



**MAGELLAN**  
ASSET MANAGEMENT LIMITED

# Interim Financial Report

for the period 14 July 2015 to 31 December 2015

**MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED):** ABN 38 702 719 173

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

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# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Chairman's Report for the period 14 July 2015 to 31 December 2015

Dear Unitholders,

Welcome to the first financial report for Magellan Global Equities Fund (Currency Hedged) ("MHG" or the "Fund"). MHG is a managed investment scheme for which Magellan Asset Management Limited ("Magellan") acts as both Responsible Entity and Investment Manager.

MHG is quoted on the ASX (code: MHG) and commenced trading on 10 August 2015. As at 31 December 2015, MHG had net assets of \$19 million and a net asset value of \$2.4341 per unit.

MHG's portfolio is actively managed by Magellan and is the currency hedged version of the Magellan Global Equities Fund (ASX code: MGE). Magellan aims to achieve attractive risk-adjusted returns over the medium to long term for unitholders, while reducing the risk of permanent capital loss. To achieve this, the Fund invests in a portfolio of between 20 and 40 high-quality global equity stocks and has the ability to manage equity market risk by holding up to 20% of its net assets in cash. Currency exposure is substantially hedged back to Australian Dollars.

Magellan acts as market maker on behalf of the Fund to provide liquidity to investors by acting as a buyer and seller of units and generally provides bids and offers in the market at a tight spread. The benefits and risks of market making accrue to members of the Fund.

MHG's top 10 investments as at 31 December 2015 are listed below (shown as a percentage of the Fund).

Company name	% of the Fund
Microsoft Corp	6.8
Visa Inc	5.0
Intel Corp	4.8
Lowe's Co Inc	4.7
PayPal Holdings Inc	4.3
Wells Fargo & Co	4.2
Yum! Brands Inc	4.1
IBM Corp	4.0
eBay Inc	4.0
Oracle Corp	4.0

The following report contains the interim financial statements and information which we encourage you to read carefully. Additionally, we would also encourage you to read our Fund Reports and Investor Letters which provide valuable insight into our investment strategies and portfolio managers' thoughts. These can be found on our website: [www.magellangroup.com.au](http://www.magellangroup.com.au).



**Brett Cairns**  
Executive Chairman  
29 February 2016

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Responsible Entity's Report for the period 14 July 2015 to 31 December 2015

The Directors of Magellan Asset Management Limited (ABN 31 120 593 946) ("MAM"), the Responsible Entity of Magellan Global Equities Fund (Currency Hedged) (the "Fund" or "MHG") present its first report on the Fund for the period 14 July 2015 to 31 December 2015.

### 1.0 Directors

The following persons were Directors of MAM during the period and up to the date of this report:

Name	Directorship	Appointed
Brett Cairns	Executive Chairman	22 Jan 2007
Hamish Douglass	Chief Executive Officer	21 Nov 2006
Robert Fraser	Independent Non-executive Director	23 Apr 2014
Paul Lewis	Independent Non-executive Director	20 Dec 2006
Karen Phin	Independent Non-executive Director	23 Apr 2014

### 1.1 Principal Activity

The Fund is a registered managed investment scheme domiciled in Australia and quoted on the Australian Securities Exchange (ASX) under the AQUA Rules (ticker code MHG). It was registered on 14 July 2015 and commenced trading on 10 August 2015. The Fund's principal place of business is Level 7, 1 Castlereagh Street, Sydney, New South Wales 2000.

MHG is a currency hedged version of the ASX quoted Magellan Global Equities Fund (ASX ticker code: MGE) and invests in a portfolio of between 20 and 40 high quality global equity stocks. It has the ability to manage equity market risk by holding up to 20% of its net assets in cash and currency exposure is substantially hedged to Australian dollars.

The features and benefits of the Fund include:

- the ability to trade the units on the ASX during normal ASX trading hours;
- the ability to track the performance of the units on the ASX in a transparent manner;
- hedging of foreign currency exposure;
- access to the Responsible Entity's investment expertise and a professionally managed global equity portfolio;
- access to attractive investment opportunities in offshore markets; and
- participation in any capital appreciation and income distributions of the Fund.

The Fund's investment objective is to achieve attractive risk-adjusted returns over the medium to long term, whilst reducing the risk of permanent capital loss, in accordance with its investment strategy (as detailed in the current Product Disclosure Statement, issued 29 July 2015 and the Constitution). MAM, as Investment Manager, is responsible for selecting and managing the assets of the Fund. MAM, as Responsible Entity, oversees the operations of the Fund and on behalf of the Fund provides trading liquidity to investors on the ASX under the AQUA Rules by acting as a buyer and seller of units in the Fund. The Responsible Entity has appointed an independent market participant to act as its agent to execute its market making activities.

### 1.2 Significant Changes in State of Affairs

There were no significant changes in the nature of the Fund's activities during the period.

### 1.3 Distribution

No distribution was declared for the period 14 July 2015 to 31 December 2015.

### 1.4 Review of Financial Results and Operations

#### a) Financial Results for the Period

The performance of the Fund, as represented by the results of its operations for the period 14 July 2015 to 31 December 2015, was as follows:

	14 Jul to 31 Dec 2015
<b>Results</b>	
Total net investment income (\$'000)	(285)
Total expenses (\$'000)	113
<b>Net operating profit/(loss) (\$'000)</b>	<b>(398)</b>
<b>Net asset value per unit (\$)</b>	<b>2.4341</b>

No performance fee was paid or payable by the Fund for the period 14 July 2015 to 31 December 2015.

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Responsible Entity's Report for the period 14 July 2015 to 31 December 2015

### 1.4 Review of Financial Results and Operations (continued)

#### b) Total Indirect Cost Ratio

The Total Indirect Cost Ratio (ICR) is the ratio of the Fund's actual management costs over the average gross assets attributable to unitholders, expressed as a percentage. Management costs include management fees and performance fees but do not include transactional and operational costs such as brokerage or foreign withholding tax. Management costs are accrued within the Fund's unit price on a daily basis.

The ICR of the Fund is below:

	14 Jul to 31 Dec 2015 (A)
<b>Indirect cost ratio</b>	
Management fee (%)	0.56
<b>Total indirect cost ratio (%)</b>	<b>0.56</b>

(A) the ratio of the Fund's actual management costs over the average gross assets attributable to unitholders from 10 August 2015, being the date the Fund commenced trading, to 31 December 2015. The annual base management fees are 1.35%.p.a.

#### c) Strategy and Future Outlook

The Fund's investment objective is to achieve attractive risk-adjusted investment returns over the medium to long term, whilst reducing the risk of permanent capital loss. The Fund primarily invests in securities of companies listed on global stock exchanges. The Fund's portfolio will comprise 20 to 40 high quality global equity stocks but will also have some the ability to manage equity market risk by holding up to 20% of its net assets in cash. The Fund can use foreign exchange contracts to facilitate settlement of stock purchases and currency hedging. It is the Responsible Entity's intention to substantially hedge the capital component of the foreign currency exposure of the Fund arising from investments in overseas markets back to Australian Dollars.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Therefore, investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns. As markets are subject to fluctuations, it is imprudent to provide a detailed outlook statement of expected results of operations. The Fund provides a daily net asset value per unit, quarterly portfolio disclosure and six monthly investor reports which can be found in the Magellan Funds section of the Magellan Financial Group Limited website, [www.magellangroup.com.au](http://www.magellangroup.com.au) and also the ASX website. The Fund updates and investor reports include detailed discussions in relation to some investee companies from time to time along with Fund outlook commentary.

### 1.5 Interest in the Fund

The movement in units on issue in the Fund for the period 14 July 2015 to 31 December 2015 is disclosed in note 4 to the financial statements. As at 31 December 2015, the net assets attributable to unitholders of the Fund are \$18,954,000.

### 1.6 Likely Developments and Expected Results of Operations

The Fund will continue to invest in companies and businesses in accordance with the investment strategy as set out in the Product Disclosure Statement. The method of operating the Fund is not expected to change in the foreseeable future however the results of the Fund's operations may be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and past returns should not be used to predict future returns.

### 1.7 Events Subsequent to the End of the Period

In the release to the ASX on 2 February 2016, the Fund reported a net asset value per unit of \$2.3390 and 8,947,694 units on issue as at 29 January 2016.

There have been no matters or circumstances arising after the end of the half year that have significantly affected, or may significantly affect, the Fund's operations in future financial years, the results of its operations, or the Fund's state of affairs in future financial periods.

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Responsible Entity's Report for the period 14 July 2015 to 31 December 2015

### **1.8 Rounding of Amounts**

The Fund is of a kind referred to in the Australian Securities & Investments Commission's Class Order 98/100 (as amended) and consequently amounts in the Directors' Report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

### **1.9 Auditor's Independence Declaration**

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 7.

This report is made in accordance with a resolution of the Directors of the Responsible Entity.



**Brett Cairns**  
Executive Chairman

Sydney, 29 February 2016

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Auditor's Independence Declaration



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### Auditor's Independence Declaration to the Directors of Magellan Global Equities Fund (Currency Hedged)

As lead auditor for the review of Magellan Global Equities Fund (Currency Hedged) for the half-year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Rita Da Silva'.

Rita Da Silva  
Partner  
29 February 2016

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Statement of Profit or Loss and Other Comprehensive Income for the period 14 July 2015 to 31 December 2015

	Note	14 Jul to 31 Dec 2015 (A) \$'000
<b>Investment income</b>		
Dividend and distribution income		101
Interest income		19
Net change in fair value of investments held for trading		8
Net change in fair value of investments designated at fair value through profit or loss		(354)
Net foreign exchange gain/(loss) on foreign currency cash and settlements		(59)
<b>Total net investment income</b>		<b>(285)</b>
<b>Expenses</b>		
Management fees		93
Settlement processing fees		3
Brokerage costs		4
Withholding tax on dividends		13
<b>Total expenses</b>		<b>113</b>
<b>Net operating profit/(loss)</b>		<b>(398)</b>
<b>Finance costs attributable to unitholders</b>		
Distributions to unitholders	2	-
Decrease in net assets attributable to unitholders	4	(398)
<b>Profit / (loss) for the period</b>		<b>(398)</b>
Other comprehensive income for the period		-
<b>Total comprehensive income for the period</b>		<b>(398)</b>

<sup>(A)</sup> The Fund was registered on 14 July 2015 and commenced trading on 10 August 2015. The Fund's first reporting period covers 14 July 2015 to 31 December 2015 and as a result there are no prior period comparatives.

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes to the Financial Statements.

Earnings per unit for the period ended 31 December 2015 was \$nil. Refer to note 1 p) for further details.

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Statement of Financial Position as at 31 December 2015

	Note	31 Dec 2015 <sup>(A)</sup> \$'000
<b>Assets</b>		
Cash and cash equivalents		3,094
Receivables		11
Investments	3	16,177
<b>Total assets</b>		<u>19,282</u>
<b>Liabilities</b>		
Distributions payable		-
Payables		328
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<u>328</u>
<b>Net assets attributable to unitholders</b>	4 (b)	<u>18,954</u>

<sup>(A)</sup> The Fund was registered on 14 July 2015 and commenced trading on 10 August 2015. The Fund's first reporting period covers 14 July 2015 to 31 December 2015 and as a result there are no prior period comparatives.

The above Statement of Financial Position should be read in conjunction with the accompanying notes to the Financial Statements.

# **MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)**

## Statement of Changes in Equity for the period 14 July 2015 to 31 December 2015

Under Australian Accounting Standards, the net assets attributable to unitholders are classified as a liability. As a result the Fund has no equity for financial reporting purposes and there are no changes in equity at the start or end of the period ended 31 December 2015.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes to the Financial Statements.

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Statement of Cash Flows

for the period 14 July 2015 to 31 December 2015

	Note	14 Jul to 31 Dec 2015 (A) \$'000
<b>Cash flows from operating activities</b>		
Dividends and distributions received		100
Interest received		15
Management fees paid		(71)
Settlement processing fees paid		(3)
Withholding tax paid		(13)
Other expenses paid		(9)
<b>Net cash inflows/(outflows) from operating activities</b>		<b>19</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments		2,633
Purchase of investments		(18,833)
Net foreign exchange gains/(losses)		(25)
Net cash flows from foreign exchange hedging activities		(52)
<b>Net cash inflows/(outflows) from investing activities</b>		<b>(16,277)</b>
<b>Cash flows from financing activities</b>		
Receipts from issue of units	4 b)	20,529
Payments for redemption of units	4 b)	(1,177)
<b>Net cash inflows/(outflows) from financing activities</b>		<b>19,352</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>3,094</b>
Cash and cash equivalents at the beginning of the period		-
Effect of exchange rate fluctuations on cash and cash equivalents		-
<b>Cash and cash equivalents at the end of the period</b>		<b>3,094</b>

<sup>(A)</sup> The Fund was registered on 14 July 2015 and commenced trading on 10 August 2015. The Fund's first reporting period covers 14 July 2015 to 31 December 2015 and as a result there are no prior period comparatives.

The above Statement of Cash Flows should be read in conjunction with the accompanying notes to the Financial Statements.

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Notes to the Financial Statements for the period 14 July 2015 to 31 December 2015

### 1. Summary of Significant Accounting Policies

Magellan Global Equities Fund (Currency Hedged) ("the Fund") is a registered managed investment scheme under the *Corporations Act 2001* and was admitted to trading status on the ASX under the AQUA Rules. The Fund was registered on 14 July 2015 and in accordance with the Fund's Constitution, commenced on the date that the first unit was issued, which was 10 August 2015. The Fund terminates on the day immediately preceding the 80<sup>th</sup> anniversary of the date of commencement, unless terminated earlier in accordance with the Fund's Constitution.

Magellan Asset Management Limited (ABN 31 120 593 946) is the Responsible Entity of the Fund.

This is the first financial report of the Fund and covers the period 14 July 2015 to 31 December 2015. It was authorised for issue by the Directors of the Responsible Entity on 29 February 2016. The Directors have the power to amend and reissue this financial report.

The principal accounting policies applied in the preparation of these financial statements are set out below.

#### a) Basis of Preparation

The interim financial report is a general purpose financial report and prepared in accordance with AASB 134: *Interim Financial Reporting*, the *Corporations Act 2001*, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board, other mandatory professional reporting requirements and the Fund's Constitution. It is presented in Australian dollars.

The Fund is a for-profit unit trust for the purpose of preparing the financial report.

As this interim financial report is the Fund's first financial report, the Fund's accounting policies are set out below in full.

#### Changes in accounting policy, accounting standards and interpretations

The Australian and International Accounting Standards issued, but not yet mandatory, for the 31 December 2015 reporting period have not been adopted by the Fund in the preparation of this interim financial report. An assessment of the impact of the new standards and interpretations, which may have a material impact on the Fund, is set out below:

- **AASB 9: Financial Instruments (AASB 9), AASB 2012-6: Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures and AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (effective 1 July 2018)**

AASB 9 contains new requirements for the classification, measurement and de-recognition of financial assets and liabilities, replacing the recognition and measurement requirements in AASB 139 *Financial Instruments: Recognition and Measurement*. Under the new requirements the four current categories of financial assets will be replaced with two measurement categories: fair value and amortised cost. Financial assets will only be measured at amortised cost where very specific conditions are met.

AASB 9 was revised in December 2014 to include new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. It also introduced a new expected-loss impairment model that requires credit losses to be recognised when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

At 31 December 2015, no material financial impact is expected on adoption of AASB 9 as the Fund currently classifies financial assets and financial liabilities at either fair value or amortised cost and the carrying value of investments measured at amortised cost approximates fair value. The Fund does not apply hedge accounting. The Fund continues to evaluate the disclosure requirements of this standard.

- **AASB 15: Revenue from Contracts with Customers (effective 1 July 2017) (AASB 15)**

AASB 15 supercedes the revenue recognition guidance in AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related interpretations. Although AASB 15 is principles-based, it is a significant change from the current revenue requirements and will involve more judgements and estimates. The core principle in AASB 15 is that an entity recognises revenue at an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange for selling goods or services to customers.

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Notes to the Financial Statements for the period 14 July 2015 to 31 December 2015

### 1. Summary of Significant Accounting Policies (continued)

#### a) Basis of Preparation (continued)

##### Changes in accounting policy, accounting standards and interpretations (continued)

- **AASB 15: Revenue from Contracts with Customers (effective 1 July 2017) (AASB 15) (continued)**

The Fund has undertaken an assessment of the impact of AASB 15. Based on the assessment completed to date, the Fund does not expect any material change to the timing or manner of recognition of its key revenues as interest revenue, dividend and distribution income and investment gains are excluded from the scope of AASB 15. The Fund will continue to assess the disclosure requirements of AASB 15 so as to understand the extent of any impact on the current systems, processes and controls.

- **AASB 16: Leases (effective 1 July 2019) (AASB 16)**

During January 2016, the IASB issued IFRS 16 *Leases*, which replaces the existing leases guidance in IAS 17 *Leases*. The AASB is expected to issue an Australian equivalent standard AASB *Leases*. AASB 16 would supercede the existing lease guidance in AASB 117 *Leases*. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. The definition is based on the premise of control, where a lease is identified when a customer has the right to (1) obtain substantially all of the economic benefits from the use of the identified asset; and (2) direct the use of the identified asset.

AASB 16 will provide a single model for accounting for leases by lessees. Leases other than low value and short-term leases must be recognised on the balance sheet of lessees. The lessee will recognise an asset, reflecting its right to use the underlying asset, and a liability, in respect of its obligation to make lease payments. Expenses in respect of leases will include amortisation of the right-of-use asset and interest expense in respect of the lease liability.

AASB 16 is unlikely to impact the Fund, however the Fund will evaluate the recognition and disclosure requirements of this standard upon issuance by the AASB.

There are no other pronouncements or accounting standards, not yet effective at this time, that are expected to have a material impact on the financial statements in future reporting periods.

#### b) Foreign Currency Translation

The functional and presentation currency of the Fund is the Australian dollar, as determined in accordance with AASB 121: *The Effects of Changes in Foreign Exchange Rates*. Transactions denominated in foreign currencies are translated into Australian currency at the foreign currency exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Australian dollars at the foreign currency closing exchange rate at the reporting date.

Foreign currency exchange differences arising on translation, and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in the Statement of Profit or Loss and Other Comprehensive Income. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Australian dollars at the foreign currency closing exchange rates at the dates that the values were determined. Foreign currency exchange differences relating to monetary items, including cash and cash equivalents, are presented separately in the Statement of Profit or Loss and Other Comprehensive Income.

#### c) Investment Income

##### Dividend/distribution income

Dividend and distribution income is recognised on the applicable ex-dividend/distribution date gross of withholding tax. Foreign dividends and trust distributions received are recognised net of withholding tax in the Statement of Cash Flows, with the foreign withholding tax recorded as an expense in the Statement of Profit or Loss and Other Comprehensive Income.

##### Net changes in fair value of investments

Realised and unrealised gains and losses on investments at fair value through profit or loss are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

##### Interest income

Interest income is recognised on an accrual basis using the effective interest rate method.

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Notes to the Financial Statements for the period 14 July 2015 to 31 December 2015

### 1. Summary of Significant Accounting Policies (continued)

#### d) Expenses

All expenses are recognised in the Statement of Profit or Loss and Other Comprehensive Income on an accruals basis.

Management and administration and performance fees are set out in note 5 c). Settlement processing fees are paid to a third party market participant to facilitate settlement of MHG units issued and redeemed. The Responsible Entity appointed a market participant as its agent to execute its market making activities on behalf of the Fund in order to provide liquidity in MHG units on the ASX.

#### e) Distributions

The Fund has a contractual obligation under the Fund's Constitution to distribute all its distributable income to unitholders, by cash or reinvestment. Distributions are recognised as finance costs attributable to unitholders in the Statement of Profit or Loss and Other Comprehensive Income. A distribution payable is recognised in the Statement of Financial Position where the amount remains unpaid at reporting date.

#### f) Income Tax

Under current income tax legislation, the Fund is not subject to income tax provided the net taxable income of the Fund is fully distributed to unitholders.

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Fund is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Fund to be offset against any future realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to the unitholders.

The Fund currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the Statement of Profit or Loss and Other Comprehensive Income. The benefits of foreign withholding tax paid, and of imputation credits attaching to Australian franked dividends, are passed onto unitholders.

#### g) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties, such as custodial services and investment management fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of 55%-75% and is also eligible to recover GST on offshore transactions. Management fees, performance fees and other expenses have been recognised in the Statement of Profit or Loss and Other Comprehensive Income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included in the Statement of Financial Position as a receivable or payable. Cash flows are included in the Statement of Cash Flows on a gross basis.

#### h) Cash and Cash Equivalents

Cash includes cash at bank and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

#### i) Receivables

Receivables comprise amounts due from brokers for sales of assets unsettled at the end of the reporting period, dividends and trust distributions declared but not yet received, and reclaimable taxes. They are recognised and carried at amortised cost using the effective interest rate method, which in the case of the Fund is cost and adjusted for changes in foreign exchange rates where applicable, less a provision for uncollectible amounts.

#### j) Financial Assets and Liabilities

The Fund classifies its financial assets in one of the four following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets. Designation is re-evaluated each financial year, but there are restrictions on reclassifying to other categories. Financial liabilities are classified as financial liabilities at fair value through profit or loss, or financial liabilities at amortised cost. The classification of financial assets and liabilities depends on the purpose for which the assets and liabilities are acquired.

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Notes to the Financial Statements for the period 14 July 2015 to 31 December 2015

### 1. Summary of Significant Accounting Policies (continued)

#### j) Financial Assets and Liabilities (continued)

The Fund's financial assets are classified and measured as follows:

Financial asset/liability	Classification	Valuation basis	
Cash	Fair value through profit or loss	Fair value	Refer to Note 1 h)
Receivables	Loans and receivables	Amortised cost	Refer to Note 1 i)
Investments	Fair value through profit or loss	Fair value	Refer to Note 1 j) below
Distributions payable	Financial liability at amortised cost	Amortised cost	Refer to Note 1 l)
Payables	Financial liability at amortised cost	Amortised cost	Refer to Note 1 l)

Financial assets and financial liabilities are derecognised when the Fund no longer controls the contractual rights that comprise the financial instrument which is normally the case when the instrument is sold.

#### Fair value through profit or loss

All equity securities are designated as fair value through profit or loss on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis in accordance with risk management and investment strategies of the Fund (as set out in the Fund's Product Disclosure Statement and Constitution).

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value, which in the case of the Fund is the transaction price. Transaction costs are expensed immediately in the Statement of Profit or Loss and Other Comprehensive Income. Subsequent to initial recognition, all financial assets and financial liabilities classified at fair value through profit or loss are measured at fair value. Changes in fair value are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

The fair value of equity securities traded in active markets is based on their quoted market prices at the end of the reporting date without any deduction for estimated future selling costs. The quoted market price used for securities held by the Fund is the current bid price and the quoted market price for financial liabilities is the current asking price. If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques. Valuation techniques used include recent arm's length market transactions, reference to the current fair value of other instruments that are substantially the same, discounted cash flows techniques, option pricing models and other valuation techniques commonly used by market participants.

Financial liabilities, other than those at fair value through the Statement of Profit or Loss and Other Comprehensive Income, are measured at amortised cost using the effective interest rate.

#### k) Derivatives

Derivatives are contracts whose value is derived from one or more underlying price, index or other variable. Derivative instruments do not qualify for hedge accounting under AASB 139 *Financial Instruments: Recognition and Measurement* and are recognised at fair value. Changes in the fair value are recorded in the Statement of Profit or Loss and Other Comprehensive Income and are included within 'net change in fair value of investments'. Derivatives are included in the Statement of Financial Position as a current asset when the fair value at reporting date is positive and classified as a current liability when the fair value at reporting date is negative.

#### l) Payables

Payables comprise trade creditors and accrued expenses owing by the Fund at reporting date which are unpaid. Trade creditors are unsecured and usually paid within 30 days of recognition. Payables are recognised at amortised cost at the point where the Fund becomes obliged to make payments in respect of the purchase of these goods and services. Refer to note 1 e) for any distributions payable.

#### m) Net Assets Attributable to Unitholders

The units issued by the Fund are classified as a liability in the Statement of Financial Position as the Fund's Constitution requires the net income of the Fund to be distributed to unitholders of the Fund. Changes in net assets attributable to unitholders are recognised in the Statement of Profit or Loss and Other Comprehensive Income as finance costs.

#### n) Applications and Redemptions

Applications received for units in the Fund are recorded net of entry fees (if applicable). Redemptions from the Fund are recorded gross of exit fees (if applicable). The Fund recognises the units issued or redeemed when settled, which is trade date.

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Notes to the Financial Statements for the period 14 July 2015 to 31 December 2015

### 1. Summary of Significant Accounting Policies (continued)

#### **o) Segment Information**

An operating segment is a distinguishable component of the Fund that is engaged in business activity from which the Fund earns revenues and incurs expenses, whose operating results are regularly reviewed by the Fund's chief operating decision maker in order to make decisions about the allocation of resources to the segment and assess its performance, and for which discrete financial information is available. The chief operating decision maker has been determined as the Portfolio Manager, Mr Hamish Douglass.

#### **p) Earnings Per Unit**

The earnings per unit is \$nil as AASB 133 *Earnings per Share* refers to equity. The Fund has nil equity as the units issued by the Fund are classified as financial liabilities (refer to note 1 m)).

#### **q) Offsetting Financial Instruments**

Financial assets and financial liabilities are presented net in the Statement of Financial Position where the Fund has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### **r) Rounding of Amounts**

The Fund is of a kind referred to in the Australian Securities & Investments Commission's Class Order 98/100 (as amended) and amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with the Class Order, unless otherwise indicated.

#### **s) Critical Accounting Estimates and Judgements**

The preparation of the financial statements requires the Directors to make judgements, estimates and assumptions that affect the amounts reported in the financial statements. The Directors base their judgements and estimates on historical experience and various other factors they believe to be reasonable under the circumstances, but which are inherently uncertain and unpredictable, the result of which forms the basis of the carrying values of assets and liabilities. As such, actual results could differ from those estimates.

Where listed equities have no active market the Directors determine fair value with reference to external observable information and conditions existing at reporting date (refer to note 3 a)). Fair values may however move materially with movements in market prices. As the investments are valued with reference to the listed quoted prices and the Fund's cash is held with strongly rated financial institutions, the Fund's financial assets are not subject to significant judgement or complexity nor are the Fund's liabilities.

### 2. Distributions to Unitholders

No distribution was declared for the period ended 31 December 2015.

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Notes to the Financial Statements for the period 14 July 2015 to 31 December 2015

### 3. Investments

	31 Dec 2015 \$'000
<b>Financial assets designated at fair value through profit or loss</b>	
Australian listed equity securities	445
International listed equity securities	
- United States	13,424
- United Kingdom	1,226
- France	448
- Switzerland	265
- Netherlands	309
<b>Total financial assets designated at fair value through profit or loss</b>	<b>16,117</b>
<b>Financial assets held for trading</b>	
Foreign currency forward contracts	60
<b>Total financial assets held for trading</b>	<b>60</b>
<b>Total investments</b>	<b>16,177</b>

The top 10 investments by domicile of primary stock exchange, held by the Fund are:

Company name	Domicile of Principal Exchange Listing	31 Dec 2015 \$'000
Microsoft Corp	United States	1,292
Visa Inc	United States	942
Intel Corp	United States	904
Lowe's Co Inc	United States	887
PayPal Holdings Inc	United States	807
Wells Fargo & Co	United States	805
Yum! Brands Inc	United States	780
IBM Corp	United States	766
eBay Inc	United States	761
Oracle Corp	United States	760
<b>Total top 10 holdings</b>		<b>8,704</b>
Other companies		7,413
<b>Total investments</b>		<b>16,117</b>

#### a) Fair Value Disclosures

The Fund classifies the fair value measurements of financial assets and financial liabilities using the three level fair value hierarchy set out below to reflect the source of valuation inputs used when determining the fair value:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. The fair value of these securities is based on the closing bid price for the security as quoted on the relevant exchange;
- Level 2: valuation techniques using observable inputs either directly (as prices) or indirectly (derived from prices). The fair value of derivatives is based on a discounted cash flow analysis using quoted market inputs (spot and forward rates, volatility) adjusted for specific features of the instruments and applied debit and credit valuation adjustments based on the Fund's counterparties' current credit worthiness; and
- Level 3: valuation techniques using non-market observable inputs.

The following table presents the Fund's assets measured and recognised at fair value:

	31 Dec 2015 \$'000
<b>Assets measured at fair value</b>	
Level 1: Investments - valued using quoted price <sup>(A)</sup>	16,117
Level 2: Investments - forward foreign currency contracts	60
<b>Total financial assets</b>	<b>16,177</b>

<sup>(A)</sup> All Australian and international equity securities held by the Fund are level 1 assets.

There have been no transfers between any of the three levels in the hierarchy during the period ended 31 December 2015 and the Fund's policy is to recognise transfers into and out of fair value hierarchy levels during the half year or previous corresponding period. The Fund does not hold any level 3 assets.

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Notes to the Financial Statements for the period 14 July 2015 to 31 December 2015

### 4. Net Assets Attributable to Unitholders

	31 Dec 2015
	No. of units '000
<b>a) Units on issue</b>	
Units on issue as at beginning of the period	-
Units issued during the period	8,291
Units redeemed during the period	(502)
<b>Units on issue at the end of the period</b>	<b>7,789</b>

#### Terms and Conditions of Units

Each unit confers upon the unitholder an equal interest in the Fund, and is of equal value to other units in the Fund. A unit does not confer upon the holder any interest in any particular asset or investment of the Fund. The rights of unitholders are contained in the Fund's Constitution and include:

- the right to receive a share of any distribution determined by the Responsible Entity in proportion to the units held on the distribution date;
- the right to attend and vote at meetings of unitholders;
- the right to participate in the termination and winding up of the Fund; and
- the right to redeem units, subject to restrictions disclosed in the Fund's Product Disclosure Statement. Those restrictions may include where trading in units on the ASX are suspended for five consecutive business days. In this case, unitholders may apply to the Responsible Entity to make an off-market withdrawal of their investment from the Fund when the Fund is liquid. Where the Fund ceases to be liquid, units may only be withdrawn once an offer is made to all investors in the Fund in accordance with the Fund's Constitution.

There may be other circumstances where off-market withdrawals from the Fund are suspended for up to 28 days, including where:

- a) it is impracticable for the Responsible Entity, or the Responsible Entity is unable, to calculate the net asset value of the Fund;
- b) the payment of withdrawal proceeds involves realising a significant portion of the Fund's assets which would, in the Responsible Entity's opinion, result in remaining investors bearing a disproportionate amount of capital gains tax or expenses, or suffering any other disadvantage or diminution of the value of units held;
- c) the Responsible Entity reasonably considers it would be in the interests of investors, or it is otherwise permitted by law; or
- d) the Responsible Entity receives withdrawal requests of an aggregate value that in its reasonable estimate exceeds 5% of the Fund's assets.

	31 Dec 2015 \$'000
<b>b) Changes in net assets attributable to unitholders</b>	
Opening balance	-
Applications	20,529
Redemptions	(1,177)
Decrease in net assets attributable to unitholders	(398)
<b>Closing balance</b>	<b>18,954</b>

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Notes to the Financial Statements for the period 14 July 2015 to 31 December 2015

### 5. Related Parties

As this interim financial report is the Fund's first financial report, relevant details relating to the remuneration of the Responsible Entity and Key Management Personnel have been disclosed to assist with an understanding of the Fund for the period to 31 December 2015.

#### a) Responsible Entity

The Responsible Entity of the Fund is Magellan Asset Management Limited ("MAM"). MAM is a wholly-owned subsidiary of Magellan Financial Group Limited (ASX code: MFG), the immediate and ultimate parent entity of the Responsible Entity, and both are considered to be related parties of the Fund.

MAM also provides investment management services to the Fund.

#### b) Key Management Personnel

Key management personnel ("KMP") are those persons or corporate entities who have authority and responsibility for planning, directing and controlling the activities of the Fund. The Responsible Entity is responsible for managing the activities of the Fund and considered to be a KMP. The Fund does not employ personnel in its own right.

##### i) Directors

The Directors of MAM are KMP and during the period and up to the date of this report were:

Name	Directorship	Appointed
Brett Cairns	Executive Chairman	22 Jan 2007
Hamish Douglass	Chief Executive Officer	21 Nov 2006
Robert Fraser	Independent Non-executive Director	23 Apr 2014
Paul Lewis	Independent Non-executive Director	20 Dec 2006
Karen Phin	Independent Non-executive Director	23 Apr 2014

##### ii) Other Key Management Personnel

In addition to the Directors, the following employees of MAM also had authority for the strategic direction and management of the Fund, directly or indirectly, during the period ("Other KMP"):

Name	Position	Employer
Nerida Campbell	Chief Operating Officer	MAM
Frank Casarotti	Head of Distribution	MAM
Gerald Stack	Head of Investments	MAM

#### Remuneration of KMP

The KMP are not compensated by the Fund and no payments made by the Fund to MAM include any amounts directly attributable to the compensation of KMP.

#### c) Responsible Entity fees

Compensation is paid to the Responsible Entity in the form of fees as follows:

##### i) Management and Administration Fees

The Responsible Entity is entitled to receive management fees from the Fund. The Fund pays a management fee to the Responsible Entity for managing the assets of the Fund and overseeing the operations of the Fund. The management fee is 1.25% per annum of the value of the Fund, calculated daily. It also pays an administration fee of 0.10% to the Responsible Entity from which the operating expenses of the Fund, such as audit and tax compliance fees, distribution costs, investor reporting, custody and fund administration costs, are paid. Management fees are calculated daily based on the net asset value (before fees) of the Fund on that day and are payable at the end of the month.

The management fees paid/payable by the Fund during the period are set out below:

	14 Jul to 31 Dec 2015 \$'000
Management fees paid in the Statement of Profit or Loss and Other Comprehensive Income	93
Management fees payable in the Statement of Financial Position	21

The management fees paid/payable by the Fund during the period are net of any applicable reduced input tax credits. Refer to note 1 g) for further details.

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Notes to the Financial Statements for the period 14 July 2015 to 31 December 2015

### 5. Related Parties (continued)

#### c) Responsible Entity fees (continued)

##### ii) Performance Fees

Performance fees are calculated on six monthly calculation periods ending on 30 June and 31 December of each calendar year. The Responsible Entity's entitlement to a performance fee is dependent on the Fund exceeding both index relative and absolute return hurdles over a given calculation period, as well as exceeding the applicable high watermark and an overall cap. Performance fees crystallise at the end of a calculation period, or from the commencement of the Fund to 31 December 2015 in the case of the first performance fee calculation period. Further details of the performance fees can be found in the Fund's Product Disclosure Statement which is available at [www.magellangroup.com.au](http://www.magellangroup.com.au).

No performance fee was paid or payable by the Fund for the period ended 31 December 2015.

### 6. Contingent Assets, Contingent Liabilities and Commitments

The Fund has no contingent assets, contingent liabilities or commitments at 31 December 2015.

### 7. Events Subsequent to the End of the Period

In the release to the ASX on 2 February 2016, the Fund reported a net asset value per unit of \$2.3390 and 8,947,694 units on issue as at 29 January 2016.

There have been no matters or circumstances arising after the end of the half year that have significantly affected, or may significantly affect, the Fund's operations in future financial years, the results of its operations, or the Fund's state of affairs in future financial periods.

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Directors' Declaration

for the period 14 July 2015 to 31 December 2015

In the opinion of the Directors,

a) the financial statements and notes of Magellan Global Equities Fund (Currency Hedged) (the Fund) as set out on pages 8 to 20 are in accordance with the *Corporations Act 2001*, including:

- i) giving a true and fair view of the financial position of the Fund as at 31 December 2015 and of its performance as represented by the results of its operations and cash flows for the period ended on that date; and
- ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving declarations from the Chief Executive Officer and Chief Financial Officer which mirror section 295A of the *Corporations Act 2001* and are recommended by the ASX Corporate Governance Principles and Recommendations.

This declaration is made in accordance with a resolution of the Directors of the Responsible Entity.



**Brett Cairns**  
Executive Chairman

29 February 2016

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Independent Auditor's Report



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### Report on the Half-Year Financial Report

To the unitholders of Magellan Global Equities Fund (Currency Hedged)

We have reviewed the accompanying half-year financial report of Magellan Global Equities Fund (Currency Hedged), which comprises the statement of financial position as at 31 December 2015, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

### Directors' Responsibility for the Half-Year Financial Report

The directors of the Responsible Entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Magellan Global Equities Fund (Currency Hedged), ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Responsible Entity a written Auditor's Independence Declaration, a copy of which is attached to the Directors' Report.

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Independent Auditor's Report



### Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Magellan Global Equities Fund (Currency Hedged) is not in accordance with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the entity's financial position as at 31 December 2015 and of its performance for half-year ended on that date; and
- b. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in cursive script that reads 'Ernst &amp; Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Rita Da Silva'.

Rita Da Silva  
Partner  
Sydney  
29 February 2016

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Corporate Information

### **Directors of the Responsible Entity**

Brett Cairns (Chairman)  
Hamish Douglass  
Robert Fraser  
Paul Lewis  
Karen Phin

### **Company Secretary of the Responsible Entity**

Geoffrey Stirton

### **Registered Office**

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Sydney NSW 2000  
Telephone: +61 2 8114 1888  
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Email: [info@magellangroup.com.au](mailto:info@magellangroup.com.au)

### **Auditor and Taxation Adviser**

Ernst & Young  
680 George Street  
Sydney NSW 2000

### **Unit Registrar**

LINK Market Services Limited  
Level 12  
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Telephone: 1300 554 474  
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Email: [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)

### **Securities Exchange Listing**

Australian Securities Exchange  
ASX Code: MHG

### **Website**

<http://www.magellangroup.com.au>