



# INTERIM FINANCIAL REPORT

## FOR THE HALF YEAR ENDED 31 DECEMBER 2019

**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 2019

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 half year report on the Fund for the period ended 31 December 2019.

#### 1. Directors

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

| Name            | Directorship            | Appointed        |
|-----------------|-------------------------|------------------|
| Brett Cairns    | Chief Executive Officer | 22 January 2007  |
| John Eales      | Non-Executive Director  | 1 July 2017      |
| Robert Fraser   | Chairman                | 23 April 2014    |
| Paul Lewis      | Non-Executive Director  | 20 December 2006 |
| Hamish McLennan | Non-Executive Director  | 1 March 2016     |
| Kirsten Morton  | Chief Financial Officer | 5 October 2018   |
| Karen Phin      | Non-Executive Director  | 23 April 2014    |

#### 2. 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 ("PDS"), issued 18 November 2019).

#### 3. Significant Changes In State Of Affairs

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

#### 4. Review Of Financial Results And Operations

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

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

|                                    | 31 December<br>2019<br>\$'000 | 31 December<br>2018<br>\$'000 |
|------------------------------------|-------------------------------|-------------------------------|
| <b>Results</b>                     |                               |                               |
| Total net investment income        | 79,028                        | (11,942)                      |
| Total expenses                     | 9,845                         | 4,634                         |
| <b>Net Operating Profit/(Loss)</b> | 69,183                        | (16,576)                      |

No distribution was declared for the period ended 31 December 2019 (December 2018: nil). Final distributions for the relevant year ended 30 June are as follows:

|  | Class A         |                 | Class B         |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 30 June<br>2019 | 30 June<br>2018 | 30 June<br>2019 | 30 June<br>2018 |
| Final distribution paid (\$'000)         | 12,192          | 39,949          | 1,737           | 1,211           |
| Final distribution paid (cents per unit) | 4.0000          | 14.3420         | 2.5000          | 4.0835          |
| Payment date                             | 12 July 2019    | 13 July 2018    | 12 July 2019    | 13 July 2018    |

## MAGELLAN HIGH CONVICTION FUND

# Responsible Entity's Report

for the half year ended 31 December 2019

#### 4. Review Of Financial Results And Operations (continued)

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

The net asset value per unit and exit price, for the relevant period ended 31 December, was as follows:

|  | Class A          |                  | Class B          |                  |
|--|------------------|------------------|------------------|------------------|
|  | 31 December 2019 | 31 December 2018 | 31 December 2019 | 31 December 2018 |
|  | \$               | \$               | \$               | \$               |
| <b>Unit Price</b>                              |                  |                  |                  |                  |
| Unit price (net asset value) (ex-distribution) | 2.0849           | 1.6434           | 1.2687           | 1.0036           |
| Redemption unit price (ex-distribution)        | 2.0834           | 1.6422           | 1.2678           | 1.0029           |

##### 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 December 2019 | 6 months to 31 December 2018 | 6 months to 31 December 2019 | 6 months to 31 December 2018 |
|                                  | %                            | %                            | %                            | %                            |
| <b>Indirect Cost Ratio</b>       |                              |                              |                              |                              |
| Management fee                   | 0.75                         | 0.75                         | 0.39                         | 0.39                         |
| Performance fee                  | 0.65                         | 0.01                         | 1.38                         | 0.02                         |
| <b>Total Indirect Cost Ratio</b> | 1.40                         | 0.76                         | 1.77                         | 0.41                         |

|                                  | Class A                       |                               | Class B                       |                               |
|----------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|                                  | 12 months to 31 December 2019 | 12 months to 31 December 2018 | 12 months to 31 December 2019 | 12 months to 31 December 2018 |
|                                  | %                             | %                             | %                             | %                             |
| <b>Indirect Cost Ratio</b>       |                               |                               |                               |                               |
| Management fee                   | 1.50                          | 1.50                          | 0.78                          | 0.78                          |
| Performance fee                  | 1.78                          | 0.15                          | 2.78                          | 0.03                          |
| <b>Total Indirect Cost Ratio</b> | 3.28                          | 1.65                          | 3.56                          | 0.81                          |

##### c) Performance Returns

The performance returns shown in the following table 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 December 2019 | 6 months to 31 December 2018 | 6 months to 31 December 2019 | 6 months to 31 December 2018 |
|                                    | %                            | %                            | %                            | %                            |
| <b>Performance</b>                 |                              |                              |                              |                              |
| Growth return <sup>(A)</sup>       | 11.4                         | (2.8)                        | 11.1                         | (2.6)                        |
| Distribution return <sup>(B)</sup> | -                            | -                            | -                            | -                            |
| <b>Total Return <sup>(C)</sup></b> | 11.4                         | (2.8)                        | 11.1                         | (2.6)                        |

# MAGELLAN HIGH CONVICTION FUND

## Responsible Entity's Report

for the half year ended 31 December 2019

### 4. Review Of Financial Results And Operations (continued)

#### c) Performance Returns (continued)

|                                    | Class A                                  |  | Class B                                  |  |
|------------------------------------|--|--|--|--|
|                                    | 12 months to<br>31 December<br>2019<br>% | 12 months to<br>31 December<br>2018<br>% | 12 months to<br>31 December<br>2019<br>% | 12 months to<br>31 December<br>2018<br>% |
|                                    | <b>Performance</b>                       |  |  |  |
| Growth return <sup>(A)</sup>       | 26.9                                     | (4.7)                                    | 26.4                                     | (0.6)                                    |
| Distribution return <sup>(B)</sup> | 2.7                                      | 8.1                                      | 2.8                                      | 3.9                                      |
| <b>Total Return <sup>(C)</sup></b> | <b>29.6</b>                              | <b>3.4</b>                               | <b>29.2</b>                              | <b>3.3</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.

#### d) Strategy And Future Outlook

The Fund's investment objective is unchanged. The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Therefore, investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

#### 4. Interest In The Fund

The movement in units on issue in the Fund is disclosed in Note 4 a) to the financial statements.

#### 5. Likely Developments And Expected Results Of Operations

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

#### 6. Subsequent Events

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

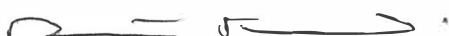
#### 7. Rounding Of Amounts

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

#### 8. Auditor

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

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



**Robert Fraser**  
Chairman

Sydney, 27 February 2020

## **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 the interim financial report of Magellan High Conviction Fund for the half-year ended 31 December 2019, 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**



**Clare Sporle**

Partner

Sydney, 27 February 2020

## MAGELLAN HIGH CONVICTION FUND

# Statement Of Profit Or Loss And Comprehensive Income

for the half year ended 31 December 2019

|  | Note | 31 December<br>2019<br>\$'000 | 31 December<br>2018<br>\$'000 |
|--|------|-------------------------------|-------------------------------|
| <b>Investment Income</b>   |      |                               |                               |
| Dividend and distribution income   |      | 1,909                         | 3,236                         |
| Interest income  |      | 425                           | 942                           |
| Net change in fair value of investments  |      | 76,358                        | (21,099)                      |
| Net gain/(loss) on foreign exchange settlements, derivative contracts and cash |      | 336                           | 4,964                         |
| Other income   |      | -                             | 15                            |
| <b>Total Net Investment Income</b>   |      | 79,028                        | (11,942)                      |
| <b>Expenses</b>  |      |                               |                               |
| Management fees  |      | 4,524                         | 4,071                         |
| Performance fees   |      | 5,015                         | 64                            |
| Transaction costs  |      | 20                            | 14                            |
| Withholding tax on dividends   |      | 286                           | 485                           |
| <b>Total Expenses</b>  |      | 9,845                         | 4,634                         |
| <b>Operating Profit/(Loss)</b>   |      | 69,183                        | (16,576)                      |
| <b>Finance Costs Attributable To Unitholders</b>                               |      |                               |                               |
| (Increase)/decrease in net assets attributable to unitholders                  | 4 b) | (69,183)                      | 16,576                        |
| <b>Profit/(Loss)</b>   |      | -                             | -                             |
| Other comprehensive income   |      | -                             | -                             |
| <b>Total Comprehensive Income</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 2019

|   | Note | 31 December<br>2019<br>\$'000 | 30 June<br>2019<br>\$'000 |
|---|------|-------------------------------|---------------------------|
| <b>Assets</b>   |      |                               |                           |
| Cash and cash equivalents                                 |      | 49,725                        | 62,863                    |
| Receivables   |      | 1,553                         | 405                       |
| Investments   | 3 a) | 623,382                       | 600,361                   |
| Derivative assets   | 3 b) | 8,933                         | 8,064                     |
| <b>Total Assets</b>                                       |      | <b>683,593</b>                | <b>671,693</b>            |
| <b>Liabilities</b>  |      |                               |                           |
| Distribution payable                                      |      | -                             | 13,929                    |
| Payables  |      | 6,430                         | 8,105                     |
| <b>Total Liabilities</b>                                  |      | <b>6,430</b>                  | <b>22,034</b>             |
| <b>Net Assets Attributable To Unitholders - Liability</b> | 4 b) | <b>677,163</b>                | <b>649,659</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 2019

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 2019

|   | 31 December<br>2019<br>\$'000 | 31 December<br>2018<br>\$'000 |
|---|-------------------------------|-------------------------------|
| <b>Cash Flows From Operating Activities</b>                       |                               |                               |
| Dividends and distributions received (net of withholding tax)     | 1,617                         | 2,751                         |
| Interest received   | 478                           | 878                           |
| Management and performance fees paid                              | (11,678)                      | (4,776)                       |
| Other income  | -                             | 15                            |
| Other expenses paid   | (20)                          | (31)                          |
| <b>Net Cash Inflows/(Outflows) From Operating Activities</b>      | <b>(9,603)</b>                | <b>(1,163)</b>                |
| <b>Cash Flows From Investing Activities</b>                       |                               |                               |
| Purchase of investments   | (232,964)                     | (116,448)                     |
| Proceeds from sale of investments                                 | 288,564                       | 114,037                       |
| Net cash flows from foreign exchange hedging activities           | (3,251)                       | (12,343)                      |
| Net foreign exchange gains/(losses)                               | 1,545                         | 6,380                         |
| <b>Net Cash Inflows/(Outflows) From Investing Activities</b>      | <b>53,894</b>                 | <b>(8,374)</b>                |
| <b>Cash Flows From Financing Activities</b>                       |                               |                               |
| Receipts from issue of units                                      | 88,501                        | 72,874                        |
| Payments for redemption of units                                  | (133,315)                     | (27,171)                      |
| Distributions paid  | (11,531)                      | (30,062)                      |
| <b>Net Cash Inflows/(Outflows) From Financing Activities</b>      | <b>(56,345)</b>               | <b>15,641</b>                 |
| <b>Net Increase/(Decrease) In Cash And Cash Equivalents</b>       | <b>(12,054)</b>               | <b>6,104</b>                  |
| Cash and cash equivalents at the beginning of the period          | 62,863                        | 107,347                       |
| Effect of exchange rate fluctuations on cash and cash equivalents | (1,084)                       | (1,159)                       |
| <b>Cash And Cash Equivalents At The End Of The Period</b>         | <b>49,725</b>                 | <b>112,292</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 2019

#### Overview

The 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, 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.

This financial report was authorised for issue by the Directors of the Responsible Entity on 27 February 2020. The Directors have the power to amend and reissue this financial report.

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

#### 1. Basis Of Preparation

The condensed interim financial report is a general purpose financial report, presented in Australian Dollars, 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.

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 2019 Annual Report and any public announcements made during the period.

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.

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*.

##### a) Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new standards that are described in Note 1 b). The Fund has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

##### b) New And Amended Accounting Standards

There are no standards, interpretations or amendments to existing standards that are effective as of 1 July 2019 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

##### c) 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 balance date. Fair values may however move materially with movements in market prices (refer Note 3). As the investments are valued with reference to the listed quoted prices, and the Fund's cash is held with strongly rated financial institutions, the Fund's financial assets are not subject to significant judgement or complexity nor are the Fund's liabilities.

## MAGELLAN HIGH CONVICTION FUND

# Notes To The Financial Statements

for the half year ended 31 December 2019

### 2. Distributions To Unitholders

No distributions were declared for the period ended 31 December 2019 (December 2018: nil).

Final distributions for the relevant year ended 30 June are as follows:

|  | Class A         |                 | Class B         |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 30 June<br>2019 | 30 June<br>2018 | 30 June<br>2019 | 30 June<br>2018 |
| Final distribution paid (\$'000)         | 12,192          | 39,949          | 1,737           | 1,211           |
| Final distribution paid (cents per unit) | 4.0000          | 14.3420         | 2.5000          | 4.0835          |
| Payment date                             | 12 July 2019    | 13 July 2018    | 12 July 2019    | 13 July 2018    |

### 3. Investments And Derivatives

The Fund classifies its equity securities and derivatives as financial assets and liabilities at fair value through profit or loss.

The Fund discloses the fair value measurements of financial assets and financial liabilities using a three-level fair value hierarchy to reflect the source of valuation inputs used when determining the fair value as follows:

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

|  | 31 December<br>2019<br>\$'000 | 30 June<br>2019<br>\$'000 |
|--|-------------------------------|---------------------------|
| <b>a) Investments (Level 1)</b>        |                               |                           |
| International listed equity securities | 623,382                       | 600,361                   |
| <b>Total Equity Securities</b>         | 623,382                       | 600,361                   |
| <b>b) Derivative Assets (Level 2)</b>  |                               |                           |
| Forward foreign currency contracts     | 8,933                         | 8,064                     |
| <b>Total Derivative Assets</b>         | 8,933                         | 8,064                     |

The Fund does not hold any level 2 or 3 assets. There have been no transfers between any of the three levels in the hierarchy during the period and the Fund's policy is to recognise transfers into and out of fair value hierarchy levels as at balance date.

# MAGELLAN HIGH CONVICTION FUND

## Notes To The Financial Statements

for the half year ended 31 December 2019

### 4. Net Assets Attributable To Unitholders

|                          | Class A  |   | Class B  |   |
|--------------------------|--|---|--|---|
|                          | 6 Months To<br>31 December<br>2019<br>No. of Units<br>'000 | 12 Months To<br>30 June<br>2019<br>No. of Units<br>'000 | 6 Months To<br>31 December<br>2019<br>No. of Units<br>'000 | 12 Months To<br>30 June<br>2019<br>No. of Units<br>'000 |
| <b>a) Units On Issue</b> |  |   |  |   |
| Opening balance - 1 July | 304,809  | 278,546   | 69,485   | 29,651  |
| Units issued             | 22,560   | 47,161  | 37,584   | 45,732  |
| Units issued under DRP   | 1,225  | 6,495   | 93   | 115   |
| Units redeemed           | (66,664)   | (27,393)  | (3,861)  | (6,013)   |
| <b>Closing Balance</b>   | <b>261,930</b>   | <b>304,809</b>  | <b>103,301</b>   | <b>69,485</b>   |

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 ("PDS");
- 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                                      |   |
|---|--|---|--|---|
|   | 6 Months To<br>31 December<br>2019<br>\$'000 | 12 Months To<br>30 June<br>2019<br>\$'000 | 6 Months To<br>31 December<br>2019<br>\$'000 | 12 Months To<br>30 June<br>2019<br>\$'000 |
| <b>b) Changes In Net Assets Attributable To Unitholders - Liability</b> |  |   |  |   |
| Opening balance - 1 July  | 570,328                                      | 466,770                                   | 79,331                                       | 34,289                                    |
| Applications  | 44,379                                       | 83,697                                    | 44,834                                       | 49,444                                    |
| Reinvestment of distributions   | 2,292  | 10,979                                    | 106  | 119                                       |
| Redemptions   | (128,696)                                    | (48,767)                                  | (4,594)                                      | (6,541)                                   |
| Increase/(decrease) in net assets attributable to unitholders           | 57,801                                       | 57,649                                    | 11,382                                       | 2,020                                     |
| <b>Closing balance</b>  | <b>546,104</b>                               | <b>570,328</b>                            | <b>131,059</b>                               | <b>79,331</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 High Water Mark is the NAV per Unit at the end of the most recent Calculation Period for which MAM was entitled to a performance fee, less any intervening income or capital distribution.

## **MAGELLAN HIGH CONVICTION FUND**

# Notes To The Financial Statements

for the half year ended 31 December 2019

#### **4. Net Assets Attributable To Unitholders (continued)**

##### **c) Class A and Class B Units (continued)**

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 PDS issued 18 November 2019.

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

At balance date the Fund has no contingent assets, contingent liabilities or commitments (June 2019: nil).

#### **6. Subsequent Events**

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

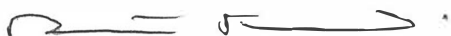
# Directors' Declaration

for the half year ended 31 December 2019

In the opinion of the Directors,

- a) the financial statements and notes of Magellan High Conviction Fund, as set out on pages 7 to 14 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 2019 and of its performance as represented by the results of its operations and its cash flows for the period ended on that date; and
  - ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

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



**Robert Fraser**  
Chairman

Sydney, 27 February 2020

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

### **Report on the Interim Financial Report**

#### **Conclusion**

We have reviewed the accompanying interim financial report of Magellan High Conviction Fund (the Fund), which comprises the condensed statement of financial position as at 31 December 2019, the condensed statement of profit and loss and comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the period 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 interim 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 2019 and of its financial performance for the period ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

#### **Directors' Responsibility for the Interim Financial Report**

The Directors of the Responsible Entity are responsible for the preparation of the interim 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 interim 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 interim 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 2019 and its financial performance for the period 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 an interim 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*.



**Ernst & Young**



**Clare Sporle**

Partner

Sydney, 27 February 2020



# MAGELLAN HIGH CONVICTION FUND

## Corporate Information

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

Brett Cairns (Chief Executive Officer)  
John Eales  
Robert Fraser (Chairman)  
Paul Lewis  
Hamish McLennan  
Kirsten Morton (Chief Financial Officer)  
Karen Phin

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

Marcia Venegas

### **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  
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### **Website**

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