



# ANNUAL FINANCIAL REPORT

## FOR THE YEAR ENDED 30 JUNE 2018

**MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED):** ARSN 606 840 206

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# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Chairman's Report for the year ended 30 June 2018

Dear Unitholders,

We are pleased to present the annual 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 ("MAM") acts as both Responsible Entity and Investment Manager.

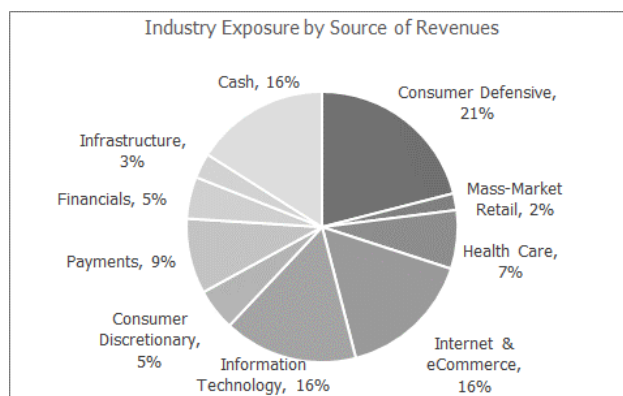
MHG is quoted on the ASX (code: MHG) and commenced trading on 10 August 2015. As at 30 June 2018, MHG had net assets of \$67 million and a net asset value of \$2.9945 per unit. The Fund paid a distribution of 12 cents per unit for the year ended 30 June 2018.

MHG's portfolio is actively managed by MAM and is the currency hedged version of the Magellan Global Equities Fund (ASX code: MGE). For the 12 months to 30 June 2018, the Fund returned 13.0% net of fees. MAM 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, as assessed by MAM, 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.

In the recent Annual Investor Report, released to ASX on 25 July 2018, the Fund's portfolio manager, Hamish Douglass, discusses a number of important topics including his thoughts on current markets and portfolio construction. Hamish also specifically discusses MAM's conservative approach to investing the Fund's assets and how, over time, this approach is designed to meet the Fund's investment objectives. These are important topics we would encourage you to read, which together with the monthly and quarterly Fund Reports, provide valuable insights into our investment strategies and portfolio manager's thoughts. These reports are released on the ASX and can also be found on our website: [www.magellangroup.com.au](http://www.magellangroup.com.au).

As at 30 June 2018, the Fund consisted of investments in 22 companies, with the top 10 investments (listed below) representing 51.3% of the Fund. The Fund's cash position was 16% which was predominantly held in Australian Dollars. The Fund's industry exposure by source of revenues is highlighted below.

Top 10 holdings (as at 30 June 2018)	% of Fund
Alphabet - class A and class C shares	7.0
Facebook - class A shares	6.7
Kraft Heinz	5.5
Visa - class A shares	5.3
Apple	5.2
Lowe's Co	5.1
Wells Fargo	4.5
Starbucks	4.3
MasterCard	3.9
Microsoft	3.8
<b>Top 10 Total</b>	<b>51.3</b>



The following report contains relevant financial statements and information which we encourage you to read carefully.

**Brett Cairns**  
Executive Chairman

Sydney, 3 September 2018

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Responsible Entity's Report for the year ended 30 June 2018

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 their report on the Fund for the year ended 30 June 2018.

### 1.0 Directors

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

Name	Directorship	Appointed
Brett Cairns	Executive Chairman	22 January 2007
Hamish Douglass	CEO and Chief Investment Officer	21 November 2006
John Eales	Non-Executive Director	1 July 2017
Robert Fraser	Non-Executive Director and Senior Independent Director	23 April 2014
Paul Lewis	Non-Executive Director	20 December 2006
Hamish McLennan	Non-Executive Director	1 March 2016
Karen Phin	Non-Executive Director	23 April 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.

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. To achieve this MAM undertakes rigorous company research to identify what it assesses to be high quality companies combined with an assessment of the macro-economic environment and a disciplined risk controlled approach to portfolio construction. The Fund 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 Fund's investment objectives are to achieve attractive risk-adjusted returns over the medium to long term, while reducing the risk of permanent capital loss, in accordance with its investment strategy (as detailed in the current Product Disclosure Statement, issued 28 September 2017).

MAM, as Responsible Entity, is responsible for overseeing the operations of the Fund. As the Investment Manager, it is responsible for selecting and managing the assets of the Fund. In addition, the Responsible Entity, on behalf of the Fund, may also provide 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.

The Fund's principal place of business is Level 36, 19 Martin Place, Sydney, New South Wales 2000.

### 1.2 Significant Changes In State Of Affairs

On 5 May 2016, the Attribution Managed Investment Trust ("AMIT") regime, applying to Managed Investment Trusts was introduced under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016*. The Fund's Constitution has been amended to change the obligation to distribute trust income to unitholders effective 30 June 2018 as part of a process to become eligible to elect into the new AMIT regime.

There were no other significant changes in the state of affairs of the Fund during the year.

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Responsible Entity's Report for the year ended 30 June 2018

### 1.3 Review Of Financial Results And Operations

#### a) Financial Results For The Year

The performance of the Fund, as represented by the results of its operations for the relevant year ended 30 June, was as follows:

	30 June 2018	30 June 2017
<b>Results</b>		
Total net investment income (\$'000)	8,070	8,155
Total expenses (\$'000)	1,070	794
<b>Net Operating Profit/(Loss) (\$'000)</b>	<b>7,000</b>	<b>7,361</b>
<b>Distributions</b>		
Distribution paid and payable to unitholders for the year (\$'000)	2,690	975
Distribution paid and payable (cents per unit) (refer (i) below for components)	12.00	5.00
<b>Indirect Cost Ratio <sup>(A)</sup></b>		
Management and administration fee (% p.a.)	1.35	1.35
Performance fee (% p.a.)	0.17	0.28
<b>Total Indirect Cost Ratio (% p.a.)</b>	<b>1.52</b>	<b>1.63</b>
<b>Net Asset Value ("NAV") Per Unit (\$) <sup>(B)</sup></b>	<b>2.9945</b>	<b>2.7550</b>
<b>NAV Per Unit (based on Statement Of Financial Position) (\$) <sup>(C)</sup></b>	<b>2.9928</b>	<b>2.7550</b>

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

(B) Reported to the ASX on 2 July 2018 (refer Note 16 to the Financial Statements).

(C) Represents the net assets of the Fund presented in the Statement Of Financial Position at reporting date divided by the number of units on issue at reporting date (refer Note 7 to the financial statements).

(i) Distribution components for the final distributions for the years ended 30 June, 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) are below:

	Final Distribution 30 June 2018 cents per unit	Final Distribution 30 June 2017 cents per unit
<b>Domestic Income</b>		
Interest	0.23	0.08
Franked dividends	-	0.01
Other income	2.43	0.16
<b>Foreign Sourced Income</b>	<b>1.84</b>	<b>0.58</b>
<b>Capital Gains (NTARP)</b>		
Discounted	3.75	-
Other capital gains distribution (CGT concession)	3.75	-
Other non-attributable amounts (tax deferred amounts)	-	4.17
<b>Total Distribution</b>	<b>12.00</b>	<b>5.00</b>
<b>Non-Cash Distribution Components</b>		
Franking credits	-	0.02
Foreign income tax offsets	0.56	0.50
<b>Total Non-Cash Distribution Components</b>	<b>0.56</b>	<b>0.52</b>
<b>Gross Distribution</b>	<b>12.56</b>	<b>5.52</b>

## Responsible Entity's Report for the year ended 30 June 2018

### 1.3 Review Of Financial Results And Operations (continued)

#### b) Performance Returns

The performance returns for the 12 months ended 30 June shown in the table below have been calculated using the NAV per unit for the Fund, which is after fees and expenses, assuming the reinvestment of distributions at NAV. The returns are calculated daily, compounded to produce longer period returns.

	12 months to 30 June 2018	12 months to 30 June 2017
<b>Performance</b>		
Growth return (%) <sup>(A)</sup>	8.7	18.0
Distribution return (%) <sup>(B)</sup>	4.3	2.2
<b>Total Return (%)<sup>(C)</sup></b>	<b>13.0</b>	<b>20.2</b>

<sup>(A)</sup> The Growth return is calculated daily as a percentage by dividing the NAV per unit (ex-distribution) by the previous day's NAV per unit (ex-distribution) minus 1; the daily Growth returns are then compounded to produce longer period returns.

<sup>(B)</sup> The Distribution return is calculated as a percentage by subtracting the Growth return from the Total Return.

<sup>(C)</sup> The Total Return is calculated daily as a percentage by dividing the NAV per unit (cum-distribution) by the previous day's NAV per unit (ex-distribution) minus 1; the daily Total Returns are then compounded to produce longer period returns.

Performance fees are calculated on six monthly calculation periods ending on 30 June and 31 December of each 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. 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).

#### c) Strategy And Future Outlook

The Fund's investment objective is unchanged. 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 or statement of expected results of operations. The Fund provides monthly fund updates, quarterly portfolio disclosure and annual investor reports which can be found in the 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 general outlook commentary.

### 1.4 Interest In The Fund

The movement in units on issue in the Fund is disclosed in Note 7 a) to the financial statements.

As at reporting date, unitholders' equity of the Fund (net assets attributable to unitholders at 30 June 2017) was \$67,201,000 (June 2017: \$53,812,000) (refer Note 7 b) to the financial statements). During the year ended 30 June 2018, the units were reclassified from financial liability to equity as a result of the Fund's adoption of AMIT on 30 June 2018.

### 1.5 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.

## Responsible Entity's Report for the year ended 30 June 2018

### 1.6 Events Subsequent To The End Of The Year

In the latest release to the ASX on 3 August 2018, the Fund reported a NAV per unit of \$3.0777 and 22,489,337 units on issue as at 31 July 2018.

Other than the above and the payment of the distribution for the year ended 30 June 2018 (refer to section 1.3), there have been no matters or circumstances arising after the end of the year that have significantly affected, or may significantly affect, the Fund's operations, the results of its operations, or the Fund's state of affairs in future years. Asset prices move daily and daily unit prices are available on the Magellan Financial Group Limited website, [www.magellangroup.com.au](http://www.magellangroup.com.au) and also the ASX website.

### 1.7 Indemnification And Insurance of Directors and Officers

The Directors and Officers of the Responsible Entity in office are insured to the extent permitted by law for losses, liabilities, costs and charges in defending any legal proceedings arising out of their conduct while acting in their capacity of Directors and Officers of the Responsible Entity, other than for conduct involving a wilful breach of duty in relation to the Responsible Entity.

During the year, Magellan Financial Group Limited paid, on behalf of the Responsible Entity, an insurance premium to insure the Directors and Officers of the Responsible Entity. The terms of the contract prohibit the disclosure of the premiums paid.

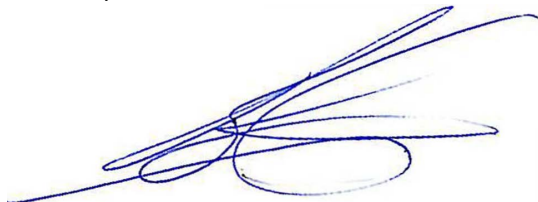
### 1.8 Rounding Of Amounts

The Fund is of a kind referred to in the *Australian Securities & Investments Commission's Corporations (Rounding in Financial/Responsible Entity's Reports) Instrument 2016/191* and consequently amounts in the Responsible Entity's Report have been rounded to the nearest thousand dollars in accordance with that Legislative Instrument, or in certain cases, the nearest dollar.

### 1.9 Auditor

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8.

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



**Brett Cairns**  
Executive Chairman

Sydney,  
3 September 2018



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

As lead auditor for the review of Magellan Global Equities Fund (Currency Hedged) for the financial year ended 30 June 2018, 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

Ernst & Young

Rita Da Silva  
Partner  
3 September 2018



## MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

# Statement Of Profit Or Loss And Other Comprehensive Income

for the year ended 30 June 2018

	Note	30 June 2018 \$'000	30 June 2017 \$'000
<b>Investment Income</b>			
Dividend and distribution income		898	704
Interest income		102	81
Net change in fair value of investments			
- held for trading		(2,095)	1,081
- designated at fair value through profit or loss		9,154	6,298
Net gains/(losses) on foreign currency cash and settlements, derivative contracts and cash		9	(9)
Other income		2	-
<b>Total Net Investment Income</b>		<b>8,070</b>	<b>8,155</b>
<b>Expenses</b>			
Management and administration fees	9 c)	833	563
Performance fees	9 c)	99	120
Settlement processing fees		5	8
Brokerage costs		5	6
Withholding tax on dividends		128	97
<b>Total Expenses</b>		<b>1,070</b>	<b>794</b>
<b>Net Operating Profit/(Loss)</b>		<b>7,000</b>	<b>7,361</b>
<b>Finance Costs Attributable To Unitholders</b>			
Distributions to unitholders	2	(2,690)	(975)
(Increase)/decrease in net assets attributable to unitholders	7 b)	(4,310)	(6,386)
<b>Profit/(Loss) For The Year</b>		<b>-</b>	<b>-</b>
Other comprehensive income for the year		-	-
<b>Total Comprehensive Income For The Year</b>		<b>-</b>	<b>-</b>
<b>Basic Earnings Per Unit (Cents Per Unit)</b>	13	-	-
<b>Diluted Earnings Per Unit (Cents Per Unit)</b>	13	-	-

The above Statement Of Profit Or Loss And Other Comprehensive Income should be read in conjunction with the accompanying notes to the financial statements.

## MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

# Statement Of Financial Position

as at 30 June 2018

	Note	30 June 2018 \$'000	30 June 2017 \$'000
<b>Assets</b>			
Cash and cash equivalents	3	13,404	8,229
Receivables	4	2,072	136
Investments	5 a)	56,463	45,340
Derivative assets	5 b)	-	1,259
<b>Total Assets</b>		<b>71,939</b>	<b>54,964</b>
<b>Liabilities</b>			
Derivative liabilities	5 b)	1,875	-
Payables	6	173	177
Distribution payable	2	2,690	975
<b>Total Liabilities</b>		<b>4,738</b>	<b>1,152</b>
<b>Net Assets Attributable To Unitholders - Liability<sup>(A)</sup></b>	7 b)	<b>-</b>	<b>53,812</b>
<b>Total Unitholders' Equity<sup>(A)</sup></b>	7 b)	<b>67,201</b>	<b>-</b>

<sup>(A)</sup> Effective 30 June 2018, units in the Fund have been reclassified from financial liability to equity. Refer to Note 1 a) for further detail.

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 year ended 30 June 2018

	Note	30 June 2018 \$'000	30 June 2017 \$'000
<b>Unitholders' Equity At Beginning Of The Year</b>		-	-
Reclassification due to AMIT regime implementation <sup>(A)</sup>	1 a), 7 b)	67,201	-
Transactions with unitholders in their capacity as owners:			
Distributions paid and payable		-	-
Total transactions with unitholders		-	-
Profit/(loss) for the year		-	-
Other comprehensive income		-	-
Total comprehensive income for the year		-	-
<b>Total Unitholders' Equity At End Of The Year</b>		<b>67,201</b>	<b>-</b>

<sup>(A)</sup> Effective from 30 June 2018, units in the Fund have been reclassified from financial liability to equity. Refer to Note 1 a) for further detail.

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 year ended 30 June 2018

	Note	30 June 2018 \$'000	30 June 2017 \$'000
<b>Cash Flows From Operating Activities</b>			
Dividends and distributions received		872	686
Interest received		97	80
Other income received		2	-
Management, administration and performance fees paid		(944)	(539)
Settlement processing fees paid		(5)	(8)
Withholding tax paid		(128)	(97)
Other expenses paid		(19)	(13)
<b>Net Cash Inflows/(Outflows) From Operating Activities</b>	8 a)	(125)	109
<b>Cash Flows From Investing Activities</b>			
Purchase of investments		(24,426)	(28,892)
Proceeds from sale of investments		20,565	14,312
Net foreign exchange gains/(losses)		1,068	158
<b>Net Cash Inflows/(Outflows) From Investing Activities</b>		(2,793)	(14,422)
<b>Cash Flows From Financing Activities</b>			
Receipts from issue of units		16,127	28,277
Payments for redemption of units		(7,119)	(9,963)
Distributions paid		(922)	(622)
<b>Net Cash Inflows/(Outflows) From Financing Activities</b>		8,086	17,692
<b>Net Increase/(Decrease) In Cash And Cash Equivalents</b>		5,168	3,379
Cash and cash equivalents at the beginning of the year		8,229	4,850
Effect of exchange rate fluctuations on cash and cash equivalents		7	-
<b>Cash And Cash Equivalents At The End Of The Year</b>	3	13,404	8,229

The above Statement Of Cash Flows should be read in conjunction with the accompanying notes to the financial statements.

## Notes To The Financial Statements

for the year ended 30 June 2018

### 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 financial report was authorised for issue by the Directors of the Responsible Entity on 3 September 2018. 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 general purpose financial report is presented in Australian Dollars and has been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards ("AASB") and Interpretations issued by the Australian Accounting Standards Board, other mandatory professional reporting and the Fund's Constitution. The financial report also complies with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Fund is considered a for-profit unit trust for the purpose of this financial report.

The Statement Of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within 12 months, except for financial assets and liabilities at fair value through profit or loss. These fair value assets and liabilities comprise mainly investments, are managed based on the economic circumstances at any given point in time, as well as to meet any liquidity requirements. Consequently, the investments that may be realised within 12 months cannot be determined at reporting date.

#### Adoption Of Attribution Managed Investment Trust ("AMIT") Regime

On 5 May 2016, a new tax regime applying to Managed Investment Trusts was established under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016*. The AMIT regime allows Managed Investment Trusts that meet certain requirements to make an irrevocable choice to be an AMIT. The Fund's Constitution has been amended and other conditions to adopt the AMIT regime have been met. As a result, the Fund elected into the AMIT regime effective 30 June 2018.

Whilst the intention of the Responsible Entity with respect to distributions has not changed as a result of adopting AMIT, the contractual wording in the Fund's Constitution no longer gives rise to an obligation, for accounting purposes, to distribute income to unitholders.

As a consequence, at 30 June 2018, the units in the Fund meet the definition of equity under AASB 132 (refer to Note 1 n)). This has resulted in the reclassification of units from financial liability to equity in the Statement Of Financial Position on 30 June 2018, which is presented as a movement in the Statement Of Changes In Equity. This movement represents the net assets attributable to unitholders on 30 June 2018, being the effective date the Fund adopted AMIT (refer Note 7 b) for further detail).

As the Fund adopted AMIT on 30 June 2018, applications, redemptions, units issued upon reinvestment of distributions or distributions paid/payable have been included within 'net assets attributable to unitholders – liability' for the year ended 30 June 2018 and 2017 (refer Note 7 b) for further detail).

#### New And Amended Accounting Standards

##### i) Accounting Standards And Interpretations Adopted

The accounting policies are consistent with those of the previous financial year and corresponding reporting period except for the adoption of the new standards and amendments which became mandatory for the current financial year. None of the new standards or amendments resulted in any changes to the amounts or disclosures in the current or prior year.

##### ii) Accounting Standards And Interpretations Issued But Not Yet Effective

The Fund has not early adopted any new standards, amendments to standards and interpretations that are not yet effective. None of the new standards and interpretations materially impact the Fund with the exception of those mentioned on the following page.

## Notes To The Financial Statements

for the year ended 30 June 2018

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

#### a) Basis Of Preparation (continued)

##### New And Amended Accounting Standards (continued)

#### ii) Accounting Standards And Interpretations Issued But Not Yet Effective (continued)

##### • AASB 9: Financial Instruments (AASB 9) (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, and financial assets will only be measured at amortised cost where very specific conditions are met. AASB 9 also introduces new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.

The new expected-loss impairment model requires credit losses to be recognised when financial instruments are first recognised, and results in full lifetime expected credit losses recognised when there is a significant increase in credit risk. The balance of financial assets scoped into AASB 9 impairment requirements are not material.

There was no impact on the Fund upon adoption of AASB 9 on 1 July 2018 as the Fund currently classifies financial assets and financial liabilities at fair value through profit or loss or amortised cost, and the Fund does not apply hedge accounting.

##### • AASB 15: Revenue From Contracts With Customers (effective 1 July 2018) (AASB 15)

AASB 15 supersedes AASB 118 *Revenue* and AASB 111 *Construction Contracts*. Although AASB 15 is principles-based, it is a significant change from the current revenue requirements and will involve more judgements and estimates as revenue is recognised when control of a good or service transfers to a customer, or on satisfaction of performance obligations under contracts, which replaces the existing notion of risk and rewards.

There was no impact on the Fund upon the adoption of AASB 15 on 1 July 2018 as the Fund's revenue recognition of interest, dividend and distribution income, investment gains/(losses) and foreign exchange gains/(losses) were unaffected as these items are excluded from the scope of AASB 15.

#### 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 Dollars 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 And 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 presented gross 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 measured at fair value through profit or loss.

##### Interest Income

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

## Notes To The Financial Statements for the year ended 30 June 2018

### 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, administration and performance fees are set out in Note 9 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 in order to provide liquidity in the Fund's units on the ASX.

#### e) Distributions

Distributions are determined by the Responsible Entity of the Fund and are payable as set out in the Fund's Product Disclosure Statement. Distributable income includes capital gains arising from the disposal of financial assets and liabilities held for trading. Unrealised gains and losses on financial assets and liabilities held for trading that are recognised as income are transferred to unitholders' equity (net assets attributable to unitholders at 30 June 2017) and are not assessable and distributable until realised. Net realised capital losses and tax losses are not distributed to unitholders but are retained to be offset against any realised capital gains and future assessable income respectively.

A distribution payable is recognised in the Statements Of Financial Position where the distribution has been declared but remains unpaid at reporting date.

#### f) Income Tax

Under current income tax legislation, the Fund is not subject to income tax provided the Fund attributes the entirety of its taxable income to 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 Of 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, management and administration fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits at a rate of 55%-75% and is also eligible to recover GST on offshore transactions. Management, administration and 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. 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. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

#### i) Receivables

Receivables comprise amounts due from brokers for sales of assets, applications for units in the Fund 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, 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 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 are acquired and liabilities incurred.

## Notes To The Financial Statements

### for the year ended 30 June 2018

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

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

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

Financial Asset/Liability	Classification	Valuation Basis	
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)
Derivative assets and liabilities	Fair value through profit or loss – held for trading	Fair value	Refer to Note 1 k)
Distribution payable	Financial liability at amortised cost	Amortised cost	Refer to Note 1 e)
Payables	Financial liability at amortised cost	Amortised cost	Refer to Note 1 l)

##### Fair Value Through Profit Or Loss

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.

Financial assets are derecognised when the contractual rights to the cash flows from the assets expire or are transferred. A transfer occurs when substantially all the risks and rewards of ownership are passed to a third party. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

All equity securities are designated at 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).

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 including 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 or any other valuation techniques commonly used by market participants.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest rate method.

##### k) Derivatives

Derivatives are contracts whose value is derived from one or more underlying price, index or other variable. Derivatives are recognised at fair value and changes in the fair value are recorded in the Statement Of Profit Or Loss And Other Comprehensive Income and included in 'net change in fair value of investments held for trading'. Derivatives are included in the Statement Of Financial Position as an asset when the fair value at reporting date is positive and classified as a 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. Amounts due to brokers relating to the purchase of investments are usually settled between two and five days after trade date. Payables and accruals 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 the distribution payable.



## Notes To The Financial Statements for the year ended 30 June 2018

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

#### m) Net Assets Attributable To Unitholders

Prior to 30 June 2018, the units issued by the Fund were classified as a financial liability in the Statement Of Financial Position as the Fund's Constitution required the net income of the Fund to be distributed to unitholders of the Fund. Changes in net assets attributable to unitholders were recognised in the Statement Of Profit Or Loss And Comprehensive Income as finance costs.

On 30 June 2018, the Fund adopted AMIT (refer to Note 1 a)). As a consequence, the units in the Fund were reclassified from financial liability to equity (refer to Note 1 n) for further detail).

#### n) Unitholders' Equity

On 30 June 2018, the units issued by the Fund were reclassified from financial liability to equity as they satisfied the below criteria under AASB 132 *Financial Instruments: Presentation*:

- the units entitle unitholders to a pro-rata share of net assets in the event of the Fund's liquidation;
- all units have the same rights and features;
- the units do not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Fund; and
- the total expected cash flows attributable to the units over their life are based substantially on the Fund's net profit/(loss).

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

#### 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 Mr Hamish Douglass.

#### p) Earnings Per Unit

Basic earnings per unit is calculated as profit/(loss) for the period divided by the weighted average number of units on issue. Diluted earnings per unit is calculated by adjusting the basic earnings per unit to take into account the effect of any costs associated with dilutive potential units and the weighted average number of additional units that would have been outstanding assuming the conversion of all dilutive potential units. Refer to Note 13 for further detail.

#### 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. Refer to Note 10 g) for further detail.

#### r) Rounding Of Amounts

All amounts in the financial statements are rounded to the nearest thousand dollars (\$'000) or in certain cases, the nearest dollar, unless otherwise stated in accordance with the *Australian Securities & Investments Commission's Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*.

#### s) Critical Accounting Estimates And Judgements

The preparation of the Fund's 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. Fair values may however move materially with movements in market prices (refer to Note 10 f) for further detail). As 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.

## MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

# Notes To The Financial Statements

for the year ended 30 June 2018

### 2. Distributions To Unitholders

The final distribution in respect of the year ended 30 June 2018 was 12.0 cents per unit (June 2017: 5.0 cents per unit), amounting to \$2,690,000 (June 2017: \$975,000). The distribution comprised of \$2,690,000 in distributable income (June 2017: \$160,000 distributable income and \$815,000 return of capital), and was paid on 30 July 2018.

#### a) Distribution Reinvestment Plan ("DRP")

The Fund's DRP was available to eligible unitholders during the years ended 30 June.

Under the terms of the DRP, eligible unitholders are able to elect to reinvest their distribution in additional MHG units, free of any brokerage or other transaction costs. Units are issued and/or transferred to DRP participants at a predetermined price, less any discount that the Directors may elect to apply from time to time. No discount has been applied to the units issued under the DRP in respect of the distribution paid on 30 July 2018. The DRP issue price is equal to the Operational Net Trust Value (as defined in the Constitution) divided by the number of units on issue on 16 July 2018, being 10 business days prior to the distribution payment date. The DRP issue price for the year ended 30 June 2018 was \$3.0923 (2017: \$2.8035), as announced on 17 July 2018 to the ASX.

### 3. Cash And Cash Equivalents

	30 June 2018 \$'000	30 June 2017 \$'000
Cash at bank - denominated in Australian Dollars	13,038	8,079
Cash at bank - denominated in foreign currency:		
- United States Dollars	309	127
- British Pounds	25	9
- Euros	17	7
- Swiss Francs	15	7
<b>Total Cash And Cash Equivalents</b>	<b>13,404</b>	<b>8,229</b>

### 4. Receivables

	30 June 2018 \$'000	30 June 2017 \$'000
Due from brokers - receivable for securities sold	1,862	-
Applications receivable	102	84
Recoverable GST and foreign withholding tax	85	44
Interest receivable	13	8
Other receivables	10	-
<b>Total Receivables</b>	<b>2,072</b>	<b>136</b>

## MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

# Notes To The Financial Statements

for the year ended 30 June 2018

### 5. Investments

	30 June 2018 \$'000	30 June 2017 \$'000
<b>a) Investments</b>		
International listed equity securities		
- United States	48,199	37,421
- Switzerland	4,149	3,756
- Germany	2,268	-
- United Kingdom	1,847	2,566
- France	-	1,597
<b>Total Investments</b>	<b>56,463</b>	<b>45,340</b>
<b>b) Derivative Assets</b>		
Forward foreign currency contracts	-	1,259
<b>Total Derivative Assets</b>	<b>-</b>	<b>1,259</b>
<b>Derivative Liabilities</b>		
Forward foreign currency contracts	1,875	-
<b>Total Derivative Liabilities</b>	<b>1,875</b>	<b>-</b>

## MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

# Notes To The Financial Statements

for the year ended 30 June 2018

### 5. Investments (continued)

The equity securities by domicile of primary stock exchange listing held by the Fund are:

Company Name	Domicile Of Principal Exchange Listing	30 June 2018 \$'000	30 June 2017 \$'000
Facebook - class A shares	United States	4,512	2,626
Alphabet - class C shares	United States	4,134	2,721
Kraft Heinz	United States	3,725	-
Visa - class A shares	United States	3,570	2,703
Apple	United States	3,493	3,870
Lowe's Co	United States	3,426	2,417
Wells Fargo	United States	3,054	2,175
Starbucks	United States	2,886	1,803
MasterCard	United States	2,608	1,620
Microsoft	United States	2,559	2,401
HCA Holdings	United States	2,338	1,426
SAP	Germany	2,268	-
Yum! Brands	United States	2,262	1,864
Oracle	United States	2,169	2,162
Nestle	Switzerland	2,136	2,098
Crown Castle	United States	2,093	-
Novartis	Switzerland	2,013	1,658
McDonald's	United States	1,714	2,098
Reckitt Benckiser	United Kingdom	1,708	-
eBay	United States	1,537	2,100
Costco Wholesale	United States	1,515	1,155
Alphabet - class A shares	United States	604	418
Lloyds Banking Group	United Kingdom	139	1,360
PayPal Holdings <sup>(A)</sup>	United States	-	2,065
CVS Health <sup>(A)</sup>	United States	-	1,797
Sanofi <sup>(A)</sup>	France	-	1,597
Tesco <sup>(A)</sup>	United Kingdom	-	1,206
<b>Total Equity Securities</b>		<b>56,463</b>	<b>45,340</b>

<sup>(A)</sup> These investments are no longer held by the Fund at 30 June 2018.

### Fair Value Disclosures

An overview of the risk exposures and fair value measurement relating to investments held at fair value through profit or loss, is included in Note 10 f).

### 6. Payables

	Note	30 June 2018 \$'000	30 June 2017 \$'000
Management fees payable	9 c)	85	57
Performance fees payable	9 c)	80	120
Amounts due to brokers - payable for securities purchases		8	-
<b>Total Payables</b>		<b>173</b>	<b>177</b>

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Notes To The Financial Statements for the year ended 30 June 2018

### 7. Unitholders' Equity

	30 June 2018 No. of units '000	30 June 2017 No. of units '000
<b>a) Units On Issue</b>		
Units on issue as at beginning of the year	19,532	12,453
Units issued	5,375	10,828
Units issued under DRP	19	142
Units redeemed	(2,472)	(3,891)
<b>Units On Issue At End Of The Year</b>	<b>22,454</b>	<b>19,532</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 distribution determined in accordance with the provisions of the Fund's Constitution;
- 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 ("NAV") 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.

There are no separate classes of units and each unit in the Fund has the same rights attaching to it as all other units of the Fund.

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Notes To The Financial Statements

for the year ended 30 June 2018

### 7. Unitholders' Equity (continued)

Prior to 30 June 2018, units in the Fund were classified as net assets attributable to unitholders and presented as a financial liability in the Statement Of Financial Position in accordance with AASB 132. On 30 June 2018, the Fund elected into the AMIT regime and as a consequence the Fund's units were reclassified from a financial liability to equity from 30 June 2018 (refer Note 1 a)).

Movements in net assets attributable to unitholders during the year were as follows:

	Note	30 June 2018 \$'000	30 June 2017 \$'000
<b>b) Changes In Net Assets Attributable To Unitholders</b>			
Opening balance - liability		53,812	29,069
Applications		16,145	27,979
Redemptions		(7,119)	(9,963)
Reinvestment of distributions		53	341
Increase/(decrease) in net assets attributable to unitholders		4,310	6,386
<b>Closing Balance - Liability</b>		67,201	53,812
Reclassification to equity due to AMIT regime implementation	1 a)	(67,201)	-
<b>Closing Balance</b>		-	53,812

### 8. Statement Of Cash Flows Reconciliation

	30 June 2018 \$'000	30 June 2017 \$'000
<b>a) Reconciliation Of Cash Flows From Operating Activities</b>		
Net operating profit/(loss)	7,000	7,361
Adjusted for:		
Net changes in fair value of held for trading investments	2,095	(1,081)
Net changes in fair value of investments designated at fair value through profit or loss	(9,154)	(6,298)
Net foreign exchange (gain)/loss on foreign currency cash and settlements	(9)	9
Changes in operating receivables and payables		
- Net (increase)/decrease in receivables	(46)	(29)
- Net increase/(decrease) in payables	(11)	147
<b>Net Cash Inflows/(Outflows) From Operating Activities</b>	<b>(125)</b>	<b>109</b>
<b>b) Reconciliation Of Cash</b>		
For the purposes of the Statement Of Cash Flows, cash comprises:		
Cash and cash equivalents	13,404	8,229
<b>c) Non-Cash Investing And Financing Activities</b>		
Distributions reinvested into units in the Fund	53	341

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Notes To The Financial Statements

for the year ended 30 June 2018

### 9. Related Parties

#### a) Responsible Entity

The Responsible Entity of the Fund is 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. Refer to Note 9 c) for detail on Responsible Entity's fees.

MAM also provides Responsible Entity and 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 is considered to be a KMP. The Fund does not employ personnel in its own right.

#### i) Directors

The Directors of MAM are considered to be KMP. The Directors of MAM during the year and up to the date of this report are: Dr Brett Cairns, Mr Hamish Douglass, Mr John Eales, Mr Robert Fraser, Mr Paul Lewis, Mr Hamish McLennan and Ms Karen Phin.

#### 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 year ("Other KMP"):

Name	Position	Employer
Frank Casarotti	Head of Distribution	MAM
Kirsten Morton	Chief Financial Officer	MAM
Gerald Stack	Head of Investments	MAM
Marcia Venegas	Head of Risk, Compliance and Legal	MAM
Craig Wright	Head of Governance & Advisory	MAM

#### Remuneration Of KMP

The KMP are not compensated by the Fund.

AASB 124 *Related Party Disclosures* requires compensation provided by the Responsible Entity on behalf of the Fund to be disclosed. A portion of the compensation paid by MAM to each KMP relates to managing the affairs of the Fund, however MAM has not made any determination as to what proportion of the KMPs compensation relates to the Fund. MAM compensated KMP the following amounts during the year:

	30 June 2018 \$	30 June 2017 \$
Short-term benefits		
- salary	8,072,781	6,333,330
- cash bonus	4,311,887	3,461,121
Post-employment benefits	157,695	161,768
Long-term benefits	386,920	284,346
Termination benefits	-	432,597
Other benefits	56,123	124,178
<b>Total Remuneration Paid To KMP</b>	<b>12,985,406</b>	<b>10,797,340</b>

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Notes To The Financial Statements

for the year ended 30 June 2018

### 9. Related Parties (continued)

#### 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 for managing the assets, and overseeing the operations of the Fund. The management fee is 1.25% per annum of the value of the Fund, calculated daily. The Responsible Entity also charges an administration fee of 0.10% 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 and administration fees are calculated daily based on the NAV (before fees) of the Fund on that day and are payable at the end of the month, and are collectively referred to as management fees in these financial statements.

##### ii) Performance Fees

Performance fees are calculated on six monthly calculation periods ending on 30 June and 31 December of each 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. 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).

##### iii) Total Management, Administration And Performance Fees

The management, administration and performance fees paid/payable by the Fund during the year are net of any applicable reduced input tax credits. Refer to Note 1 g) for further detail. The management, administration and performance fees paid/payable by the Fund during the year are set out below:

	30 June 2018		30 June 2017	
	% p.a.	\$	% p.a.	\$
Management fee	1.25	771,267	1.25	521,146
Administration fee	0.10	61,701	0.10	41,692
Total management and administration fees	1.35	832,968	1.35	562,838
Performance fee		99,297		120,319
<b>Total Fees Expensed Per Statement Of Profit Or Loss And Other Comprehensive Income</b>		932,265		683,156
<b>Total Fees Payable Per The Statement Of Financial Position</b>		164,527		176,752

#### d) Transactions With Related Parties

The following transactions occurred with related parties:

		Units Acquired During The Year		Units Redeemed During The Year		Units Held At End Of Year		Distribution Paid Or Payable
		Number	Number	Number	%	\$		
Magellan Financial Group Limited	2018	-	-	6,124,621	27.28	734,955		
	2017	124,621	-	6,124,621	31.36	306,231		
<b>Directors</b>								
Brett Cairns	2018	178	-	10,178	0.05	1,221		
	2017	-	-	10,000	0.05	500		
Hamish Douglass	2018	9,103	-	519,488	2.31	62,339		
	2017	10,385	-	510,385	2.61	25,519		

Transactions between the Fund and related parties are subject to the same terms and conditions as those entered into by other unitholders. Unless specified above, no other KMP held units in the Fund.



## Notes To The Financial Statements

for the year ended 30 June 2018

### 10. Capital And Financial Risk Management

#### a) Financial Risk Management

The Fund's investment portfolio primarily comprises listed equity investments. The Fund's investment objective is to achieve attractive risk-adjusted returns over the medium to long term, while reducing the risk of permanent capital loss, in accordance with its investment strategy (as detailed in the current Product Disclosure Statement). The Fund's investing activities expose it to various types of risks including concentration risk, market risk, liquidity risk and credit risk.

Financial risk management is carried out under policies approved by the Responsible Entity. The risk management programme focuses on ensuring compliance with the Fund's Product Disclosure Statement and seeks to maximise the returns derived for the level of risk to which the Fund is exposed.

The following disclosures in relation to the various risks of the Fund's portfolio have been based on the Fund's direct holdings.

#### b) Concentration Risk

Concentration indicates the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location. The Fund holds a concentrated portfolio of investments, and the returns of the Fund may be dependent upon the performance of individual companies. The concentrated exposure may lead to increased volatility in the Fund's unit price, and also increases the risk of poor performance.

The Fund's concentration risk is managed in accordance with the portfolio risk controls for the Fund, which are approved by the Investment Committee.

#### c) Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as equity prices, foreign exchange rates, and interest rates.

##### i) Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in market prices, whether those changes are caused by factors specific to the individual stock or factors affecting all instruments in the market. The size and diversification of the portfolio is sufficient to ensure the Fund's returns are not overly correlated to a single company, industry specific or macroeconomic risk but the returns of the portfolio are not expected to be perfectly correlated to any market or sector index. If equity markets as a whole rise or fall by 5%, the return of the Fund may increase or decrease by different amounts.

An increase of 5% in the market prices of the Fund's investments held at the end of the year, assuming all other variables remain constant, would have increased net operating profit and unitholders' equity (net assets attributable to unitholders at 30 June 2017) as follows:

	30 June 2018 \$'000	30 June 2017 \$'000
Impact on net operating profit and unitholders' equity (net assets attributable to unitholders at 30 June 2017)	2,823	2,267

A decrease of 5% in the market prices of each of the Fund's equity security investments would have had an equal but opposite effect.

##### ii) Currency Risk

Currency risk is the risk that the fair value of financial assets and liabilities will fluctuate due to changes in foreign exchange rates. Assets and liabilities that the Fund may typically own and that can be affected by foreign exchange rate fluctuations include equities listed on foreign exchanges, cash, forward foreign currency contracts, outstanding broker settlements, and outstanding receipts of income from foreign companies.

The Fund invests in financial assets denominated in currencies other than the Australian dollar, and is therefore exposed to the risk that the movement in the foreign exchange rates will cause fluctuations in profit or loss. The Fund uses forward foreign currency contracts to mitigate this risk by hedging the underlying exposure to financial assets denominated in currencies other than the Australian dollar.

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Notes To The Financial Statements

for the year ended 30 June 2018

### 10. Capital And Financial Risk Management (continued)

#### c) Market Risk (continued)

##### ii) Currency Risk (continued)

Due to daily changes in the fair value of underlying assets, the face value of hedging contracts will not always completely eliminate currency exposure. The appropriateness of the amounts hedged is monitored daily and adjusted if the total net exposure of the Fund to any individual foreign currency is greater than 5% of the net assets of the Fund.

The Fund's total net exposure to fluctuations in foreign currency exchange rates at reporting date is:

	30 June 2018 \$'000	30 June 2017 \$'000
Assets and liabilities denominated in:		
United States Dollars	368	(295)
Euros	(28)	(68)
British Pounds	(166)	93
Swiss Francs	(10)	(24)

The changes in unitholders' equity (net assets attributable to unitholders at 30 June 2017) and net operating profit that would arise from a 5% increase or decrease in the Australian dollar relative to each currency to which the Fund is exposed, at reporting date are as follows:

	30 June 2018		30 June 2017	
	5% increase A\$'000	5% decrease A\$'000	5% increase A\$'000	5% decrease A\$'000
Assets and liabilities denominated in:				
United States Dollars	(17)	19	20	(22)
Euros	1	(1)	4	(4)
British Pounds	8	(9)	(4)	4
Swiss Francs	0	(0)	1	(2)

##### iii) Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The primary exposure to interest rates arises on cash balances held by the Fund, which are all held in floating interest rate accounts. Based on the Australian dollar cash balances and US dollar cash balances held by the Fund at reporting date, an increase of 10 basis points in floating interest rates, assuming all other variables remain constant, would increase the Fund's net operating profit and unitholders' equity (net assets attributable to unitholders at 30 June 2017) as follows:

	30 June 2018 \$'000	30 June 2017 \$'000
Australian Dollar cash balances	13	8
United States Dollar cash balances	-	-
<b>Impact On Net Operating Profit And Unitholders' Equity (Net Assets Attributable To Unitholders At 30 June 2017)</b>	<b>13</b>	<b>8</b>

A decrease of 10 basis points in floating interest rates would have an equal but opposite effect. The level of cash held by the Fund may vary from time to time, depending on the level of recent capital flows into and out of the Fund, and on the Investment Manager's judgement. The cash balances held by the Fund as at reporting date may therefore not be typical of the amounts of cash generally held by the Fund.

## Notes To The Financial Statements for the year ended 30 June 2018

### 10. Capital And Financial Risk Management (continued)

#### c) Market Risk (continued)

##### iii) Interest Rate Risk (continued)

The Fund does not hold significant cash balances exposed to interest rates in other currencies and does not have any borrowings or other financial liabilities or assets with direct exposure to changes in interest rates.

##### iv) Market Making Risk

The Responsible Entity, on behalf of the Fund, may provide liquidity to investors on the ASX by acting as a buyer and seller of MHG units. At the end of each Business Day, the Responsible Entity, on behalf of the Fund, may create or cancel units by applying for or redeeming its net position in units bought or sold on the ASX. The Responsible Entity has appointed an independent market participant to act as its agent to transact and facilitate settlement on its behalf.

Market making risk comprises:

- i) the risk that the market making agent makes an error in executing the Fund's market making services. If the market making agent does not fulfil its settlement processing obligations in a correct and timely manner, the Fund could suffer a loss; and
- ii) the risk of an error in the execution of market making activities, or in the price at which units are transacted on the ASX. As many overseas stock exchange markets in which the Fund invests are closed during the ASX trading day, it is not possible for the Responsible Entity to hedge the Fund's market making activities. This may result in either a cost or a benefit to the Fund.

In order to mitigate this risk, the Responsible Entity, on behalf of the Fund, has the discretion to increase the spread at which it makes a market and also has the right to cease making a market subject to its obligations under the AQUA Rules and ASX Operating Rules.

##### d) Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities on the due date or will be forced to sell financial assets at a value which is less than they are worth.

This risk is managed by the Fund maintaining sufficient cash and cash equivalents to meet its normal operating requirements and primarily holds investments that are traded in an active market and can be readily disposed. The majority of the Fund's listed securities are considered readily realisable as they are listed on stock exchanges around the world.

In addition, to manage the Fund's overall liquidity, the Responsible Entity has the discretion to suspend capital withdrawals from the Fund for up to 28 days if it is impracticable for the Responsible Entity or if the Responsible Entity is unable to calculate the NAV of the Fund, the withdrawal request would reasonably require the Responsible Entity to sell 5% or more (by value of the net assets of the Fund), the payment of withdrawals would disadvantage remaining unitholders by imposing a disproportionate share of capital gains tax liabilities, or if the Responsible Entity reasonably considers it to be in the interests of remaining unitholders of the Fund.

At reporting date, the Fund had an obligation to settle payables (including distribution payable) of \$2,863,000 (June 2017: \$1,152,000) maturing in less than one month (June 2017: less than one month) and derivative liabilities of \$1,875,000 (June 2017: \$nil) settled within one month. The Fund had cash and receivables totalling \$15,476,000 (June 2017: \$8,365,000) to cover these liabilities.

##### Maturities Of Financial Liabilities

At 30 June 2018, all payables mature in 0 to 30 days (refer to Note 6) (June 2017: 0 to 30 days). At reporting date derivative liabilities were settled within one month (refer Note 5 b)).

## Notes To The Financial Statements for the year ended 30 June 2018

### 10. Capital And Financial Risk Management (continued)

#### e) Credit Risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of financial assets and liabilities when valued at fair value.

The Fund minimises concentrations of credit risk by undertaking transactions with numerous reputable brokers, and by ensuring cash balances are held with and managed by counterparties that are reputable financial intermediaries with acceptable credit ratings determined by a recognised rating agency. In addition, the credit rating and financial positions of the brokers used by the Fund are regularly monitored to mitigate this risk further. Credit risk relating to outstanding settlements is considered small due to the short settlement period involved.

The Fund uses derivative financial instruments for currency hedging purposes. Derivatives are not used to gear (leverage) the portfolio. The Fund may have credit risk arising from forward foreign currency positions if the market value of those positions is positive. At reporting date, the market value of the forward foreign currency contracts was negative \$1,875,000 (June 2017: positive \$1,259,000).

The Responsible Entity has appointed The Northern Trust Company ("NT") as the custodian of the Fund. In acting as custodian, NT is required to comply with the relevant provisions of the *Corporations Act 2001*, applicable ASIC regulatory guides, legislative instruments and class orders relating to registered managed investment scheme property arrangements with custodians. The credit quality of NT's senior debt is rated at reporting date, by Standard and Poor's as A+ and by Moody's as A2 (June 2017: Standard and Poor's as A+ and by Moody's as A2).

At reporting date, the Fund's maximum exposure to credit risk is the carrying value of the financial assets recognised in the Statement Of Financial Position.

#### Ageing Analysis Of Receivables

At reporting date, the Fund's receivables, excluding recoverable GST and foreign withholding tax, were due within 0 to 30 days (refer to Note 4) (June 2017: 0 to 30 days). Recoverable GST is due within 30 to 90 days (June 2017: 30 to 90 days). Foreign withholding tax is due within 2 to 5 years dependent on the jurisdiction (June 2017: 2 to 5 years). No amounts are impaired or past due at 30 June 2018 or 30 June 2017.

#### f) 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.
- Level 3: valuation techniques using non-market observable inputs.

The following table presents the fair value measurement hierarchy of the Fund's financial assets:

	30 June 2018 \$'000	30 June 2017 \$'000
<b>Financial Assets Measured At Fair Value</b>		
Level 1: Investments - valued using quoted price <sup>(A)</sup>	56,463	45,340
Level 2: Forward foreign currency contracts	-	1,259
<b>Total Financial Assets Measured At Fair Value</b>	<b>56,463</b>	<b>46,599</b>
<b>Financial Liabilities Measured At Fair Value</b>		
Level 2: Forward foreign currency contracts	1,875	-
<b>Total Financial Liabilities Measured At Fair Value</b>	<b>1,875</b>	<b>-</b>

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

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Notes To The Financial Statements

for the year ended 30 June 2018

### 10. Capital And Financial Risk Management (continued)

#### f) Fair Value Disclosures (continued)

The Fund does not hold any level 3 assets. There have been no transfers between any of the three levels in the hierarchy during the year and the Fund's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of each reporting period.

#### g) Offsetting Financial Assets And Financial Liabilities

Financial assets and financial liabilities are presented net in the Statements of Financial Position where the Fund currently has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Derivative assets and liabilities that are subject to legally enforceable master netting agreements, such as an International Swaps and Derivatives Association master netting agreements. Foreign currency contracts are contracted individually with the intention to settle the forward asset or liability simultaneously if required.

The following table presents the Fund's gross and net positions of derivative assets and liabilities that have been offset:

	Gross Amounts Of Financial Assets/ (Liabilities) \$'000	Gross Amounts Offset In The Statement Of Financial Position \$'000	Net Amount Of Financial Assets/(Liabilities) Presented In The Statement Of Financial Position \$'000
<b>30 June 2018</b>			
<b>Financial Assets</b>			
Forward foreign currency contracts	-	-	-
<b>Financial Liabilities</b>			
Forward foreign currency contracts	(1,875)	-	(1,875)
<b>30 June 2017</b>			
<b>Financial Assets</b>			
Forward foreign currency contracts	1,260	(1)	1,259
<b>Financial Liabilities</b>			
Forward foreign currency contracts	(1)	1	-

### 11. Segment Information

The Fund's investments are managed on a single portfolio basis and in one business segment being equity investment, as well as in one geographic segment, Australia. The Fund continues to have foreign exposures as it invests in companies which operate internationally.

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Notes To The Financial Statements for the year ended 30 June 2018

### 12. Auditor's Remuneration

The following amounts were amounts paid or payable by the Responsible Entity on behalf of the Fund:

	30 June 2018 \$	30 June 2017 \$
<b>Audit Services</b>		
Audit and review of financial reports	27,800	27,400
Other assurance services	1,911	2,000
<b>Non-Audit Services</b>		
Taxation	6,700	6,500
<b>Total Auditor's Remuneration Of Ernst &amp; Young Australia</b>	<b>36,411</b>	<b>35,900</b>

### 13. Earnings Per Unit ("EPU")

	30 June 2018 (A)	30 June 2017
<b>Basic EPU</b>		
Profit/(loss) attributable to unitholders (\$'000)	-	-
Weighted average number of units for basic EPU ('000) <sup>(B)</sup>	20,612	-
<b>Basic EPU (Cents)</b>	-	-
<b>Diluted EPU</b>		
Profit/(loss) attributable to unitholders (\$'000)	-	-
Weighted average number of units for diluted EPU ('000) <sup>(B)</sup>	20,612	-
<b>Diluted EPU (Cents)</b>	-	-

(A) There is no comparative for Basic and Diluted EPU as the Fund had \$nil equity for the year ended 30 June 2017 as the units were classified as financial liability.

(B) Effective 30 June 2018, the units have been reclassified from financial liability to equity (refer to Note 1 a) for further detail).

### 14. Contingent Assets, Contingent Liabilities And Commitments

The Fund has no contingent assets, contingent liabilities or commitments at 30 June 2018 (June 2017: nil).

### 15. Events Subsequent To The End Of The Year

In the latest release to the ASX on 3 August 2018, the Fund reported a NAV per unit of \$3.0777 and 22,489,337 units on issue as at 31 July 2018.

Other than the above and the payment of the distribution for the year ended 30 June 2018 (refer to Note 2), there have been no matters or circumstances arising after the end of the year that have significantly affected, or may significantly affect, the Fund's operations, the results of its operations, or the Fund's state of affairs in future years. Asset prices move daily and daily unit prices are available on the Magellan Financial Group Limited website, [www.magellangroup.com.au](http://www.magellangroup.com.au) and also the ASX website.

## MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

# Notes To The Financial Statements

for the year ended 30 June 2018

### 16. NAV Per Unit

The following table reconciles the NAV per unit based on the Statement Of Financial Position as at 30 June 2018 to the NAV per unit for unit pricing purposes.

	30 June 2018 \$	30 June 2017 \$
NAV per unit <sup>(A)</sup>	2.9945	2.7550
NAV Per Unit (based on Statement Of Financial Position) (\$) <sup>(B)</sup>	2.9928	2.7550

<sup>(A)</sup> Reported to the ASX on 2 July 2018.

<sup>(B)</sup> Represents the net assets of the Fund presented in the Statement Of Financial Position at reporting date divided by the number of units on issue at reporting date (refer Note 7).

The NAV per unit, based on the Statement Of Financial Position, differs from the NAV per unit reported to the ASX on 2 July 2018 as set out below:

- 1) the Fund's investments were valued by reference to the quoted market bid price at reporting date, in accordance with AASB 13 *Fair Value Measurement*. For unit pricing purposes, the investments were valued using the last quoted price. This has resulted in the NAV per unit, based on the Statement Of Financial Position, being lower by \$36,000 (June 2017: lower by \$3,000); and
- 2) accruals for fees and minor expenses of the Fund.

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

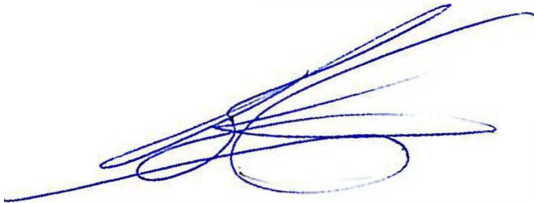
## Directors' Declaration for the year ended 30 June 2018

In the opinion of the Directors,

- a) the financial statements and notes of Magellan Global Equities Fund (Currency Hedged) as set out on pages 9 to 31 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 30 June 2018 and of its performance as represented by the results of its operations and cash flows for the year ended on that date; and
  - ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001*, International Financial Reporting Standards as disclosed in Note 1 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 the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the year ended 30 June 2018.

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



**Brett Cairns**  
Executive Chairman

3 September 2018



## **Independent Auditor's Report to the members of Magellan Global Equities Fund (Hedged)**

### **Report on the Audit of the Financial Report**

#### **Opinion**

We have audited the financial report of Magellan Global Equities Fund (Hedged) (the Fund), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of Magellan Global Equities Fund (Hedged) is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Fund's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### **Basis for Opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

## 1. Investment existence and valuation

Why significant	How our audit addressed the key audit matter
<p>The Fund has a significant investment portfolio consisting primarily of listed equities. As at 30 June 2018, the value of these listed equities, was \$56,463,000 which equates to 78% of the total assets of the Fund.</p> <p>As detailed in Fund's accounting policy, described in Note 1j of the financial report, these financial assets are recognised at fair value through profit or loss in accordance with Australian Accounting Standards.</p> <p>Pricing, exchange rates and other market drivers can have a significant impact on the value of these financial assets and the financial report. Accordingly, valuation of the investment portfolio was considered a key audit matter.</p>	<p>We assessed the effectiveness of the controls relating to the recognition and valuation of investments.</p> <p>We obtained and considered the assurance report on the controls of the Fund's administrator in relation to Fund Administration Services for the year ended 30 June 2018 and considered the auditor's qualifications and objectivity and results of their procedures.</p> <p>We agreed all investment holdings, including cash accounts, to third party confirmations at 30 June 2018.</p> <p>We assessed the fair value of all investments in the portfolio held at 30 June 2018 to independently sourced market prices.</p> <p>We assessed the adequacy of the disclosures in Note 10 of the financial report in accordance with the requirements of Australian Accounting Standards.</p>

## 2. Management and performance fees

Why significant	How our audit addressed the key audit matter
<p>Management and performance fees, paid to the investment manager, Magellan Asset Management Limited, are the most significant expense for the Fund.</p> <p>The Fund's accounting policy for management and performance fees is described in Note 1d and Note 9c to the financial report. All expenses are recognised on an accruals basis, with performance fees recognised in the financial report if the performance hurdles for the Fund have been met at the end of the relevant measurement period, which is the date that the criteria have been met and the liability has been crystallised.</p> <p>As at 30 June 2018, management and performance fees totalled \$870,564,000 which equates to 81% of total expenses. Of this amount, performance fees (excluding GST recovered) totalled \$99,000 which equates to 9% of total expenses.</p> <p>The assessment of performance fee arrangements can be complex and judgmental.</p> <p>The quantum of these expenses and the impact that market volatility can have on the recognition of performance fees relating to future periods, resulted in this being a key audit matter. The disclosure of these amounts is included in Note 9c to the financial report.</p>	<p>We assessed the effectiveness of the controls in relation to the calculation of management and performance fees of the investment manager.</p> <p>We obtained and considered the assurance report on the controls of the Fund's administrator in relation to Fund Administration Services for the year ended 30 June 2018 and considered the auditor's qualifications and objectivity and results of their procedures.</p> <p>We performed a recalculation of management and performance fees, in accordance with the Product Disclosure Statement and Constitution.</p> <p>We assessed the performance fee calculations, including testing the inputs into the calculation model and assessed whether the calculation was in line with the relevant agreement.</p> <p>We assessed the adequacy of the disclosures in Note 9c to the financial statements.</p>

### Information Other than the Financial Report and Auditor's Report

The Directors of the responsible entity of the Fund are responsible for the other information. The other information comprises the information included in Fund's 2018 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the Directors for the Financial Report**

The Directors of the responsible entity of the Fund are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Fund or cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Ernst & Young

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

Rita Da Silva  
Partner

Sydney  
3 September 2018

# MAGELLAN GLOBAL EQUITIES FUND (CURRENCY HEDGED)

## Unitholder Information

### Distribution Of Unitholders

The distribution of unitholders of the Fund as at 23 August 2018 is presented below:

Distribution Of Holdings	Number Of Unit Holders	Number Of Units	Percentage Of Units On Issue %
1-1,000	93	35,962	0.16
1,001-5,000	250	772,779	3.40
5,001-10,000	220	1,672,055	7.36
10,001-100,000	302	7,403,886	32.60
100,001 and over	13	12,829,229	56.48
<b>Total</b>	<b>878</b>	<b>22,713,911</b>	<b>100.00</b>
Number of holders with less than a marketable parcel of units	19	232	-

### Twenty Largest Unitholders

The names of the 20 largest unitholders in the Fund as at 23 August 2018 are listed below.

Holder Name	Number Of Units	Percentage Of Units On Issue %
Magellan Financial Group Limited	6,362,293	28.01
HSBC Custody Nominees (Australia) Limited - A/C 2	3,176,775	13.99
Mr William Andrew McGowan	770,000	3.39
Midas Touch Investments Pty Ltd	510,385	2.25
Rofe Family Pty Ltd	402,684	1.77
IOOF Investment Management Limited	390,995	1.72
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd DRP	375,862	1.65
Delliner Pty Ltd	210,000	0.92
Bond Street Custodians Ltd	163,214	0.72
Citicorp Nominees Pty Limited	130,176	0.57
Pinzgauer Pty Ltd	115,945	0.51
Grace Spyrou Super Pty Ltd	110,650	0.49
Auto Management Pty Ltd	110,250	0.49
Town Inns (Holdings) Pty Ltd	100,000	0.44
HSBC Custody Nominees (Australia) Limited	99,247	0.44
River View Super Pty Ltd	95,330	0.42
National Nominees Limited	94,170	0.41
Dr Robert Gordon Henderson & Mrs Lindy Ann Henderson	93,000	0.41
Netwealth Investments Ltd	88,932	0.39
IOOF Investment Management Limited (IPS IDPS a/c)	87,295	0.38
<b>Total Units Held By The 20 Largest Unitholders</b>	<b>13,487,203</b>	<b>59.37</b>
<b>Total Units On Issue</b>	<b>22,713,911</b>	<b>100.00</b>

### Units

All issued units carry one vote per unit and the right to distributions.

### Stock Exchange Listing

The Fund's ASX code is "MHG" for its units.

## Corporate Information

### **Directors Of The Responsible Entity**

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

### **Company Secretary Of The Responsible Entity**

Geoffrey Stirton

### **Registered Office**

Level 36, 19 Martin Place  
Sydney NSW 2000  
Telephone: +61 2 9235 4888  
Fax: +61 2 9235 4800  
Email: [info@magellangroup.com.au](mailto:info@magellangroup.com.au)

### **Auditor And Tax**

Ernst & Young  
200 George Street  
Sydney NSW 2000

### **Unit Registrar**

LINK Market Services Limited  
Level 12  
680 George Street NSW 2000  
Telephone: 1800 206 847  
Fax: +61 2 9287 0303  
Email: [magellan@linkmarketservices.com.au](mailto:magellan@linkmarketservices.com.au)

### **Securities Exchange Listing**

Australian Securities Exchange  
ASX Code: MHG

### **Website**

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