

TRANSCRIPTION

MACQUARIE GROUP LIMITED RESULTS ANNOUNCEMENT

FOR THE YEAR ENDED 31 MARCH 2024

3 MAY 2024

[START OF TRANSCRIPT]

Operator: Thank you for standing by and welcome to Macquarie Group Limited 2024 Full Year Results Announcement. All participants are in 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 turn the call over to Mr Sam Dobson, Head of Investor Relations. Please go ahead.

Sam Dobson: Right, there's still some people coming in, but we'll make a start. So, good morning, everyone, and welcome to Macquarie's Financial Year 2024 Full Year Results Presentation, good to see so many of you here. Before we begin today, I would ask that you turn your phones to silent, and I would also like to acknowledge the Traditional Custodians of this land, the Gadigal people of the Eora nation, and pay our respects to their Elders, past, present, and emerging.

As is customary, we'll hear today from both our CEO, Shemara Wikramanayake, and our CFO, Alex Harvey, on the results, and then we will have an opportunity for questions at the end. I'd also note that probably for the first time since COVID we've got all of our EC here today in person, so that's great. With that, I will hand over to Shemara, thank you.

Shemara Wikramanayake: Thanks very much, Sam, and I should also note that we have our Chair, Glenn Stevens, and the Chair of our Audit Committee, Michelle Hinchliffe, here in the front row as well with us, as well as the pleasure of having all of the Executive Committee with us in person for the first time in ages. So, welcome from me as well everyone, and as usual,

before going through the results for this year, I will just touch on the footprint that we have across our four operating businesses.

As you know, we have very good diversification across those four businesses, with four deep areas of expertise that are exposed to structurally very well growing underlying themes and those are our Australian Digital Banking offering headed up by Greg Ward, here that group, our global Macquarie Asset Management Business, very strong in private markets, but also public investments, headed up by Ben Way, here in the front.

Commodities and Global Markets, which has strength globally, not just across commodities, but also financial markets, and very good runway to grow across all those areas. Simon Wright, Group Head there, sitting next to Greg, and then Macquarie Capital, which as well is doing advisory and capital market solutions brings the balance sheet in our areas of expertise in equity and debt, and Michael Silverton is with us here, the Group Head for Macquarie Capital.

They're obviously supported by very strong operating platform across our four operating groups, and in terms of our very important risk management framework, the Risk Management Group headed by Andrew Cassidy, and sitting next to him, Evie Bruce, Head of our Legal and Governance Group. Also, the Financial Management Group, as well as our regulatory and financial reporting and tax, et cetera, and communication with stakeholders, like yourselves, is dealing with funding, capital liquidity through the cycle which is very important for our performance.

Alex, our CFO, is here on the stage with me, and the Corporate Operations Group where the platform supporting us to invest, particularly in this area of technology moving so fast, but also covering HR, our premises strategy foundation, Nicole Sorbara, here in the front row.

Now, in this last year the split of contribution from the annuity in the market facing businesses was 45:55, as you know that varies depending

on the external environment of the time. So, turning to the results in this most recent year. You will have seen we delivered a result of \$A3,522m, that was down 32% on our very strong record year, last year, and the two big contributors for that were in Commodities and Global Markets.

We didn't experience the external environment volatility, particularly in energy markets, that we had in both FY22 and particularly FY23. Then, in Macquarie Asset Management where we are transitioning our balance sheet green investment strategy to a fiduciary strategy, which we consider very important in the medium-term, that impacted results as well.

I would note the second half of last year was up on the first half, and reflected that we had a better second half. It was down on the second half of last year where we had very strong commodities earnings. I won't dwell on the details by half, but I will just note that the Operating Group contribution was also up 35% half on half, and year on year it was down, 35% from a very strong year last year.

Before turning to looking at each operating group, a couple of things I'd note, one is the assets under management have grown by 7% to \$A938.3b. The big drivers there were in our private market funds, the investments that we made lifted AUM, and also market movements and foreign exchange contributed. That was partially offset by assets that we no longer manage as a result of reduction in our co-investment management rights.

The second thing, apart from assets under management, I'd note as usual, is the footprint globally in terms of diversification of our income. This year, Australia contributed 34%, which is up a little bit due to the non-repeat of the big gains we had in North America and EMEA over last year, but more broadly, we expect to see this non-Australian earnings contribution continuing to grow given our small presence in the big offshore markets.

This last year, we had two-thirds of our income come from those offshore markets. We also had more than half our 20,000 odd staff based outside of Australia. Now, that 20,000 staff number has grown quite materially over the last few years, particularly over FY22 and FY23, and Alex is going to give you a bit of the deeper dive into the headcount growth and the cost growth when he speaks.

I won't spend ages on this slide, in terms of the diversification, it follows the messages I gave by region. I will turn now to going through each of the operating groups, and starting with Macquarie Asset Management, the result, as you will have seen, was \$A1,208m contributing 18% of Macquarie's earnings, that was down 48%, and as I said, the big driver there was, as we discussed at the half year, that we had meaningful realisations of about \$A800m a year in FY22 and FY23 in our green investments which were a balance sheet strategy.

This year we've held those assets to seed a fund which is called, the Macquarie Green Energy and Climate Opportunities Fund but, MGECO for short.

You saw we launched that fund and transferred six of the seed assets across to that. As we transfer assets to the fund, they're typically later stage ones, and we're transferring them at pretty close to the investment we've made in them which we're typically expensing in DevEx and OpEx each year, compared to the more mature assets on the balance sheet which were being realised, as I said for gains at about \$A800m a year.

This year, in contrast, we had a \$A200m negative number due to the OpEx and DevEx on those numbers. So, about \$A1b turnaround in Macquarie Asset Management. I would also note going forward, Macquarie Asset Management still has a portfolio of more mature green assets that will be realised over the next few years, but unlikely to be at the scale of contribution of FY22 and FY23 because we're no longer pursuing that strategy. So, over the next while we will gradually realise

the balance sheet assets but raise the funds and build the fiduciary income.

Now, as well as launching that MGECO fund, we also, over this year, had very good fundraising, so equity under management is up at just over \$A222b, and that was after nearly \$A22b of raising in what was a very challenging fundraising year, but investors were doubling down on their core managers, and so the seventh in a series of the European funds, MEIF7, was the second largest raise in infrastructure funds globally being just a regional fund at €8b and closed subscribed above its hard cap.

We also, as well as MGECO, as I mentioned in the half as well, have the Macquarie Green Energy Transition Fund, the earlier stage fund, MGETs raising, that's at \$US2b and interestingly and materially, it's the first of our private market funds that distributed its capabilities via the very big US wealth channel which is not one MAM has previously done distribution into, we've really worked with big institutional investors, but areas like insurance and private markets, wealth were also becoming bigger sources of funding.

So, also, we're ending the year with over \$A37b of dry powder in MAM that's also a record for dry powder in the private markets. In the public investments, the assets under management there were up 6% to just over \$A567b, mostly driven by market movement, but pleasingly 69% of the strategy, it's a multi boutique approach, are beating their benchmark on a three-year basis.

Then, turning to Banking and Financial Services, the result there again you will have seen \$A1,241m, up 3% and contributing 19% of the operating group income this year. They are - our digital banking offering continues to gather market positioning and grow the franchise, so we had good increases in the home loan portfolio up 10%, the business banking portfolio, which was up 22%, now that's off a low base, so a material percentage growth for us, and the funds on platform which are up 15%. That was supported by the deposit growth of 10%.

In terms of volume, we did announce just recently that we would cease new car lending through our broker and our direct and our novated leasing channels, so that will see run off slightly. The other thing that impacted the results, obviously, is the competitive dynamics and margin pressures as well as ongoing investment in the platform.

Then, turning to the market facing businesses, Commodities and Global Markets, \$A3,213m, which was down 47% but still the biggest contributor at 47% of the Group. That middle column there, the commodities area is where we saw the meaningful step down and that was basically, as I said, due to the market environment where we didn't have the European and North American volatility, we saw in FY22 and FY23.

That impacted both the income from risk management services, which depend on how active our clients are, and also the inventory management and trading Alex will take you through in more detail where this played out, but in the risk management it was really EMEA gas and power and resources to an extent offset by agriculture where we continue to grow our franchise, and in the inventory management and trading, it was the North American gas and power.

Now either side of that the two business, Financial Markets another good year in growing the franchise there, in foreign exchange we had strong client activity globally, and we also in the funds financing had good growth in the book in North America, and in futures as well we saw an improved commission and interest revenue.

I should say that financial markets in a more normalised year like this, we are getting some two-thirds from Commodities and a third from Financial Markets and Asset Finance with Financial Markets being a big contributor at nearly 30%. Asset Finance, again, we were able to grow the total portfolio by 5% to \$A6.5b.

Then, Macquarie Capital, the result of \$A1,051m was up 31%, apologies, Michael, I got it wrong by a per cent when we were speaking earlier, but that's a good result for Macquarie Capital improvement and step up

wise, 16% contribution from it. The big driver over this year was the investment related income where we continue to grow that private credit book, so it's up \$A4.5b, now at \$A21.5b, and also in terms of lower impairment charges for our equity positions.

On the fee income side, last year you saw across the industry again was a more subdued year, so the fee income was down, but we had higher broking fee income. Then turning from earnings to balance sheet and funding. Our funded balance sheet as every remains strong with our term funding comfortably exceeding our term assets. Over the year, Alex and the team were able to raise another \$A21.1b of term funding, what were quite conducive markets, and our deposits grew across the whole of Macquarie Group by 10% to \$A148.3b.

Our capital as well has ended the year stronger at \$A10.7b, up from \$A10.5b. The big contributor there was the earnings offset by the dividend. We also did \$A600m of buyback, which again, Alex can give you more details of, and the businesses absorbed about \$A600m which I will elaborate on in a moment, but I just wanted to note that our CET1 ratio is at 13.6% at the end of the year.

In terms of that \$A600m absorption of capital, the biggest area was in Macquarie Capital where we were growing both the private credit book and equity deployment and that was in areas like technology, and infrastructure and energy. We also had CGM, particularly in the second half, increased credit capital driven by portfolio growth and client service, and in BFS we had ongoing growth in home loans, business banking, partially offset by the runoff in car loans, but consistent absorption of capital.

Then, in Macquarie Asset Management, particularly in the second half, you saw that reduction of \$A700m, just in the second half due to divestment predominantly driven, as I said, by this agreed acquisition of the six renewable investments by the MGECO fund. So, with that, we remain in very comfortably above our Basel three regulatory ratios, as you can see here.

The last thing I wanted to touch on is the dividend, before handing over to Alex. The Board has declared a second half ordinary dividend of \$A3.85 per share, that takes the full year dividend to \$A6.40, and that is 40% franked, it's at 70% payout at the higher end of our range. We have mentioned that we feel have surplus capital at the current stage, we are mostly addressing that, the most effective way for shareholders is via buyback, but we also are doing it through dividends.

So, with that, I will hand over to Alex to take you in much more detail through the financials.

Alex Harvey:

Thanks Shemara, and good morning, everyone, from me as well. As Shemara said, I will now take you through a little more of the detail of the financial results for the March year end. Starting with the income statement, I might focus initially on the second half and then draw it together for the full year result.

So, you can see, as Shemara said, a stronger second half relative to a pretty subdued first half of '24. Operating income for the second half was up about 13.5% and the main drivers of that you can see at the top of that stack there, \$A417m increase from net interest and trading income. We also had a \$A203m increase in fee and commission income.

We had a \$A252m reversal through the P&L of credit and other impairment charges. We also had nearly a doubling of the investment income as the climate for realisation, the second half was better than we saw in the first half.

From an operating expenses viewpoint, you can see the operating expenses up, about 4% on the first half, largely that reflects the increased profit share expense we saw coming through the Group in the second half consistent with the performance of the Group, partially offset by lower underlying salary costs as headcount is trending down.

So, on a total basis, that was \$A2,107m bottom line up about just under 50% from where we were for the first half. Now, if you bring those two halves together and look at the full year result you can see net operating income at \$A16.9b down 12% on where we were this time last year, and

the main drivers of that were a 16% reduction in net interest in trading income following the very strong conditions the CGM experienced through FY23.

We also saw a 49% reduction in investment income coming through particularly Macquarie Capital and Macquarie Asset Management. Partly offsetting that was a \$A235m release in the P&L from some impairments we'd taken on a small number of equity positions across the Group in prior periods, and \$A134m release in the P&L from credit impairments where we see the macro-economic climate improving and we've changed our weighting of scenarios that are impacting our expected credit loss provisioning.

If you look at the operating expenses, operating expenses were broadly in line with where we were for FY23. There's a couple of things happening there. In terms of underlying average headcount, average headcount for the year was up 8% from where we were in FY23, and we're seeing ongoing, albeit slowing, wage inflation through the year.

We've continued to invest in data and digitalisation efforts across the Group, and we had some unfavourable foreign exchange movements as a result of depreciation of the Australian dollar. Partly offsetting that, were lower profit share expenses consistent with the underlying performance of the Group.

The effective tax rate for the year at 26.8% up from 26.1% last year, so an increase in the effective tax rate really the nature and geography of income coming through this year, and so the bottom line of \$A3,522m down 32% on the record result we saw in FY23.

Now, given the increase in the operating expenses that we've seen over the recent periods, we thought we'd add a new slide to the deck which really shows the composition of operating expenses, and importantly the movement in average headcount over the course of the last few years.

I thought I'd focus on the period from FY21 to FY24, obviously that's where we're seeing the significant step up. That's also been a period of

time of significant growth across the Group. So, from a revenue viewpoint, in FY21 we did \$A12.8b worth of revenue. In FY24, we're doing \$A16.9b worth of revenue.

Commensurate with that was the increase in the operating cost base. The operating cost base in FY21 \$A8.9b in total, now just over \$A12.1b. In terms of the underlying drivers of that increase in the cost base, you can see average headcount over that period of time increased 29%. There are three main drivers there. We invested in the growth, in the business that we've seen over the course of the last several years.

We've increased our focus, our headcount associated with regulatory and compliance obligations in many jurisdictions around the world, and we've also undertaken some acquisitions. So, we've increased our headcount as a result of those acquisitions that the Group has done over the last few years.

In addition to that, we've seen a 50% increase in non-salary technology expenses, things like market data, things like software licences, progress of data and digitalisation across the Group they're intended to scale what the enterprise is able to do on a global basis, and of course investment that we're making in data and digitalisation to support our important regulatory and compliance obligations around the world. So, that's a 50% increase in non-salaries technology.

We've also seen a nearly \$A500m increase in other expenses and there's a few components there, obviously, but a couple of things that are worthy of note. In this period, in particular, is that we saw travel and entertainment expenses up quite considerably from '21 to '24, most because 2021 was actually a low period as people recall in COVID, but in addition to that, we've seen a significant step up in the amortisation of intangibles consistent with the sort of businesses that we bought of the course of the last few years.

You can see from '23 to '24, the headcount, the operating expenses are fairly flat and what we're really seeing there is, whilst the averages have been going up over the last three or four years, we're now starting to

see that headcount trend flattening out and in fact coming down, if you look at the ending balance of staff at 31 March, it's pretty consistent with where we were at 31 March '23, albeit the average for the year was up that 8% that I mentioned previously.

The slide that I think people are no doubt familiar with, the regulatory compliance and technology spend, that's obviously been a large component of what's been going from an expense viewpoint over the last few years and while you can see from this chart that both the regulatory compliance spend and the technology spend continues to trend up, a couple of things that are worthy of note and we mentioned this last year, our expectations in relation to the regulatory compliance spend, the growth rate is actually lower than the growth rate we've seen over the last five years and that's really consistent I think with the work we've been doing in terms of preparing the organisation for the change to go through in regulatory and compliance an organisation like ours, but also the conclusion of some of the projects that we've had that have been influenced in that spend over the course of the last couple of years.

In relation to the technology spend, the growth rate is still pretty consistent with the average at about 14% over the last 12 months, but importantly, we're now spending 35% of that technology spend on change to the organisation initiatives and 65% on running the organisation initiatives.

That percentage has changed. It used to be a smaller proportion on change. An important thing there of course is just setting up the organisation to meet our obligations, but be also able to support the growth of the business that we expect in years to come.

Turning now to the operating groups, a little more detail of the financial results, and I'll start with the Macquarie Asset Management business as Shemara mentioned down 48% from where we were for FY23, ending result of \$A1,208m.

If you look at the movements there you can see Base Fees across the Group up \$A92m and the two components there on the Private Market side, base fees up 11% an additional \$A143m worth of Base Fees and that really reflects the investing the team has been doing, not just this year but in prior periods and also the fundraising that we've seen, the good fundraising we've seen continuing in that business over now many years.

On the other side, partially offsetting that was a reduction in the Base Fees coming through from our Public Investments business and that's largely consistent with the story we've seen over time where we've seen a shifting of exposures, our client exposures, from equity portfolios toward fixed income portfolios, and that's really driving what's going on from a Base Fee viewpoint in that part of the business.

As Shemara mentioned and we've been talking about during the year, if you look in the middle of the chart there, you can see the reduced contribution from Green Investments during the year, down \$A823m. People will recall we had a very strong period of divestment in '23. We didn't see that repeat into '24 and we're also continuing, Ben and the team are continuing to invest in the renewable and development activities we're undertaking across many markets in the world and that resulted in an increased expense going through the P&L of \$A212m.

Asset under management up over the year, as Shem said, 7% at \$A938b. Importantly, \$A38b of dry powder to invest after another good period of capital raising, so the team has been busy raising capital and is well positioned to deploy that in the coming periods.

Turning to the Banking and Financial Services business, you can see up 3% from where we were this time last year and it's a really strong and important volume growth in this year, so 13% average growth in average home loan balances this year, a really strong 20% growth in the business bank, which is really pleasing to see given the focus the team has had there and supported by a 14% growth in terms of average deposit balances over the course of the last 12 months.

Now, net interest and trading income you'll see coming through the P&L up 5%, so that overall volume growth has been partially offset by margin pressure and funding costs associated with that business.

If you sort of break down the component parts a little more there, from a Personal Banking view, up \$A23m in terms of contributions so we're seeing increased volume but competitive pressure from a margin viewpoint and funding costs are dragging down that result.

Business Banking, as I said, benefitting from the volume growth, but also, we saw the benefit of the interest rate environment coming through our Business Banking deposits over the course of the last 12 months.

Our credit impairment, there was an increased release of \$A49m in the P&L this year. Again, that was reflected in the fact the macro-economic environment is much improved from where we were 12 months ago and we reweighted the portfolio to a more balanced view between our upside scenarios and our downside scenarios.

We've continued to invest in the business with expenses up 12% this year and in that other column at the end you can see the drag that's, amongst other things, but the drag that's occurring from the rundown of the car loan portfolio over the course of the last 12 months.

Underlying products, our volumes are all heading in the right direction with home loans at I think now 5.3% of the market and deposits just over 5%.

In terms of the first of the market facing businesses, the commodities and global markets business, as Shemara mentioned, I think a really pleasing result, particularly in the context of the subdued environment that the business experienced over much of the last 12 months and I think reflects the point we've been talking about for some time that the underlying drivers, the franchise drivers here are the growth of the client franchise and the provision of services for those clients and we saw that coming through over the course of the last 12 months.

I'll break down the movement a little bit, so the end result was \$A3.2b. You can see on the commodities side, commodities income down

\$A2.6b from where we were in FY23. Importantly, as people know, we're up on FY22 to \$A200m up on where we were from FY22 which again reflects that client franchise point I was making before.

In terms of the drivers of the move between FY24 and FY23 we saw a materially lower contribution from our North American gas and power business which experienced very strong conditions in FY23. We also saw a reduction in the contribution from our EMEA Gas and Power business and our resources business, partly offset by opportunities the team saw in the agricultural markets, particularly sugar and cocoa I think over the course of the last 12 months.

Great to see the financial markets business continuing to grow, \$166m and I think people will recall over many years now that business has been ticking up as a nice rate as we grow the client franchise, and we extend some financing opportunities to clients in that market, so really pleasing to see that continuing to grow. That business this year represented 29% of CGM's overall result.

You can see expenses coming through, they're up \$A400m as we continue to invest in the data and digitalisation opportunities in CGM and importantly, CGM has many obligations around the world from a regulatory and compliance viewpoint and we continue to invest to ensure we can meet those obligations.

Hopefully reasonably familiar slides now for everyone, but we set them out again, the operating income and the client numbers. The only point to make here is the strong correlation between client numbers going up and client related business also heading up. This business is all about more clients in more jurisdictions and more often, and that's what the team has been doing for many years and has continued to oversee over the last 12 months.

In terms of the capital position, the capital position is pretty consistent with where we saw at March '23. It's still very exposed to credit capital, predominantly exposed to credit capital consistent with a client service type of offering. On the right-hand side, you can see the daily P&L chart

which again we've produced this year. I guess the shape is hopefully what people were anticipating.

We saw more subdued conditions, so we see the distribution of daily P&L slightly skewed to the right, consistent with the growing client franchise and far fewer outlier days than we saw in the prior periods where we were experiencing much more conducive trading conditions.

Then finally, turning to Macquarie Capital, I think a really pleasing result in the context of quite a difficult market for investment banking and merchant banking type activities around the world, so up 31%, \$A1,051m of contribution. You can see the drivers there. Investment related income up \$A487m, the results from our private credit portfolio up \$A406m. This reflects the fact that we're able to grow the book in terms of average balances by \$A3.6b during the year and margins were pretty consistent in that business, which is great to see.

We also saw the release of expected credit loss provisions in that part of the business as well. The underlying book is performing very well. In addition to that we see an improving macro-economic climate relative to where we were last year and obviously the reweighting of the scenarios.

We had increased investment related income, partly that's gains on revaluation of assets on the balance sheet and some disposals that the team undertook during the year, but we also saw the reversal of a number of impairments or a small number of impairments on equity investments that we'd taken in prior periods coming through this result.

Fee and commission income came down \$A155m. I think everyone's probably pretty familiar with the level of activity around the world being more subdued over the last 12 months and Macquarie Capital saw that as well, and operating expenses are up \$A82m.

In terms of the capital against, or partnered with Macquarie Capital clients around the world, you can see up \$A1.2b so the team has seen some good opportunity to invest over the course of the last 12 months. You can see the growth in the private credit book there coming through,

but in addition to that, key sectors of expertise, technology, energy transition and adaptation, digital infrastructure, all those areas providing really good opportunities for Macquarie Capital to deploy over the last 12 months.

On the right-hand side, you can see the private book, as Shemara mentioned, the closing balance \$A21.5b. A pretty diverse book, about 160 positions, typically defensive type underlying borrowers and good cash flow generation, so we're really pleased with how that book is performing.

If I now turn just to a few more aspects of the financial management of the Group, just starting with the balance sheet. Another good year from the team, over \$A21b worth of term funding raised in the last 12 months. About 75% of that has been in the Bank and about a quarter has been in the Group. Pleasing to see the ratings upgrade from Moody's that came through in March this year and that will obviously help us continue to diversify the sources of funding and raise the most cost-effective funding that we can.

As I said, we have diversified the issuance strategy, really important. We've been doing this for many years now and we continued in the last 12 months. We now have over 2,000 investors that actually own Macquarie paper around the world across a whole range of different programs and we added another 100 new investors, or new to organisation investors, over the last 12 months and the weighted average life hasn't changed much from where we were before, now at 4.5 years.

Deposit base, super important obviously from a BFS perspective, largely providing the funding that's supporting the growth of Greg and the team's business in BFS, so up \$A14b this year and really pleasing I think to see the increasing diversity of that deposit base, in particular the work the team has done around the transaction and savings accounts over the course of the last few years and the traction we're getting with

clients because of the product we're actually out there providing in the marketplace.

The loan and lease portfolio up 11%. You can see the main movements there. At the top of the page, you've got home loans and business loans up and at the bottom of that page you see the growth in the Macquarie Capital business from \$A17.1b to \$A19.8b, drawn at 31 March 24.

In terms of the equity investments, obviously quite a big step up from \$A9.6b to \$A13.2b. Some of this is a bit transitory, because on this page there are, for instance, the assets that Shemara mentioned that have been sold from the balance sheet into green energy and climate opportunities funds, so they sit there as held for sale assets at the balance sheet and they'll settle in due course.

In addition to that, we've seen quite a bit of investing across the Group, so the \$A3.6b of growth, obviously we've continued to invest in our green energy portfolio, particularly in Corio. We've talked a lot about the offshore wind asset in the US that we were successful in tendering for at our half year results, so you're seeing continued investment through our green energy portfolio.

You're also seeing, particularly from a Macquarie Capital viewpoint as I mentioned before, an increase in digital infrastructure, an increase in cell towers, fibreoptic networks, IT Services type business that the team have been investing in for many years and were successful over the course of the last 12 months at achieving some completion of those transactions.

In terms of the regulatory update, obviously the environment here in Australia continues to evolve. The near term focus I think as everyone is probably aware is around operational and cyber resilience, obviously two really important topics. Liquidity, interest rate risk and obviously the ongoing conversation about bank hybrids.

The capital position of the Group, the Bank at least at 13.6% CET1 ratio, so a very strong capital position and similarly a very strong liquidity position. We still have nearly \$A60b of unencumbered cash and liquids

on the balance sheet and obviously the LCR has come down a little bit to 191%. That's a deliberate strategy to bring that back closer to the target level for liquidity.

Just finally, from a capital management viewpoint, just a couple of things Shemara mentioned. The dividend obviously, the Board has also opened the Dividend Reinvestment Plan at a 0% discount for the final dividend. Any shares issued under that DRP will be acquired on market and in relation to the Macquarie Group Employer Retained Equity Plan, the Board has also resolved to acquire shares on market to satisfy the issue of MEREP grants for FY24.

Just finally in relation to the buyback we announced as part of our half years result, as at balance date, we bought back \$A644m worth of shares at an average price of \$A183.26.

With that, I'll hand back to Shemara. Thanks very much.

Shemara Wikramanayake: Thanks very much Alex and I'll take you through the outlook and then we'll open for questions.

And as usual, we'll start with the short-term outlook looking at it by each of our four operating groups.

First of all, Macquarie Asset Management. As we've been saying for the last five years, we expect base fees to be broadly in line, but in relation to Net Other Operating Income, our expectation is that it should be significantly up and this is mainly due to higher investment realisations from our green investment.

Now, having said that, I mentioned we will continue to have a portfolio of green assets on the balance sheet and our net expenditure in the green portfolio companies that are operating on a standalone basis we expect to be remain broadly in line.

Turning to Banking and Financial Services, we are expecting continued growth in all of our loan portfolios, funds on platform, deposits, but that is obviously going to be impacted by market dynamics which will continue to drive margin pressure and also as has previously been the

case, continued investment for digitisation and automation across the platform driving scalable growth and ongoing monitoring of provisioning.

Then turning to the Markets-facing businesses, Macquarie Capital.

Subject to market conditions, because it is a market-facing business, we're expecting transaction activity to be significantly up on what has been still another challenging year.

In relation to investment-related income, we're also expecting that to be up, because we expect continued growth in our private credit portfolio and we also expect increased revenue from asset realisations and we will continue to deploy balance sheet capital in both equity and debt investments there.

Then, Commodities and Global Markets. Again, subject to market conditions. In the commodities division, our income is expected to be broadly in line, subject of course to volatility that could create opportunities.

In Financial Markets and Asset Finance, we expect a continued contribution from those as we grow our franchises.

The compensation ratio and the effective tax rate we expect to be in line with historical levels and all of this short term guidance remains of course subject to a range of factors and those are market conditions, which would include the global economic conditions, inflation, interest rates, any significant volatility events, and the impact of the geopolitical events we're seeing, completion of period-end reviews and completion of transactions and the geographic composition of income and impacts on foreign exchange and lastly, any tax or regulatory changes and tax uncertainties.

So, given all of that, as we've often said, we continue to maintain a cautious stance to all of funding, capital and liquidity to position us for whatever environments we may face. That's been the case, of course, over the medium term where our guidance there is that we think we remain well position to delivered superior performance because of the diversification of our capabilities across these four operating business

lines and indeed, within them, so that even in Macquarie Capital, we had the private credit more annuity style income with the more market facing advisory and fee revenue.

They are importantly areas in which we think we have deep expertise, special expertise to deliver better return and to see ongoing structural growth we can respond to.

Now that's of course supported by, as Alex has mentioned, our very strong operating platform that we continue to invest in for defensive and opportunity driven reasons. Our very conservative approach to our balance sheet and our proven and prudent risk management framework and culture. That has allowed us over the medium term deliver returns over the last 18 years on average of 14% across the business, 22% in the annuity-style and 17% in the markets-facing.

This year, those figures were 12% in the annuity-style as we transition to this green investment strategy that we think is a very medium term important one for us and 16% in the markets-facing giving us 10.8% overall.

With that, I'll hand back to Sam to take your questions.

Sam Dobson:

Thank you Shemara. We will start with questions in the room and then we will go to the line. I'll start with Ed Henning.

Ed Henning:

Thank you, Ed Henning from CLSA. I've just got a couple of questions on MAM. In the short term outlook you talked about the net expenditure from the green portfolio being basically broadly in line. Could you just run through that a little bit, because you've been using the development expenses going through the P&L. Why isn't there a saving there as you've sold those assets and rolling that forward, is the first one?

Shemara Wikramanayake: Yes, and Ed I might actually take both questions, because I'll briefly answer them both, and then we've got Ben here, so Ben can elaborate. If that's okay?

Ed Henning:

Yes, no worries. The second one was just on the Other Operating Income in MAM, it was just under \$A600m in FY24. Now, I understand the line

can be volatile and a few things go through there. Can you just talk about how you think of an average year? Is 2024 below? Also, now as you have less green investment gains going through, should that line go down a little bit or that will be offset by performance fees coming through? Any guidance on that would be helpful.

Shemara Wikramanayake: Sure. So, brief comments. On the OpEx and DevEx that we're having in the green portfolios, we still have some meaningful portfolios left there in solar, wind, et cetera and they're continuing to invest in build up and we'll at the right point be realising those separate portfolios that are at a point where there should be accrued gain in them. So, rather than exit them to a fund where we could have questions later on the pricing, we're looking to exit those to the third parties, but we're continuing to incur OpEx and DevEx that we typically expense there, so that will run for a bit longer.

In terms of the realisation of the assets and the offset from performance fees, we do expect this year to have more because last year we were really focused on the fund. Now I think the MAM team will be focusing on in parallel realising some of those operating platforms we have, so we expect higher investment related income from those. We will have to see how much interest there is in the market in them. There seems to be very good investment interest in green portfolios but we will see over this year, but at this stage we're expecting on our base view that we should be up on where we are.

In terms of performance fees, there's a question of the seasoning and the timing of the funds because we have a whole lot of funds, some which didn't have catch up that are realising at the moment. Ben, hopefully I've left you something to elaborate on there, but in terms of the two questions, one is the green portfolio and how you're running that down and the other is investment related income and performance fees.

Ben Way: Well, I don't think there's actually much for me to add. The only thing I would say is it was obviously a much more subdued market last year from an M&A point of view. I think the other thing you've got to remember is that we have been raising much bigger funds and those funds are still in their deployment or

they're in the asset management phase. As we look to the medium term we have got more money to deploy than ever before. We have been raising bigger funds and so over time obviously you will get that performance fee, but that is not for some time.

That will certainly offset some of the investment gains from the green investment business and I think Shemara answered the OpEx and DevEx question as well as I could.

Ed Henning: Sorry, just one follow up on that. Just how long do you think the green investments will take to go, to roll through to get those and then you offset with the performance fees coming through? Is it a two year, three year, five year period? How long should we expect for those gains to stop?

Shemara Wikramanayake: I'll let Ben speak.

Ben Way: Yes. It will certainly be a multi-year effort, so it won't all be done in one year. We are really pleased with the support we have had from the market to establish both the MGECO and MGETS fund and we see a very good pipeline of investors for those. We have already deployed significant amounts of capital in building those portfolios, but as Shemara said, we do have a couple of very large platforms that have embedded gains for shareholders that can't be transferred, obviously, for conflict reasons from a fiduciary point of view into funds that we will continue to support with OpEx and DevEx.

Over the next couple of years as it makes sense, we will look to divest those and create a realisation. So again, some of it will hopefully occur this year, then into the next year, but it is a multi-year effort.

Shemara Wikramanayake: And beyond that, it could be three to four years of realisation of the assets, which will support your strategy in the medium term of growing the fiduciary income.

Sam Dobson: We've got John, second row there. Thanks.

Jon Mott: Can I just follow on with that topic, for Ben and Shemara as well. It looks like the MGECO was established in April, so does that imply that some of the assets were sold into the fund at a gain which have already been crystallised into the

FY25 year. So you've effectively started this year off very well? Am I interpreting that correctly?

Shemara Wikramanayake: Did you want to answer it, Ben? I can briefly say the assets we're transferring to the fund, as we have mentioned previously, we tend not to look to make a big gain on transfer because we want the fiduciary investors long term to have a very good experience. They're usually earlier assets. Ben, I will let you elaborate.

Ben Way: First of all, MGECO was definitely closed before April, before 31 March. That's important. It's only had its first close and so obviously we've transferred a number of assets that we were holding really at cost on the balance sheet into that fund because, as we have discussed before, when we are raising capital given the amount of deal flow we see, but also the investor sentiment to actually not back blind pools, but to come into a seeded fund, that's a point of difference often for us because we can use the balance sheet to do that.

I think it's fair to say that we've really just - we've now got a fund with a first close that has a good set of assets in it, which makes it much easier for future investors to do due diligence. I think it is fair to say also that we have got good momentum around the fundraising there and those assets are performing well.

Jon Mott: Just a follow up question actually. More on the private credit side, because I think the portfolio is now in equity north of \$A2b and a bit worth of capital tied up there. I just wanted to get a feel for the returns on that, the ROE in there. Given how rapidly it's going, the opportunities that you're seeing, is the ROE coming under any pressure, for Michael or for anyone there.

Shemara Wikramanayake: Yes. I'm happy to let Michael speak briefly as well, but basically, I think we have said that we are making net of our transfer pricing close to 5% on that, so the transfer pricing is a couple of per cent. We think for the risks involved that is a very good return. I think we have mentioned previously, we're provisioning expected credit losses at 3% to 4%. Our experience has been 0.3% to 0.4%, because they're very good investors in the niches in which they invest and through the cycle have managed to deliver pretty good returns. Michael, did you want to talk, because Michael is very closely watching the credit and the equity investing going on.

Michael Silverton:

Sure. Jon, as you know the market has grown a lot, so in the sponsor market about 80% of financing is being done direct. We are obviously not looking to be a market share player, so we're focused on those sectors that Alex referenced before like software, education and healthcare and there has been ample opportunity. We are not compelled to invest and so we have been able to sustain the margins. Most importantly though, the loss rate is what we are focused on, capital preservation and that continues to perform in line with historical levels.

On the equity front, as you know we have got a number of strategies and we have seen really good opportunity in the past year as illustrated by the growth in the book. That's across a very diverse array of businesses and the returns are consistent with the historical returns that we expect to make. Whether that's in the digitisation area, whether it's in PPPs, in economic and social infrastructure, or whether it's in technology, we are seeing really good opportunities out there.

Shemara Wikramanayake: The only other brief thing I would add to that is, we basically have four swim lanes where we see our people having really deep expertise and delivering superior return that we're backing with more capital. At this stage we have a slight seasoning issue where they've put a lot to work over the last few years and it realises - these would be Michael's three, four, five year holds. So, there will be a point at which the equity book is delivering more consistently as with the credit book with a little bit of lumpiness around it, but we're still seasoning there.

Sam Dobson:

I'll go to Andrew and then Matt.

Andrew Triggs:

Thank you. Andrew Triggs from JP Morgan. Another question on MAM. If you look at the profit performance this year is \$A1.2b. If you go back to prior to GIG going into that business, it was routinely doing ~\$A2.1b profit, albeit with some material gains on sale from European Rail and the MIC disposition fee. Can you give us a sense please of to what extent was GIG loss making this year and whether it will still be next year? and also whether the underlying earnings power of the rest of the MAM business is greater than what it used to be?

Shemara Wikramanayake: Yes, and again I'll answer briefly to say look, the underlying franchise has been growing. You have seen the equity under management growing, the base fees growing, the public investments AUM growing and the fees growing on that. We obviously did acquisitions there that we have integrated and taken the costs out of now, so the underlying has been growing.

You mentioned we'd had some very large one-offs, so the rail leasing was multi hundred millions, we had \$A300m or \$A400m there, the MIC was about \$A600m. So, we've had various one-offs but the underlying continues to grow and I think for the last two years the big one-offs in FY22 and FY23 were in the \$A800m odd of the green. But on the underlying franchise, Ben, is there anything you want to add?

Ben Way:

I think the one thing on the underlying franchise is the fact that we are managing \$A938b of assets under management today. The best leading indicator for an asset manager is, are you being trusted by your clients to manage more of their assets than ever before, and obviously the answer for us is yes. In probably the most difficult fundraising market since the GFC, relative to our peers our teams have done an outstanding job or not just raising our existing vintages like MEIF7, we've also got MIP VI in the market which is going very well from a fundraising point of view, but also launching new products which for most asset managers first time funds have been almost impossible to raise.

I think we are very happy with the client franchise and the support of clients. We think in some areas we have got unrivalled expertise and are able to deliver on giving clients superior returns, but we are at a tricky period in terms of that transition. This year while we are very convicted around energy transition and we think we have got an unrivalled team, it was a more difficult year for green investments and that was part of the transition.

As you note, we didn't have another significant one-off to buttress that. So, we've got a strategy in place for the medium to long term that we are convicted around. We always knew there would be some years of transition, and this has been one of those.

Andrew Triggs: Will GIG likely be loss making again in FY25?

Shemara Wikramanayake: We have said that the operating expenses will be similar but we expect some realisations this year which is what we said about the net other operating income. In FY24 we didn't have meaningful realisations and as I said, the team now are going to be for the next few years focusing on those. I would also briefly say in terms of the underlying that Ben and the team are looking at more than just the green, which is a very important adjacent strategy, but growing into private credit, the real estate growth that has been running for a while, the agricultural funds, the asset finance, which is part of private credit, and the aircraft portfolio.

There's a lot of growth going on in private markets in MAM, which is where really the interest is in terms of where investors want to allocate their savings. Also, MAM is looking to grow more into the wealth channel and the insurance channel and that as well is drawing investment which we think for the medium term is very worth doing. It's not a massive per cent of MAM earnings but that's all happening as well.

Alex Harvey: Maybe just to add, Andrew, I mean you can see from our guidance we talk about Net Other Operating Income significantly up, so we've obviously used that phraseology in the past. There's a component of that which is the performance fees, there's a component of that which is the returns that we expect from realising assets off the balance sheet and obviously our share of equity accounted income might come through our interest in the funds.

We would note that at least in relation to the green component that we are saying subject to market conditions. The point has been made I think during the last 12 months it's obviously been a more challenging environment from a realisation perspective. Not because we think that the fundamentals have changed in relation to energy transition. There's obviously a huge amount of capital that is required to transition the energy market, but we are seeing supply chain challenges across the sector, we've obviously seen some of those assets that we talked about at half year where people had actually had to give up their PPA, their feed in tariff, because the pricing was yesterday's cost in today's economics.

So, all of that has been playing through. I think the team has done a good job at actually, as Ben said, raising the funds or raising the capital for MGECO to enable the transition to get under way. Obviously, this year we are pretty comfortable with the way the portfolio is performing, but at the end of the day we have got to make sure that the market is there to support them and the assets are really high-quality assets and we want to make sure that those that we're either putting into the funds or we're selling to third parties, we're getting the right value for those assets.

Andrew Triggs: Thanks and maybe a second question on commodities. I've seen some data which shows open interest in global commodities back close to a record level and flows year to date, calendar year to date, have been very strong into commodity markets. To what extent is that a lead indicator for particularly the risk management product line within the commodities franchise?

Shemara Wikramanayake: Again, Simon is here so we might let him comment, but ultimately even within commodities in CGM there's huge diversification across gas and power in North America growing in EMEA, growing into Asia, oil, ags, resources, et cetera and in all of them we are patiently looking at growing these franchises with the opportunity in every one of them because we're a small player. Were you talking about the energy commodities specifically there or are you talking about commodities...

Andrew Triggs: Both actually.

Shemara Wikramanayake: Okay. Did you want to, Simon, comment?

Simon Wright: Yes, sure. I mean that inflow is well recognised and we have seen the uplift in our business through the client franchise. I think over the last two years we have seen our client numbers and our percentage grow by 8% CAGR.

Shemara Wikramanayake: Someone is calling - a client is calling Simon. Pick up the phone, that's an order.

Simon Wright: Obviously what drives the inventory management is volatility, so we realise money in two ways for our client franchise but also the opportunities that that volatility presents. We are very focused on continuing to grow that client franchise which we are demonstrating, while still maintaining that optionality

around the opportunities that come with volatility. It's pleasing to see those inflows. We are benefiting from them. But the real optionality will be driven by volatility.

Andrew Triggs: Thank you.

Sam Dobson: We'll go to Matt. Thanks, Matt Dunger.

Matt Dunger: Yes, thanks very much. Matt Dunger from Bank of America. If I could just ask you on Macquarie Asset Management capital requirements which reduced by \$A700 million in the half. You called out MGECO and the transfers. Can you walk us through the outlook for business capital requirements for MAM going forward?

Shemara Wikramanayake: Yes, and I will let Alex give you the detail because as he mentioned we have different treatments in how that is shown, so in the equity list the assets are still there. I think broadly we should see that equity requirement in MAM step off as we realise these green assets. Did you want to give detail?

Alex Harvey: Yes. I mean I think there's a few things going on there. I mean obviously we have, as Shemara and Ben mentioned before, we have obviously agreed the terms on which the transfer of some assets will move from the balance sheet into the new Green Energy and Climate Opportunities fund. So, the capital has come off, the settlement hasn't occurred which is why they're sitting still in the balance sheet in that equity slide. That's why I mentioned that that will come off really - relatively quickly.

My expectation is that in that green investments, the green energy component on the equity investment side, you've got a couple of platform assets. Those platform assets we have been building for some time, I think as Ben mentioned, we're likely to think about realising those assets to third parties, in due course, rather than through into funds. They will result in a reduction you would guess in the equity we've got alongside the asset management business.

The other side of that is that we are obviously growing our energy transition fund, we are growing our renewable energy fund, and consistent with that you also see group contributions to those funds, LP interest to those funds, that will

not doubt grow as we grow those businesses, at least for the next little while. I think Shemara's point around the direction travelled is probably right, but there's obviously a few components there that will influence exactly where we get to over the next one to two to three years.

Matt Dunger:

Thank you very much and if I could just follow up on that. In terms of the deployment you're talking about of capital into Macquarie, into MacCap, is that subject to realisations happening and Alex, any comments updating this? Six months ago, I think you were talking about expected realisations to really start, to kick off in the second half of this year, is that still on track? Have you changed expectations?

Alex Harvey:

I mean maybe I'll just make one point and then I'll let Silvo talk. Really importantly from my perspective, I was really pleased to see the investing the team had done over the last 12 months. I mean obviously in a subdued environment what we want our teams to be out there doing is finding those good opportunities where others aren't stepping up, so I was really encouraged to see investing, particularly in the areas that the team has got great expertise in. As to the broader question, I might leave it to Michael.

Shemara Wikramanayake: Just one little thing I was going to say is that we're at \$A13.6b of equity. I mean we had the green assets coming off but on a \$A34b total equity position, so concentrations-wise, we really focus on appetite. Michael's teams are managing to originate a lot of other good investments so if we want to deploy, we may look at bringing partner equity along but...

Michael Silverton:

Yes. The only point I would add is that within the equity portfolio as well, we have a number of companies that are seeing opportunities themselves and one of their key aspects of working alongside our clients is that we can support them on that growth. At times if their opportunity is to grow the platform further and then time the realisation, that can work in the interest of our clients and we've seen a lot of growth within those portfolio companies as well.

Alex Harvey:

Obviously just, Matt, more generally the second half was better for MacCap in the first half and part of that was the performance of the private credit business, part of that was the revaluation gains on some of the portfolio

investments and some disposals and as I said in my comments earlier, a reversal of some impairments on a small number of equity investments that MacCap had made and were taken in prior periods we were able to reverse in this half.

Sam Dobson:

John, John Storey, just in the second row here.

John Storey:

Thanks so much. Thanks. John Storey, UBS. Just wanted to follow on from Matt's question there just around the \$A700m capital release, Alex. I'm just trying to reconcile the delta or the move in the balance sheet in terms of assets held for sale. I think obviously everyone is trying to get a bit of sense on what the size of realisations could look like for 2025. A lot of people probably baked that into consensus already. So just that \$A600m difference, is that some of the mature state assets that Ben has referenced there or is there a difference in terms of cost to market value? Just to reconcile that. That's the first one.

Then just a second one which is I think a lot easier, is just to get an understanding, if you go and have a look at the corporate centre just on the costs line there, has there been any change in terms of how Group services are charged back into the business units? It's quite a bit delta that came through during the course of this year in that line item. Thank you.

Alex Harvey:

The second one, I'll just deal with the second one first. It's pretty easy, no, there's been no change. We obviously - when our corporate centre gets recovered, it gets fully recovered out to the operating groups. The step up as you are referring to, I think, is probably consistent with the point I was making before around the increase in headcount. A lot of the headcount come through the central service areas so we recover that out to the businesses, as we've always done.

There's a few other things going through the corporate centre around earnings on capital and we've been able to deploy our liquids into high yielding HQLA rather than the exchange reserve account with the RBA. So that's generated a bit of return there.

Then because the business has been able to deploy the surplus funding, we've been able to generate better transfer pricing which sits in the centre, so that's really the movement in the centre.

Shemara Wikramanayake: I should just briefly comment, Alex. But if you look across the more cross tables Alex does for each operating group over the last few years, you'll see that whole \$A3b of increase allocated out to all the businesses. So, it is recovered and has been.

Alex Harvey: In relation to moving the capital, the \$A700m of capital in MAM. Mostly that's related to the assets that we have agreed to sell to the new Green Energy and Climate Opportunities Fund. So, the conditions for releasing the capital have been satisfied but settlement hasn't occurred.

So those assets are sitting in held for sale on the balance sheet because settlement hasn't occurred. They're sitting in our equity investments but they will come off the balance sheet when settlement actually occurs, but the capital has been released.

In relation to the held for sale assets, I think you're referring to the step up in the balance sheet assets versus the capital. There's obviously a big step up of \$A1.3b or something. Some of which is the assets that I just referred to that are going to go from MAM into the Green Energy and Climate Opportunities Fund.

But there's also a number of other assets across the Group, not just in MAM, that we have an expectation that are sitting here today, that we'll realise those assets or we'll likely realise those assets over the course of the next 12 months. So as a result, they get reclassified as held for sale in the balance sheet.

Sam Dobson: Okay. Yes, we'll go to Brian. Microphone behind you. Thanks.

Brian Johnson: Brian Johnson, MST. Three questions if I may. The first one is just on the transfer of these seven renewable energy assets, and even East Anglia. Shareholders, long suffering shareholders. The P&L gets hurt effectively because you expense the development and construction costs. Presumably, you're doing a good job on that.

Then you transfer them over effectively into the fiduciary fund. I'd just like to understand why there isn't a gigantic gain when you've been expensing the development costs. Is the fact that there's no gain telling us that they haven't been developed very well. Why?

Shemara Wikramanayake: They're pretty early assets. So, we'll be expensing in for a year and then when we transfer, we pretty much have recovered our expenses, our OpEx and DevEx in the transfer prices.

Frankly, they're so early stage that we wouldn't be expecting in a third-party transfer to have massive opportunity of gain that we've foregone for the shareholders.

So, we think it's actually in the interest of the long-suffering shareholders to build these as asset transfer and put them into a fiduciary strategy, that long term. So, I guess three reasons, we're moving these assets to a fiduciary strategy: (1) Is the volume of capital going into green energy is well beyond the capacity of our shareholders' balance sheet that we want to put to work.

(2) Frankly, the returns have come in, they are still at a point where they're attractive for the risk of a long-term holder. But for Macquarie, where we were buying and exiting at much higher risks and doing much more development work at much higher returns, it makes more sense to have a fiduciary strategy.

(3) Frankly, the counterparts we're dealing with were starting to express some dissatisfaction with us seen as a 'buy and flip' partner in these projects that we're doing. Whether they're co-investors, governments we deal with, et cetera. So, the long-term fiduciary approach will give us a much better license to operate in responding to this great, growing opportunity that's going to happen for green investments.

Now, the ones, Brian, where the balance sheet has long suffered for quite a few years, those are the ones still sitting on the balance sheet where we've made a conscious decision in MAM to exit those to third parties.

East Anglia that you just mentioned is one of those. We just exited that to L&G NTR. The ones - the six that went across which were listed, and Evie's sitting here in the front row and will tell me that the SEC rules on general solicitation don't let us talk if we're actively raising a fund about how the fundraising is going, what we expect to get to.

But one of the investors, UniSuper, put out a press release on the \$US400m commitment they'd made, listing the assets, and talking a bit about the strategy. So, there's information there. I think even the press release, Ben, that you put on MGECO has a bit of information.

But you'll see the six assets listed. They're pretty early platforms, like Aula et cetera that we're early stage have been working on this year. Ben, hopefully you can endorse that that's what happened on the P&L.

Ben Way:

I mean I do think it's important, Brian, that we distinguish where we've invested and created an asset and held it on the balance sheet for four or five years, we do not put that into a fund. That would be unfair to shareholders. Particularly where we're doing that and creating embedded value in those assets.

That's things like Corio and Cero. So, we will look to, over the next coming years, divest those on behalf of shareholders and realise a gain from those. We have in MAM, for many, many years, used a balance sheet to often seed new funds with assets. That's all we've done here with MGECO.

So, we've actually followed a path that we've done for the MAIFs, for the MEIFs, for the MIPs previously. We often do that because our teams find good assets for the underlying investors, and we don't want to miss out on that opportunity until we have a first close of the fund.

So MGECO is no different to what we've done ever before for other types of funds. It's probably just attracted a bit more attention. But I can certainly assure you we're not looking ever to transfer funds that shareholders have supported for a long period of time into a fund at the expense of shareholders.

We have a very clear policy and delineation around those types of balance sheet positions.

Brian Johnson:

Given that dissatisfaction, is the performance fee structure just the same as it always is?

Ben Way:

Yes, it is. For MGECO and MGETS, yes, it's a very similar model to that you'd see in the regional flagship infrastructure funds.

Alex Harvey:

Maybe just to add to that, Brian. We obviously recover the DevEx that we put through the P&L and we obviously recover a cost to capital over the period of time.

But as Shemara and Ben mentioned there, relatively early-stage platforms. We put them into the fund. There's obviously a performance fee structure. The important thing I think to remember there is (a) we feel like the return we got for the risk that we took was an appropriate return.

But (b) we're then subject to a performance fee and we've also got other parties that help us develop those assets from development stage through construction into operation which is where you're obviously seeing a significant expansion of the value - or should be seeing significant expansion of the value.

We share in that as part of our management with - through the performance fee. So, we feel good about that. I think it's consistent with the point that Shem was making before. When we transferred GIG into MAM, we had a bunch of assets that were early stage that we thought were good platform type assets but weren't sort of pregnant with significant embedded gain. We thought those assets would move their way into a fund. The fund took slightly longer than we expected but that's just the nature of the market.

But there are other assets that are sitting on the balance sheet that now we think are really good platform assets that we'll end up realising to third parties for the points that Ben made. It's very hard to make that equation work.

Brian Johnson:

So just to clarify, the transfer of the assets to MGECO and East Anglia ONE, just recovering the development spend implies that there is a realisation gain on transfer.

Alex Harvey:

Well, there is, maybe just to - so East Anglia one is separate to the six assets. So that's the first point to make. Second point is yes, obviously the point is we're recovering what we've spent plus we're getting a roll forward on the risk that we took at the time and we're creating the new fund strategy for Ben.

Shemara Wikramanayake: We have about 105 GW of renewable projects and 17 of them have gone to MGEEO according to the release that came out. So, you know, ones that have gone there at a later stage - sorry, earlier stage assets that we're transferring at recovery of DevEx, and it's a roll forward IRR cost acquisition, which we've always done for seed assets.

The ones that are more mature, we will exit over the next few years.

Brian Johnson: Great. Second question if I may? The most common question I certainly get from investors is on the private credit book. A few years ago when we were all in the US, you basically were able to enumerate exactly how big the provisioning was.

So, it's a \$A21.3b book. You've said quickly today what the loss rate is. Could we just get a clarification of how much is the collective provision that's basically held against that book and what is the annual long run loss rate and what is the life? How long does the average exposure last?

Alex Harvey: I would say so - do you want me to take it? Yes. Okay. So, a collective provision, stage 1, stage 2 provision against the book is about 2.5%.

We've obviously got some stage 3 provisions on a couple of underperforming. So idiosyncratic positions that we also include as part of our ECL. But the collective provision is 2.4%. Then maybe I'll let Silvo talk about the loss rate.

Michael Silverton: Yes, the other thing to add is that we've also got unamortised fees that are earned, that are held, roughly about 2%. The loss rate continues to be within the historical numbers that we presented to you in the US last year.

It's actually been performing very well, and we expect that to continue.

Brian Johnson: Michael, what's the life of each exposure?

Michael Silverton: The weighted average life of each exposure? Is that correct?

Brian Johnson: Yes.

Michael Silverton: It's about three years.

Brian Johnson: Three years. So, from memory, it was a 30 basis point loan loss each year. That's about right?

Shemara Wikramanayake: That's the average, like in COVID, we had some positions like loans that we took. So that's over time. Sometimes it will be less than that, sometimes more. But this is the average over very long.

Brian Johnson: Final one if I may push my luck, and I suspect I'll get no answer. If you have a look at the MEREP disclosures today, and even the commentary you talk about in the middle, lower bonus payment.

Can we just get a feeling for - the ROE is certainly lower than it was last year, but I sense that the bonus pool didn't mechanically participate in all of the upside of the super Commodities and Global Markets cycle. How much did that basically smooth the ROE in this period?

Shemara Wikramanayake: If anything, it dragged down the ROE because basically we pay all our businesses a percent of the profits, they make for shareholders based on what the return of equity is and the stability of the income. That's been a pretty well-established rule. As the businesses mature, that sharing rate may come down a little.

So, we've been allocating on that basis for a very long time. But the way we pay people now, with big share based payments and retentions, it gets expensed in a delayed way through the P&L.

So, actually what we've had this year is a few hundred million as expensing of the profit shares from the last two years hit this year and actually drag down earnings.

Now, Alex, I think we've disclosed the numbers.

Alex Harvey: Yes. You can see them in share-based payments expense. Obviously the MREP that we issued through '22 and '23 accumulates and amortises over the vesting period. So the historically high level of profit the Group generated and the payout of that in the form of MEREP actually affected the current year P&L.

I mean obviously the current year profit share was just a reflection of the underlying performance and rates of sharing are not dissimilar to what we've seen in the past.

Brian Johnson: So the more successful you are, the higher your share price, the more you get hit in the future as the shares vest. Is that the way to think about it?

Shemara Wikramanayake: The timing of the expensing of the staff variable compensation is now impacted by the accounting implications of a share-based deferred payments because the staff don't get the money for a while. So, if they leave before those shares vest, then the shareholders get the money back, as has happened recently in a very large case.

So that's to the benefit of shareholders. The staff have to wait to get paid and we expense it when they actually get the money. Because if they go earlier, shareholders will get that money back. But if they stay, then the expensing mismatch of timing happens.

Brian Johnson: Thank you.

Sam Dobson: Thanks Brian. Andrei do you have a question? Then we'll go to lines. Thanks.

Andrei Stadnik: Thank you. Good morning. Andrei Stadnik from Morgan Stanley. Can I ask my first question just around the Group. The ROE and the capital allocation. I think the ROE this year is probably on the lower side, and I think ideally, you'd like to get it to high teens. So, what are you thinking in terms of how to get there particularly in terms of capital allocation across the different divisions?

Shemara Wikramanayake: Yes, and I think at the moment, again, I'll just answer first. But we're holding more capital than we're getting earnings on at the moment because we're transitioning assets out of Macquarie Asset Management, so that's one of the things, in terms of where the ROEs have been impacted this year. For the market facing businesses, even in a year of much lower volatility, CGM managed to deliver a return pretty much in line with the 18 year average.

So, it was a 17%, I think, 18 year average, and they delivered 16%. It was the annuity style businesses where Macquarie Asset Management normally does very high ROE business because it's capital light and a more fiduciary business.

I'll let Greg - because he hasn't had a turn to speak - speak briefly about BFS but we're very disciplined about putting capital out the door and drawing our books based on the credit qualities but also the ROEs. In Macquarie Asset Management, that's where this year we have had the meaningful stepdown as we have a big impact from this green energy transition. So, over time, we would expect that to come back. We'll be releasing equity out of Macquarie Asset Management, and we'll also be growing earnings.

But that's going to take a couple of years, I think. I might just briefly let Greg - in terms of ROE discipline that we have, just as an example, talk about BFS and how you approach it, and then if Ben wants to comment...

Greg Ward:

Yes. No. Absolutely. We're very disciplined on the ROE. You saw that, I think, during the year. The third quarter when there was really acute competition in the market, the volume of applications - because of some pricing changes we made to manage the ROE - we saw really low applications in the third quarter, and hence in the fourth quarter, we saw our lowest settlements that we'd seen - probably the last couple of years, just reflecting the discipline of our returns rather than just chasing market share.

Shemara Wikramanayake: Yes, so obviously we focus on other things like credit, like liquidity and funding matching. But ROE is something we're very disciplined about, not just at a Group level but in the sub businesses. When Michael's team are putting money to work in equity in each of their four verticals, there's an ROE target that we have for each of those. So, hopefully over the medium-term, we would hope to be returning that 14% average that you saw. But at the moment, it's really the investment we're doing for the transition of the green.

Andrei Stadnik:

For my second question - a MAM specific question - I think your private markets fundraising is very resilient compared to peers. But at the same time, there's been a lot of private credit growth, and real estate growth,

and other growth and some of your peers have seen, whereas you've remained fairly narrow in your focus in private markets. How are you thinking about broadening the growth opportunities for MAM? Are you happy with the current mix?

Shemara Wikramanayake: When you said, public markets. You mean in private markets in liquid?

Andrei Stadnik: Sorry. More private. Yes. Private markets. Sorry.

Shemara Wikramanayake: Yes. Ben, did you want to briefly talk about your strategies? Because they're not going to make a massive difference in one year because we're growing for the medium-term.

Ben Way: It's a good question. Obviously, we're most known for, in the private side, being an infrastructure manager. We've expanded that into the energy transition. We've talked a lot about that today. But as you may have seen, we also had a record fundraising year for our private credit book as well, which invests in infrastructure, in real estate, and also does some types of fund finance. So, that's been an area for us.

We've never raised more capital for that set of asset strategies. We've obviously then got the agriculture funds. We've got opportunistic real estate, and so on. There's a lot of work going on in terms of making sure that we have good private markets, product diversification, so that when clients are looking at their allocation models and wanting to do more with fewer managers, not having hundreds of different asset strategies but having asset strategies where we can service them depending on the solution they need for where relative value is best, we can accommodate that. So, certainly, that part of our business is growing, and growing well.

Sam Dobson: Great. We'll go to the lines and if there's any more here, we'll come back. We can go to those who are on the line, please.

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

Brendan Sproules: Good morning, Team. I just have a question again in Asset Management, but this time focused on the public investments business. I mean, you

have \$A0.5t asset under management platform, there. But when I look at the base fees over the last two years since you've incorporated the earnings from your recent acquisitions of Waddell & Reed and AMP, we've seen base fees fall about 10 to 15%. At the same time, we've seen expenses across the broader MAM grow by a high single digit.

I've got a couple of questions. Are we going to see the scale benefits, I guess, of this \$A0.5t platform come through the cost to income ratio that we see here in MAM? Then secondly, in terms of the base fees, obviously you've had quite a bit of outflow in the last two years - around \$A10b per annum. What's the outlook for the outflows, I guess, in this business?

Shemara Wikramanayake: Again, I'll briefly comment and say what we've seen in that industry more generally over the last couple of years is a heavy rotation to fixed income. We have had really good inflows into fixed income but outflows from - hopefully if markets become more confident - at the moment, the equity flows or equity increases are going heavily to The Magnificent 7, and the big growth tech equities in the US.

But in due course, if that starts to come back, as you know the public investments benefits just - not just from flows, so that's been a factor driving it. There's also been various one off cost items in public investments. But with that, I'll hand over to Ben to elaborate.

Ben Way: I think the only thing I'll add is, it's certainly the case that as we've had a reallocation of assets, the assets we've had come in in fixed income are at a lower fee rate than those of equities. That's the primary driver of where you see those fees coming down. The second thing, too, is that particularly in the public equities business, we've still been rebounding from the worst 60/40 market 18 months ago.

So, that's where we'll get that drive, where obviously, as people refocus on equities, the flows will slow down. We've actually had quite a lot of client wins recently on the public equity side, and we get there for the benefit from reallocations but also the market increasing. That's what gives you the operating leverage drive over time. We're certainly pleased

with the franchise we've got, today. We think we've got the right strategy mix.

But the reason why we have a public business that has a mix of different assets is because clients choose from time to time to allocate into different buckets and we're able to service them, irrespective of what the - where we are in the cycle and what's attractive at any one point in time.

Shemara Wikramanayake: Our public investment base fees have been going up every year but not at the quantum we'd hope because of this rotation that we've had recently.

Sam Dobson: Brendan, do you have another - no?

Brendan Sproules: No.

Sam Dobson: Great. Thanks. I think Matt Wilson...

Matt Wilson: Thank you. Your next question comes from Matthew Wilson with Jefferies. Please go ahead.

Sam Dobson: Thanks.

Matt Wilson: Yes. Good morning. Matthew Wilson, Jefferies. Two questions, if I may. Firstly, when you look at your peers, KKR and Brookfield, both of them have recently made acquisitions in the insurance industry sort of as an adjacency to their asset management businesses. Do you see a similar kind of strategic alignment and opportunity in insurance?

Shemara Wikramanayake: Yes. Again, I'll let Ben talk to it. But different people are playing in different ways in insurance. You mentioned KKR with Global Atlantic.

Matt Wilson: Yes.

Shemara Wikramanayake: I think Apollo was the first one to go into insurance in a big way and has now a big fixed income offering because the bulk of that portfolio's in investment grade liquid fixed income. Others are approaching it differently. For example, Blackstone has relationships with insurers and manages large portfolios or does reinsurance. We will be very considered

in the way that we approach it. But I'll let Ben talk about our thoughts at the moment.

Ben Way:

We have a very significant set of relationships with insurance companies, already. We manage a lot of money on their behalf. There's certainly opportunities in Asset Management for us to play more of an active OCIO which is what obviously Apollo and are doing. As you would have seen in terms of the announcement today, we've established InEvo, which is a reinsurer based in Bermuda. That will start to reinsure blocks of assets from our client base over the coming years, so its certainly an increasing area of activity for asset managers.

Like our peers, we're certainly looking at inorganic opportunities as well. But we'll make sure that we do it in the right way and take our time to ensure that if we're going to deploy shareholder capital, we think we can do that in a responsible way and that we have the strategies to take advantage of those sorts of asset books.

Matthew Wilson:

Thank you. That's very useful. Then we're into 2025 now. Interest rates seem to have stabilised. They might move around a bit - 25 here or there - so capital can now be priced. Are we seeing a pick up in financial market activity, globally? There's been a sort of smattering of raisings and M&A and IPOs, et cetera. What's Macquarie seeing at the coalface?

Shemara Wikramanayake: Yes. I'll let Michael Silverton comment because he has a global team looking at this and is based in New York, as is Ben.

Michael Silverton:

Yes. Thank you. Look, I think the market's as constructive as it's been in the last 18 months. It had been moving in slow motion, so we certainly are seeing greater levels of activity. We picked that up in our own pipelines and also through anecdotes. In our business, offshore, we focused on the sponsor private equity, private markets community mostly.

There's about 28,000 companies waiting to be sold and \$US3t embedded in those assets so that combined with the capital that has been raised and is waiting on the sidelines represents a lot of opportunity. Recently, we've seen opportunity in critical minerals and

Europe but it's really picking up in the US. As you referenced, it's positive to see some IPOs performing in the aftermarket there as well.

Shemara Wikramanayake: I was just briefly going to say, the dry powder in terms of the private funds - and that's a big part of your client base - the private sponsors - is as big as it's ever been. But as you say, the big thing is them getting the confidence that raised have stabilised and the environment is such that the price discovery will happen.

At the moment, nobody is wanting to buy at yesterday's prices and nobody's wanting to sell at today's prices. But that gap is starting to close. The M&A activity certainly picked up in Q4 last year and Q1 this year, but mostly corporates rather than private sponsors. So, there's a big pent up activity level to come and hopefully if things stay stable enough during this year, that will start to come through.

Michael Silverton: Yes, and that should drive activity into other parts of the business as well, including hedging.

Shemara Wikramanayake: Yes.

Matthew Wilson: Absolutely. Thank you for that.

Sam Dobson: Great. Thanks, Matt. I think we've...

Shemara Wikramanayake: Brian's got one more.

Sam Dobson: ...got time for one last question.

Brian Johnson: I've got billions of question, but we rarely have Silvo in the room. At the moment, we've had - if we kind of think about global capital velocity, it kind of goes back to Matt, but there's a subtle change, which I'd be interested to hear from you on. We've got central banks seem to be holding rates at the short end of the curve higher for perhaps a little bit longer, which everyone gets spooked about.

But the flipside is we've got the Fed which is now slowing down the quantitative tightening. We've got the RBA, which is just - for example, they're not moving to actually shrink that QE book all that dramatically. What's more important for the market, or for your clients, is that basically this higher for longer at the short end or the fact that central

banks seem to be slowing down the pace at which they're doing the quantitative tightening?

Michael Silverton:

Look, I think it's some stability actually just around the inflation picture and that playing through to all. Whether it's the short end or the long end, clearly the market had been expecting rates to come down and activity has started to show real signs. We had all the ingredients for the market rebounding in the past quarter and that may pause for a moment as we see some recalibration around inflation expectations. But I really think it's the stabilisation of inflation that investors are looking to see.

Shemara Wikramanayake:

Yes. The monetary policy - I mean, there's also been massive fiscal stimulus that's gone on so there's a lot of money out there in the hands of the consumers starting to decrease in terms of savings, but consumption is strong and growth, as a result, strong. But I think for the deal markets, corporate markets, it's really that stabilisation in cost of capital that is key to getting confidence back.

Michael Silverton:

I do believe when it comes to the infrastructure opportunity across the Group, the fact that we have these deficits, they need private partnership. We're seeing that also across agencies around government services and technology as well. We're making investments to support governments.

Sam Dobson:

All right. With that, we will wrap up. Thank you very much for your ongoing support and interest. We look forward to catching up over the next couple of weeks. Thank you.

[END OF TRANSCRIPT]