Fund, those sort of acquisitions that came through over the period, and costs associated with that, professional fees and the like. In terms of the other investments that have been made, I talked about technology. Really there's investments being made across the board in technology platforms; in BFS, it's obviously in CGM, in Macquarie Asset Management, within Macquarie Capital and also obviously the central service areas investing in more advanced technology to enable better servicing of the customers.

So we're seeing - if you take the MAM business, for instance, a significant investment being made in the platform, the operating platform of the business, to enable more seamless integration between the front office, the clients, the middle office and the back office. So you should see hopefully some benefits coming through there. In terms of Greg's business, continued investment in not just the interface with clients, but also the underpinning technology that supports the service offering. In wealth for example, we should see not just client benefits there, but obviously efficiencies coming through there. So I think a lot of that technology investment is about making sure the business is set up well to deliver to the customers. So we should see a better proposition for customers, as well as a more efficient cost structure for us.

Question: (Andrei Stadnik, Morgan Stanley) Thank you.

Sam Dobson: Richard.

Question: (Richard Wiles, Morgan Stanley) Richard Wiles, Morgan Stanley. Shemara, slide 31 shows the movements in the Macquarie Asset Management earnings. Performance fees were up, gains on sale were down and impairments were up. They're all volatile items. But if we look at the two more stable items, the base fees and the expenses, base fees were up $A170 million, expenses were up $A250 million. How can you be happy with the performance of a business where expenses are growing at 1.5 times the recurring revenues?

Shemara Wikramanayake: This year, as Alex mentioned, we had the GLL acquisition which led to a big step-up in expenses, but we also had some one-off expenses. So we invested in the Aladdin platform across the MIM business which drove expenses as well. But I think when you look at our recurring revenue, it is more than just the base fees that we should look at. As Martin showed in a slide recently, and we can share it again, through the cycle we're typically generating 50 basis points in terms of 50 bps on equity under management of performance fees and also 20 basis points of investment-related income.

If you look back over the five, six years, we've typically been generating $A500 million to $A600 million of performance fees. We have a very good pipeline of investments that we can see, as Martin said, at this point, where we're confident they're generating well above the hurdle for performance fees. So as we look out to realisations in the MIRA business, we can see those coming through, both performance fee and investment income, for a few years ahead.

We don't consider those volatile one-off earnings. But we include it in our annuity-style income because we now, after two and a half decades of being in this business, have a level of confidence of the repeat of that. Martin, do you want to elaborate on that?

Question: (Richard Wiles, Morgan Stanley) Does that mean if, they may not be one-off, they're there every year, but they are volatile, you can see the volatility in the last year as an example. But does it mean if you don't get growth in the net contribution from performance fees, investment income and impairments, then the earnings go backwards if you let expenses grow faster than the base fees?

Shemara Wikramanayake: If you look at the Macquarie Asset Management expenses over the last 10 years, they've broadly held flat. Headcount and expenses have held reasonably flat and a very low growth rate, because we've got the benefit of leveraging the platform that we have and we've grown our revenues materially while the costs and the capital in that business has stayed largely flat. What happened last year was we did two big acquisitions, ValueInvest and GLL, so we took on annualised OpEx for both of those businesses, and we made a big investment in the Aladdin platform which we expensed that year. But I'll let Martin comment because he's much closer obviously to the group now running it, than I am.

Martin Stanley: There's a few things going on which hopefully I can clarify. So the first thing is that, as Shemara said, in order to crystallise performance fees and investment income, we have to actually sell assets. So if you're selling assets, that means that you're returning capital that is earning fees. So you have a consequential reduction on same store-based fees, if you like, as you go through time. So you need to look at this over a longer period rather than just in one year.

To get performance fees, we're having to sell assets and it’s dropping base fees. Then we're offsetting that reduction in base fees as a result of raising new capital. But when we're raising new capital what's actually happening, of course, is that the fees on the new capital is either - is lower than fees on the actual investment capital. So whilst equity under management is going up, it’s not until you’re fully invested on that capital that's really driving your base fee revenue. So that's one point.

The second thing is that what we've been doing is we've been investing very heavily in the platform capability, particularly in the MIM business, but there's also investment going on in the MIRA platform so that we can get a better end-to-end process from the capture of data through to the provision of information both to our clients but also to financial reporting systems. What that will do is that will drive operating efficiencies over time which haven't come through this year, but we do expect to see them coming through in the future.

The third thing that's happening, which is actually the main reason for this big step-up, is the fact that we've acquired these other platforms. So whether it's GLL in Germany, ValueInvest in Luxembourg and also the acquisition of the Foresters platform. That's bringing people and costs onto the platform which is causing this big step up in operating expense.

Sam Dobson: Go back to Brian.

Question: (Brian Johnson, CLSA) Brian Johnson, CLSA. Two quick ones. It's very topical at the moment, I was just wondering if we could get a feeling on what's happening with the arrears rate in the home loan book? Also on the auto book. I realise the book's going down so you're going to tell us the base effect sees it going up, but I wouldn't mind just hearing about those two. The second one, Shemara, is that we can see you've just closed down the Canadian equities business. Equities feels like a pretty tough place to be. It's been struggling now for quite a while. Can you just run us through a scenario perhaps where you have to deal with it perhaps a little bit more savagely than you have today?

Shemara Wikramanayake: Yes, I'll comment on the Equities, and let Andrew follow up, if he wants to say anything. If not, I will hand over to Greg to talk about the arrears in the

Mortgage and the Vehicle Leasing portfolios. With the Equities business, as you've seen, we've made a call to step out of Canadian equities only. I think that speaks volumes, in that obviously we look at our whole platform and think about that business and long term what's the opportunity. We've made a very considered call that equities in Canada was not a business where we see long-term prospect. It's a very competitive market, it's a very concentrated market. We still have many other business lines in Canada that we've stayed in. The businesses we've exited are just a small part of our footprint in Canada. So we see other ways to compete in Canada, but we remain in the other Canadian businesses and we remain in our equities footprint around the world. Particularly here in Australia and Asia, we have a very strong presence and very good earnings out of our equities platform. Anything to add, Andrew? No, not particularly.

Then I'll let Greg comment on the arrears in our mortgage book. Obviously, in a market that's been recently flat, we've been able to gain share, we have maintained very high credit standards in that. Then as I mentioned in the Vehicle portfolio, the fact is the run off but arrears particularly if you want to comment on Greg.

Greg Ward: Yes, thanks, Shemara. We've had wonderful growth in Mortgages, but we have a very low risk appetite. So we target very good borrowers with low LVRs. So we've seen some pick-up in arrears, but it's much, much lower than the pick-up that we're seeing across the market. It's only several basis points, so we're not too bothered on the mortgage side. Obviously in Western Australia, as a market, arrears have gone much higher than the other states. In motor vehicles, arrears are up quite a bit across the industry but, again, our portfolio is performing much, much better than the industry. Our risk appetite is lower, the collections team is an extraordinary collections team, and the mix of business there is different than the market. We have a very large novation portfolio and we see very low arrears and very low losses in that part of the book.

Sam Dobson: Okay, all right, if there's no more questions, thank you all for coming along and we'll catch up with you over the next couple of weeks. Thanks very much.

[END OF TRANSCRIPT]