



# ANNUAL FINANCIAL REPORT

## FOR THE YEAR ENDED 30 JUNE 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 year ended 30 June 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 report on the Fund for the year ended 30 June 2019.

#### 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	Chief Executive Officer	22 January 2007
Hamish Douglass	Chief Investment Officer <sup>(A)</sup>	21 November 2006
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

<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.

#### 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 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 year.

# MAGELLAN HIGH CONVICTION FUND

## Responsible Entity's Report

### for the year ended 30 June 2019

#### 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 2019		30 June 2018	
<b>Results</b>				
Total net investment income (\$'000)	90,212		88,414	
Total expenses (\$'000)	16,614		11,412	
<b>Net Operating Profit/(Loss) (\$'000)</b>	<b>73,598</b>		<b>77,002</b>	
	Class A Units		Class B Units	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018 <sup>(A)</sup>
<b>Distributions</b>				
Distribution paid and payable to unitholders (\$'000)	12,192	39,949	1,737	1,211
Distribution paid and payable (cents per unit) (refer (i) below for components)	4.0000	14.3420	2.5000	4.0835
<b>Unit Price</b>				
Unit price (net asset value) (ex-distribution) (\$)	1.8711	1.6903	1.1417	1.0303
Redemption unit price (ex-distribution) (\$)	1.8698	1.6886	1.1409	1.0293
<b>Indirect Cost Ratio<sup>(B)</sup></b>				
Management fee (% p.a.)	1.50	1.50	0.78	0.48
Performance fee (% p.a.)	1.17	0.80	1.72	-
<b>Total Indirect Cost Ratio (%)</b>	<b>2.67</b>	<b>2.30</b>	<b>2.50</b>	<b>0.48</b>

<sup>(A)</sup> Class B units were issued on 15 November 2017.

<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. Management costs, accrued within the Fund's unit prices on a daily basis, include management and performance fees but do not include transactional and operational costs such as brokerage or foreign withholding tax.

(i) Distribution components for the final distributions, which can be found in the 'Our Funds' section of the MFG website, [www.magellangroup.com.au](http://www.magellangroup.com.au) are as follows:

	Class A Units		Class B Units	
	Final Distribution		Final Distribution	
	30 June 2019 cents per unit	30 June 2018 cents per unit	30 June 2019 cents per unit	30 June 2018 <sup>(A)</sup> cents per unit
<b>Domestic Income</b>				
Interest	-	0.0118	-	0.0086
Other income	-	0.0209	-	0.0151
<b>Foreign Sourced Income</b>	-	4.5310	-	3.2802
Foreign income tax offsets	-	0.2600	-	0.1881
<b>Capital Gains</b>				
Discounted	-	4.3555	-	-
Other	-	1.0774	-	0.7796
Other capital gains distribution (CGT concession)	-	4.3454	-	-
Other non-attributable amounts (tax deferred amounts)	4.0000	-	2.5000	-
<b>Attribution Amount</b>	<b>4.0000</b>	<b>14.6020</b>	<b>2.5000</b>	<b>4.2716</b>
<b>Tax Offsets</b>				
Foreign income tax offsets	-	(0.2600)	-	(0.1881)
<b>Cash Distribution</b>	<b>4.0000</b>	<b>14.3420</b>	<b>2.5000</b>	<b>4.0835</b>

<sup>(A)</sup> Class B units were issued on 15 November 2017.

## MAGELLAN HIGH CONVICTION FUND

# Responsible Entity's Report

for the year ended 30 June 2019

### 1.3 Review Of Operations (continued)

#### b) Performance Returns

The performance returns for the years 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 exit price. The returns are calculated daily, compounded to produce longer period returns.

	Class A Units		Class B Units	
	2019 %	2018 %	2019 %	2018 <sup>(A)</sup> %
<b>Performance</b>				
Growth return <sup>(B)</sup>	10.7	9.7	10.9	3.0
Distribution return <sup>(C)</sup>	2.4	9.3	2.4	4.1
<b>Total Return<sup>(D)</sup></b>	<b>13.1</b>	<b>19.0</b>	<b>13.3</b>	<b>7.1</b>

<sup>(A)</sup> Class B units were issued on 15 November 2017.

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

<sup>(D)</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.

#### c) Strategy And Future Outlook

The Fund provide daily unit prices, monthly fund updates and annual investor reports which can be found in the 'Our Funds' section of the MFG website, [www.magellangroup.com.au](http://www.magellangroup.com.au). 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

	Class A Units		Class B Units	
	30 June 2019 \$'000	30 June 2018 \$'000	30 June 2019 \$'000	30 June 2018 \$'000
<b>Net Assets Attributable To Unitholders</b>	570,328	466,770	79,331	34,289

For each unit class of the Fund, the movement in units on issue and the net assets attributable to unitholders is disclosed respectively at Note 8 a) and 8 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

Other than the items disclosed throughout this Financial Report, 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 MAM, 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 MAM paid an insurance premium to insure the Directors and Officers of the Responsible Entity. The terms of the contract prohibit the disclosure of the premiums paid.

## MAGELLAN HIGH CONVICTION FUND

# Responsible Entity's Report

for the year ended 30 June 2019

### 1.8 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.

### 1.9 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

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



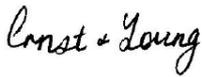
**Robert Fraser**  
Chairman

Sydney, 30 August 2019

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

As lead auditor for the audit of the Magellan High Conviction Fund for the financial year ended 30 June 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.



Ernst & Young



Rita Da Silva

Partner

Sydney, 30 August 2019

## MAGELLAN HIGH CONVICTION FUND

# Statement Of Profit Or Loss And Comprehensive Income

for the year ended 30 June 2019

	Note	30 June 2019 \$'000	30 June 2018 \$'000
<b>Investment Income</b>			
Dividend and distribution income		5,767	5,187
Interest income		1,833	622
Net change in fair value of investments		77,477	77,515
Net gain/(loss) on foreign exchange settlements, derivative contracts and cash		5,120	5,090
Other income		15	-
<b>Total Net Investment Income</b>		<b>90,212</b>	<b>88,414</b>
<b>Expenses</b>			
Management fees	9 c) i)	8,464	6,949
Performance fees	9 c) ii)	7,243	3,666
Brokerage costs		42	19
Withholding tax on dividends		865	778
<b>Total Expenses</b>		<b>16,614</b>	<b>11,412</b>
<b>Net Operating Profit/(Loss)</b>		<b>73,598</b>	<b>77,002</b>
<b>Finance Costs Attributable To Unitholders</b>			
Distributions of income and capital to unitholders	2	(13,929)	(41,160)
(Increase)/decrease in net assets attributable to unitholders	8 b)	(59,669)	(35,842)
<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 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 2019

	Note	30 June 2019 \$'000	30 June 2018 \$'000
<b>Assets</b>			
Cash and cash equivalents	3	62,863	107,347
Receivables	5	405	485
Investments	6 a)	600,361	443,266
Derivative assets	6 b)	8,064	-
<b>Total Assets</b>		<b>671,693</b>	<b>551,098</b>
<b>Liabilities</b>			
Derivative liabilities	6 c)	-	7,306
Distribution payable	2	13,929	41,160
Payables	7	8,105	1,573
<b>Total Liabilities</b>		<b>22,034</b>	<b>50,039</b>
<b>Net Assets Attributable To Unitholders - Liability</b>	8 b)	<b>649,659</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 year ended 30 June 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 years.

## MAGELLAN HIGH CONVICTION FUND

# Statement Of Cash Flows

for the year ended 30 June 2019

	Note	30 June 2019 \$'000	30 June 2018 \$'000
<b>Cash Flows From Operating Activities</b>			
Dividends and distributions received (net of withholding tax)		4,933	4,409
Interest received		1,841	515
Other income received		15	-
Management and performance fees paid		(9,103)	(11,336)
Other expenses paid		(92)	(145)
<b>Net Cash Inflows/(Outflows) From Operating Activities</b>	4 a)	<b>(2,406)</b>	<b>(6,557)</b>
<b>Cash Flows From Investing Activities</b>			
Purchase of investments		(294,117)	(156,695)
Proceeds from sale of investments		225,526	92,842
Net cash flows from settlement of forward foreign currency contracts		(27,080)	13,910
Net foreign exchange gains/(losses)		11,144	(400)
<b>Net Cash Inflows/(Outflows) From Investing Activities</b>		<b>(84,527)</b>	<b>(50,343)</b>
<b>Cash Flows From Financing Activities</b>			
Receipts from issue of units		133,263	194,221
Payments for redemption of units		(55,380)	(60,642)
Distributions paid		(30,062)	(5,621)
<b>Net Cash Inflows/(Outflows) From Financing Activities</b>		<b>47,821</b>	<b>127,958</b>
<b>Net Increase/(Decrease) In Cash And Cash Equivalents</b>		<b>(39,112)</b>	<b>71,058</b>
Cash and cash equivalents at the beginning of the year		107,347	30,516
Effect of exchange rate fluctuations on cash and cash equivalents		(5,372)	5,773
<b>Cash And Cash Equivalents At The End Of The Year</b>	3	<b>62,863</b>	<b>107,347</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 2019

#### Overview

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 30 August 2019. The Directors have the power to amend and reissue this financial report.

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

#### 1. Basis Of Preparation

This general purpose financial report is presented in Australian Dollars and has been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards ("AASB") and Interpretations issued by the Australian Accounting Standards Board, other mandatory professional reporting requirements and the Fund's Constitution. It also complies with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The Statement Of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within 12 months, except for financial assets and liabilities at fair value through profit or loss. These fair value assets and liabilities comprise mainly investments that are managed based on the economic circumstances at any given point in time as well as to meet any liquidity requirements. Consequently, the investments that may be realised within 12 months cannot be determined at 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 in the preparation of this financial report are contained within the notes to which they relate. The accounting policies are consistent with those of the previous financial year 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 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 tax regime applying to Managed Investment Trusts was established under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016*. The AMIT regime allows Managed Investment Trusts that meet certain requirements to make an irrevocable choice to be an AMIT. The Fund 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, Class A and Class B, that are differentiated by investment minimums, management, and performance fees. The units will continue to be classified as a financial liability as they do not have identical features (refer Note 8). As a consequence, units are 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 profit or loss.

##### c) New And Amended Accounting Standards

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") which require restatement of previous financial statements. The nature and effect of these changes are as follows.

# MAGELLAN HIGH CONVICTION FUND

## Notes To The Financial Statements

for the year ended 30 June 2019

### 1. Basis Of Preparation (continued)

#### c) New And Amended Accounting Standards (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 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 includes 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* and AASB 111 *Construction Contracts*. Although AASB 15 is principles-based, it is a significant change from the previous 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 previous notion of risk and rewards.

There was no material 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 reporting period commencing 1 July 2018, but did not result in any adjustments to the amounts recognised in the financial statements or disclosures.

#### d) 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 balance date.

Foreign currency exchange differences arising on translation and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Australian Dollars at the foreign currency closing exchange rates at the dates that the values were determined. Foreign currency exchange differences relating to monetary items, including cash and cash equivalents, are presented separately in profit or loss.

#### e) Investment Income

##### Dividend And Distribution Income

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

##### Net 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.

#### f) Expenses

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

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

## MAGELLAN HIGH CONVICTION FUND

# Notes To The Financial Statements

for the year ended 30 June 2019

### 1. Basis Of Preparation (continued)

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

#### h) 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 management 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 and performance fees and other expenses have been recognised in profit or loss net of the amount of GST recoverable from the Australian Taxation Office. Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included in the Statement Of Financial Position as a receivable or payable. Cash flows are included in the Statement Of Cash Flows on a gross basis.

#### i) 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 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 2019

### 2. Distributions To Unitholders

	Class A Units		Class B Units	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Final distribution payable to unitholders (\$'000)	12,192	39,949	1,737	1,211
<b>Total Distribution To Unitholders (\$'000)</b>	<b>12,192</b>	<b>39,949</b>	<b>1,737</b>	<b>1,211</b>
The total distribution consisted of:				
Income (\$'000)	-	39,949	-	1,211
Return of capital (\$'000)	12,192	-	1,737	-
<b>Total Distribution (Cents Per Unit)</b>	<b>4.0000</b>	<b>14.3420</b>	<b>2.5000</b>	<b>4.0835</b>

The final distribution for the year ended 30 June 2019 was paid on 12 July 2019.

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. Unrealised gains and losses on financial assets and liabilities 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.

As 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.

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

#### 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). DRP details are as follows:

	Class A Units		Class B Units	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
DRP issue price (final distribution - units issued 1 July) (\$)	1.8711	1.6903	1.1417	1.0303
DRP unitholder participation rate (%)	18.80	27.49	6.09	9.80
Number of units issued under DRP	1,225,052	6,495,297	92,736	115,114
Value of units issued under DRP (\$'000)	2,292	10,979	106	119

### 3. Cash And Cash Equivalents

	30 June 2019 \$'000	30 June 2018 \$'000
Cash at bank - denominated in Australian Dollars	8,695	6,803
Cash at bank - denominated in foreign currency:		
- United States Dollars	54,133	100,525
- British Pounds	25	9
- Euros	9	9
- Swiss Francs	1	1
<b>Total Cash And Cash Equivalents</b>	<b>62,863</b>	<b>107,347</b>

Cash comprises cash at bank. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

## MAGELLAN HIGH CONVICTION FUND

# Notes To The Financial Statements

for the year ended 30 June 2019

### 4. Statement Of Cash Flows Reconciliation

	30 June 2019 \$'000	30 June 2018 \$'000
<b>a) Reconciliation Of Net Profit To Net Cash Flows From Operating Activities</b>		
Net operating profit/(loss)	73,598	77,002
Adjusted for:		
Net change in fair value of investments	(77,477)	(77,515)
Net foreign exchange (gain)/loss on foreign exchange settlements, derivative contracts and cash	(5,089)	(5,090)
Changes in operating receivables and payables		
- Net (increase)/decrease in receivables	(42)	(233)
- Net increase/(decrease) in payables	6,604	(721)
<b>Net Cash Inflows/(Outflows) Operating Activities</b>	<b>(2,406)</b>	<b>(6,557)</b>
<b>b) Non-Cash Investing And Financing Activities</b>		
Distributions reinvested into units in the Fund	11,098	1,871

### 5. Receivables

	30 June 2019 \$'000	30 June 2018 \$'000
Applications receivable	-	122
Interest receivable	101	109
Recoverable GST and foreign withholding tax	304	254
Due from brokers - receivable for securities sold	-	-
<b>Total Receivables</b>	<b>405</b>	<b>485</b>

Receivables comprise amounts due from brokers for sales of assets and applications for units in the Fund unsettled at balance date, dividends and trust distributions declared but not yet received, and reclaimable taxes. They are recognised and carried at amortised cost using the effective interest rate method and adjusted for changes in foreign exchange rates where applicable. Until 30 June 2018 a provision was deducted from receivables for uncollectible amounts. From 1 July 2018 this provision is based on expected credit losses. Expected credit losses are calculated as the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive, discounted at an approximation of the original effective interest rate. The Fund applies the simplified approach for receivables whereby the loss allowance is based on lifetime expected credit losses at each balance date.

#### Ageing Analysis Of Receivables

At balance date, the Fund's receivables, excluding recoverable GST, were due within 0 to 30 days (June 2018: 0 to 30 days). Recoverable GST is due within 30 to 90 days (June 2018: 30 to 90 days). No amounts are impaired or past due at 30 June 2019 or 30 June 2018.

## MAGELLAN HIGH CONVICTION FUND

# Notes To The Financial Statements

for the year ended 30 June 2019

### 6. Investments And Derivatives

	30 June 2019 \$'000	30 June 2018 \$'000
<b>a) Investments</b>		
International listed equity securities:		
- United States	531,686	443,266
- Germany	34,218	-
- France	34,457	-
<b>Total Investments</b>	<b>600,361</b>	<b>443,266</b>
<b>b) Derivative Assets</b>		
Forward foreign currency contracts	8,064	-
<b>Total Derivative Assets</b>	<b>8,064</b>	<b>-</b>
<b>c) Derivative Liabilities</b>		
Forward foreign currency contracts	-	7,306
<b>Total Derivative Liabilities</b>	<b>-</b>	<b>7,306</b>

The Fund classifies its equity securities, derivative assets and derivative liabilities as financial assets and liabilities at fair value through profit or loss. The classification is based on the contractual cash flow characteristics and the Fund's business model for managing them.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value, which in the case of the Fund is the transaction price. Brokerage costs are expensed immediately in the profit or loss. Subsequent to initial recognition, all financial assets and liabilities classified at fair value through profit or loss are measured at fair value. Changes in fair value are recognised in profit or loss. The net change in fair value does not include dividend or distribution income.

Purchases and sales are recognised on trade date, being the date the Fund commits to purchase or sell the asset. Financial assets are derecognised when the contractual rights to the cash flows from the assets expire or are transferred. A transfer occurs when substantially all the risks and rewards of ownership are passed to a third party. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

The fair value of equity securities traded in active markets is based on their quoted market prices at balance date without any deduction for estimated future selling costs. The quoted market price used for securities held by the Fund is the closing price<sup>(A)</sup> for the security as quoted on the relevant stock exchange. If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques including recent arm's length market transactions, reference to the current fair value of other instruments that are substantially the same, discounted cash flows techniques, option pricing models or any other valuation techniques commonly used by market participants.

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

<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.

#### d) 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 price<sup>(B)</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 counterparties' current credit worthiness.

<sup>(B)</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.

# MAGELLAN HIGH CONVICTION FUND

## Notes To The Financial Statements

### for the year ended 30 June 2019

#### 6. Investments And Derivatives (continued)

##### d) Fair Value Disclosures (continued)

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

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

	30 June 2019 \$'000	30 June 2018 \$'000
<b>Financial Assets Measured At Fair Value</b>		
Level 1: Investments - valued using quoted price <sup>(C)</sup>	600,361	443,266
Level 2: Forward foreign currency contracts	8,064	-
<b>Total Financial Assets Measured At Fair Value</b>	<b>608,425</b>	<b>443,266</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>-</b>	<b>7,306</b>

<sup>(C)</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 balance date.

##### e) 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 intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Derivative assets and liabilities 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 at balance date.

#### 7. Payables

	Note	30 June 2019 \$'000	30 June 2018 \$'000
Management fee payable	9 c) i)	856	717
Performance fee payable	9 c) ii)	7,179	714
Redemptions payable		70	142
<b>Total Payables</b>		<b>8,105</b>	<b>1,573</b>

Payables comprise trade creditors and accrued expenses owing by the Fund at balance date. Amounts due to brokers relating to the purchase of investments are usually settled between two and five days after trade date. Payables and accruals are recognised at amortised cost, using the effective interest rate method, at the point where the Fund becomes obliged to make payments in respect of the purchase of these goods and services.

##### Maturities Of Payables

At 30 June 2019, all payables mature in 0 to 90 days (June 2018: 0 to 90 days).

# MAGELLAN HIGH CONVICTION FUND

## Notes To The Financial Statements

for the year ended 30 June 2019

### 8. Net Assets Attributable To Unitholders

	Class A Units		Class B Units	
	30 June 2019 No. of units '000	30 June 2018 No. of units '000	30 June 2019 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	278,546	214,050	29,651	-
Units issued	47,161	98,779	45,732	30,373
Units issued under DRP	6,495	1,214	115	-
Units redeemed	(27,393)	(35,396)	(6,013)	(894)
Switches in/(out) of unit class	-	(101)	-	172
<b>Units On Issue At End Of The Year</b>	<b>304,809</b>	<b>278,546</b>	<b>69,485</b>	<b>29,651</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 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, has the same rights and does not confer upon the holder any interest in any particular asset or investment of the Fund.

	Class A Units		Class B Units	
	30 June 2019 \$'000	30 June 2018 \$'000	30 June 2019 \$'000	30 June 2018 \$'000
<b>b) Changes In Net Assets Attributable To Unitholders</b>				
Opening balance	466,770	329,921	34,289	-
Applications	83,697	162,360	49,444	31,764
Reinvestment of distributions	10,979	1,871	119	-
Redemptions	(48,767)	(59,776)	(6,541)	(923)
Increase/(decrease) in net assets attributable to unitholders	57,649	32,394	2,020	3,448
<b>Net Assets Attributable To Unitholders At End Of The Year</b>	<b>570,328</b>	<b>466,770</b>	<b>79,331</b>	<b>34,289</b>

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, management and performance fees (refer Note 9 c)). 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*.

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.

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 profit or loss.

## MAGELLAN HIGH CONVICTION FUND

# Notes To The Financial Statements

for the year ended 30 June 2019

### 8. Net Assets Attributable To Unitholders (continued)

#### c) Class B Units

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

The Fund operates as one fund with a single investment portfolio.

### 9. Related Parties

#### a) Responsible Entity

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

The Directors of MAM are considered to be KMP. The Directors of MAM during the year and up to the date of this report are: Dr Brett Cairns, Mr Hamish Douglass (resigned 5 October 2018), Mr John Eales, Mr Robert Fraser, Mr Paul Lewis, Mr Hamish McLennan, Ms Kirsten Morton (appointed 5 October 2018) and Ms Karen Phin. The Fund did not pay any compensation to the Directors of the Responsible Entity.

#### c) Responsible Entity Fees

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

##### i) Management Fees

The Responsible Entity is entitled to receive management fees from the Fund for managing the assets and overseeing the operations of the Fund. Management fees, for each unit class, are calculated monthly based on the Net Asset Value (before fees) of each unit class of the Fund at the end of each month. The management fee for Class A Units is 1.50% per annum and 0.78% for Class B Units. The Responsible Entity pays operating expenses of the Fund, such as audit and tax compliance fees, distribution costs, investor reporting, custody and fund administration costs. Estimated fees are reflected in the daily unit prices of the Fund and are payable at the end of each month.

##### 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.

The performance fee is 10% of the excess return of Class A Units and 20% of the excess return of Class B Units, above the Absolute Return performance hurdle of 10% per annum. Class B Units' performance fee is subject to an additional cap of 2.22% per annum.

Performance fees crystallise at the end of a calculation period or when units are redeemed, subject to a performance fee entitlement existing at the date of redemption. The estimated daily unit price of the Fund includes a performance fee accrual equal to the amount that would be payable if it were the end of a Calculation Period. Further details of the performance fees can be found in the Fund's Product Disclosure Statement.

# MAGELLAN HIGH CONVICTION FUND

## Notes To The Financial Statements

for the year ended 30 June 2019

### 9. Related Parties (continued)

#### c) Responsible Entity Fees (continued)

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

The management and performance fees paid/payable by the Fund are net of any applicable reduced input tax credits (refer Note 1 h)). The management and performance fees paid/payable by the Fund are as follows:

	Class A Units				Class B Units			
	30 June 2019		30 June 2018		30 June 2019		30 June 2018	
	% p.a.	\$	% p.a.	\$	% p.a.	\$	% p.a.	\$
Management fees	1.50	8,030,237	1.50	6,860,501	0.78	433,840	0.78	88,832
Performance fees		6,284,115		3,666,273		958,703		95
<b>Total Fees Expensed In The Statement Of Profit Or Loss And Comprehensive Income</b>		14,314,352		10,526,774		1,392,543		88,927
<b>Total Fees Payable In The Statement Of Financial Position</b>		7,028,162		1,408,223		1,007,420		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 is 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 <sup>(B)</sup>
<b>Class A Units</b>	<b>30 June</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>%</b>	<b>\$</b>
Magellan Financial Group Limited	<b>2019</b>	1,643,016	-	21,007,040	6.9	840,282
	<b>2018</b> <sup>(C)</sup>	-	(58,651)	19,364,024	7.0	2,777,191
<b>Directors</b>						
Hamish Douglass	<b>2019</b>	149,210	-	1,907,748	0.6	76,310
	<b>2018</b>	39,048	-	1,758,538	0.6	252,210
<b>Class B Units</b>	<b>30 June</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>%</b>	<b>\$</b>
Magellan Financial Group Limited	<b>2019</b>	3,963	-	103,963	0.1	2,599
	<b>2018</b> <sup>(C)</sup>	-	100,000	100,000	0.3	4,083

<sup>(A)</sup> Includes the re-investment of 30 June 2017 and 30 June 2018 distributions in the years ended 30 June 2018 and 30 June 2019 respectively.

<sup>(B)</sup> Represents the current year final distribution payable, comprising cash paid and DRP units issued.

<sup>(C)</sup> MFG switched 58,651 Class A 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 2019

### 10. Capital And Financial Risk Management

#### a) Financial Risk Management

The Fund's investment portfolio primarily comprises listed equity investments. The investment objectives of the Fund are to achieve attractive risk-adjusted returns over the medium to long-term, whilst reducing the risk of permanent capital loss, in accordance with its investment strategy (as detailed in the current 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 MAM's 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 price of each of the Fund's investments held at balance date, assuming all other variables remain constant, would have had the following impact on the Fund's net operating profit and unitholders' equity.

	30 June 2019 \$'000	30 June 2018 \$'000
Impact on the net assets attributable to unitholders and net operating profit	30,018	22,163

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 2019

### 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 balance date is:

	30 June 2019 \$'000	30 June 2018 \$'000
United States Dollars	195,986	317,820
Euros	68,684	9
British Pounds	25	9
Swiss Francs	1	1

The changes in net assets attributable to net operating profit and unitholders that would arise from a 5% increase or decrease in the Australian Dollar relative to each currency to which the Fund is exposed, at balance date are as follows:

	30 June 2019		30 June 2018	
	5% increase A\$'000	5% decrease A\$'000	5% increase A\$'000	5% decrease A\$'000
United States Dollars	(9,333)	10,315	(15,134)	16,727
Euros	(3,271)	3,615	-	-
British Pounds	(1)	1	-	-

##### 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 at balance date as follows:

	30 June 2019 \$'000	30 June 2018 \$'000
Australian Dollar cash balances	9	(35)
United States Dollar cash balances	54	101
Impact on net operating profit and net assets attributable to unitholders	63	66

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 at balance 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.

##### 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 active markets 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.

# MAGELLAN HIGH CONVICTION FUND

## Notes To The Financial Statements

for the year ended 30 June 2019

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

#### d) Liquidity Risk (continued)

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 balance date, the Fund had an obligation to settle payables (including distribution payable) of \$22,034,000 (June 2018: \$42,733,000) and derivative liabilities of nil (June 2018: \$7,306,000) within 30 days. The Fund had cash and receivables totalling \$63,268,000 (June 2018: \$107,832,000) and derivative assets of \$8,064,000 (June 2018: nil) 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 Fund uses derivative financial instruments for currency hedging purposes. Derivatives are not used to gear (leverage) the portfolio. The Fund may have credit risk arising from forward foreign currency positions if the market value of those positions is positive. At balance date, the market value of the forward foreign currency contracts was positive \$8,064,000 (June 2018: negative \$7,306,000).

The Responsible Entity has appointed The Northern Trust Company ("NT") as the custodian of the Fund. In acting as custodian, NT is required to comply with the relevant provisions of the *Corporations Act 2001*, applicable ASIC regulatory guides, legislative instruments and class orders relating to registered managed investment scheme property arrangements with custodians.

The credit quality of NT's senior debt is rated, as at balance date by Standard and Poor's as A+ and by Moody's as A2 (June 2018: Standard and Poor's as A+ and by Moody's as A2).

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

### 11. Auditor's Remuneration

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

	30 June 2019 \$	30 June 2018 \$
<b>Audit Services</b>		
Audit and review of financial reports	15,700	16,400
Other assurance services	1,365	1,951
<b>Non-Audit Services</b>		
Taxation	6,600	6,600
<b>Total Auditor's Remuneration of Ernst &amp; Young Australia</b>	<b>23,665</b>	<b>24,951</b>

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

The Funds have no contingent assets, contingent liabilities or commitments at 30 June 2019 (June 2018: nil).

## MAGELLAN HIGH CONVICTION FUND

# Notes To The Financial Statements

for the year ended 30 June 2019

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

Other than the items disclosed throughout this Financial Report, 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.

## MAGELLAN HIGH CONVICTION FUND

# Directors' Declaration

for the year ended 30 June 2019

In the opinion of the Directors,

- a) the financial statements and notes of Magellan High Conviction Fund as set out on pages 8 to 25 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 2019 and of its performance as represented by the results of its operations and cash flows for the year ended on that date; and
  - ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001*, International Financial Reporting Standards as disclosed in Note 1 and other mandatory professional reporting requirements; and
- b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

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



**Robert Fraser**  
Chairman

Sydney, 30 August 2019

## 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 2019, the statement of profit or loss and 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 2019 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 Magellan Asset Management Limited (the "Responsible Entity") 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, 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 Scheme 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

Sydney, 30 August 2019

# 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**

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

### **Auditor**

Ernst & Young  
200 George Street  
Sydney NSW 2000

### **Unit Registrar**

Mainstream Fund Services Pty Ltd  
Level 1, 51 – 57 Pitt Street  
Sydney NSW 2000  
Telephone: +61 2 9247 3326  
Fax: +61 2 9251 3525  
Email: [registry@mainstreamgroup.com](mailto:registry@mainstreamgroup.com)

### **Website**

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