



# ANNUAL FINANCIAL REPORT

## FOR THE YEAR ENDED 30 JUNE 2018

MAGELLAN HIGH CONVICTION FUND: ABN 20 120 243 491

# MAGELLAN HIGH CONVICTION FUND

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# MAGELLAN HIGH CONVICTION FUND

## Responsible Entity's Report

### for the year ended 30 June 2018

The Directors of Magellan Asset Management Limited ("MAM") (ABN 31 120 593 946), the Responsible Entity of Magellan High Conviction Fund (the "Fund" or "MHCF") 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	Chief Executive 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, with a principal place of business at Level 36, 19 Martin Place, Sydney, New South Wales 2000. MAM is both the Responsible Entity and the Investment Manager of the Fund.

The Fund invests in a portfolio of between 8 and 12 high quality stocks, listed on global stock exchanges, that the Investment Manager considers have sustainable competitive advantages which translate into returns on capital in excess of their cost of capital for a sustained period of time. The Fund invests in a concentrated portfolio of global equities which spans sectors including financial services, consumer and retail, health care, telecommunications, technology platforms, software and internet related products and services. The Fund's portfolio will be weighted towards our highest conviction ideas and aims to achieve attractive risk-adjusted returns over the medium to long term, while reducing the risk of permanent capital loss, managing a higher tolerance in volatility in investment returns, with the ability to manage foreign exchange exposures, in accordance with its investment strategy (as detailed in the Product Disclosure Statements, issued 27 October 2017 and 1 December 2017).

#### 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, for accounting purposes, effective 30 June 2018 as part of a process to become eligible to elect into the new AMIT regime.

In addition due to underlying investor demand, MAM issued a second unit class, Class B, in the Fund, on the 15 November 2017. The Class B unit class was seeded with \$100,000 investment by Magellan Financial Group Limited. The Class B Units were launched to external unitholders on 1 December 2017.

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

# MAGELLAN HIGH CONVICTION FUND

## Responsible Entity's Report

### for the year ended 30 June 2018

#### 1.3 Review Of Operations

##### a) Financial Results For The Year

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

	30 June 2018	30 June 2017
<b>Results</b>		
Total net investment income (\$'000)	88,414	64,808
Total expenses (\$'000)	11,412	8,300
<b>Net Operating Profit/(Loss) (\$'000)</b>	<b>77,002</b>	<b>56,508</b>

	MHCF		Class B <sup>(A)</sup>
	30 June 2018	30 June 2017	30 June 2018
<b>Distributions</b>			
Distribution paid and payable to unitholders (\$'000)	39,949	7,492	1,211
Distribution paid and payable (cents per unit) (refer (i) below for components)	14.3420	3.5000	4.0835
<b>Unit Price</b>			
Unit price (net asset value) (ex-distribution) (\$)	1.6903	1.5412	1.0303
Redemption unit price (ex-distribution) (\$)	1.6886	1.5397	1.0293
<b>Indirect Cost Ratio <sup>(B)</sup></b>			
Management and administration fee (% p.a.)	1.50	1.50	0.48
Performance fee (% p.a.)	0.80	1.00	-
<b>Total Indirect Cost Ratio (%)</b>	<b>2.30</b>	<b>2.50</b>	<b>0.48</b>

<sup>(A)</sup> MHCF Class B units were issued on 15 November 2017. As a result there are no prior year comparatives. Refer to Note 7 of the financial statements for further details.

<sup>(B)</sup> 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, for the year ended 30 June. The ICR for Class B is for the period from 15 November 2017 to 30 June 2018, based on an annual management and administration fee of 0.78% per annum. 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.

(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:

	MHCF		Class B
	30 June 2018 cents per unit	30 June 2017 cents per unit	30 June 2018 cents per unit
<b>Domestic Income</b>			
Interest	0.0118	-	0.0086
Other income	0.0209	-	0.0151
<b>Foreign Sourced Income</b>	<b>4.5310</b>	<b>-</b>	<b>3.2802</b>
<b>Capital Gains (NTARP)</b>			
Discounted	4.3555	1.1183	-
Other	1.0774	1.7110	0.7796
Other capital gains distribution (CGT concession)	4.3454	-	-
Other non-attributable amounts (tax deferred amounts)	-	0.6707	-
<b>Total Distribution</b>	<b>14.3420</b>	<b>3.5000</b>	<b>4.0835</b>
<b>Non-Cash Distribution Components</b>			
Foreign income tax offsets	0.2600	-	0.1881
<b>Total Non-Cash Distribution Components</b>	<b>0.2600</b>	<b>-</b>	<b>0.1881</b>
<b>Gross Distribution</b>	<b>14.6020</b>	<b>3.5000</b>	<b>4.2716</b>

# MAGELLAN HIGH CONVICTION FUND

## Responsible Entity's Report

for the year ended 30 June 2018

### 1.3 Review Of Operations (continued)

#### b) Performance Returns

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

	MHCF		Class B <sup>(D)</sup>
	30 June 2018 %	30 June 2017 %	30 June 2018 %
<b>Performance</b>			
Growth return <sup>(A)</sup>	9.7	18.1	3.0
Distribution return <sup>(B)</sup>	9.3	2.7	4.1
<b>Total Return <sup>(C)</sup></b>	<b>19.0</b>	<b>20.8</b>	<b>7.1</b>

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

<sup>(D)</sup> MHCF Class B units were issued on 15 November 2017. As a result there are no prior year comparatives. Refer to Note 7 of the financial statements for further details.

#### c) Strategy And Future Outlook

The Fund provide daily unit prices, monthly fund updates and annual investor reports which can be found in the Magellan Funds' section of the Magellan Financial Group Limited website, [www.magellangroup.com.au](http://www.magellangroup.com.au). These 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 of the Fund is disclosed in Note 7 a) to the financial statements and the net assets attributable to unitholders, of each unit class, is disclosed in Note 7 b) to the financial statements.

### 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 detailed in the Product Disclosure Statement. Additional comments on the expected results of operations of the Fund are included in this report in Section 1.3 under the Review Of Operations. The method of operating the Fund is not expected to change in the foreseeable future, however the results of the Fund's operations may be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and past returns should not be used to predict future returns.

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

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.

### 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.

## MAGELLAN HIGH CONVICTION FUND

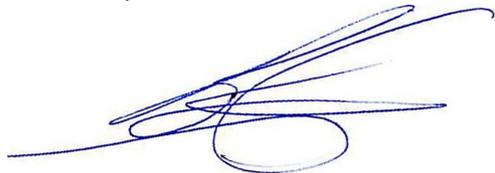
# Responsible Entity's Report

for the year ended 30 June 2018

### 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 7.

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



**Brett Cairns**

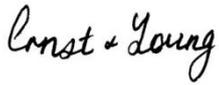
Executive Chairman

Sydney, 3 September 2018

## Auditor's Independence Declaration to the unitholders of Magellan High Conviction Fund

As lead auditor for the audit of Magellan High Conviction Fund 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 HIGH CONVICTION FUND

# 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		5,187	4,472
Interest income		622	55
Net change in fair value of investments			
- held for trading		2,211	5,114
- designated at fair value through profit or loss		75,304	55,863
Net gain/(loss) on foreign exchange settlements, derivative contracts and cash		5,090	(696)
<b>Total Net Investment Income</b>		<b>88,414</b>	<b>64,808</b>
<b>Expenses</b>			
Management and administration fees	9 c)	6,949	4,616
Performance fees	9 c)	3,666	3,083
Transaction costs		19	48
Withholding tax on dividends		778	553
<b>Total Expenses</b>		<b>11,412</b>	<b>8,300</b>
<b>Net Operating Profit/(Loss)</b>		<b>77,002</b>	<b>56,508</b>
<b>Finance Costs Attributable To Unitholders</b>			
Distributions of income and capital to unitholders	2	(41,160)	(7,492)
(Increase)/decrease in net assets attributable to unitholders	7 b)	(35,842)	(49,016)
<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>

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 HIGH CONVICTION FUND

# 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	107,347	30,516
Receivables	4	485	349
Derivative assets	5 b)	-	4,392
Investments	5 a)	443,266	304,393
<b>Total Assets</b>		<b>551,098</b>	<b>339,650</b>
<b>Liabilities</b>			
Derivative liabilities	5 b)	7,306	-
Distribution payable	2	41,160	7,492
Payables	6	1,573	2,237
<b>Total Liabilities</b>		<b>50,039</b>	<b>9,729</b>
<b>Net Assets Attributable To Unitholders - Liability</b>	7 b)	<b>501,059</b>	<b>329,921</b>

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

## **MAGELLAN HIGH CONVICTION FUND**

# Statement Of Changes In Equity

for the year ended 30 June 2018

Under Australian Accounting Standards, the Fund's net assets attributable to unitholders are classified as a liability. As a result the Fund has no equity for financial reporting purposes and there were no changes in equity at the start or end of the current or prior years.

## MAGELLAN HIGH CONVICTION FUND

# 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>			
Interest received		515	57
Dividends and distributions received		5,187	4,508
Management, administration and performance fees paid		(11,336)	(5,897)
Withholding tax paid		(778)	(553)
Other expenses paid		(145)	(69)
<b>Net Cash Inflows/(Outflows) From Operating Activities</b>	8	<b>(6,557)</b>	<b>(1,954)</b>
<b>Cash Flows From Investing Activities</b>			
Purchase of investments		(156,695)	(159,558)
Proceeds from sale of investments		92,842	162,128
Net cash flows from foreign exchange hedging activities		13,910	2,368
Net foreign exchange gains/(losses)		(400)	13
<b>Net Cash Inflows/(Outflows) From Investing Activities</b>		<b>(50,343)</b>	<b>4,951</b>
<b>Cash Flows From Financing Activities</b>			
Receipts from issue of units		194,221	44,545
Payments for redemption of units		(60,642)	(27,809)
Distributions paid		(5,621)	(13,578)
<b>Net Cash Inflows/(Outflows) From Financing Activities</b>		<b>127,958</b>	<b>3,158</b>
<b>Net Increase/(Decrease) In Cash And Cash Equivalents</b>			
		71,058	6,155
Cash and cash equivalents at the beginning of the year		30,516	24,849
Effect of exchange rate fluctuations on cash and cash equivalents		5,773	(488)
<b>Cash And Cash Equivalents At The End Of The Year</b>	3	<b>107,347</b>	<b>30,516</b>

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

# MAGELLAN HIGH CONVICTION FUND

## Notes To The Financial Statements

for the year ended 30 June 2018

### 1. Summary Of Significant Accounting Policies

Magellan High Conviction Fund ("the Fund") is a registered managed investment scheme under the *Corporations Act 2001*. In accordance with the Fund's Constitution, it commenced on the date that the first unit was issued, on 28 June 2013. The Fund will terminate on the day immediately preceding the 80th anniversary of the Date of Commencement, unless terminated earlier in accordance with the provisions of the Fund's Constitution.

Magellan Asset Management Limited, ("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 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

This is a general purpose financial report presented in Australian dollars and 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. It also complies with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Fund is a for-profit unit trust for the purpose of preparing 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 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.

The Fund has two classes of units, MHCF and Class B, that are differentiated by investment minimums and management, administration and performance fees. The units will continue to be classified as a financial liability as they do not have identical features (refer Note 7 c) for further details). As a consequence, units will continue to be presented as net assets attributable to unitholders in the Statement Of Financial Position and as the increase/(decrease) in net assets together with distributions to unitholders will be included as finance costs in the Statement Of Profit And Loss And Other Comprehensive Income.

#### 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 impacted the Fund with the exception of those mentioned below:

##### • 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, and risk components that can be hedged and disclosures.

# MAGELLAN HIGH CONVICTION FUND

## 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) (continued)**

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 loss recognised when there is a significant increase in credit risk.

There were no impacts 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 do 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 were no impacts on the Fund upon 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 currency at the foreign currency exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Australian dollars at the foreign currency closing exchange rate at the reporting date.

Foreign currency exchange differences arising on translation, and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in the Statement Of Profit Or Loss And Other Comprehensive Income. Nonmonetary 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 are measured at fair value through profit or loss.

##### Interest Income

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

#### d) Expenses

All expenses are recognised in the Statement Of Profit Or Loss And Other Comprehensive Income on an accruals basis.

Management and performance fees are set out in Note 9 c).

# MAGELLAN HIGH CONVICTION FUND

## Notes To The Financial Statements

for the year ended 30 June 2018

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

#### 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 net assets attributable to unitholders 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 Statement Of Financial Position where the distribution has been declared but remains unpaid at reporting date.

Where the Fund has more than one class of units on issue, the distribution amount per unit is calculated by dividing the total Fund distribution attributable to that class by the number of units on issue in that class, at the distribution 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 Or Loss And Other Comprehensive Income. The benefits of foreign withholding tax paid, and of imputation credits attaching to Australian franked dividends, are passed onto unitholders.

#### g) Goods And Services Tax ("GST")

The GST incurred on the costs of various services provided to the Fund by third parties, such as custodial services and investment management 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) Financial Assets And Liabilities

The Fund may classify 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.

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 j)
Investments	Fair value through profit or loss	Fair value	Refer to Note 1 h)
Derivative assets and liabilities	Fair value through profit or loss – held for trading	Fair value	Refer to Note 1 k)
Distributions 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.

# MAGELLAN HIGH CONVICTION FUND

## Notes To The Financial Statements

for the year ended 30 June 2018

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

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

##### Fair Value Through Profit Or Loss (continued)

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

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 the Statement Of Profit Or Loss And Other Comprehensive Income, are measured at amortised cost using the effective interest rate method.

#### i) Cash And Cash Equivalents

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.

#### j) 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.

#### k) Derivatives

Derivatives are contracts or other financial instruments which are settled at a future date and 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 Statements 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 Statements 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.

#### 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 distribution payable.

#### m) Net Assets Attributable To Unitholders

The units issued by the Fund are classified as a financial liability in the Statement Of Financial Position as the Fund has two classes of units that are differentiated by investment minimums and management, administration and performance fees. As a consequence the two classes of units do not have identical features and meet the definition of financial liability under AASB 132 *Financial Instruments: Presentation*.

Applications received for units in the Fund are recorded net of entry fees. Redemptions from the Fund are recorded gross of exit fees. A switch from one class to another class in the Fund is recorded at the full amount of the switch as no entry or exit fees are applied within the fund. The Fund recognises the units issued, redeemed or switched when settled, which is the trade date. Changes in net assets attributable to unitholders are recognised in the Statements Of Profit And Loss And Other Comprehensive Income.

## MAGELLAN HIGH CONVICTION FUND

# Notes To The Financial Statements

for the year ended 30 June 2018

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

#### n) Rounding Of Amounts

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

#### o) Critical Accounting Estimates And Judgements

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

Where listed equities have no active market the Directors determine fair value with reference to external observable information and conditions existing at reporting date. Fair values may however move materially with movements in market prices (refer to Note 10 c)). As the investments are valued with reference to the listed quoted prices, the Fund's financial assets are not subject to significant judgement or complexity nor are the Fund's liabilities.

## MAGELLAN HIGH CONVICTION FUND

# Notes To The Financial Statements

for the year ended 30 June 2018

### 2. Distributions To Unitholders

	MHCF		Class B
	30 June 2018	30 June 2017	30 June 2018
Final distribution payable to unitholders (\$'000)	39,949	7,492	1,211
<b>Total Distribution To Unitholders (\$'000)</b>	<b>39,949</b>	<b>7,492</b>	<b>1,211</b>
The total distribution consisted of:			
Income (\$'000)	39,949	6,056	1,211
Return of capital(\$'000)	-	1,436	-
<b>Total Distribution (Cents Per Unit)</b>	<b>14.3420</b>	<b>3.5000</b>	<b>4.0835</b>

The final distribution for the year ended 30 June 2018 was paid on 13 July 2018.

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

A DRP operated in the Fund during the years ended 30 June. Unitholders may request their distributions to be applied as subscriptions for additional units in the Fund at the Issue Price (as defined in the Fund's Constitution), determined after the number of units on issue is calculated for the purpose of making the distribution. DRP details of the Fund are as follows:

	MHCF		Class B <sup>(A)</sup>
	30 June 2018	30 June 2017	30 June 2018
DRP issue price (final distribution - units issued 1 July) (\$)	1.6903	1.5412	1.0303
DRP unitholder participation rate (%)	27.49	25.01	9.80
Number of units issued under DRP	6,495,297	1,214,006	115,114
Value of units issued under DRP (\$'000)	10,979	1,871	119

<sup>(A)</sup> MHCF Class B units were issued on 15 November 2017. As a result there are no prior year comparatives. Refer to Note 7 of the financial statements for further details.

### 3. Cash And Cash Equivalents

	30 June 2018 \$'000	30 June 2017 \$'000
Cash at bank - denominated in Australian Dollars	6,803	2,453
Cash at bank - denominated in foreign currency:		
- United States Dollars	100,525	28,046
- British Pounds	9	8
- Euros	9	8
- Swiss Francs	1	1
<b>Total Cash And Cash Equivalents</b>	<b>107,347</b>	<b>30,516</b>

### 4. Receivables

	30 June 2018 \$'000	30 June 2017 \$'000
Applications receivable	122	219
Interest receivable	109	2
Recoverable GST and foreign withholding tax	254	128
<b>Total Receivables</b>	<b>485</b>	<b>349</b>

## MAGELLAN HIGH CONVICTION FUND

# Notes To The Financial Statements

for the year ended 30 June 2018

### 5. Investments And Derivatives

	30 June 2018 \$'000	30 June 2017 \$'000
<b>a) Investments</b>		
International listed equity securities:		
- United States	443,266	304,393
<b>Total Investments</b>	443,266	304,393
<b>b) Derivative Assets</b>		
Forward foreign currency contracts	-	4,392
<b>Total Derivative Assets</b>	-	4,392
<b>Derivative Liabilities</b>		
Forward foreign currency contracts	7,306	-
<b>Total Derivative Liabilities</b>	7,306	-

#### Fair Value Disclosures

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

### 6. Payables

		30 June 2018 \$'000	30 June 2017 \$'000
Management fee payable	9 c)	717	429
Performance fee payable	9 c)	714	1,723
Redemptions payable		142	85
<b>Total Payables</b>		1,573	2,237

# MAGELLAN HIGH CONVICTION FUND

## Notes To The Financial Statements

for the year ended 30 June 2018

### 7. Net Assets Attributable To Unitholders

	MHCF		Class B
	30 June 2018 No. of units '000	30 June 2017 No. of units '000	30 June 2018 No. of units '000
<b>a) Units On Issue</b>			
Units on issue as at beginning of the year	214,050	197,095	-
Units issued	97,935	30,068	30,373
Units issued under DRP	1,214	5,366	-
Units redeemed	(35,396)	(18,479)	(894)
Switches in/(out) of unit class	743	-	172
<b>Units On Issue At End Of The Year</b>	<b>278,546</b>	<b>214,050</b>	<b>29,651</b>

#### Terms And Conditions Of Units

The Fund has two separate classes of units, MHCF and Class B Units. Each unit within the same class has the same rights as all other units within that class and includes:

- the right to redeem units, subject to restrictions disclosed in the Fund's Product Disclosure Statements;
- 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; and
- the right to participate in the termination and winding up of the Fund.

A unit, regardless of class, does not confer upon the holder any interest in any particular asset or investment of the Fund. The two separate classes of units have the same rights except for different management, administration and performance fee rates which are discussed at Note 7 c).

	MHCF		Class B
	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000
<b>b) Changes In Net Assets Attributable To Unitholders</b>			
Opening balance	329,921	257,154	-
Applications	162,360	44,621	31,764
Reinvestment of distributions	1,871	7,002	-
Redemptions	(59,776)	(27,872)	(923)
Increase/(decrease) in net assets attributable to unitholders	32,394	49,016	3,448
<b>Net Assets Attributable To Unitholders At End Of The Year</b>	<b>466,770</b>	<b>329,921</b>	<b>34,289</b>

#### c) Class B Units

Prior to 15 November 2017, the Fund had one class of units on issue ("MHCF Units"). Due to underlying investor demand, the Responsible Entity issued a second class, Class B Units, in the Fund, on the 15 November 2017. The Class B Unit class were seeded with \$100,000 investment by Magellan Financial Group Limited. This investment was a switch of MHCF Units for Class B Units. The Class B Units were launched to external unitholders on 1 December 2017.

The investment strategy of the Fund remains unchanged and continues to operate as one fund with a single investment portfolio. The two classes are differentiated by investment minimums and management, administration and performance fees. For Class B Units the management and administration fee is 0.78% per annum (rather than 1.50% per annum for MHCF Units) and the performance fee is 20% (rather than 10% for MHCF Units) of the excess return above the Absolute Return performance hurdle of 10% per annum. In addition, the performance fee is subject to a cap of 2.22% per annum, whereas there is no performance fee cap for MHCF Units (refer Note 9 c) for further details). The fees are segregated between the unit classes so as not to affect the net asset value of the other unit class in the fund. Distributions will also differ for each unit class and are separately reported. Further details are provided in the Product Disclosure Statements issued 27 October 2017 and 1 December 2017.

## MAGELLAN HIGH CONVICTION FUND

# Notes To The Financial Statements

for the year ended 30 June 2018

### 8. Statement Of Cash Flows Reconciliation

	30 June 2018 \$'000	30 June 2017 \$'000
<b>a) Reconciliation Of Net Profit To Net Cash Flows From Operating Activities</b>		
Net operating profit/(loss)	77,002	56,508
Adjusted for:		
Net changes in fair value of investments:		
- held for trading	(2,211)	(5,114)
- designated at fair value through profit or loss	(75,304)	(55,863)
Net foreign exchange (gain)/loss on foreign currency transactions and cash settlements	(5,090)	732
Changes in operating receivables and payables		
- Net (increase)/decrease in receivables	(233)	(19)
- Net increase/(decrease) in payables	(721)	1,802
<b>Net Cash Inflows/(Outflows) Operating Activities</b>	<b>(6,557)</b>	<b>(1,954)</b>
<b>b) Reconciliation Of Cash</b>		
For the purposes of the Statement Of Cash Flows, cash comprises:		
Cash and cash equivalents	107,347	30,516
<b>c) Non-Cash Investing And Financing Activities</b>		
Distributions reinvested into units in the Fund	1,871	7,002

### 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/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, the Responsible Entity of the Fund 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 ("Other KMP")

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:

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 and Advisory	MAM

## MAGELLAN HIGH CONVICTION FUND

# Notes To The Financial Statements

for the year ended 30 June 2018

### 9. Related Parties (continued)

#### b) Key Management Personnel

##### ii) Other Key Management Personnel ("Other KMP") (continued)

#### 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 KMP's compensation relates to the Fund.

MAM compensated KMP's 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>

#### 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 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 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 or when units are redeemed, subject to a performance fee entitlement existing at the date of redemption. Further details of the performance fees can be found in the Fund's Product Disclosure Statement.

## MAGELLAN HIGH CONVICTION FUND

# Notes To The Financial Statements

for the year ended 30 June 2018

### 9. Related Parties (continued)

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

Management, administration and performance fees differ by unit class as shown below and discussed in Note 7 c). 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 details). The management, administration and performance fees paid/payable by the Fund during the years ended 30 June were as follows:

	MHCF				Class B	
	30 June 2018		30 June 2017		30 June 2018	
	% p.a.	\$	% p.a.	\$	% p.a.	\$
Management fee	1.40	6,403,087	1.40	4,308,242	0.68	77,443
Administration fee	0.10	457,414	0.10	307,732	0.10	11,389
Total management and administration fee	1.50	6,860,501	1.50	4,615,974	0.78	88,832
Performance fee		3,666,273		3,083,316		95
<b>Total Fees Expensed In The Statement Of Profit Or Loss And Other Comprehensive Income</b>		10,526,774		7,699,290		88,927
<b>Total Fees Payable In The Statement Of Financial Position</b>		1,408,223		2,151,518		22,501

#### d) Transactions with Related Parties

The number of units held and related transactions during the year by each KMP, including their personally-related parties, in the Fund are as follows:

		Units acquired during the year <sup>(A)</sup>	Units switched during the year	Units held at end of year		Distribution paid or payable
MHCF	30 June	Number	Number	Number	%	\$
Magellan Financial Group Limited <sup>(B)</sup>	2018	-	(58,651)	19,364,024	7.0	2,777,191
	2017	1,439,215	-	19,422,675	9.1	679,794
<b>Directors</b>						
Hamish Douglass	2018	39,048	-	1,758,538	0.6	252,210
	2017	127,414	-	1,719,490	0.8	470,182
MHCF Class B	30 June	Number	Number	Number	%	\$
Magellan Financial Group Limited <sup>(B)</sup>	2018	-	100,000	100,000	0.3	4,083
<b>Other KMP</b>						
Craig Wright	2018	94,932	-	94,932	0.3	3,877

<sup>(A)</sup> Includes the re-investment of 30 June 2016 and 30 June 2017 distributions in the years ended 30 June 2017 and 30 June 2018 respectively.

<sup>(B)</sup> MFG switched 58,651 MHCF units for 100,000 Class B Units on 15 November 2017 to seed the Class B Unit class.

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.

## MAGELLAN HIGH CONVICTION 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 each of the Fund's investments would have increased the net assets attributable to unitholders and the net operating profit or loss at reporting date, as follows:

	30 June 2018 \$'000	30 June 2017 \$'000
Impact on the net assets attributable to unitholders and net operating profit	22,163	15,220

A decrease of 5% in the market prices of each of the Fund's 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 may hedge some or all of the capital component of the foreign currency exposure of the fund, arising from investments in overseas markets, back to Australian dollars. However there is no guarantee that any or all of the Fund will be hedged at any point in time.

## MAGELLAN HIGH CONVICTION FUND

# 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)

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

	30 June 2018 \$'000	30 June 2017 \$'000
US Dollars	317,820	188,966
Euro	9	8
British Pounds	9	8
Swiss Francs	1	1

The changes in net assets attributable to unitholders 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
US Dollars	(15,134)	16,727	(8,998)	9,946

##### 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, an increase of 10 basis points in floating interest rates, assuming all other variables remain constant, would have increased the Funds net operating profit and net assets attributable to unitholders.

	30 June 2018 \$'000	30 June 2017 \$'000
Australian Dollar cash balances	(35)	2
US Dollar cash balances	101	28
Impact on net operating profit and net assets attributable to unitholders	66	30

A decrease of 10 basis points in floating interest rates would have an equal but opposite effect on interest income earned. 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.

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.

## MAGELLAN HIGH CONVICTION FUND

# Notes To The Financial Statements

for the year ended 30 June 2018

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

#### 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 equity securities are considered readily realisable as they are listed on stock exchanges around the world. In addition, the Fund's Constitution and Product Disclosure Statement 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 reporting date, the Fund had an obligation to settle payables (including distribution payable) of \$1,573,000 and derivative liabilities of \$7,306,000 within 30 days. The Fund had cash and receivables totalling \$107,832,000 to cover these liabilities.

#### 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 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, as 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.

#### i) Ageing Analysis Of Receivables

At reporting date, the Fund's receivables, excluding recoverable GST, were due within 0 to 30 days (refer Note 4) (June 2017: 0 to 30 days). Recoverable GST is due within 30 to 90 days (June 2017: 30 to 90 days). No amounts are impaired or past due at 30 June 2018 or 30 June 2017.

## MAGELLAN HIGH CONVICTION FUND

# Notes To The Financial Statements

for the year ended 30 June 2018

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

#### 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; and
- Level 3: valuation techniques using non-market observable inputs.

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

	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>	443,266	304,393
Level 2: Forward foreign currency contracts	-	4,392
<b>Total Financial Assets Measured At Fair Value</b>	<b>443,266</b>	<b>308,785</b>
<b>Financial Liabilities Measured At Fair Value</b>		
Level 2: Forward foreign currency contracts	7,306	-
<b>Total Financial Liabilities Measured At Fair Value</b>	<b>7,306</b>	<b>308,785</b>

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

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 Statement of Financial Position where the Fund currently has a legally enforceable right to offset the recognised amounts and intend 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.

There are no derivative assets and liabilities offset as at reporting date.

## MAGELLAN HIGH CONVICTION FUND

# Notes To The Financial Statements

for the year ended 30 June 2018

### 11. Auditor's Remuneration

During the year, the following amounts were 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	16,400	17,700
Other assurance services	1,951	2,000
<b>Non-Audit Services</b>		
Taxation	6,600	6,500
<b>Total Auditor's Remuneration of Ernst &amp; Young Australia</b>	<b>24,951</b>	<b>26,200</b>

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

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

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

The Directors of the Responsible Entity are not aware of any other matters or circumstances not otherwise dealt with in the financial report that has significantly affected, or may significantly affect, the Fund's operations, the results of those operations, or the Fund's state of affairs in future years.

## MAGELLAN HIGH CONVICTION FUND

# Directors' Declaration

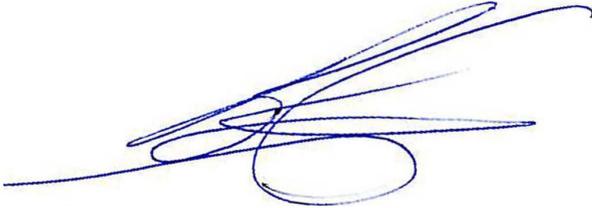
### for the year ended 30 June 2018

In the opinion of the Directors,

- a) the financial statements and notes of Magellan High Conviction Fund, as set out on pages 8 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 2018 and of their performance as represented by the results of their operations and their 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 Funds will be able to pay their 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

Sydney, 3 September 2018

## Independent auditor's report to the unitholders of Magellan High Conviction Fund

### Opinion

We have audited the accompanying financial report of Magellan High Conviction Fund ("the Fund"), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and 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:

- 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 Scheme 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* (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.

### 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 is the Responsible Entity's report accompanying the financial report.

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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

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 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.



Ernst & Young



Rita Da Silva

Partner

Sydney

3 September 2018

# MAGELLAN GLOBAL EQUITIES FUND

## 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**

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### **Auditor And Tax**

Ernst & Young  
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Sydney NSW 2000

### **Unit Registrar**

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### **Website**

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