



# INTERIM FINANCIAL REPORT

## FOR THE HALF YEAR ENDED 31 DECEMBER 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 half year ended 31 December 2018

The Directors of Magellan Asset Management Limited ("MAM") (ABN 31 120 593 946), the Responsible Entity of Magellan High Conviction Fund (the "Fund") present their report on the Fund for the half year ended 31 December 2018.

#### 1.0 Directors

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

Name	Directorship	Appointed
Brett Cairns	Chairman and Chief Executive Officer	22 January 2007
Hamish Douglass	Chief Investment Officer <sup>(A)</sup>	21 November 2006
Kirsten Morton	Chief Financial Officer	5 October 2018
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

<sup>(A)</sup> On 5 October 2018, Mr Douglass resigned as a Director of MAM and was appointed Chairman of Magellan Financial Group Limited ("MFG") the parent company of MAM. Prior to this, Mr Douglass was Chief Executive Officer of MFG. Mr Douglass remains Chief Investment Officer.

#### 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 MAM, 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 Statement, issued 3 November 2018).

#### 1.2 Significant Changes In State Of Affairs

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

#### 1.3 Review Of Operations

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

The performance of the Fund, as represented by the results of its operations for the relevant half year ended 31 December, was as follows:

	31 December 2018 \$'000	31 December 2017 \$'000
<b>Results</b>		
Total net investment income	(11,942)	52,879
Total expenses	4,634	6,505
<b>Net Operating Profit/(Loss)</b>	<b>(16,576)</b>	<b>46,374</b>

No distributions were declared for the half year ended 31 December 2018 (December 2017: nil).

Final distributions for the year ended 30 June 2018, paid 13 July 2018, were as follows:

- Class A Units: 14.3420 cents per unit amounting to \$39,949,000, and
- Class B Units: 4.0835 cents per unit amounting to \$1,211,000.

# MAGELLAN HIGH CONVICTION FUND

## Responsible Entity's Report

for the half year ended 31 December 2018

### 1.3 Review Of Operations (continued)

#### b) Total Indirect Cost Ratio ("ICR")

The ICR for the six and 12 months ended 31 December, 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, administration and performance fees but do not include transactional and operational costs such as brokerage or foreign withholding tax.

	Class A		Class B	
	6 months to 31 Dec 2018 %	6 months to 31 Dec 2017 %	6 months to 31 Dec 2018 %	15 Nov 2017 to 31 Dec 2017 %
<b>Indirect Cost Ratio</b>				
Management fee	0.75	0.75	0.39	0.10
Performance fee	0.01	0.70	0.02	-
<b>Total Indirect Cost Ratio</b>	<b>0.76</b>	<b>1.45</b>	<b>0.41</b>	<b>0.10</b>

	Class A		Class B	
	12 months to 31 Dec 2018 %	12 months to 31 Dec 2017 %	12 months to 31 Dec 2018 %	15 Nov 2017 to 31 Dec 2017 %
<b>Indirect Cost Ratio</b>				
Management fee	1.50	1.50	0.78	0.10
Performance fee	0.15	1.24	0.03	-
<b>Total Indirect Cost Ratio</b>	<b>1.65</b>	<b>2.74</b>	<b>0.81</b>	<b>0.10</b>

#### c) Performance Returns

The performance returns 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.

	Class A		Class B	
	6 months to 31 Dec 2018 cents per unit	6 months to 31 Dec 2017 cents per unit	6 months to 31 Dec 2018 cents per unit	15 Nov 2017 to 31 Dec 2017 cents per unit
<b>Performance</b>				
Growth return <sup>(A)</sup>	(2.8)	11.9	(2.6)	0.9
Distribution return <sup>(B)</sup>	-	-	-	-
<b>Total Return <sup>(C)</sup></b>	<b>(2.8)</b>	<b>11.9</b>	<b>(2.6)</b>	<b>0.9</b>

	Class A		Class B	
	12 months to 31 Dec 2018 cents per unit	12 months to 31 Dec 2017 cents per unit	12 months to 31 Dec 2018 cents per unit	15 Nov 2017 to 31 Dec 2017 cents per unit
<b>Performance</b>				
Growth return <sup>(A)</sup>	(4.7)	20.6	(0.6)	0.9
Distribution return <sup>(B)</sup>	8.1	2.7	3.9	-
<b>Total Return <sup>(C)</sup></b>	<b>3.4</b>	<b>23.3</b>	<b>3.3</b>	<b>0.9</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.

## MAGELLAN HIGH CONVICTION FUND

# Responsible Entity's Report

for the half year ended 31 December 2018

### 1.3 Review Of Operations (continued)

#### d) Strategy And Future Outlook

The Fund provides daily unit prices, monthly fund updates and annual investor reports which can be found in the Fund Updates 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 4 a) to the financial statements and the net assets attributable to unitholders, of each unit class, is disclosed in Note 4 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 Half Year

Other than the items disclosed throughout this Interim Financial Report, there have been no matters or circumstances arising after the end of the half year that have significantly affected, or may significantly affect, the Fund's operations, the results of its operations, or the Fund's state of affairs in future financial years.

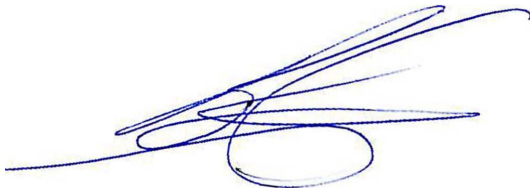
### 1.7 Rounding Of Amounts

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

### 1.8 Auditor

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

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



**Brett Cairns**  
Chairman

Sydney, 27 February 2019

## Auditor's Independence Declaration to the Directors of Magellan Asset Management Limited as the Responsible Entity of Magellan High Conviction Fund

As lead auditor for the review of Magellan High Conviction Fund for the half-year ended 31 December 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.



Ernst & Young



Rita Da Silva Partner  
27 February 2019

## MAGELLAN HIGH CONVICTION FUND

# Statement Of Profit Or Loss And Comprehensive Income

for the half year ended 31 December 2018

	Note	31 December 2018 \$'000	31 December 2017 \$'000
<b>Investment Income</b>			
Dividend and distribution income		3,236	2,191
Interest income		942	141
Net change in fair value of investments		(21,099)	51,485
Net gain/(loss) on foreign exchange settlements, derivative contracts and cash		4,964	(938)
Other income		15	-
<b>Total Net Investment Income</b>		<b>(11,942)</b>	<b>52,879</b>
<b>Expenses</b>			
Management fees		4,071	3,208
Performance fees		64	2,953
Transaction costs		14	15
Withholding tax on dividends		485	329
<b>Total Expenses</b>		<b>4,634</b>	<b>6,505</b>
<b>Net Operating Profit/(Loss)</b>		<b>(16,576)</b>	<b>46,374</b>
<b>Finance Costs Attributable To Unitholders</b>			
(Increase)/decrease in net assets attributable to unitholders	4 b)	16,576	(46,374)
<b>Profit/(Loss) For The Half Year</b>		<b>-</b>	<b>-</b>
Other comprehensive income for the half year		-	-
<b>Total Comprehensive Income For The Half Year</b>		<b>-</b>	<b>-</b>

The above Statement Of Profit Or Loss And 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 31 December 2018

	Note	31 December 2018 \$'000	30 June 2018 \$'000
<b>Assets</b>			
Cash and cash equivalents		112,292	107,347
Receivables		628	485
Investments	3 a)	435,761	443,266
<b>Total Assets</b>		<b>548,681</b>	<b>551,098</b>
<b>Liabilities</b>			
Derivative liabilities	3 b)	6,403	7,306
Distribution payable		-	41,160
Payables		833	1,573
<b>Total Liabilities</b>		<b>7,236</b>	<b>50,039</b>
<b>Net Assets Attributable To Unitholders - Liability</b>	4 b)	<b>541,445</b>	<b>501,059</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 half year ended 31 December 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 period.

## MAGELLAN HIGH CONVICTION FUND

# Statement Of Cash Flows

for the half year ended 31 December 2018

	31 December 2018 \$'000	31 December 2017 \$'000
<b>Cash Flows From Operating Activities</b>		
Interest received	878	123
Dividends and distributions received (net of withholding tax)	2,751	1,861
Management and performance fees paid	(4,776)	(4,743)
Other income	15	-
Other expenses paid	(31)	(53)
<b>Net Cash Inflows/(Outflows) From Operating Activities</b>	<b>(1,163)</b>	<b>(2,812)</b>
<b>Cash Flows From Investing Activities</b>		
Purchase of investments	(116,448)	(124,192)
Proceeds from sale of investments	114,037	39,976
Net cash flows from foreign exchange hedging activities	(12,343)	9,294
Net foreign exchange gains/(losses)	6,380	(838)
<b>Net Cash Inflows/(Outflows) From Investing Activities</b>	<b>(8,374)</b>	<b>(75,760)</b>
<b>Cash Flows From Financing Activities</b>		
Receipts from issue of units	72,874	122,884
Payments for redemption of units	(27,171)	(31,482)
Distributions paid	(30,062)	(5,621)
<b>Net Cash Inflows/(Outflows) From Financing Activities</b>	<b>15,641</b>	<b>85,781</b>
<b>Net Increase/(Decrease) In Cash And Cash Equivalents</b>	<b>6,104</b>	<b>7,209</b>
Cash and cash equivalents at the beginning of the half year	107,347	30,516
Effect of exchange rate fluctuations on cash and cash equivalents	(1,159)	47
<b>Cash And Cash Equivalents At The End Of The Half Year</b>	<b>112,292</b>	<b>37,772</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 half year ended 31 December 2018

#### Overview

This condensed interim financial report is for Magellan High Conviction Fund ("the Fund") for the half year ended 31 December 2018.

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, being 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.

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

#### 1. Basis Of Preparation

The condensed interim financial report is a general purpose financial report and has been prepared in accordance with AASB 134 *Interim Financial Reporting*, the *Corporations Act 2001*, other mandatory professional reporting requirements and the Fund's Constitution. It is presented in Australian Dollars ("\$") and was approved by the Directors of the Responsible Entity on 27 February 2019. The Directors have the power to amend and reissue 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 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 reporting date.

The condensed interim financial report does not include all the information and disclosures normally included in the annual financial report. Accordingly, this report should be read in conjunction with the 30 June 2018 Annual Report and any public announcements made during the half year.

##### a) Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period except for the adoption of new standards effective as of 1 July 2018 that are described in Note 1 c). The Fund has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

##### b) 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 to distribute income to unitholders.

The Fund has two classes of units, Class A and Class B, that are differentiated by investment minimums and management and performance fees. The units will continue to be classified as a financial liability as they do not have identical features (refer Note 4 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 the increase/(decrease) in net assets together with distributions to unitholders will be included as finance costs in the Statement Of Profit Or Loss And Comprehensive Income.

##### c) New And Amended Accounting Standards And Interpretations Effective 1 July 2018

The Fund applied, for the first time, from 1 July 2018, AASB 9: *Financial Instruments* ("AASB 9") and AASB 15: *Revenue from Contracts with Customers* ("AASB 15") that require restatement of previous financial statements. The nature and effect of these changes are disclosed as follows.

# MAGELLAN HIGH CONVICTION FUND

## Notes To The Financial Statements

### for the half year ended 31 December 2018

#### 1. Basis Of Preparation (continued)

##### c) New And Amended Accounting Standards And Interpretations Effective 1 July 2018 (continued)

###### • AASB 9: *Financial Instruments*

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 have been 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 included new hedge accounting requirements and an expected-loss impairment model that requires credit losses to be recognised on a more timely basis.

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

###### • AASB 15: *Revenue From Contracts With Customers*

AASB 15 superseded AASB 118: *Revenue*. Although AASB 15 is principles-based, it is a significant change from the previous revenue requirements and involves 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 replaced the previous notion of risk and rewards.

There was no impact 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) was unaffected as these items are excluded from the scope of AASB 15.

Several other amendments and interpretations apply for the first time in the interim reporting period commencing 1 July 2018, but did not result in any adjustments to the amounts recognised in the financial statements or disclosures.

##### d) Accounting Policy For Receivables Effective From 1 July 2018

Receivables comprise amounts due from brokers for sales of assets and 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 expected credit losses. Expected credit losses are based on 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 trade receivables whereby the loss allowance is based on lifetime expected credit losses at each reporting date.

##### e) Rounding Of Amounts

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

##### f) 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 3 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 half year ended 31 December 2018

## 2. Distributions To Unitholders

No distributions were declared for the half year ended 31 December 2018 (December 2017: nil).

Final distributions for the year ended 30 June 2018, paid 13 July 2018, were as follows:

- Class A Units: 14.3420 cents per unit amounting to \$39,949,000, and
- Class B Units: 4.0835 cents per unit amounting to \$1,211,000.

## 3. Investments And Derivatives

	31 December 2018 \$'000	30 June 2018 \$'000
<b>a) Investments</b>		
International listed equity securities:		
- United States	435,761	443,266
<b>Total Investments</b>	435,761	443,266
<b>b) Derivative Liabilities</b>		
Forward foreign currency contracts	6,403	7,306
<b>Total Derivative Liabilities</b>	6,403	7,306

### c) 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 level 1 securities is based on the closing price <sup>(A)</sup> 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.

<sup>(A)</sup> Prior to 1 July 2018, the fair value of these investments was based on closing bid prices. The impact of the change was not material.

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

	31 December 2018 \$'000	30 June 2018 \$'000
<b>Financial Assets Measured At Fair Value</b>		
Level 1: Investments - valued using quoted price <sup>(A)</sup>	435,761	443,266
<b>Total Financial Assets Measured At Fair Value</b>	435,761	443,266
<b>Financial Liabilities Measured At Fair Value</b>		
Level 2: Forward foreign currency contracts	6,403	7,306
<b>Total Financial Liabilities Measured At Fair Value</b>	6,403	7,306

<sup>(A)</sup> All 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 half 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.

# MAGELLAN HIGH CONVICTION FUND

## Notes To The Financial Statements

for the half year ended 31 December 2018

### 4. Net Assets Attributable To Unitholders

	Class A		Class B	
	1 Jul 2018 to 31 Dec 2018 No. of Units '000	1 Jul 2017 to 30 Jun 2018 No. of Units '000	1 Jul 2018 to 31 Dec 2018 No. of Units '000	15 Nov 2017 to 30 Jun 2018 No. of Units '000
<b>a) Units On Issue</b>				
Opening balance - 1 July	278,546	214,050	29,651	-
Units issued	27,836	97,935	22,807	30,373
Units issued under DRP	6,495	1,214	115	-
Units redeemed	(13,719)	(35,396)	(2,957)	(894)
Switches in/(out) of unit class	-	743	-	172
<b>Total Units On Issue</b>	<b>299,158</b>	<b>278,546</b>	<b>49,616</b>	<b>29,651</b>

#### Terms And Conditions Of Units

The Fund has two separate classes of units, Class A and Class B. 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 Statement;
- 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 and performance fee rates.

	Class A		Class B	
	31 Dec 2018 2018 \$'000	30 Jun 2018 2018 \$'000	31 Dec 2018 2018 \$'000	30 Jun 2018 2018 \$'000
<b>b) Changes In Net Assets Attributable To Unitholders - Liability</b>				
Opening balance - 1 July	466,770	329,921	34,289	-
Applications	48,713	162,360	24,223	31,764
Reinvestment of distributions	10,979	1,871	119	-
Redemptions	(23,962)	(59,776)	(3,110)	(923)
Increase/(decrease) in net assets attributable to unitholders	(10,849)	32,394	(5,727)	3,448
<b>Total Net Assets Attributable To Unitholders - Liability</b>	<b>491,651</b>	<b>466,770</b>	<b>49,794</b>	<b>34,289</b>

#### c) Class A and Class B Units

Prior to 15 November 2017, the Fund had one class of units on issue (Class A 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 was seeded with \$100,000 investment by Magellan Financial Group Limited. This investment was a switch of Class A 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 and performance fees. The management fee is 1.50% per annum for Class A Units and 0.78% per annum for Class B Units. The performance fee is 10% for Class A Units and 20% for Class B Units of the excess return above an Absolute Return performance hurdle of 10% per annum, and subject to a "High Water Mark" being met, for the relevant six monthly calculation period, ending on 30 June and 31 December of each year. The performance fee for Class B Units is also subject to a cap of 2.22% per annum of Net Asset Value (after management fees).

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 Statement issued 3 November 2018.

## **MAGELLAN HIGH CONVICTION FUND**

# Notes To The Financial Statements

for the half year ended 31 December 2018

### **5. Contingent Assets, Contingent Liabilities And Commitments**

The Fund has no contingent assets, contingent liabilities or commitments at reporting date.

### **6. Events Subsequent To The End Of The Half Year**

Other than the items disclosed throughout this Interim Financial Report, there have been no matters or circumstances arising after the end of the half year that have significantly affected, or may significantly affect, the Fund's operations, the results of its operations, or the Fund's state of affairs in future financial years. Asset prices move daily and daily unit prices are available on the Magellan Financial Group Limited website, [www.magellangroup.com.au](http://www.magellangroup.com.au).

## MAGELLAN HIGH CONVICTION FUND

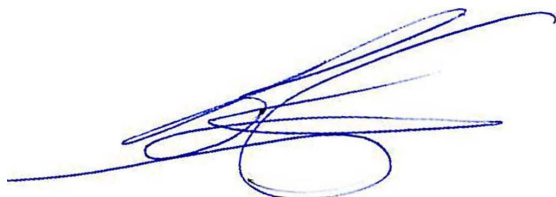
# Directors' Declaration

for the half year ended 31 December 2018

In the opinion of the Directors,

- a) the financial statements and notes of Magellan High Conviction Fund, as set out on pages 7 to 15 are in accordance with the *Corporations Act 2001*, including:
  - i) giving a true and fair view of the financial position of the Fund as at 31 December 2018 and of its performance as represented by the results of its operations and its cash flows for the half year ended on that date; and
  - ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

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



**Brett Cairns**  
Chairman

Sydney, 27 February 2019



# Independent Auditor's Review Report to the Unitholders of Magellan High Conviction Fund

## Report on the Half-Year Financial Report

### Conclusion

We have reviewed the accompanying half-year financial report of Magellan High Conviction Fund (the "Fund"), which comprises the statement of financial position as at 31 December 2018, the statement of profit or loss and comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Fund is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Fund's financial position as at 31 December 2018 and of its financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

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

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Fund's financial position as at 31 December 2018 and its financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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



## Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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

Ernst & Young

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

Rita Da Silva  
Partner  
Sydney  
27 February 2019

# MAGELLAN HIGH CONVICTION FUND

## Corporate Information

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

Brett Cairns (Chairman and Chief Executive Officer)

Kirsten Morton (Chief Financial Officer)

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**

Ernst & Young

200 George Street

Sydney NSW 2000

### **Unit Registrar**

Mainstream Fund Services Pty Ltd

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Sydney NSW 2000

Telephone: +61 2 9247 3326

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