



**MAGELLAN**  
ASSET MANAGEMENT LIMITED

# Magellan Global Equities Fund (Currency Hedged)

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## Annual Report

For the year ended 30 June 2022

ABN 38 702 719 173

# Contents

<b>Chairman's Report</b>	<b>3</b>
<b>Responsible Entity's Report</b>	<b>5</b>
<b>Auditor's Independence Declaration</b>	<b>9</b>
<b>Financial Statements</b>	
Statement of Profit or Loss and Comprehensive Income	10
Statement of Financial Position	11
Statement of Changes in Equity	12
Statement of Cash Flows	13
Notes to the Financial Statements	14
1. Basis of Preparation	14
2. Distributions to Unitholders	16
3. Cash and Cash Equivalents	17
4. Statement of Cash Flows Reconciliation	18
5. Receivables	18
6. Investments and Derivatives	19
7. Payables	21
8. Unitholders' Equity	21
9. Earnings per Unit	22
10. Net Asset Value per Unit	22
11. Related Parties	23
12. Capital and Financial Risk Management	24
13. Segment Information	27
14. Auditor's Remuneration	27
15. Contingent Assets, Contingent Liabilities and Commitments	27
16. Subsequent Events	27
<b>Directors' Declaration</b>	<b>28</b>
<b>Independent Auditor's Report</b>	<b>29</b>
<b>Unitholder Information</b>	<b>33</b>
<b>Corporate Information</b>	<b>34</b>

# Chairman's Report

for the year ended 30 June 2022

Dear Unitholders,

We are pleased to present the Annual Financial Report for Magellan Global Equities Fund (Currency Hedged) (Managed Fund) ("Fund"). The Fund is a managed investment scheme for which Magellan Asset Management Limited ("MAM") acts as both Responsible Entity and Investment Manager.

The Fund has been quoted on the Australian Securities Exchange (ticker code: MHG) since 10 August 2015. As at 30 June 2022, the Fund had net assets of \$156.3 million and a net asset value of \$3.0338 per unit after providing for a distribution of 7.30 cents per unit for the six months to 30 June 2022 (six months to 30 June 2021: 6.81 cents per unit). The Fund paid total distributions of 14.37 cents per unit (30 June 2021: 13.37 cents per unit) for the year.

The Fund's portfolio is actively managed by MAM and is the currency hedged version of the Magellan Global Fund. 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. For the 12 months to 30 June 2022, the Fund returned (18.1%) net of fees. This compares with the return of the benchmark index (MSCI World Net Total Return Index (hedged to Australian Dollars)) of (12.3%) over the same period.

While MAM's objective is to achieve attractive risk-adjusted returns over the medium to long term, we recognise that the Fund has underperformed relative to the market in recent years and that we must do better. I want to assure you that MAM is highly focussed on sharpening our investment processes and improving performance, however, we continue to be disciplined and will stay true to our proven, long-term investment philosophy.

The current investment landscape is a challenging one, however we believe that our investment style is well-suited to navigate our investors through such conditions. We remain steadfast in our belief that high-quality companies acquired at attractive prices will provide investors with the most reliable returns over the medium to long term.

In July 2022, subsequent to the end of the period, we were pleased to welcome David George as CEO and Managing Director of MAM. David has deep funds management experience and joins MAM following 14 years with the Future Fund, where he was Deputy CIO, Public Markets. He brings an outstanding investment management pedigree, strong client service credentials and a fresh perspective to our team. David is working closely with MAM's investment team to improve process and decision making, drawing on his years of observing investment managers, processes and cultures around the world. This includes putting additional data and tools in the hands of portfolio managers which support converting Magellan's research advantage into portfolios that outperform.

We would encourage you to read Magellan's InReview 2022, our annual investor communication published in July each year, which shares a collection of thought-provoking investment perspectives from across the Magellan investment teams. You can access InReview 2022 at: [2022.magellaninreview.com.au](https://2022.magellaninreview.com.au). We would also encourage you to read our monthly and quarterly Fund Reports which provide valuable insight into our investment strategies and portfolio managers' thoughts. These are released on ASX and can also be found on our website at: [www.magellangroup.com.au](https://www.magellangroup.com.au).

# Chairman's Report

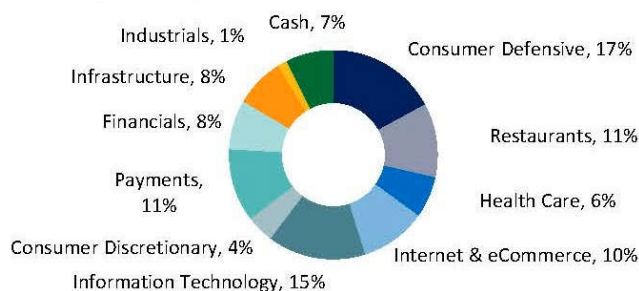
for the year ended 30 June 2022

As per the 30 June 2022 Fund Update, the Fund consisted of investments in 30 companies, with the top 10 investments (listed below) representing 49.7% of the Fund. The Fund's cash position was 7% and was predominantly held in Australian Dollars. The Fund's industry exposure by source of revenues is highlighted below.

## Top 10 holdings

	% of Fund
Microsoft	7.8
Visa - class A shares	6.1
Alphabet - class A and class C shares	5.7
MasterCard	5.2
McDonald's	4.5
Yum! Brands	4.4
Novartis	4.3
Reckitt Benckiser	4.1
Intercontinental Exchange	3.9
Nestle	3.7
<b>Top 10 Total</b>	<b>49.7</b>

## Sector Exposure by Source of Revenue<sup>#</sup>



<sup>#</sup> Sectors are internally defined. Geographical exposure is calculated on a look-through basis based on underlying revenue exposure of individual companies held within the portfolio. Cash exposure includes profit/loss on currency hedging. Exposures may not sum to 100% due to rounding.

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

Yours sincerely,

**Robert Fraser**

Chairman

Sydney, 26 August 2022

# Responsible Entity's Report

for the year ended 30 June 2022

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 annual report on the Fund for the period ended 30 June 2022.

## 1. Directors

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

		Appointed	Resigned
Robert Fraser	Chairman	23 April 2014	
John Eales	Non-executive Director	1 July 2017	
Colette Garnsey	Non-executive Director	30 November 2020	
David George	Chief Executive Officer and Managing Director	19 July 2022	
Hamish McLennan	Non-executive Director	1 March 2016	
Kirsten Morton	Chief Operating Officer and Chief Financial Officer <sup>1</sup>	5 October 2018	
Karen Phin	Non-executive Director	23 April 2014	
Brett Cairns	Chief Executive Officer	22 January 2007	6 December 2021
Paul Lewis	Non-executive Director	20 December 2006	30 September 2021

<sup>1</sup> Ms Morton was appointed Interim Chief Executive Officer following Dr Cairns' resignation on 6 December 2021. Following the commencement of Mr George on 19 July 2022, Ms Morton stepped down as Interim CEO.

## 2. Principal Activity

The Fund is a registered managed investment scheme, domiciled in Australia, with the principal place of business at Level 36, 25 Martin Place, Sydney, New South Wales 2000 and quoted on the Australian Securities Exchange ("ASX") under the AQUA Rules (ticker code: MHG).

MAM, as Responsible Entity, is responsible for overseeing the operations of the Fund. MAM is also Investment Manager, 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 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. The capital component of the foreign currency exposure, arising from investments in overseas markets, is substantially hedged.

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 Product Disclosure Statement, issued 23 December 2021).

## 3. Significant Changes in State of Affairs

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

# Responsible Entity's Report

for the year ended 30 June 2022

## 4. Review of Financial Results and Operations

### 4.1. Financial Results for the Period

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

	30 Jun 2022	30 Jun 2021
<b>Results</b>		
Total net investment income (\$'000)	(38,856)	55,727
Total expenses (\$'000)	(4,397)	(4,639)
<b>Profit/(Loss) (\$'000)</b>	<b>(43,253)</b>	51,088
<b>Distributions</b>		
Distribution paid and payable (\$'000)	9,365	11,906
Distribution paid and payable (CPU) <sup>1</sup>	14.37	13.37
<b>Unit Price (NAV per unit) (\$)²</b>	<b>3.0338</b>	3.8630
<b>ASX Reported (NAV per unit) (\$)³</b>	<b>3.1068</b>	3.9312

<sup>1</sup> Cents per unit.

<sup>2</sup> The Net Asset Value ("NAV") per unit represents the net assets of the Fund presented in the Statement of Financial Position at balance date divided by the number of units on issue at balance date (refer Note 10 of the Financial Statements).

<sup>3</sup> The NAV per unit reported to the ASX differs to the NAV per unit at balance date due to distributions payable and fee accruals.

### Distribution Components

Distribution components, which can be found in the 'Our Funds' section of the Magellan Financial Group Limited ("MFG") website, [www.magellangroup.com.au](http://www.magellangroup.com.au) are as follows:

	31 Dec 2021 Interim Distribution CPU	30 Jun 2022 Final Distribution CPU	31 Dec 2020 Interim Distribution CPU	30 Jun 2021 Final Distribution CPU
<b>Domestic Income</b>				
Interest	-	-	-	0.0176
Other income	-	-	-	12.5302
<b>Foreign Sourced Income</b>	-	-	6.5600	5.3130
Foreign income tax offsets	-	-	-	0.5993
<b>Capital Gains</b>				
Discounted	-	-	-	0.6871
AMIT CGT Gross up	-	-	-	0.6871
Other non-attributable amounts (tax deferred amounts)	7.0700	7.3000	-	-
<b>Attribution amount</b>	<b>7.0700</b>	<b>7.3000</b>	6.5600	19.8343
<b>Tax offsets</b>				
AMIT cost base net increase <sup>1</sup>	-	-	-	(12.4250)
Franking credits	-	-	-	-
Foreign income tax offsets	-	-	-	(0.5993)
<b>Cash Distribution</b>	<b>7.0700</b>	<b>7.3000</b>	6.5600	6.8100

<sup>1</sup> Under the AMIT rules, where income attributed to an investor is more than the cash distribution paid, the tax cost base of the investor's units will increase by a corresponding amount.

# Responsible Entity's Report

for the year ended 30 June 2022

## 4.2. Total Indirect Cost Ratio

The Total Indirect Cost Ratio ("ICR") 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 prices on a daily basis, include management and performance fees but do not include transactional and operational costs such as brokerage or foreign withholding tax.

	30 Jun 2022 %	30 Jun 2021 %
Management fee	1.35	1.35
Performance fee <sup>1</sup>	-	-
<b>Total Indirect Cost Ratio</b>	<b>1.35</b>	<b>1.35</b>

<sup>1</sup> Performance fees are calculated on six monthly measurement periods ending on 30 June and 31 December of each calendar year. The Performance fees component of the ICR is calculated on an accrual basis for each measurement period.

## 4.3. Performance Returns

The performance returns, have been calculated using the NAV per unit for the Fund, which is after fees and expenses, assuming the reinvestment of distributions. The returns are calculated daily, compounded to produce longer period returns.

	30 Jun 2022 %	30 Jun 2021 %
Growth return <sup>1</sup>	(21.5)	15.4
Distribution return <sup>2</sup>	3.4	4.2
<b>Total Return<sup>3</sup></b>	<b>(18.1)</b>	<b>19.6</b>

<sup>1</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>2</sup> The Distribution return is calculated as a percentage by subtracting the Growth return from the Total Return.

<sup>3</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 (cum-distribution) minus 1; the daily Total Returns are then compounded to produce longer period returns.

## 5. 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.

The Fund provides daily unit prices, monthly fund updates, quarterly portfolio disclosures and annual investor reports, which can be found in the 'Our Funds' section of the MFG website, [www.magellangroup.com.au](http://www.magellangroup.com.au) and also the ASX website. Fund updates and investor reports include detailed discussions in relation to some investee companies from time to time along with general outlook commentary.

## 6. Interest in the Fund

The movement in units on issue in the Fund is disclosed in Note 8 to the Financial Statements.

## 7. 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 PDS.

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 2022

## 8. Subsequent Events

NAV moves as a result of a number of factors, including movements in asset prices and unitholder subscriptions and redemptions. Asset prices move daily and intraday indicative NAV per unit and daily NAV per unit are available on the MFG website and also the ASX website. Subsequent to balance date, as at 24 August 2022, the Fund had a NAV per unit of \$3.2529 with a net asset value of \$160,473,000 and 49,333,000 units on issue.

Other than the above there have been no matters or circumstances arising after the end of the period 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 financial periods.

## 9. 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 period, MAM paid 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.

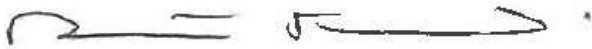
## 10. Rounding of Amounts

The Fund is of a kind referred to in the *ASIC Corporations (Rounding in Financial/Directors' 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.

## 11. Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 9.

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



**Robert Fraser**

Chairman

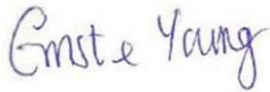
Sydney, 26 August 2022



## **Auditor's Independence Declaration to the Directors of Magellan Asset Management Limited as responsible entity of Magellan Global Equities Fund (Currency Hedged)**

As lead auditor for the audit of Magellan Global Equities Fund (Currency Hedged) for the financial year ended 30 June 2022, 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;
- b. No contraventions of any applicable code of professional conduct in relation to the audit; and
- c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.



**Ernst & Young**



**Clare Sporle**  
Partner

Sydney, 26 August 2022

# Statement of Profit or Loss and Comprehensive Income

for the year ended 30 June 2022

	Note	30 Jun 2022 \$'000	30 Jun 2021 \$'000
<b>Investment Income</b>			
Dividend and distribution income		3,577	3,986
Interest income		8	19
Other income		1	8
Net change in fair value of investments		(42,415)	51,767
Net gains/(losses) on foreign exchange settlements, derivative contracts and cash		(27)	(2)
<b>Total Net Investment Income/(Loss)</b>		<b>(38,856)</b>	55,778
<b>Expenses</b>			
Management fees	11	3,760	4,063
Performance fees	11	2	-
Finance costs		1	1
Transaction costs		149	68
Withholding tax on dividends and distributions income		485	558
<b>Total Expenses</b>		<b>4,397</b>	4,690
<b>Profit/(Loss)</b>		<b>(43,253)</b>	51,088
Other comprehensive income		-	-
<b>Total Comprehensive Income/(Loss)</b>		<b>(43,253)</b>	51,088
<b>Basic Earnings Per Unit (Cents)</b>	9	<b>(58.12)</b>	62.36
<b>Diluted Earnings Per Unit (Cents)</b>	9	<b>(58.12)</b>	62.36

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

# Statement of Financial Position

as at 30 June 2022

	Note	30 Jun 2022 \$'000	30 Jun 2021 \$'000
<b>Assets</b>			
Cash and cash equivalents	3	13,443	18,579
Receivables	5	2,071	1,552
Derivative assets	6	675	-
Investments	6	148,509	336,467
<b>Total Assets</b>		<b>164,698</b>	<b>356,598</b>
<b>Liabilities</b>			
Distributions payable	2	3,761	6,017
Payables	7	868	462
Derivative liabilities	6	3,748	8,788
<b>Total Liabilities</b>		<b>8,377</b>	<b>15,267</b>
<b>Total Unitholders' Equity</b>		<b>156,321</b>	<b>341,331</b>

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

# Statement of Changes in Equity

for the year ended 30 June 2022

	Note	30 Jun 2022 \$'000	30 Jun 2021 \$'000
<b>Unitholders' Equity at the beginning of the Period</b>		<b>341,331</b>	215,847
<b>Transactions with Unitholders in their Capacity as Owners:</b>			
Units issued		8,014	109,287
Units issued under Distribution Reinvestment Plan		665	619
Units redeemed		(141,071)	(23,604)
Distributions paid and payable	2	(9,365)	(11,906)
<b>Total transactions with Unitholders</b>		<b>(141,757)</b>	74,396
Profit/(loss)		(43,253)	51,088
Other comprehensive income		-	-
Total comprehensive income/(loss)		(43,253)	51,088
<b>Total Unitholders' Equity at the end of the Period</b>		<b>156,321</b>	341,331

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

# Statement of Cash Flows

for the year ended 30 June 2022

	Note	30 Jun 2022 \$'000	30 Jun 2021 \$'000
<b>Cash flows from Operating Activities</b>			
Dividends and distributions received (net of withholding tax)		2,968	3,287
Interest received		2	23
Other income received		1	8
Finance costs paid		(1)	(1)
Management and performance fees paid		(3,916)	(3,983)
Transaction costs paid		(149)	(68)
<b>Net cash inflow/(outflow) from Operating Activities</b>	4	<b>(1,095)</b>	(734)
<b>Cash flows from Investing Activities</b>			
Purchase of investments		(81,883)	(160,015)
Proceeds from sale of investments		244,002	48,090
Net foreign exchange gain/(loss)		757	(86)
Net cash flows from settlement of forward foreign currency contracts		(23,257)	22,335
<b>Net cash inflow/(outflow) from Investing Activities</b>		<b>139,619</b>	(89,676)
<b>Cash flows from Financing Activities</b>			
Receipts from issue of units		8,014	109,554
Payments for redemption of units		(140,735)	(23,565)
Distributions paid		(10,956)	(13,657)
<b>Net cash inflow/(outflow) from Financing Activities</b>		<b>(143,677)</b>	72,332
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>			
Cash and cash equivalents at the beginning of the period		18,579	36,624
Effect of exchange rate fluctuations on cash and cash equivalents		17	33
<b>Cash and Cash Equivalents at the end of the Period</b>	3	<b>13,443</b>	18,579

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 2022

## Overview

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.

MAM (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 26 August 2022. The Directors have the power to amend and reissue this financial report.

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

## 1. Basis of Preparation

This 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 requirements 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 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 that 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 balance date.

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 *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*.

### 1.1. Accounting Policies

The accounting policies adopted in the preparation of this financial report are contained within the notes to which they relate. The policies adopted in the preparation of this financial report are consistent with those of the previous financial period. The Fund has not early adopted any accounting standard, interpretation or amendment that has been issued but is not yet effective at balance date.

### 1.2. 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 balance 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 profit or loss. 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 profit or loss.

# Notes to the Financial Statements

for the year ended 30 June 2022

## 1.3. Investment Income

### *Dividend and Distribution Income*

Dividend and distribution income is recognised on the applicable ex-dividend/distribution date gross of withholding tax, which is recorded as an expense in profit or loss. Dividends and distributions received are presented net of withholding tax in the Statement of Cash Flows.

### *Net Change in Fair Value of Investments*

Realised and unrealised gains and losses on investments measured at fair value through profit or loss are recognised in the Statement of Profit or Loss and Comprehensive Income. The net change in fair value does not include dividend and distribution income.

### *Interest Income*

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

## 1.4. Expenses

All expenses are recognised in profit or loss on an accruals basis.

## 1.5. Income Tax

On 5 May 2016, the Attribution Managed Investment Trust ("AMIT") regime 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 elected into the AMIT regime effective 30 June 2018.

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 profit or loss. The benefits of foreign withholding tax paid, and of imputation credits attaching to Australian franked dividends, are passed onto unitholders.

## 1.6. Goods and Services Tax

The Goods and Services Tax ("GST") incurred on the costs of various services provided to the Fund by third parties, such as custodial services and management fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits ("RITC") at a rate of 55%- 75% and is also eligible to recover GST on offshore transactions. Management and performance fees and other expenses have been recognised in profit or loss 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.

## 1.7. Critical Accounting Estimates and Judgements

The preparation of the Fund's financial statements required 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. As a result, 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 balance date. Fair values may however move materially with movements in market prices (refer Note 12). As most 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.

# Notes to the Financial Statements

for the year ended 30 June 2022

## 2. Distributions to Unitholders

Distributions are determined by the Responsible Entity of the Fund and are payable as set out in the Fund's PDS. Distributable income includes capital gains arising from the disposal of financial assets and liabilities. Unrealised gains and losses on financial assets and liabilities that are recognised as income are transferred to unitholders' equity and are not assessable or 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. The Responsible Entity may attribute an amount to a unitholder on redemption.

The Fund intends to target a cash distribution yield of 4% per annum, paid semi-annually for the periods ended June and December. The Target Cash Distribution ("TCD") for each period will be determined by using the average of the month-end NAV per unit over a two year rolling period ending on the last business day of the prior distribution period.

Distributions to unitholders are recognised directly in equity and presented in the Statement of Changes in Equity. A distribution payable is recognised in the Statement of Financial Position where the distribution has been declared but remains unpaid at balance date.

Distributions for the periods ended 30 June are as follows:

	\$'000	CPU	Date Paid
<b>Period ended 30 June 2022</b>			
Interim distribution paid	5,604	7.07	19 Jan 2022
Final distribution payable	3,761	7.30	21 Jul 2022

	\$'000	CPU	Date Paid
<b>Period ended 30 June 2021</b>			
Interim distribution paid	5,889	6.56	15 Jan 2021
Final distribution payable	6,017	6.81	21 Jul 2021

On 7 July 2022, MAM announced the TCD for the six month period ended 31 December 2022 will be 7.33 CPU.



# Notes to the Financial Statements

for the year ended 30 June 2022

## Distribution Reinvestment Plan

The Fund's Distribution Reinvestment Plan ("DRP") was available to eligible unitholders during the period. Under the terms of the DRP, eligible unitholders are able to elect to reinvest all or part of their cash distributions in additional units in the Fund, free of any brokerage or other transaction costs. Units are issued and/or transferred to DRP participants at a price determined by MAM in accordance with the DRP Rules. Details of the DRP for the interim and final distributions are as follows:

	31 Dec 2021 Interim Distribution	30 Jun 2022 Final Distribution	31 Dec 2020 Interim Distribution	30 Jun 2021 Final Distribution
DRP issue price (\$)	3.9360	3.0338	3.5942	3.8631
DRP unitholder participation rate (%)	5.99	6.92	3.95	5.50
Number of units issued under DRP	85,276	85,770	64,710	85,150
Value of units issued under DRP (\$'000)	336	260	233	329
DRP issue date	19 Jan 2022	21 Jul 2022	15 Jan 2021	21 Jul 2021

## 3. Cash and Cash Equivalents

	30 Jun 2022 \$'000	30 Jun 2021 \$'000
Cash at bank - denominated in Australian Dollars	12,878	17,757
Cash at bank - denominated in foreign currency:		
United States Dollars	507	769
British Pounds	18	18
Swiss Francs	16	14
Euro	15	12
Hong Kong Dollars	9	9
<b>Total Cash and Cash Equivalents</b>	<b>13,443</b>	<b>18,579</b>

Cash comprises 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.

# Notes to the Financial Statements

for the year ended 30 June 2022

## 4. Statement of Cash Flows Reconciliation

	30 Jun 2022 \$'000	30 Jun 2021 \$'000
<b>Reconciliation of Cash Flows from Operating Activities</b>		
Profit/(loss)	(43,253)	51,088
Net changes in fair value of investments	42,415	(51,716)
Net (gain)/loss on foreign currency transactions and cash settlements	30	10
Net (increase)/decrease in receivables	(70)	(214)
Net increase/(decrease) in payables	(217)	149
<b>Net Cash Inflow/(Outflow) from Operating Activities</b>	<b>(1,095)</b>	<b>(683)</b>
<b>Non-Cash Investing and Financing Activities</b>		
Distributions reinvested into units in the Fund	665	619

## 5. Receivables

	30 Jun 2022 \$'000	30 Jun 2021 \$'000
Due from brokers - receivable for securities sold	1,539	1,088
Dividend and distribution receivable	55	59
Interest receivable	6	-
Recoverable GST and foreign withholding tax	470	404
Other receivables	1	1
<b>Total Receivables</b>	<b>2,071</b>	<b>1,552</b>

Receivables comprise amounts due from brokers for sales of assets unsettled at balance date, 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. A provision is deducted from receivables for uncollectible amounts based on expected credit losses, if applicable. Expected credit losses are calculated as the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive, discounted at an approximation of the original effective interest rate. The Fund applies the simplified approach for receivables whereby the loss allowance is based on lifetime expected credit losses at each balance date.

At balance date, the Fund's receivables, excluding recoverable GST and foreign withholding tax, were due within 0 to 30 days (June 2021: 0 to 30 days). Recoverable GST is due within 30 to 90 days (June 2021: 30 to 90 days). Foreign withholding tax is due within 2 to 4 years (June 2021: 2 to 4 years) depending on the jurisdiction. No amounts are impaired or past due at 30 June 2022 or 30 June 2021.

# Notes to the Financial Statements

for the year ended 30 June 2022

## 6. Investments and Derivatives

The Fund classifies its equity securities, derivative assets and derivative liabilities as financial assets and liabilities at fair value through profit or loss. The Fund discloses the fair value measurements of financial assets and financial liabilities using a three-level fair value hierarchy to reflect the source of valuation inputs used when determining the fair value as follows:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. The fair value of these securities is based on the closing 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, or the derivative counterparties' current credit worthiness.
- Level 3: valuation techniques using non-market observable inputs.

	30 Jun 2022 \$'000	30 Jun 2021 \$'000
<b>Investments (Level 1)</b>		
International listed equity securities:		
United States	<b>103,531</b>	259,109
United Kingdom	<b>13,859</b>	13,816
Switzerland	<b>12,848</b>	25,554
France	<b>6,360</b>	6,554
Netherlands	<b>4,960</b>	-
Germany	<b>4,282</b>	15,438
Spain	<b>2,669</b>	-
Hong Kong	-	15,996
<b>Total Investments</b>	<b>148,509</b>	336,467
<b>Derivative Assets (Level 2)</b>		
Forward foreign currency contracts	<b>675</b>	-
<b>Total Derivative Assets</b>	<b>675</b>	-
<b>Derivative Liabilities (Level 2)</b>		
Forward foreign currency contracts	<b>3,748</b>	8,788
<b>Total Derivative Liabilities</b>	<b>3,748</b>	8,788

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

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. Brokerage costs are expensed immediately in the profit or loss. Subsequent to initial recognition, all financial assets and liabilities classified at fair value through profit or loss are measured at fair value. Changes in fair value are recognised in profit or loss. The net change in fair value does not include dividend or distribution income.

Purchases and sales are recognised on trade date, being the date the Fund commits to purchase or sell the asset. 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.

The fair value of equity securities traded in active markets is based on their quoted market prices at balance date without any deduction for estimated future selling costs. The quoted market price used for securities held by the Fund is the closing price for the security as quoted on the relevant stock exchange. 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 flow techniques, option pricing models or any other valuation techniques commonly used by market participants.

# Notes to the Financial Statements

for the year ended 30 June 2022

Derivatives are contracts whose value is derived from one or more underlying price, index or other variable. Derivatives are included in the Statement of Financial Position as an asset when the fair value at balance date is positive and classified as a liability when the fair value at balance date is negative.

The equity securities, including stock exchange domicile, held by the Fund are:

Company Name	Exchange Listing	30 Jun 2022 Holding	30 Jun 2021 Holding	30 Jun 2022 \$'000	30 Jun 2021 \$'000
Microsoft	United States	33,421	76,708	12,482	27,677
Visa - class A shares	United States	34,166	52,453	9,783	16,336
MasterCard	United States	18,058	25,050	8,285	12,182
McDonald's	United States	20,302	32,323	7,289	9,945
Yum! Brands	United States	42,904	94,841	7,082	14,532
Novartis	Switzerland	56,038	110,848	6,882	13,469
Alphabet - class C shares	United States	2,123	6,199	6,753	20,695
Reckitt Benckiser	United Kingdom	59,751	117,370	6,511	13,816
Intercontinental Exchange	United States	45,515	90,489	6,224	14,307
Nestle	Switzerland	35,245	72,786	5,966	12,085
Diageo	United Kingdom	93,973	-	5,859	-
ASML Holdings	Netherlands	7,157	-	4,960	-
Lowe's	United States	18,120	-	4,603	-
US Bancorp	United States	68,249	-	4,567	-
Procter & Gamble	United States	21,530	57,830	4,502	10,394
Crown Castle International	United States	17,867	48,634	4,375	12,639
SAP	Germany	32,403	82,239	4,282	15,438
Chipotle Mexican Grill	United States	2,082	-	3,958	-
Amazon.com	United States	24,145	-	3,729	-
Meta Platforms - class A shares	United States	14,735	48,764	3,455	22,585
HCA Holdings	United States	13,912	-	3,400	-
WEC Energy Group	United States	19,024	73,584	2,784	8,718
Pepsico	United States	11,442	72,779	2,773	14,364
Amadeus IT Group	Spain	33,020	-	2,669	-
Xcel Energy	United States	25,049	108,456	2,578	9,517
Eversource Energy	United States	20,146	78,420	2,475	8,382
Alphabet - class A shares	United States	768	1,131	2,434	3,679
Safran	France	16,320	-	2,337	-
LVMH	France	2,524	6,274	2,232	6,554
L'Oreal	France	3,576	-	1,791	-
Lloyds Banking Group	United Kingdom	1,992,243	-	1,489	-
Starbucks	United States	-	127,574	-	19,000
Alibaba Group Holding	United States	-	56,562	-	17,086
Netflix	United States	-	24,263	-	17,071
Tencent	Hong Kong	-	159,687	-	15,996
<b>Total Investments</b>				<b>148,509</b>	<b>336,467</b>

During the period 1,395 listed security transactions were made, incurring brokerage costs of \$28,800.

# Notes to the Financial Statements

for the year ended 30 June 2022

## 7. Payables

	Note	30 Jun 2022 \$'000	30 Jun 2021 \$'000
Management fees payable	11	205	422
Due to brokers - payable for securities purchases		287	-
Redemptions payable		375	39
Other payables		1	1
<b>Total Payables</b>		<b>868</b>	462

Payables comprise trade creditors and accrued expenses owing by the Fund at balance 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, using the effective interest rate method, at the point where the Fund becomes obliged to make payments in respect of the purchase of these goods and services.

At balance date, all payables mature in 0 to 90 days (June 2021: 0 to 90 days).

## 8. Unitholders' Equity

	30 Jun 2022 No. of Units '000	30 Jun 2021 No. of Units '000
<b>Units on Issue</b>		
Opening balance	88,358	64,518
Units issued	2,066	30,052
Units issued under DRP	170	176
Units redeemed	(39,067)	(6,388)
<b>Units on Issue at end of the Period</b>	<b>51,527</b>	88,358

### Ordinary Units

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

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 PDS. 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:

- it is impracticable for the Responsible Entity, or the Responsible Entity is unable, to calculate the NAV of the Fund;
- 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;
- the Responsible Entity reasonably considers it would be in the interests of investors, or it is otherwise permitted by law; or
- 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.

# Notes to the Financial Statements

for the year ended 30 June 2022

## 9. Earnings per Unit

Basic Earnings Per Unit ("EPU") 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 changes in income or expense associated with dilutive potential units and the weighted average number of additional ordinary units that would have been outstanding assuming the conversion of all dilutive potential ordinary units.

	30 Jun 2022	30 Jun 2021
<b>Basic EPU</b>		
Profit/(loss) attributable to unitholders (\$'000)	<b>(43,253)</b>	51,088
Weighted average number of units for basic EPU ('000)	<b>74,422</b>	81,922
<b>Basic EPU (Cents)</b>	<b>(58.12)</b>	62.36
<b>Diluted EPU</b>		
Profit/(loss) attributable to unitholders (\$'000)	<b>(43,253)</b>	51,088
Weighted average number of units for diluted EPU ('000)	<b>74,422</b>	81,922
<b>Diluted EPU (Cents)</b>	<b>(58.12)</b>	62.36
<b>Earnings Reconciliation</b>		
Profit/(loss) used in the calculation of basic and diluted EPU (\$'000)	<b>(43,253)</b>	51,088

As the Fund has no potential dilutive units, basic and diluted EPU are equal. Since the end of the period, the Fund has issued ordinary units under the DRP (refer Note 2).

## 10. Net Asset Value per Unit

The NAV per unit represents the net assets of the Fund presented in the Statement of Financial Position at balance date divided by the number of units on issue at balance date (refer Note 8).

	30 Jun 2022	30 Jun 2021
	\$	\$
NAV per unit	<b>3.0338</b>	3.8630

The NAV per unit at balance date may differ from the NAV per unit reported to the ASX due to distributions payable and fee accruals.

NAV moves as a result of a number of factors, including movements in asset prices and unitholder subscriptions and redemptions. Asset prices move daily and intraday indicative NAV per unit and daily NAV per unit are available on the MFG website and also the ASX website. Subsequent to balance date, as at 24 August 2022, the Fund had a NAV per unit of \$3.2529 with a net asset value of \$160,473,000 and 49,333,000 units on issue.

# Notes to the Financial Statements

for the year ended 30 June 2022

## 11. Related Parties

### Responsible Entity

The Responsible Entity of the Fund is MAM. MAM is a wholly-owned subsidiary of MFG, the immediate and ultimate parent entity of the Responsible Entity and both are considered to be related parties of the Fund.

### 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.

The Directors of MAM are considered to be KMP. The Directors of MAM during the period and up to the date of this report are: Dr Brett Cairns (resigned 6 December 2021), Mr John Eales, Mr Robert Fraser, Ms Colette Garnsey, Mr Paul Lewis (resigned 30 September 2021), Mr Hamish McLennan, Ms Kirsten Morton and Ms Karen Phin. Mr David George was appointed to the MAM Board on 19 July 2022. The Fund did not pay any compensation to the Directors of the Responsible Entity.

### Responsible Entity Fees

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

#### Management 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 1.35% per annum (excluding GST) of the value of the Fund, calculated daily. The Responsible Entity pays operating expenses of the Fund, such as audit and tax compliance fees, distribution costs, investor reporting, custody and fund administration costs. Management fees are calculated daily based on the NAV (before fees) of the Fund reflected in the daily unit prices of the Fund and are payable at the end of each month.

#### Performance Fees

Performance fees are calculated on six monthly calculation periods ending on 30 June and 31 December of each year. The Responsible Entity is entitled to Performance fees of 10% of excess return of the Fund above the higher of the index relative hurdle and the absolute return hurdle, subject to exceeding the applicable high watermark and an overall cap. Performance fees crystallise at the end of a calculation period, or when units are redeemed, subject to a performance fee entitlement existing at the date of redemption. The estimated NAV of the Fund includes a performance fee accrual equal to the amount that would be payable if it were 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).

#### Total Management and Performance Fees

The fees paid/payable by the Fund are net of any applicable reduced input tax credits (refer Note 1.6). The management and performance fees paid/payable by the Fund are as follows:

	30 Jun 2022	30 Jun 2021
	\$	\$
Management fees	3,760,037	4,062,891
Performance fees	1,869	38
<b>Total Fees Expensed in the Statement of Profit or Loss and Other Comprehensive Income</b>	<b>3,761,906</b>	4,062,929
<b>Total Fees Payable in the Statement of Financial Position</b>	<b>204,594</b>	422,308

# Notes to the Financial Statements

for the year ended 30 June 2022

## Transactions with Related Parties

Number of units held by each KMP, including their personally-related parties, in the Fund for the periods ended 30 June are as follows:

	Units acquired/ disposed Number	Units held at 30 Jun 2021 Number	%	Distribution paid and payable \$ <sup>1</sup>	Units acquired/ disposed Number	Units held at 30 Jun 2022 Number	%	Distribution paid and payable \$ <sup>1</sup>
MFG	-	6,362,293	7.20	850,639	-	6,362,293	12.35	914,262

## Directors

Brett Cairns <sup>2</sup>	615	11,496	-	1,497	203	11,699	na	-
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<sup>1</sup> Represents the interim distribution paid and final distribution payable for the period, comprising cash paid and DRP units issued.

<sup>2</sup> Holdings shown at date of resignation, 6 December 2021.

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.

## 12. Capital and Financial Risk Management

### Financial Risk Management

The Fund's investment portfolio primarily comprises listed equity investments. The investment objectives of the Fund are to achieve attractive risk-adjusted returns over the medium to long-term, whilst reducing the risk of permanent capital loss, in accordance with its investment strategy (as detailed in the current PDS). 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 PDS 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.

### 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 MAM's Investment Committee.

### 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.

### 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.

For illustrative purposes an increase of 5% in the market prices of each of the Fund's investments held at balance date, assuming all other variables remain constant, would have had the following impact on the Fund's profit/(loss) and unitholders' equity.

	30 Jun 2022 \$'000	30 Jun 2021 \$'000
Impact on unitholders' equity and profit/(loss)	7,425	16,823



# Notes to the Financial Statements

for the year ended 30 June 2022

A decrease of 5% in the market price of each of the Fund's investments would have had an equal but opposite effect on the Fund's profit/(loss) and unitholders' equity.

## 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.

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 balance date is:

	30 Jun 2022 \$'000	30 Jun 2021 \$'000
Assets and liabilities denominated in:		
United States Dollars	(999)	982
Euro	(229)	398
British Pounds	(167)	(217)
Hong Kong Dollars	9	(469)
Swiss Francs	37	888

For illustrative purposes the changes in profit or loss and unitholders' equity that would arise from a 5% increase or decrease in the Australian Dollar, at balance date, relative to each currency to which the Fund is exposed (based on assets and liabilities) are as follows:

	30 Jun 2022		30 Jun 2021	
	5% increase A\$'000	5% decrease A\$'000	5% increase A\$'000	5% decrease A\$'000
Assets and liabilities denominated in:				
United States Dollars	48	(53)	(47)	52
Euro	11	(12)	(19)	21
British Pounds	8	(9)	10	(11)
Hong Kong Dollars	-	-	22	(25)
Swiss Francs	(2)	2	(42)	47

## 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 rate movements arises on the Fund's cash balances. The value of cash balances is sensitive to the RBA and US Federal Reserve cash rate.

Interest rate movements have an insignificant impact upon the Fund's recorded net profit or equity.

## 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 units in the Fund. 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:

# Notes to the Financial Statements

for the year ended 30 June 2022

- 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
- 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.

## 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 reserves to meet its normal operating requirements and holding investments that are traded in active markets 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, the Fund's Constitution and PDS allow the Responsible Entity to suspend capital withdrawals from the Fund for up to 28 days, at its discretion, if withdrawal requests would require the disposal of 5% or more of the Trust Property 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 balance date, the Fund had an obligation to settle payables (including distribution payable) of \$4,629,000 (June 2021: \$6,479,000) maturing in less than one month and derivative liabilities of \$3,748,000 (June 2021: \$8,788,000) settled within one month. The Fund had cash and receivables totalling \$15,514,000 (June 2021: \$20,131,000) to cover these liabilities.

## Credit Risk

Credit risk refers to the risk that a counterparty will fail to meet its contractual obligations resulting in financial loss to the Fund. Market prices generally take counterparty credit into account and therefore the risk of loss is implicitly provided for in the carrying value of financial assets and liabilities held at fair value.

The Fund's maximum exposure to credit risk is the carrying amount of all cash and cash equivalents, financial assets and receivables recognised in the Statement of Financial Position as well as the value of any financial commitments which the Fund would assume in the event of counterparty default.

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 financial intermediaries with acceptable credit ratings as determined by a recognised rating agency. To further mitigate this risk, the credit rating and financial positions of the brokers used by the Fund are regularly monitored. Credit risk relating to outstanding settlements is considered low due to the short settlement periods 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 balance date, the market value of the forward foreign currency contracts was \$675,000 (June 2021: nil).

The Fund is also exposed to the credit risk of The Northern Trust Company ("NT") which is the appointed 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 and class orders relating to registered managed investment schemes property arrangements with custodians. The credit quality of NT's long-term deposit/debt is rated at balance date, by Standard and Poor's as AA- and by Moody's as Aa2 (June 2021: Standard and Poor's as AA- and by Moody's as Aa2).

# Notes to the Financial Statements

for the year ended 30 June 2022

## 13. Segment Information

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

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 being Australia. The Fund continues to have foreign exposures as it invests in companies which operate internationally.

## 14. Auditor's Remuneration

The following amounts were paid or payable by the Responsible Entity on behalf of the Fund for services provided by the auditor of the Fund, Ernst & Young Australia:

	30 Jun 2022	30 Jun 2021
	\$	\$
Fees for audit and review of statutory financial reports	27,400	26,800
Fees for audit related services <sup>1</sup>	1,279	1,267
Fees for other services:		
Taxation compliance services <sup>2</sup>	7,000	6,700
<b>Total Auditor Remuneration</b>	<b>35,679</b>	<b>34,767</b>
<b>% of non-audit fees paid to auditor</b>	<b>19.6%</b>	<b>19.3%</b>

<sup>1</sup> Comprises review of ICR calculations.

<sup>2</sup> Comprises review of income tax returns and distribution calculations.

### Auditor Tenure

Since 2008, Ernst & Young have been appointed as external auditor of the Funds where MAM is a Responsible Entity or Trustee. The external audit was last put out to tender in 2018, which aligned to the auditor's 10 year anniversary, and Ernst & Young was reappointed auditor as it scored highest across all requirements and the Board of the Responsible Entity was satisfied that appropriate safeguards were in place to ensure the required independence of Ernst & Young. Ms Clare Sporle has served as lead audit partner since August 2019. In accordance with the *Corporations Act 2001* the next rotation of the lead audit partner is planned to occur after the completion of the 30 June 2024 financial year audit.

## 15. Contingent Assets, Contingent Liabilities and Commitments

At balance date, the Fund has no contingent assets, contingent liabilities or commitments (June 2021: nil).

## 16. Subsequent Events

Other than the items disclosed throughout this financial report there have been no matters or circumstances arising after the end of the period 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 financial periods.

# Directors' Declaration

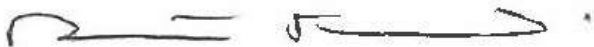
for the year ended 30 June 2022

In the Directors' opinion,

- a. the financial statements and notes set out on pages 10 to 27 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 2022 and of its performance as represented by the results of its operations and cash flows for the period ended on that date; and
  - ii. complying with Australian Accounting Standards, the *Corporations Regulations 2001*, 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 2022.

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



**Robert Fraser**  
Chairman

Sydney, 26 August 2022

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

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Magellan Global Equities Fund (Currency Hedged) (the Fund), which comprises the statement of financial position as at 30 June 2022, the statement of profit or loss and 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 the Fund is in accordance with the *Corporations Act 2001*, including:

- a. Giving a true and fair view of the Fund's financial position as at 30 June 2022 and of its financial performance for the year ended on that date; and
- b. 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 APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (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 judgement, 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.

## Why significant

### 1. Investment existence and valuation

The Fund has a significant investment portfolio consisting of listed equities. As at 30 June 2022, the fair values of these investments was 90.2% of the total assets of the Fund.

As detailed in the Fund's accounting policy, described in Note 6 of the financial report, these financial assets are recognised at fair value through profit or loss in accordance with Australian Accounting Standards.

Pricing, exchange rates and other market drivers can have a significant impact on the value of these financial assets and the financial report. Accordingly, existence and valuation of the investment portfolio was considered a key audit matter.

### 2. Management and performance fees

Management fees, paid to the investment manager, Magellan Asset Management Limited, are the most significant expense for the Fund.

The Fund's accounting policy for management and performance fees is described in Note 11 of the financial report. All expenses are recognised on an accrual 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.

As at 30 June 2022, management and performance fees totalled \$3.8m which equates to 86% of total expenses. Of this amount, performance fees (excluding GST recovered) totalled \$1.9k which equates to less than 1% of total expenses

Due to the complexity and quantum of the management and performance fees this was considered to be a key audit matter.

## How our audit addressed the key audit matter

Our audit procedures included the following:

We assessed the effectiveness of the controls relating to the recognition and valuation of investments.

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 2022 and considered the auditor's qualifications, capability and objectivity and the results of their procedures.

We have obtained third party confirmations of the balances of investment holdings, including cash accounts, at 30 June 2022.

We assessed the fair value of all listed investments in the portfolio held at 30 June 2022 by comparing to independently sourced market prices.

We assessed the adequacy of the disclosures in Note 6 and 12 of the financial report in accordance with the requirements of Australian Accounting Standards.

We assessed the effectiveness of the controls in relation to the calculation of management and performance fees.

We obtained and considered the assurance report on the controls of the Fund's administrator in relation to Fund Administration Services for the period ended 30 June 2022 and considered the auditor's qualifications and objectivity and results of their procedures.

We recalculated management fees in accordance with contractual arrangements.

We assessed the performance fee calculation, including testing the inputs into the calculation model, and assessed whether the calculation was in line with the relevant agreement.

We assessed the adequacy of the disclosures in Note 11 of the financial report.

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

The directors are responsible for the other information. The other information comprises the information included in the Fund's 2022 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 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 to 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 judgement and maintain professional scepticism throughout the audit. We also:

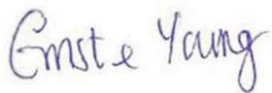
- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a 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, actions taken to eliminate threats or safeguards applied.

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.



**Ernst & Young**



**Clare Sporle**

**Partner**

Sydney, 26 August 2022



# Unitholder Information

## Distribution of Unitholders

The distribution of unitholders of the Fund as at 18 August 2022 is presented as follows:

Distribution of Holdings	Number of Unit Holders	Number of Units	Percentage of Units on Issue %
1-1,000	359	164,786	0.33
1,001-5,000	809	2,294,243	4.62
5,001-10,000	662	4,781,986	9.63
10,001-100,000	908	20,641,660	41.58
100,001 and over	29	21,764,939	43.84
<b>Total</b>	<b>2,767</b>	<b>49,647,614</b>	<b>100.00</b>
Number of holders with less than a marketable parcel of units	45	3,086	

## Twenty Largest Unitholders

The names of the 20 largest unitholders in the Fund as at 18 August 2022 are as follows:

Holder Name	Number of Units	Percentage of Units on Issue %
Magellan Financial Group Limited	6,362,293	12.81
HSBC Custody Nominees (Australia) Limited	4,261,053	8.58
Viste Holdings Pty Ltd <Viste Discretionary A/C>	1,275,159	2.57
Netwealth Investments Limited <Super Services A/C>	1,043,386	2.10
Netwealth Investments Limited <Wrap Services A/C>	991,715	2.00
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd <DRP A/C>	928,921	1.87
Mr William Andrew Mcgowan	770,000	1.55
Longhurst Management Services Pty Ltd	750,000	1.51
Hsbc Custody Nominees (Australia) Limited - A/C 2	701,725	1.41
Australian Executor Trustees Limited <IPS IOOF EMPLOYER SUPER A/C>	625,874	1.26
Midas Touch Investments P/L	520,484	1.05
Rofe Family Pty Ltd <ROFE FAMILY A/C>	459,114	0.92
Marram Pty Ltd	300,000	0.60
Citicorp Nominees Pty Limited	290,361	0.58
Zena Nominees Pty Ltd <HIND FAMILY A/C>	270,662	0.55
Australian Executor Trustees Limited <IDPS A/C>	258,069	0.52
National Nominees Limited	246,708	0.50
Bond Street Custodians Limited	203,073	0.41
J P Morgan Nominees Australia Pty Limited	155,394	0.31
Nakare Pty Ltd <NEIL A HONAN S/FUND A/C>	153,228	0.31
<b>Total Units Held by the 20 Largest Unitholders</b>	<b>20,567,219</b>	<b>41.41</b>
<b>Total Units on Issue</b>	<b>49,647,614</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

Robert Fraser - Chairman  
John Eales AM  
Colette Garnsey OAM  
David George - Chief Executive Officer and Managing Director  
Hamish McLennan  
Kirsten Morton - Chief Operating Officer and Chief Financial Officer  
Karen Phin

## Company Secretary

Marcia Venegas

## Registered Office

Level 36, 25 Martin Place  
Sydney NSW 2000  
Telephone: 1800 6243 5526 (Australia), +61 2 9235 4888 (International)  
Fax: +61 2 9235 4800  
Email: [info@magellangroup.com.au](mailto:info@magellangroup.com.au)

## Website

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

## Auditor

Ernst & Young  
200 George Street  
Sydney NSW 2000

## Unit Registrar

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