

TRANSCRIPTION

MACQUARIE GROUP LIMITED RESULT ANNOUNCEMENT

FOR THE YEAR ENDED 31 MARCH 2023

5 MAY 2023

[START OF TRANSCRIPT]

Operator: Thank you for standing by and welcome to the Macquarie Group Limited 2023 Full Year Result announcement. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question you will need to press the star key followed by the number one on your telephone keypad. I would now like to head the conference over to Sam Dobson, Head of Investor Relations. Please go ahead.

Sam Dobson: Thank you very much and good morning, everyone. Welcome to Macquarie's 2023 Full Year Results presentation. Before we begin I would like to acknowledge the traditional custodians of this land and pay our respects to their Elders past, present and emerging.

So this morning you will hear from our CEO and Managing Director, Shemara Wikramanayake, and our CFO, Alex Harvey. On the line we also have our Group heads. At the end of today's presentation, as the Operator mentioned, we will have a Q&A session and we're looking to conclude by about 11:15. So with that I'll hand over to Shemara. Thank you.

Shemara Wikramanayake: Thanks very much, Sam, and welcome and good morning, everyone, from me as well. So, as usual, we will start this presentation by looking at the footprint of our business across our four operating groups and those are, as long-term investors will know, our Australian digital banking business, BFS, our global asset manager, Macquarie Asset Management, our global commodities and financial markets business and our global Macquarie Capital business. So these are specialist advisory and capital solutions and balance sheet investment business in our areas of expertise.

Across those four businesses we get very good diversification not just by geography but also by product exposure and they all respond differently in different markets. We get a lot of resilience in our earnings through cycles as a result and in this most recent cycle, which was conducive for particularly the

commodities and global markets business with the market facing business to an extent in general, we had 59% contribution from the market facing businesses and 41% from the annuity style.

Now, supporting those four operating groups are four very important central service groups that ensure again that we deliver strong results through cycles and those are our legal and governance group and our risk management group that give us both strong second line review and also assisting in executing in terms of initiatives we take. Then our financial management group, which is responsible not just for our financial and regulatory reporting in our engagement with external stakeholders but also our funding and capital through cycles, and then lastly our corporate operations group that delivers our entire platform across technology, HR, premises, strategy et cetera.

Now, all those eight areas together in this last financial year delivered, as you saw, a record result of \$A5.182 billion and that was up 10% on the previous financial year. The return on equity at 16.9% was down a bit on the 18.7% last year but that was principally due to much increased capital position with our capital surplus now materially higher than it was at the end of last year, and we'll touch on that as we go through the presentation.

I won't dwell on the half-on-half changes but year-on-year the contribution from our operating group was also up nearly 10%. It was up 9% on the previous financial year and that was made up of the annuity style businesses being down 17%, principally due to some large one-off items last financial year. In Macquarie Asset Management, we had the Macquarie Infrastructure Corporation contribution and large realisation of green energy assets and in commodities and global markets we had the realisation of our industrial and commercial needs in business in the UK last year. The market facing businesses were up 38% on the last year and that was principally driven by the contribution from Commodities and Global Markets where we had elevated volatility and market price movements in commodities.

Now, overall, as I said, our net profit was up 10%. Our operating income was also up 10% and our earnings per share were up 6%. The dividend per share is up 21% at the \$7.50 approved by our Board.

Our assets under management are also up 10% at \$870.8 billion and I would note that we're now including our dry powder in assets under management for

previous years as well as the current year to be consistent now with global peers. The big drivers of that increase were investments made in the private markets managed funds and foreign exchange movements and that was partially offset by market movements impacting the public investments business.

In terms of the geographic diversification of our income, Australia contributed 29%. So we had 71% coming from outside Australia, with the Americas being the largest contributor again at 78% this year. I would also note in terms of our now 20,500-plus head count, more than 51% of that is also outside Australia.

In terms of the trends of growth of income in all our regions, you can see on this slide the underlying trend is increased in all of our four regions. The Americas last year, as you will probably know, had a very large contribution from realisations in the Green Investment Group and some Commodities and Global Markets income.

Turning then to look at each of the four operating groups and their contribution over the last year, starting with Macquarie Asset Management. Macquarie Asset Management contributed 23% and that was down 23% on the previous year at just over \$2.3 billion and, as I mentioned, the reason for that drop is principally because last financial year we had the Macquarie Infrastructure Corporation and the large Green Investment Group realisation contributions, which didn't repeat. Despite that, the underlying franchise is growing very well. In the Private Markets side we have record equity under management of over \$A200 billion and we had record raisings of over \$A38 billion compared to the record last year of \$A27 billion and we have dry powder of nearly \$A35 billion to invest as we potentially go into what could be a better investing environment. On the Public Investment side, the assets under management are down slightly and that is mostly driven by market movements plus the rotation from equity to fixed income that we've seen happen over this last year partially offset by foreign exchange. That business franchise has also stepped up a lot with the acquisitions made over the last financial year and I would note that 70% of its assets are beating the benchmark on a three-year basis.

Then turning to Banking and Financial Services, it contributed 12% over this last year as a net profit and it was up 20% on the previous year to just over \$A1.2 billion earnings. That was driven by strong growth across the entire platform. The home loans were up by 21%, the business banking up by 13%, the funds on

platform up by 4% and, importantly, our deposit book growing by about 30% to support all of that. A couple of things I would note is that in our growth in our books, not just home loans but all of them, we're very focused on high quality growth in terms of good credit and good returns and the average LVR at origination remained around 65% and the average dynamic LVR at about 55% for home loans. I would also note with the deposits the diversity of the sources from which we have our deposits.

Turning then to Commodities and Global Markets, this was the largest contributor to net profit contribution at 57% this year. That was up 54% from last year at just over \$A6 billion of contributions. We had solid contribution consistent again from the asset finance business and also the financial markets business that grew their contribution and that was in areas like foreign exchange and interest rates where we benefitted from volatility and from client engagement and in the futures business a strong step-up from significantly higher interest and commission revenues. But the biggest contributor was the Commodities business where we had both strong Risk management income across areas like Gas and Power, Global oil and resources and a substantially increased contribution from Inventory management and trading, particularly given demand/supply dynamics impacting North American gas and power opportunities.

Then Macquarie Capital contributed 8% of our net profit contribution. That was down 48% at just over \$A800 million and the main drivers there was that we had weaker market activity compared to a very strong prior year, which impacted the revenue and Capital solutions advisory and capital raising revenue. On the principal slide we had slightly lower investment income but we continued very good investing across particularly private credit and also across equity and had stronger private credit income underneath that. The private credit book is now at I think \$A18 billion. We invested about \$7 billion over the year. We saw a slowing in deployment in the second half, so probably about \$A3.5 billion in the first half, \$A2.5 billion in the second half as the environment was tighter and I should have mentioned in relation to BFS as well Alex will give more detail, but the growth in our home loan book also we saw slower in the second half than the first half.

Those results from the four operating groups are supported by a very conservative and strong funding and capital position and in relation to our fund

and balance sheet that remains strong with our term funding continuing to comfortably exceed our term assets and over this last year deposits across the Group grew 33% to \$A134.5 billion and we also issued another \$A23.3 billion of term lending coupled with the \$A48 billion plus that we did last financial year. We've done over \$A70 billion of term funding in the last couple of years and, again, as Alex will elaborate, we're very strongly positioned now not to need to go to market for some time if that were the case in terms of meeting our funding needs.

On the capital side our APRA Basel III capital surplus has increased from the half year \$A12.2 billion to \$A12.6 billion at the end of the full year and that is after absorbing the \$A2.4 billion of capital requirement due to the APRA Unquestionably Strong reform, and I would particularly note that our capital surplus at the end of last financial year was at \$A10.7 billion. We're now at \$A12.6 billion after absorbing \$A2.4 billion of regulatory capital requirements.

Now, the drivers in this half in terms of increase in the capital have been clearly the earnings net of the dividend, but we also had \$A1 billion of capital released from the business requirements and there's more detail of that you can see here where the biggest contributor was the \$A1.7 billion of release we had from the Commodities and Global Markets as we had a reduction in credit risk capital due to lower commodity prices and exposures. That \$A1.7 billion release was absorbed to some extent by the other businesses. Macquarie Asset Management absorbed about half a billion in terms of co-investment and seed investments to grow our offering in our franchise, and that was offset slightly by realisations in the green energy/green investment group area. In BFS we absorbed about another \$A300 million of capital in growing our home loans and our business banking books, partially offset by run-off in the vehicle leasing. Then in Macquarie Capital we absorbed about \$A500 million or \$A600 million in investment, as I said, in the private credit lending activity but also in some targeted equity investments in our areas of expertise and focus in that business.

With that, we are ending the year with very strong regulatory ratios, well above the APRA Basel III minimums and I would particularly note our liquidity coverage ratio at the moment is sitting at 214%. Those ratios ordinarily, of course, run off unless there's issuance as the funding runs down, the liquid funding.

I would also note in terms of dividends, as I said, that the Board has approved a dividend of \$A4.50 40% franked for the year-end dividend and that results in a full year dividend of \$A7.50 40% franked, which is up from the \$A6.22 declared for the last financial year.

The last thing before I hand over to Alex is just updating on some of the Board changes that we've had recently. First of all, Sue Lloyd-Hurwitz, who will be well known to investors as the CEO, retiring CEO of Mirvac, will be joining our Board effective 1 June onto the Group Board and then following approval at the AGM will also become a director of the Bank Board. Then Nicola Wakefield Evans, who has been our longest serving director, has also confirmed that she will seek re-election at the AGM, which will happen in July, and I think she is expected to continue on our Board in 2024.

So with that, I'll hand over to Alex to take you through the results in more detail.

Alex Harvey:

Thanks, Shemara, and good morning from me as well. As Shemara said, I will now take you through some more of the details of the financial results for March '23 and also some of the other aspects of financial management across the Group.

Starting with the income statement, and I thought I would start by looking at the second half in comparison with the first half and then move on to the full year. So from a second half viewpoint if you look at net operating income it was up 21% for the second half in comparison with the first half. The key drivers of that were a 50% increase in net interests and trading income, a \$A506 million increase in fees and commission income, partly offset by a reduction in investment income and we talked about this at the half in terms of those realisations that were skewed to the first half of the year.

In combination with that, expenses for the half were up 16%, tax rate was slightly up based on the composition of income and as a result the Group delivered a profit of \$A2.877 billion for the second half, which of course, is a record half.

Turning now to the full year result and bringing together the first and the second half, you can see operating income for the year was up 10%. That was driven by a 53% increase in net interest and trading income, offset by a 5% reduction in fee and commission income, a reduction in the investment related

disposable proceeds during the year and a lower contribution from joint ventures and associates coming through the Group the full year. Expenses were up 12% for the period. The key driver there is really employment expenses. There's a few things happening there. We saw an average increase in headcount of 12% across the Group, skewed towards the other central service areas and to the Banking and Financial Services group. We also saw wage increases coming through the Group and the other thing and the other thing we see is an increased profit share in share-based payments expense, coming through consistent with the underlying performance of the Group. Effective tax rate up slightly from where we were at the full year FY22. So bringing that all together, an underlying net profit across the Group of \$A5.182 billion, up 10% on where we were this time last year.

I'll now turn to each of the operating groups and give you a little more detail about the performance over the course of the year. So starting with the asset management business. You can see the net profit \$A2.342 billion down 23% from where we were in FY22. And the key drivers there are lower proceeds associated with realisations across the Group. Particularly realisations through our Green Energy portfolio so fewer material realisations. The other thing we saw obviously is the non-repeat of the gains from the disposition of MIC in the US which came through in FY22. And we saw a step up in operating expenses associated with the platform. Those reductions were offset by a 75% increase in performance fees. Largely coming out of MEIF 4 in Europe and MIP III in the United States. And we also saw the non-repeat of acquisition related expenses associated with Waddell & Reed, AMP, and CPG through FY22. We've also set out the split from a base fee viewpoint. So base fees in the private market business, up 14%, up \$A164 million. And that really reflects the strong period of investing. \$A27.2 billion worth of investment made through the year. And that was almost offset by the reduction in base fees coming through our public investments business that relate to market movements and as Shemara said, the switching of portfolios away from equity investment portfolios towards fixed interest.

In terms of the underlying drivers, the assets under management up nearly \$A871 billion at March '23. And as we said before, that now includes the dry powder which makes it consistent from a comparability viewpoint with where other firms are around the world.

Turning now to the second of our annuity style businesses, the Banking and Financial Services business, a really pleasing result. Up 20% from where we were this time last year and you can see the drivers there. From a personal banking viewpoint, a \$A206 million increase contribution. That really was driven by a 31% average growth in mortgage volumes over the course of the year, albeit slowing in the second half of the year as we foreshadowed at the half year results. We saw an increased contribution from our Business Bank, \$A184 million. That reflects the growth in loan volumes. It also reflects the growth in deposit volumes and improving margins in that business. An increase of \$A191 million in terms of the contribution from the Wealth channel in that business, reflecting a growth of 13% in terms of average volumes. Improved margins associated with those deposits and an improvement in average funds on the platform through the year. You see a step up in the credit and other impairment charges. There's a couple of things happening there. Firstly the macro-economic outlook has deteriorated relative to where we were. The other thing is we've weighted slightly more to the downside scenarios. And we also had, you might recall in the FY22 year, the release of provisions associated with the sale of the dealer finance business and the reduction in the car loan portfolio. So that didn't come through in FY23. You can also see the step up in expenses through the year - 21% step up in expenses. Really, expenses associated with driving the growth of the business, with the investment that the team is making in the data capabilities and the technology platform that supports the business both in terms of front office - customer experience, together with the capabilities necessary to meet the obligations that we have in that business. And we've also seen a step up in regulatory and compliance spend through the course of year. But really pleasing result, up 20% from this time last year.

In terms of the drivers, with exception to motor vehicle business, everything moving in the right direction in terms of growth in both loan assets, deposits to support the business, and also funds on the platform.

Now turning to the first of our market-facing businesses, the Commodities and Global Market business. Obviously a tremendous result, up 54% from FY22. Really reflective of the opportunities the business saw through the year to grow the customer franchise, and I'll talk a bit more about that in a moment, to provide solutions to those customers and obviously the market conditions provided opportunity to manage those customer positions on balance sheet

and generate trading income for the Group. So really a tremendous result. We have seen those conditions taper off a little bit in the fourth quarter. Or our fourth quarter, the first quarter of calendar '23. In terms of the components of the movement, you can see commodities is up 82%. Risk management income for the year up 50% and that really reflects the work that the team is doing with customers, particularly in the Global gas, power and emissions business and the Global oil business and the Global resources business. We also saw a step up of \$A1.6 billion in Inventory management and trading coming through there, reflecting those demand and supply imbalances that we've talked about, particularly in the North American market now for many results. Financial markets up \$A114 million, a little under 10%. A really strong contribution from Financial markets particularly in the first half coming through as we saw lots of volatility in interest rates and FX markets. But there are opportunities to extend Credit in that business which we were very pleased to provide and provided opportunities to grow the revenue base. We didn't have the repeat of the gain on the disposal of the commercial and industrial meters business in the UK. And we also had a step up in expenses coming through the Group. About a 22% step up in expenses. Really associated with the investment that we were making in the platform to support the growth of that business and to support the obligations that that business has around the world in relation to regulatory compliance, data, and so on. So a really pleasing result for the Group.

Just as we've done in the past, hopefully the slides have helped contextualise some of the result over the period and starting with the chart that's on the screen now which is obviously indicative of some of the volatility we saw through the year. So this is the volatility we saw in European gas prices and in US gas prices. And you can see from about the middle of FY22 all the way through until the end of calendar '22, we saw a very volatile period. That provided opportunities for us to grow our customer base and provide solutions to those customers to help manage that volatility. It also provided good opportunities from a trading perspective for the Group. And as we talked about at the Operational Briefing, the third quarter in particular, exceptional trading results through CGM. And those have normalised if you like in the first quarter of '23, back towards where we saw prior to the first half of '22.

A chart that will be familiar to people obviously - on the right-hand side you can see the growth in customer numbers across CGM. Really pleasing to see that underlying customer franchise continue to grow and where the team seen

opportunities particularly is in the European gas, power, and emissions market, in our agricultural sector, as well as our upstream resources. So there's been good growth in the customer numbers there. On the left hand side obviously that's reflected. Continued to be reflected in the operating income of the Group which is very much skewed towards income associated with the underlying client franchise. So the growing client franchise deals with the clients more often in more locations really driving the opportunities for the Group.

And then finally in terms of the capital position for CGM. On the left hand side you can see the capital position over the last few periods. You can see the reduction in credit capital from March '22 all the way to March '23. Reflective of prices coming down and volumes coming down over the course of that period. Market risk, as we've talked about through the year, stepped up a little bit as the size of the opportunity and the size of the business increased. So you can see market risk capital a little higher than what it was back in March '21 and previous periods. You can see the impact of those trading opportunities on the daily P&L chart on the right hand side of this page. Which is a reasonably familiar shape to what we've had in the last couple of years, albeit flatter and slightly more skewed further to the right of the Y axis. But still very much skewed to the positive which is reflective of the focus that the Group has around client activity and slightly higher in terms of the average daily P&L which really relates to the opportunity the team saw during the course of the year.

Now in terms of Macquarie Capital, the last of our business units. Macquarie Capital, a more challenging period, down 47% for the year, just over \$A800 million worth of contribution and you can see where the drivers are there. The fee and commissioning come down 27% over the period. Investment related income - lower contribution than the prior year and obviously skewed to the first half of the year. Operating expenses up both in terms of continuing to invest in those sectors where we have really big capability across the world. So great opportunity I think for us to grow there. Also increased investment in the platform to support the business activity. Partially offset by an increase in the contribution from the private credit portfolio. In average terms, the private credit portfolio us up just over \$5 billion. Consistent sort of margin profile through that business. That increase in contribution is partly offset by an increase in the ECL contribution. Both reflective of the macro environment and the slightly higher weighting to the downside scenarios. But also reflective of a

couple of specific revisions in the private credit portfolio where we've made specific provision against the performance of those credits.

In terms of the underlying drivers, Macquarie Capital. Capital alongside its clients grew over the period. You can see where the growth is. It's really around the private credit portfolio, the dark green at the bottom. The team also saw opportunities in the digital infrastructure space, together with the infrastructure space more generally to deploy capital and we hope that those investments pay off into future periods. On the right hand side, we gave you a composition of the private credit portfolio in terms of the sector exposures that the private credit portfolio has. As we've said in the past, very consistent with sectors where we think we have deep global expertise which allows us to generate transactions on a bilateral basis and at good risk adjusted returns.

Now turning to some of the other aspects of the Group. The regulatory compliance and technology spend, a feature of the results over the last few years and it continues to be so for FY23. From a regulatory compliance viewpoint, you can see up 33% on where we were for the full year '22. That really reflects the growth in the regulatory change. There is a lot of change going on across the regulatory landscape around the world. That spend on new projects and of course some of those flowing through into the BAU compliance spend as we continue to invest and improve the platform around the world and ensure we meet our obligations. And on the technology side, up 26% in terms of annual expenditure on technology. Just to give you a breakdown, about a quarter of that relates to changing the Group and about three quarters of that relates to running the Group. Just by of comparison, when Nicole Sorbara presented a few years ago at the operational briefing, you'll recall at that time we talked about 19% of the spend coming through with change the Group activities, with the balance on run the group. So of course that change activity is a feature of what we're doing with our technology investment.

Our balance sheet, as Shemara mentioned, another strong period of fundraising in terms of term funding. Just over \$A23 billion of term funding. Split reasonably evenly between the bank and the non-group and coupled with last year's \$A48 billion, over \$A70 billion worth of raising over the last couple of years.

We continue to work on diversifying the funding sources for the Group. And this year, we're delighted to welcome another 200 investors, who own debt

exposures, to the Group. And really pleased to say that the term funding from our point of view, weighted average term funding, still out at 4.9 years.

Deposit story is a familiar one I'm sure to everyone. It's been another strong year for Greg and the team in BFS with a growth of up to \$A135 billion. We continue to diversify the customers that we're serving and improve the product offering to those customers across all of our deposit products and in particular, our transaction and savings deposits and our term deposits over the course of this year.

The loan and lease portfolio up 18%. Largely reflecting the growth in the home loan portfolio, the business loan portfolio, and at the bottom of the page there, you can see the growth in Macquarie Capital's private credit portfolio.

Equity investments at \$A9.6 billion. The key drivers here really are investments where that we're using the balance sheet to seed future strategies for the private markets business in MAM. The other thing you're seeing is increased contributions across - investments across transport in the aviation space. And of course that digital infrastructure and infrastructure story I talked about within Macquarie Capital.

From a regulatory viewpoint, as I mentioned before, a lot going on. I guess most significantly over the course of the last 12 months, we've had the implantation of the Basel III unquestionably strong reforms coming through that were implemented on 1 January 2023. Which is great to have a long project come to conclusion. The second thing is just in relation to the German dividend trading matter. Authorities continue with their investigations in Germany in relation to the dividend trading matter. Whilst nothing particularly material from a Macquarie Group perspective has happened over the course of the last period of time, we did take the opportunity to update our disclosure. Just to note that some of our former and current employees - we've been notified that they'll be interviewed in relation to that matter. We continue to provide for that matter and we'll monitor those provisions going forward.

In terms of the Basel III CET1 ratio for the bank, really strong 13.7% and 18.4% on a harmonised basis.

As Shemara mentioned, liquidity and cash - the cash and liquidity position on the balance sheet continues to be very strong. The LCR at very elevated levels. Consistent with the fact that we've been raising funding ahead of the

obligations to repay things like the term funding facility for the sake of the example and so on. So we'll see over time, whilst that elevated level exists today, that level will come down as we come to a more normalised level going forward.

Then from a capital management viewpoint, the only thing to note really on this page is that in addition to the declaration of the dividend today, the Board has also enacted the DRP at a zero discount and will be buying shares on market to satisfy any applications under the DRP. In relation to the MEREP, we will also be buying shares on market in relation to the MEREP grant. There will be a share sale facility available for staff who have stock vested in their hands at the end of this period.

And so with that, I'll hand back to Shemara, thank you.

Shemara Wikramanayake: Thanks very much, Alex, and so I now will take you through the outlook, starting with short term outlook for the period ahead. As usual, we look at it based on each of our four operating groups.

Starting again with Macquarie Asset Management. Our expectation is that base fees will be broadly in line with FY23 and investment-related income will be significantly down principally due to the large gains we had in FY23 on Green Energy asset realisations.

In Banking and Financial Services, we expect growth across the platform in the loan portfolio, in the deposits, and the platform volumes. But of course market dynamics will continue to drive margins. We also expect to keep investing in terms of volume growth, in terms of technology, and also in terms of regulatory requirements. And finally, we will continue to monitor provisioning in terms of expected credit losses et cetera.

Macquarie Capital, subject of course to market conditions, we expect transaction activity to be up on what was a challenging year in FY23. And we're expecting investment related income to be significantly up principally due to the growth in the private credit book, partially offset by the timing of realisations in terms of investments that we have. But we are committed to continuing to deploy capital in both equity and credit across the areas of Macquarie Capital's deep expertise.

With Commodities and Global Markets, we are expecting a continued and consistent contribution from the assets finance business and the financial markets business. In relation to the Commodities business, we obviously benefited from exceptionally strong trading conditions during FY23. So for FY24, what we're saying is we expect commodities income to be up on FY22. Subject of course to any volatility that we see during the year.

And then in terms of the central for both compensation ratio and effective tax rate, we expect it to be in line with historical levels. Now that is, as ever, subject to a range of factors which include market conditions, global economic conditions like inflation, interest rates, volatility events, and the impact of geopolitical events. Completion of period and revenues and completion rate of transactions, the geographic composition of our income and the impact of foreign exchange, and potential tax or regulatory changes in tax uncertainty. Given all that, we continue to maintain a cautious stance with a conservative approach as you've seen to capital funding and liquidity that we think positions us to respond in the current environment.

Then turning to the medium term, as we said, we remain of the view that we are well positioned to deliver superior performance over the medium term given the diversification we have across our four operating business lines. Which are exposed to different thematics and are also very complementary to each other in terms of how they respond to underlying economic conditions as we saw during FY23 with different businesses responding differently. And are also very well positioned for growth, structurally well positioned over the medium term. Those four businesses of course there are the customer experience focused digital banking offering in BFS which still has more market share in all business lines in Australia where its focus is. Then our three global businesses which also are still small in terms of the size of the markets, they're addressing and servicing on a global basis, being our asset management business with a focus on Private Markets real assets but also a good Public Investment footprint. The Commodities and Global Markets business and our Macquarie Capital business focusing on areas of specialist expertise in the main regions in which it operates around the world. Now, that is of course supported by our ongoing investment in our platform in terms of technology and regulatory spend to support the Group delivery over the medium term, our independent proven risk management framework and culture and our strong and conservative balance sheet.

That has helped us, over the medium term, deliver strong results. If we look at the 17-year average, the annuity-style businesses have delivered 22%. In this last year, they delivered 18%, principally due to the extra capital absorbed currently in Macquarie Asset Management, both in particular seed and co-investment positions and also the recent acquisitions that are coming through. Then in the market-facing businesses, we've delivered a 17% return on equity average over the last 17 years and, in this last year, delivered 28%, particularly due to the strong contribution from the commodity lines in the commodities and global markets business. The whole Group together has delivered on average 14% ROE over the last 17 years. This year delivered 16.9% after, as Alex and I have mentioned, taking into account the \$A12.6 billion of surplus capital that we're holding, so higher contributions obviously from the Operating Groups at the 18% and 28% and 16.9% net.

With that, I will hand back to Sam to take your questions. Thanks.

Sam Dobson: Thanks, Shemara. I'll now hand over to the operator for Q&A. Thank you very much.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question. Your first question comes from John Storey with UBS. Please go ahead.

John Storey: (John Storey, UBS) Thanks very much. Thank you, Shemara, for giving us the opportunity to ask a few questions. My first question is just on the dividends for \$A4.50 in the second half of the year. How should the market be reading into this just in terms of potential inorganic growth opportunities?

Shemara Wikramanayake: Yes. Thanks, John, for that question. The dividend basically is in the middle of the range that the Board has for its dividend payment of 50% to 70%, at 60%. I think what we're saying is that we had a very good year and we want to share that with our shareholders, so we're paying 60% which is up from the ratio we were paying last year.

Equally in terms of how we're responding with MEREP and the DRP as well, we're saying we're comfortable with capital to take actions that show that we have ample capital. But at the same time, the environment we're going into is a particularly uncertain one, we think, and so we've made a judgement that it

behoves us to be holding a very strong capital position going into this with the \$A12.6 billion surplus we have. As I said, that's after the \$A2.4 billion unquestionably strong amount, so it's gone basically from \$A10.7 billion to \$A15 billion over the last year excluding that.

We think we're very comfortably capitalised, yes, for inorganic opportunities if we see them in this current environment but also in terms of being defensively positioned, not just with capital but not needing to go to the markets for funding, et cetera. I don't know, Alex, if you want to add anything.

Alex Harvey: No, I think that covers it actually.

Shemara Wikramanayake: Thanks, John.

John Storey: (John Storey, UBS) Great. Then just my second question is you've called out low levels of volatility in Q4 in global gas markets. Just want to get a sense of how material this is in terms of the revenue outlook for the commodities business and then what's the timing impact of this in terms of how it could potentially flow through to revenue? You called out that Commodities revenue's going to be roughly in line with FY22. What's ultimately in the pipeline and what gives you confidence in these revenue numbers?

Shemara Wikramanayake: Yes. I think what we said, John, is that it would be up on FY22. Basically our Commodities business, like all of the Financial markets and Asset finance businesses as well in Commodities and Global Markets, are customer service based businesses. Ultimately what we are doing to drive earnings is growing our franchise, going into new geographies, going into new products as well and commodities. But also upselling what we do with existing customers is a big driver.

The underlying growth in CGM - and you saw that in one of Alex's slides - is driven a lot by those base businesses we provide in terms of financing, risk management, storage, transportation, et cetera. Then the trading revenue is on top of that, the thing that could fluctuate depending on what volatility we see in markets.

Now we're in so many different markets, geographically and commodities-wise, that we could experience volatility in any one of those. Last year it was in a sub-area of North American gas and power that we had particular volatility, but

there was also volatility - Alex showed the graphs in European gas and power as well as North American.

The volatility could occur in many areas. The thing that gives us faith to give guidance on the earnings is what we're seeing in the underlying franchise growth in terms of those nontrading items and then assuming some level of trading. But the trading really comes from being in markets serving customers that gives us very deep insight so that if we do see particular dislocation, we're able to do some trading around that. Hopefully that answers it, John.

John Storey: (John Storey, UBS) Yes, that's great. Thanks so much.

Operator: Thank you. Your next question comes from Matt Dunger with Bank of America. Please go ahead.

Matt Dunger: (Matt Dunger, Bank of America) Yes. Thank you for taking my questions. If I could just ask you to remind us on potential asset realisations you're looking into FY24 and how we should think about potential performance fees in private markets businesses you're moving into.

Shemara Wikramanayake: Yes. Thanks for that, Matt. I'll focus on the asset managers private market businesses. What we typically have is - performance fees that we've guided some years ago sit at about 50 basis points of equity under management. In this last year, they were at 45 so can bounce up and down depending on timing of realisations. We also are growing our equity under management a bit into non-performance fee businesses to some extent, private credit and to some extent real estate as well. But in terms of the timing of assets, we've got a large European fund and a large North American fund that are reaching the end of their life and realising assets. Those are the fourth in the series of the European Fund's MEIF 4 and the third in series for the US, MIP III. They have a number of assets where we've seen very good growth in the underlying asset performance.

We take some recognition of the performance fees before the assets are realised, because the accounting standards require us to recognise those fees as we form a view that there is a highly improbable risk of reversal in terms of the fees being generated. We've already recognised some of the fees in the revaluation of the assets in the funds, but typically we have been able to realise at a premium.

It really depends on market conditions. We're pretty disciplined in what we recognise, so far being what we think is highly improbable risk of reversal. Then as we realise about half a dozen assets across those two funds and a few others, hopefully we will generate performance fees into next year. As we guided, the main reason we see net other income down in the asset manager is because the one-off gains in the green energy assets were pretty strong last year. That's why we think we won't have as high net other income. Does that cover it, Matt?

Matt Dunger:

(Matt Dunger, Bank of America) That's perfect. Thank you, Shemara. Just if I could ask on Macquarie Capital Private Credit, 26% of those exposures in software and technology, particularly deployment into debt, can you just talk to us about how you're getting comfortable with credit risk management within that book?

Shemara Wikramanayake: Yes. Basically we've been investing in private credit through that team now for probably at least 12 years, actually going back just since the time of the GFC. We have a very good experience in terms of our team and their investing experience. Their credit loss is less than 1%, in fact less than 0.5% in our credit loss experience, basically because we're using very, very deep expertise in subsectors. We see a massive pipeline of opportunities. We sift down and sift down and only do very few investments each year based on confidence in the underlying - not just the business we're investing in but the partners we invest with.

Our loss experience has historically been low. We're very disciplined about putting money out of the door. Our expected credit loss provisioning is running at about 3% to 4% compared to the experience that we've had. I think that's what gives us confidence. Often we're going in again with partners that we've worked with before as well, so it's really the deep expertise of the teams in their subsectors that gives us confidence.

Alex Harvey:

Matt, maybe just to add to that, the technology exposures and software exposures the Group have mainly taken are to cash flow generating businesses, typically government, business services type businesses with an established and growing platform rather than the more publicly talked-about technology story which tends to be obviously loss making. A lot of the activities in those sectors where we have real expertise, cash flow and more defensive elements associated with government and business services, which again I think

underscores the point that Shemara's making around the performance over time that we've seen through that book.

Shemara Wikramanayake: Yes, that's actually a very good point, because in private credit, we're investing in more mature software and technology businesses, cash flow ones. Whereas in our Macquarie Capital Venture Capital business, MCVV, we invest in early-stage things. Say PEXA here is an example where we put small cheques in early on and then help grow those businesses over years to a larger equity realisation.

Matt Dunger: (Matt Dunger, Bank of America) Brilliant. Thank you very much.

Operator: Thank you. Your next question comes from Jonathan Mott with Barrenjoey. Please go ahead.

Jonathan Mott: (Jonathan Mott, Barrenjoey) It's actually two questions if I could. I'll break them up.

The first one, around the world with - actually if you look at Macquarie over an extended period of time, you've seen an ongoing movement since the GFC into unlisted assets. People have really loved that, because it avoids the volatility and you get stable, long-term returns. But at the same time, there's a push overseas in the US and around the world that maybe these assets, and especially commercial property, haven't been marked properly. There's a liquidity issue at the same time. I am getting a lot of regulators that focus on this issue. Do you think this is a potential risk that over the next five, 10 years - maybe even a shorter timeframe - that there's going to be a regulatory push back into more liquid, more marked assets that could potentially make unlisted assets less attractive?

Shemara Wikramanayake: Potentially. I would start by saying the unlisted assets where they're not commercial property. They're typically operating businesses where we are driving the bulk of our superior return by actively managing those assets, whether it be in our asset manager - in our deep areas of expertise across infrastructure, et cetera, or on the balance sheet. We invest in tech and infrastructure and government services as Alex said, growth businesses, et cetera.

I think for us, where it's balance sheet, we are making sure that the funding for those is turned down for the life of our expectation of holding those assets, so

we're not expecting regulation to hurt our sources of funding and liquidity for staying in those businesses.

We think we have delivered superior returns to our human capital capabilities and can continue to in the asset manager in terms of allocations to unlisted assets. Whether regulators will ask our institutional investors to allocate more to liquid assets because there isn't transparency and visibility of price, that may be a factor. But the allocation at the moment to the asset classes we're focusing on - like infrastructure - are very, very small globally relative to the size of the class.

There is a very good liability match in terms of the long duration liabilities a lot of these investments have. Even though there might be regulation and it goes to more transparency of marking, we think we will still see good flows to our asset classes and good growth in terms of our share of those flows as well.

We think we'll continue to be able to, even if we're constantly marking the assets, show investors - because as you know - I just mentioned earlier - we are very disciplined about marking those assets. If they need to be marked down, we would mark them down. But typically as we mark them up as the operating performance grows in terms of our active management of them, we're very disciplined about marking them up as required under accounting standards.

Jonathan Mott:

(Jonathan Mott, Barrenjoey) Thank you and a second question if I could. When we look at this result, we've never seen a result by Macquarie which is so heavily skewed into one division. CGM making 58% of the cost contribution. It's almost the most capital intensive of the divisions. The other divisions did okay obviously. The Banking and Financial Services is growing and others were pretty soft.

When you see this which is so heavily skewed, how do you manage the staff compensation ratio and when it is a year like this where some of the divisions haven't performed well and a more capital-intensive division is really driving the result, shouldn't shareholders receive a larger proportion of those returns? How do you manage this? I note also that the profit shares worked well for many, many years, but we've never seen a year as skewed as this.

Shemara Wikramanayake: Yes, which just like in your business we're ultimately a human capital business and it is talent that drives the earnings for shareholders. Basically, we work off market compensation rates for each different business and they are very

different depending on what the underlying business is. So, the compensation ratio can vary depending on which of the businesses contributes the most in a year, but that's just a number that falls out of making sure we pay market rate to attract talent.

We try to pay the lower end of market rates and have a broader offering than just money to our talent, but we need to make sure we maintain that talent and that is aligned with shareholder interests because without them the earnings are not there. This year CGM delivered \$A6 billion of earnings, as you say, 57% of the Group's earnings. The rates at which people in CGM get paid are determined by the markets they operate in and there's different rates for some businesses within CGM as well and we honour those arrangements to make sure we keep attracting talent.

In the other groups as well, they are paid based on the market for those businesses, which does take into account the return on equity as well. You saw that the Capital Markets business as we see it delivered a return of 28%, so when you say they're capital intensive we can still deliver very, very high ROEs in CGM depending how that money is made in areas where the human capital is driving much more of the return. We can deliver very high ROEs and as you can see in that 28%, Macquarie Capital had a much more challenging year, down 47% at \$A800 million.

The CGM number would have been pulling that average up. I think we certainly take into account the interests of shareholders and our view is it is smart for the shareholders to be compensating top, top global talent at market competitive rates, at the low end of market competitive rates, but giving them an offering where they stay with us long term and we can grow businesses behind them.

Alex Harvey:

Maybe, Jon, maybe just a couple of points from me. I mean obviously the businesses, the market facing businesses, are set up and delivered this year in a way that you'd expect them to. When conditions are conducive then we would expect those market facing businesses to perform really well. Over the course of the year from a CGM viewpoint you obviously saw significant volatility. I put up the charts around gas in Europe and the US which you saw volatility across global markets more generally and across commodities more generally.

In that environment I think the team was able to step up, grow their customer franchise, obviously help those customers manage that volatility which provided opportunity for us on the trading side. I think the business actually did exactly what we want it to do and if you think about the combination of that portfolio, obviously you've got these stabler type of businesses in the annuity stream and then you've got these businesses that perform better when the conditions are actually conducive to them doing so. I think the business performed as we expected it to and we talked about it through the course of the year.

That's one thing I think that is relevant to think about. I think the other thing which is interesting from a capital perspective in terms of the heavy use of capital is it is a relatively short data capital business as well which I think is a positive in the sense that capital comes back quite quickly and over the course of the year, as Shemara showed in her slide, we have \$1.7 billion of capital come back to the Group which is really consistent with the way that CGM business is set up.

It also enables us to respond quickly to market conditions, so the capacity to turn that capital where the conditions are conducive to doing so I think is a really strong element of the way the CGM business is operated and the type of business it's involved with.

Shemara Wikramanayake: I might just briefly mention as well that actually ironically the profit-sharing rate for the Group was down this year on last year because of the mix of, not just in general, but the divisions and lines from where we generated earnings. The compensation ratio was up a bit. That's not to do with profit sharing rates, it's to do with the investment we're having to make in head count and hence the base comp numbers being up a lot as we have to invest in our operating platform to respond to regulatory requirements, technology, et cetera.

Operator: Thank you. Your next question comes from Andrew Triggs with JP Morgan. Please go ahead.

Andrew Triggs: (Andrew Triggs, JP Morgan) Thank you. Morning, Shemara. A first question please just around the commodity guidance that you provided for FY24, the reference to the FY22 is the baseline for growth off that level. I'm just wondering whether if you look more into the medium term whether you think

that is a reasonable baseline for us to think about the commodities performance of the business.

Shemara Wikramanayake: Yes, I think subject to volatility that we experienced in terms of market conditions I think we're saying our franchise is growing year on year on year and we're at a point now where we think hopefully subject to market conditions, we can keep growing from those FY22 levels. We've got Nick O'Kane here. I don't know if you need to add anything to that Nick or you're happy with that answer.

Nick O'Kane: Thank you Shemara. I think you certainly have answered very comprehensively. Perhaps just to add one thing. We're tailoring our services to our clients around the demands, things like the energy transition, are coming through and that's how we're thinking about servicing the client base. Our expectation is those demands will increase over time giving us the opportunity to continue to grow the franchise.

Shemara Wikramanayake: That's a good answer.

Andrew Triggs: (Andrew Triggs, JP Morgan) Thank you Nick. That slide on slide 31 around I guess benchmark prices on European and US gas prices, obviously probably relates a little bit more to risk management revenues, but in terms of the inventory management and storage business can you talk a little bit about what's happened in more recent months around dislocation in physical markets within the North American market please.

Nick O'Kane: Sure. As we have tried to demonstrate here on that slide is we are seeing compared with the conditions that we saw in calendar year 2022 slightly more subdued trading opportunities. However, in terms of the demand for the underlying services that the clients require, the business actually supplies to our clients, we are still seeing pleasing amounts of underlying client activity. So yes, there has been a little bit of a reduction in the volatility from what we have seen as extreme markets over the previous periods, but the underlying demand for our services still remains quite strong.

Andrew Triggs: (Andrew Triggs, JP Morgan) Thank you and just a second question please around the deposit strategy. Perhaps Alex. Interested in seeing the extent of growth in deposits within the BFS division as it has more than matched, in fact I think in the half probably doubled the growth in the loan portfolio and that book now looks to be fully funded by deposits. Just keen to understand the strategy there.

Maybe any comments around the cost of that relative to wholesale funding and whether that's being used to fund growth elsewhere within the Banking Group.

Alex Harvey:

Yes. Thanks, Andrew. Yes, a couple of things and look, Greg is on the line as well so he might want to add something here. Look, I mean the whole funding story across the Group is a liability led story, Andrew, as you know. We raise funding and then we deploy funding into the assets. For some time now we have been talking about within the BFS business what we'd like to do basically is fund the growth in their loan portfolio through deposits and you can see that. As you said, the vast majority of that portfolio is now funded through the deposits.

That continues to be the case. Obviously, the deposit story is not a new one. If you look at that growth over time what the team has been doing is a nicely established base of deposit customers that is very longstanding across the business products and across the CMA. Over the course of the last several years also the product set that the team has been developing for those deposit customers has expanded into more digital products, into transaction accounts, into savings accounts and more recently to term deposits.

I think there has been a very concerted effort to (1) make sure we are liability led in terms of funding and (2) be very deliberate about the suite of product offering we have to be able to service the customer base that BFS is working with. That's coming together nicely for us. I mean obviously from a cost of funding viewpoint we feel like the returns we were able to achieve on the BFS business are very strong returns and they continue to be strong returns.

We've been I think, on the asset side, we have been very disciplined around the growth. As I said in my comments earlier, you can see the tapering of the growth over the course of the year. The market is obviously incredibly competitive which is appropriate, but I think the team has been really disciplined in the way they've actually grown those deposits.

I would guess that peak margins, like others are saying, peak margins are probably six months in the past and so would expect to see some margin pressure going forward particularly where costs of deposits and deposits are obviously becoming more competitive as people look to refinance at CFF and so forth and we would be expecting to see that as well. Deposits have plainly been, you know, have moved. There's plainly been a gap from a cost of funding

viewpoint between deposits and wholesale but that gap is closing. I don't know, Greg, whether you want to add anything to that?

Greg Ward: Not much at all. I think that's a comprehensive answer Alex. As you say, there's an expanding suite of products available here. We have the advantage I think that we don't have a branch network and that the newer products we have are digital on new platforms and the opportunity for us I think is in the market there are still a lot of customers on very old products with rates that could be improved if they shopped around and that's what we're benefiting from.

Alex Harvey: I hope that answers that Andrew.

Andrew Triggs: (Andrew Triggs, JP Morgan) Thank you. Yes, that's great. Thank you.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Andrei Stadnik with Morgan Stanley. Please go ahead.

Andrei Stadnik: (Andrei Stadnik, Morgan Stanley) Good morning. Thank you for taking my questions. My first question, I just want to ask around the outlook for MAM investment income to be down, how do you - that seems quite conservative in the sense that how would you reconcile that with MEIF 5 recently selling a stake in eight offshore wind farms that have a broadly \$A10 billion valuation at 100% stake.

Also, the slide that shows a \$A9.6 billion of equity investments highlights that the reduction in green energy investments was actually very modest and there's still quite a substantial amount of green energy investments in the balance sheet. So how do you reconcile the outlook for MAM investment income to be down versus some of the early sales we are already seeing in FY24 in particular?

Shemara Wikramanayake: Yes, there are two things driving that. One is that it's not the performance. Principally we said the main reason we expect our net other income to be down is the investment realisations and in terms of the investment realisations the assets that we have, the green energy assets in the Green Investment Group will be realised at the time that is most conducive to getting the best return on those assets.

It can be lumpy from year to year and as it turned out last year, even though the amount that came off the balance doesn't look huge on that page you pointed to, the realisations we made from those particular assets was material.

As we look at this financial year, we don't have as large expectations from the gains of the assets we will realise this year. There are still a few years left as we run off those Green Investment Group legacy balance sheet assets and this is not one where we expect as high realisations as we had last financial year. That's the main contributor.

Andrei Stadnik:

(Andrei Stadnik, Morgan Stanley) Thank you and my second question, can I ask just around the outlook on private markets funds raising because we have some volatility so how are you thinking about Private Markets funds raising and with it being particularly for your green funds?

Shemara Wikramanayake:

Yes. Look, a couple of things. First of all, there could be lower allocations to Private Markets because of some of the liquidity issues that Jon Mott was referring to as well where we are seeing the value of public assets come off and so that creates asset allocation potential challenges for investors and they may have to, unless they have a lot of inflows coming in, slow their private market allocations for a bit. So, we could see lower allocations to private markets.

Within that we think we should continue to be well positioned. As you have seen the raisings we are doing are going up and up from \$A27 billion the year before to about \$A38 billion this year, so we are getting - in the franchise we have more and more doubling up and newer investors coming in because we have a good track record and a broader offering of funds.

On the green investment side particularly we're raising for two strategies. One is an energy transition strategy which is going well and has good momentum. The other is more mature green assets where we already have had two funds in the asset management business before the Green Investment Group came across and we are raising those. It has been a sector where there has been a lot of allocation by investors, but I think one of the challenges in that sector is that the returns on the operating assets are coming down as so much money is keen to get invested there.

We think hopefully we will have better offering now for investors with the Green Investment Group team coming across because it positions us to let those funds also go further up the risk curve, if I can call it that, more into late-stage construction or construction assets where we can bring expertise. We are hoping even though the pool of money allocated to private markets may

contract that our share, which is a small share within it, will continue to attract interest.

We have some seed assets as well that hopefully will help investors allocate to us so we will see how we go during the year. It could be a tougher year generally but hopefully we will do reasonably within the context of the environment.

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

Operator: Thank you. Your next question comes from Brendan Sproules with Citi. Please go ahead.

Question: (Brendan Sproules, Citi) Good morning, team. Look, my question is just on the outlook for operating expenses just broadly across the Group. Obviously, you've had 16% growth half on half and there's a number of key drivers here around regulatory in the Bank and obviously you're rebuilding or expanding the platform in CGM. How easy is it to slow growth in expenses as the revenue environment changes as you've sort of provided us in your guidance today?

Shemara Wikramanayake: Yes, thanks Brendan. We have had a big step up in operating expenses. Some of it is revenue driven, so obviously as Greg just mentioned, in BFS the way we compete is through this digital bank offering and we are constantly investing to keep that at the forefront but also to keep delivering other offerings and rolling out the digital offering.

In Macquarie Asset Management we have invested because we bought a couple of external platforms and been able to take costs out of that, but we've also been doing a lot of investment, not just in CGM, but more generally across our operating platform. In areas like liquidity reporting for regulatory requirements, we're needing to invest a lot in data and also in systems and automation of systems and upgrading manual processes.

Now, we've been fortunate that whilst our expenses have gone up materially over the last year and Alex has shared the data on that, we've been able to grow revenue faster and still grow bottom line earnings a lot. So since about FY19 I think the investment has really stepped up but our earnings have gone from \$A2.7 million to \$A3 million to \$A4.7 million to now \$A5 million. So, the businesses have been able to keep growing their franchises and generate revenue.

If the environment were to turn materially, then like anyone, I think we would focus a lot more on discretionary cost spend, but some of it is, as Alex described, it is run the bank not to change the bank's investing. For the medium term we are committed to the fact that we need to make some of these investments in technology in regulatory response. So look, it will be a balance of things. You look like you'd like to add something there Alex.

Alex Harvey:

I was going to say just only two other points Brendan. Obviously profit share is a component of the cost base and that's obviously variable based on the bottom-line performance of the business, so you get some variability just naturally through the way the profit share and share-based payments mechanism works. The other thing obviously, just to underscore the point that Shemara just made. What we did see was quite an increase in the headcount over the course of FY23. Some of that will obviously pull through into 2024.

My guess is the headcount growth slows anyway. We have obviously had a big step up in headcount over the last couple of years. There will be a slowing in growth, so you get a bit of a pull through of what happened in 2023, a little bit of headcount growth in 2024. Obviously, some wage pressure in segments is still there but in terms of the outlook you're describing what that might do from a wage pressure viewpoint as well.

I mean plainly if you think about the outlook the only group where we're calling out expenses is BFS where, as Shemara said, we continue to invest in the platform really to support its growth but to support the continued digitisation of that financial services offering here in Australia so we've called that out specifically. Deliberate strategy, obviously, to continue to do that. We haven't called out expenses elsewhere which obviously reflects, I guess, the point we're making around the significance of the cost increase relative to the performance of those other three components but other than that - yes.

Shemara Wikramanayake: That is a good point. Thank you.

Brendan Sproules:

(Brendan Sproules, Citi) Thank you and my second question is just on the Green Energy Group within Asset Management. Obviously there was a big change in the contribution, the investment related income in this half particularly. Obviously you've guided that the full year will be lower next year. Is this going to - is this line now going to be a much more immaterial contribution to asset management going forward? I guess my first question and then the second part

to that is, are we going to see a big pick up in Private Market space fees as you transition this business to more third-party capital?

Shemara Wikramanayake: Yes and it's going to be a transition. There will be some glide path as we run off the principal assets and have gains on those and then build up the asset management earnings. There could be a gap there because the principal investments are generating us very large amounts because we've held those assets for some time now whereas on the asset management side, the base fees are going to be around the 1.25% of equity under management and so to be generating that size of revenue, we need very large funds under management.

We'll pace ourselves on doing that because we went to make sure we can be delivering really good outcomes for investors. Now, happily, we have actually been investing in that space for a long time both in the asset manager and on the balance sheet so we should be able to deploy faster than in a new strategy and so that should allow us to raise larger funds but I think there will be a gap.

Sam, is Ben Way on the line as well? Ben and Michael Silverton, I think may be online from New York. Ben, is there anything you want to add on that?

Ben Way: No, Shemara. I think that's the right answer.

Shemara Wikramanayake: All right, thanks.

Operator: Thank you. Your next question comes from Ed Henning with CLSA. Please, go ahead.

Ed Henning: (Ed Henning, CLSA) Thanks for taking my questions. Just going back to the profit skew to CGM this year and I understand the volatility that drove that but do you see a need to put greater diversity in your business or if you do see more growth in CGM over time and more opportunities there, are you happy to be a much bigger commodities business than an asset manager?

Shemara Wikramanayake: Yes, thanks for that, Ed. I guess this year was a particularly large CGM contribution so we had quite a large weighting to it but in previous years Macquarie Asset Management has dominated or Macquarie Capital has dominated where we've had very large earnings so this can vary.

The guidance we've given for CGM next year is more in line with the other groups but we tend not to try to force the business mix if - you know, it takes

us a long, long time to build this deep human capability expertise that allows us to earn superior returns for the risk in each of the lines we're in. It's not easy to say, right, we want to double our earnings from BFS, say. What we need to do is what we call patient adjacent growth, which is back Greg and the BFS Team to be looking at how they can, in a disciplined way, grow in banking in Australia. Now, there may be inorganic opportunities that they bring to us as part of that but we tend not to, from a centre, go and say, Greg, we need you to double banking earnings.

The mix really is a product of what opportunities the businesses are seeing. Now, having said that, we are sitting with a very, very large capital surplus so that is available. Not just to support CGM if they see market risk capital they want or credit risk capital because of dislocations that may play out or volatility but also if they see an organic opportunity to bring more teams on in a certain area.

Each of our other three operating groups as well know we're there to support them with ample capital in the cycle that may play out to help grow. But the growth will really be a product of where they see opportunity for disciplined investment and compelling return on the risk and the capital we've put in versus us from the centre targeting a certain mix and telling one part of the business to grow or not.

Hopefully that makes sense.

Ed Henning:

(Ed Henning, CLSA) Thank you for that. Just going to MAM and the broadly in line base fees. Is that public markets dragging it down because you continue to see a shift to fixed income from equities? Then just thinking about your dry powder, do you need or want more scale in that business so we should expect more acquisitions coming through to grow that business?

Shemara Wikramanayake: Yes, first of all in terms of the base fees broadly in line, as you know, there's a range up or down in what we articulate as broadly in line. I think we're saying we could see it up a little bit and that will be through deployment of the Private Markets capital but there will also be realisations in the private markets business offsetting that. So each year, we're net putting money to work but taking out as we put in.

In the Public Investment side, we tend not to factor in a market growth number on the base fee so there, we may have issues coming from what we are seeing

and what we could factor in is the rotation from equities to fixed income. So from higher fee businesses to lower fee ones. Putting all that together, assessment is, it's broadly in line. I'll let Alex, if he wants, to elaborate on that.

Ed Henning:

(Ed Henning, CLSA) What about the deployment of capital in that business? Do you need more scale or want more scale?

Shemara Wikramanayake:

Yes, apologies for that. We do - we think we have enough scale to deploy in Private Markets, the \$A35 billion nearly of dry powder that we have because it's basically fund-by-fund. We've just raised the next in the series of the European funds and the North American funds also is also just in its latest raising.

The teams that are investing those funds raise what they think they can deploy in the next period. Now, those amounts have become larger and larger as we've become more and more established in the markets, I think. The first European fund, we may have raised €1.5 billion, now we'll be raising €7 billion, €8 billion but the teams are able to source much more investment with particularly larger investments.

But I think we've got the resource to invest the capital that we have now. If we were to do acquisitions, it would be in things like Waddell and Reed where we can get either much greater scale on the operating platform or go into a new area where we don't have the expertise.

Alex Harvey:

Yes, I think maybe just to add, Ed, from me. On the scale point, I mean we obviously talked about Waddell and Reed through the year and the reality is, what we've been able to do there, I think, is grow the public investment side to a point where we largely were able to take almost all the costs of that business out.

The scale point you're making, obviously we feel like we've got to scale our public investments business but on the one hand. On the other hand, where you're doing those sort of acquisitions, the opportunity to bring the revenue or the P&L but to be able to take out the costs, we think is an interesting opportunity and obviously we saw that play through in Waddell and Reed but the bit that obviously is we don't try and forecast what happens to markets.

Plainly over the course of the last 12 months, you saw a big down shift in markets across both fixed income and equities. Obviously our business on a public investment side suffered from that as well.

Ed Henning: (Ed Henning, CLSA) Great, thank you.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Mr Dobson.

Sam Dobson: Great. Well thank you all for your support. For your ongoing support and your interest. We look forward to catching up with you over the coming weeks.
Thank you.

[END OF TRANSCRIPT]