



ANNUAL REPORT

FOR THE PERIOD 16 JULY 2019 TO 30 JUNE 2020

MAGELLAN HIGH CONVICTION TRUST: ABN 25 531 724 961

MAGELLAN HIGH CONVICTION TRUST

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MAGELLAN HIGH CONVICTION TRUST

Chairman's Report

for the period 16 July 2019 to 30 June 2020

Dear Unitholders,

We are pleased to present the Annual Report for Magellan High Conviction Trust (the "Fund"). The Fund is a closed-ended managed investment scheme for which Magellan Asset Management Limited ("MAM") acts as both Responsible Entity and Investment Manager.

The Fund was registered on 16 July 2019 and commenced trading on the Australian Securities Exchange ("ASX") (ticker code: MHH) on 11 October 2019, after raising \$862 million at \$1.50 per unit through an initial public offering. As at 30 June 2020, the Fund had net assets of \$916 million and a net asset value ("NAV") per unit of \$1.5086 (the NAV per unit differs from that reported to the ASX of \$1.5311 due to distributions payable and fee accruals). The Fund paid distributions of 4.5 cents per share for the year ended 30 June 2020.

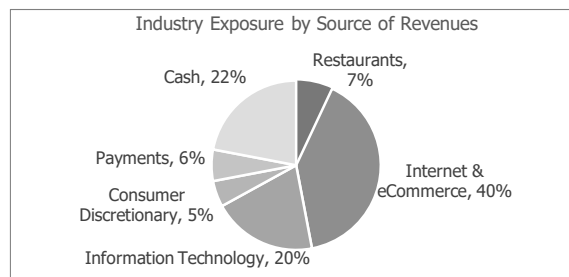
MAM aims to achieve attractive risk-adjusted returns over the medium to long term for unitholders through investment in a concentrated portfolio. To achieve this, the Fund invests in a portfolio of between 8 and 12 high-quality global equity stocks, as assessed by MAM, and has the ability to manage equity market risk by holding up to 50% of its net assets in cash. The Fund may also manage its foreign currency exposure arising from investments in overseas markets and as at 30 June 2020 was 19% hedged to the Australian Dollar. Based on net asset value with distributions reinvested, the Fund returned 3.5% net of fees since inception on 11 October 2019 to 30 June 2020.

The Fund also aims to deliver investors a Target Cash Distribution yield of 3% per annum, paid semi-annually. For investors wishing to reinvest distributions, a distribution reinvestment plan has been established with a 5% discount to the net asset value per unit. To ensure investors electing to receive cash are not disadvantaged due to dilution, Magellan Financial Group Limited pays the Fund a cash amount equal to the discount.

We would encourage you to read the Magellan InReview 2020, our annual investor communication published in July each year, which shares a collection of deeply thought-provoking investment perspectives from across the Magellan investment teams. You can access InReview 2020 at: 2020.magellaninreview.com.au. We would also encourage you to read our monthly and quarterly Fund Reports which provide valuable insight into our investment strategies and portfolio managers' thoughts. These are released on ASX and can also be found on our website: www.magellangroup.com.au.

As at 30 June 2020, the Portfolio consisted of investments in 9 companies. The Fund's cash position was 22% which was predominantly held in US Dollars. The Fund's industry exposure by source of revenues is highlighted below.

| Top 5 holdings (as at 30 June 2020) <i>In alphabetical order</i> | Sector |
|---|------------------------|
| Alibaba Group Holding | Internet & eCommerce |
| Alphabet - class C shares | Internet & eCommerce |
| Facebook - class A shares | Internet & eCommerce |
| Microsoft | Information Technology |
| Tencent | Internet & eCommerce |



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

Robert Fraser
Chairman

Sydney, 24 August 2020

MAGELLAN HIGH CONVICTION TRUST

Responsible Entity's Report

for the period 16 July 2019 to 30 June 2020

The Directors of Magellan Asset Management Limited (ABN 31 120 593 946) ("MAM"), the Responsible Entity of Magellan High Conviction Trust (the "Fund") present their first annual report on the Fund for the period 16 July 2019 to 30 June 2020.

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 scheme structured as a closed-ended unit trust that is domiciled in Australia and quoted on the Australian Securities Exchange ("ASX") (ticker code: MHH). It was registered on 16 July 2019.

MAM, as Responsible Entity, is responsible for overseeing the operations of the Fund. As the Investment Manager, MAM is responsible for selecting and managing the assets of the Fund.

The Fund's principal place of business is Level 36, 19 Martin Place, Sydney, New South Wales 2000.

The Portfolio will typically comprise 8 to 12 investments, weighted towards MAM's highest conviction ideas, as assessed by the Portfolio Managers. MAM seeks to invest in a focused portfolio of outstanding global companies and seeks to purchase investments when they are trading at a discount to MAM's assessment of their intrinsic value. MAM undertakes extensive fundamental analysis on the individual companies and the industries in which they operate.

The Fund's investment objective is to achieve attractive risk-adjusted returns over the medium to long term, while reducing the risk of permanent capital loss, in accordance with its investment strategy (as detailed in the Product Disclosure Statement ("PDS"), issued 13 August 2019).

3. Background Information On The Fund

On 8 October 2019 the Fund raised \$862 million from an initial offering ("Offer") at \$1.50 per unit. The Offer comprised a Priority Offer, a Wholesale Offer and a General Public Offer. The Priority Offer was made to shareholders in Magellan Financial Group Limited ("MFG") and underlying investors in the Magellan Global Trust and the Magellan High Conviction Fund who were on the registers of these entities on 12 August 2019. The Wholesale Offer was open to wholesale clients and Australian Financial Services Licence holders (applying on behalf of their clients) who received an invitation from MAM to participate in the Wholesale Offer. The General Public Offer was open to eligible members of the public.

Priority applicants were eligible to receive a number of additional units, being Loyalty Units, equivalent to 7.5% of the number of units allotted to them under the Priority Offer. Wholesale and General Public Offer applicants were eligible to receive a number of additional units, being IPO Foundation Units, equivalent to 2.5% of the number of units allotted to them under the Wholesale and/or General Public Offer. Priority, Wholesale and General Public Offer applicants needed to be a unitholder in the Fund on 31 December 2019, the Loyalty and IPO Foundation Units Determination Date, in order to receive Loyalty and/or IPO Foundation Units.

On 8 October 2019, 574,542,499 units in the Fund were allotted and on 11 October 2019 the Fund commenced trading on the ASX. A total of 34,447,931 Loyalty Units and IPO Foundation Units vested to eligible unitholders on 31 December 2019 and were allotted, as ordinary units, on 15 January 2020.

The costs of the Offer were paid by MFG which ensured the opening cash net asset value per unit of the Fund on 11 October 2019 was equal to the application unit price of \$1.50. MFG also bore the economic cost associated with the issue of Loyalty Units and IPO Foundation Units (issued on 15 January 2020), being the dilutive effect on the NAV per unit, by paying the Fund an amount equal to the NAV per unit on the issue of the Loyalty Units and IPO Foundation Units.

4. Significant Changes In State Of Affairs

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

MAGELLAN HIGH CONVICTION TRUST

Responsible Entity's Report

for the period 16 July 2019 to 30 June 2020

5. Review Of Financial Results And Operations

a) Financial Results For The Period

The performance of the Fund, as represented by the results of its operations for the period 16 July 2019 to 30 June 2020, was as follows:

| | 16 July 2019 To 30 June 2020 (A) |
|--|--|
| Results | |
| Total net investment income (\$'000) | 41,609 |
| Total expenses (\$'000) | 16,677 |
| Profit/(Loss) (\$'000) | 24,932 |
| Distributions | |
| Distribution paid and payable to unitholders (\$'000) | 26,589 |
| Distribution paid and payable (cents per unit) (refer 5 a) (i) for components) | 4.50 |
| Unit Price (NAV Per Unit) (\$) (B) | 1.5086 |
| ASX Reported NAV Per Unit (\$) (C) | 1.5311 |

(A) The Fund commenced trading on 11 October 2019.

(B) The Net Trust Value ("NAV") per unit represents the net assets of the Fund presented in the Statement Of Financial Position at 30 June divided by the number of units on issue at 30 June (as shown in Note 8 to the financial statements).

(C) The NAV per unit reported to the ASX on 1 July 2020 will differ to the NAV per unit at balance date due to distributions payable and fee accruals.

(i) Distribution components for interim and final distributions, which is available in the 'Our Funds' section of the MFG website www.magellangroup.com.au, are as follows:

| | Interim Distribution Paid 31 December 2019 cents per unit | Final Distribution Payable 30 June 2020 cents per unit |
|---|--|---|
| Other non-attributable amounts (tax deferred amounts) | 2.2500 | 2.2500 |
| Attribution Amount | 2.2500 | 2.2500 |
| Cash Distribution | 2.2500 | 2.2500 |

The market impacts arising from the COVID-19 pandemic on the Fund, including downward movements in market prices of the portfolio, are discussed in Note 1(g) of the Financial Statements.

MAGELLAN HIGH CONVICTION TRUST

Responsible Entity's Report

for the period 16 July 2019 to 30 June 2020

5. Review Of Financial Results And Operations (continued)

b) Total Indirect Cost Ratio ("ICR")

The ICR, for the period 11 October 2019 to 30 June 2020, 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.

| | 16 July 2019 To 30 June 2020 (A) |
|----------------------------------|--|
| | % |
| Indirect Cost Ratio | |
| Management fee | 1.09 |
| Performance fee ^(B) | 0.60 |
| Total Indirect Cost Ratio | 1.69 |

(A) The Fund commenced trading on 11 October 2019.

(B) Performance fees are calculated on six monthly measurement periods ending on 30 June and 31 December of each calendar year (refer Note 11 c) ii) and iii) to the financial statements). The Performance fees component of the ICR is calculated on an accrual basis for each measurement period.

c) Performance Returns

The performance returns, for the period 11 October 2019 to 30 June 2020, have been calculated using the NAV per unit for the Fund, which is after fees and expenses, assuming the reinvestment of distributions at NAV per unit. The returns are calculated daily, compounded to produce longer period returns.

| | 16 July 2019 To 30 June 2020 (A) |
|------------------------------------|--|
| | % |
| Performance | |
| Growth return ^(B) | 0.6 |
| Distribution return ^(C) | 2.9 |
| Total Return ^(D) | 3.5 |

(A) The performance returns were measured from when the Fund commenced trading on 11 October 2019.

(B) The Growth return is calculated daily as a percentage by dividing the NAV per unit (ex-distribution) by the previous day's NAV per unit (ex-distribution) minus 1; the daily Growth returns are then compounded to produce longer period returns.

(C) The Distribution return is calculated as a percentage by subtracting the Growth return from the Total return.

(D) The Total return is calculated daily as a percentage by dividing the NAV per unit (cum-distribution) by the previous day's NAV per unit (ex-distribution) minus 1; the daily Total returns are then compounded to produce longer period returns.

6. Strategy And Future Outlook

As markets are subject to fluctuations, it is imprudent to provide a detailed outlook statement of expected results of operations. The Fund provides monthly fund updates, quarterly portfolio disclosure and annual investor reports, which can be found in 'Our Funds' section of the MFG website and also the ASX website. The Fund updates and investor reports include detailed discussions in relation to some investee companies from time to time along with general outlook commentary.

7. Interest In The Fund

The movement in units on issue in the Fund is disclosed in Note 8 to the financial statements.

8. 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.

MAGELLAN HIGH CONVICTION TRUST

Responsible Entity's Report

for the period 16 July 2019 to 30 June 2020

9. Subsequent Events

In a release to the ASX on 17 August 2020, the Fund reported a NAV per unit as at 14 August 2020 of \$1.5565.

Subsequent to balance date and up until 20 August 2020 the Fund purchased on-market and cancelled 2,482,433 ordinary units, at a total cost of \$3,565,000.

Other than the items disclosed throughout this financial report and the above, there have been no matters or circumstances arising after the end of the period that have significantly affected, or may significantly affect, the Fund's operations, the results of its operations, or the Fund's state of affairs in future financial periods. Asset prices move daily and intraday indicative NAV per unit and daily NAV per unit are available on the MFG website and also the ASX website.

10. 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 period MAM paid an insurance premium to insure the Directors and Officers of the Responsible Entity. The terms of the contract prohibit the disclosure of the premiums paid.

11. 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.

12. 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 the following page.

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



Robert Fraser
Chairman

Sydney, 24 August 2020



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

As lead auditor for the audit of the financial report of Magellan High Conviction Trust for the financial year ended 30 June 2020, 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

Clare Sporle

Partner

Sydney, 24 August 2020

MAGELLAN HIGH CONVICTION TRUST
Statement Of Profit Or Loss And
Comprehensive Income
for the period 16 July 2019 to 30 June 2020

| | Note | 16 July 2019 To 30 June 2020 (A) \$'000 |
|---|-----------|--|
| Investment Income | | |
| Dividend and distribution income | | 4,562 |
| Interest income | | 960 |
| Net change in fair value of investments | | 52,436 |
| Net gains/(losses) on foreign exchange settlements, derivative contracts and cash | | (16,428) |
| Other income | | 79 |
| Total Net Investment Income | | 41,609 |
| Expenses | | |
| Management fees | 11 c) i) | 10,175 |
| Performance fees | 11 c) ii) | 5,612 |
| Withholding tax on dividends | | 730 |
| Brokerage costs | | 101 |
| Finance costs | | 43 |
| Other expenses | | 16 |
| Total Expenses | | 16,677 |
| Profit/(Loss) | | 24,932 |
| Other comprehensive income | | - |
| Total Comprehensive Income/(Loss) | | 24,932 |
| Basic Earnings Per Unit (cents) | 9 | 4.18 |
| Diluted Earnings Per Unit (cents) | 9 | 4.18 |

^(A) The Fund was registered on 16 July 2019 and commenced trading on 11 October 2019. The Fund's first reporting period covers 16 July 2019 to 30 June 2020 and as a result there are no prior period comparatives.

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 TRUST

Statement Of Financial Position

as at 30 June 2020

| | Note | 30 June 2020 (A) \$'000 |
|----------------------------------|------|----------------------------------|
| Assets | | |
| Cash and cash equivalents | 3 | 210,020 |
| Receivables | 5 | 776 |
| Investments | 6 a) | 722,994 |
| Total Assets | | 933,790 |
| Liabilities | | |
| Derivative liabilities | 6 b) | 2,439 |
| Distributions payable | 2 | 13,662 |
| Payables | 7 | 1,686 |
| Total Liabilities | | 17,787 |
| Total Unitholders' Equity | | 916,003 |

^(A) The Fund was registered on 16 July 2019 and commenced trading on 11 October 2019. The Fund's first reporting period covers 16 July 2019 to 30 June 2020 and as a result there are no prior period comparatives.

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

MAGELLAN HIGH CONVICTION TRUST

Statement Of Changes In Equity

for the period 16 July 2019 to 30 June 2020

| | Note | 16 July 2019 To 30 June 2020 (A) \$'000 |
|--|------|--|
| Total Unitholders' Equity At Beginning Of The Period | | - |
| Transactions with unitholders in their capacity as owners: | | |
| Ordinary units: | | |
| Units issued - Priority Offer | | 631,857 |
| Units issued - Wholesale Offer | | 113,870 |
| Units issued - General Public Offer | | 116,087 |
| Units issued - Dividend Reinvestment Plan | | 3,448 |
| Units bought back on-market and cancelled | | (5,535) |
| | | <u>859,727</u> |
| MFG contribution to offset dilutionary impact of Loyalty Units and Foundation Units issued | | 57,752 |
| MFG contribution to offset dilutionary impact of DRP discount | | 181 |
| Distributions paid and payable | 2 | (26,589) |
| Total transactions with unitholders | | <u>891,071</u> |
| Comprehensive income: | | |
| Profit/(loss) | | 24,932 |
| Other comprehensive income | | - |
| Total comprehensive income/(loss) | | <u>24,932</u> |
| Total Unitholders' Equity At End Of The Period | | <u>916,003</u> |

^(A) The Fund was registered on 16 July 2019 and commenced trading on 11 October 2019. The Fund's first reporting period covers 16 July 2019 to 30 June 2020 and as a result there are no prior period comparatives.

The above Statement Of Changes In Equity should be read in conjunction with the accompanying notes to the financial statements.

MAGELLAN HIGH CONVICTION TRUST

Statement Of Cash Flows

for the period 16 July 2019 to 30 June 2020

| | Note | 16 July 2019 To 30 June 2020 (A) \$'000 |
|--|------|--|
| Cash Flows From Operating Activities | | |
| Dividends and distributions received (net of withholding tax) | | 3,708 |
| Interest received | | 959 |
| Other income received | | 68 |
| Management and performance fees paid | | (14,539) |
| Brokerage costs paid | | (101) |
| Finance costs paid | | (43) |
| Other expenses paid | | (459) |
| Net Cash Inflows/(Outflows) From Operating Activities | 4 a) | <u>(10,407)</u> |
| Cash Flows From Investing Activities | | |
| Purchase of investments | | (1,147,265) |
| Proceeds from sale of investments | | 510,564 |
| Net foreign exchange gains/(losses) | | 5,046 |
| Net cash flows from settlement of forward foreign currency contracts | | (32,807) |
| Net Cash Inflows/(Outflows) From Investing Activities | | <u>(664,462)</u> |
| Cash Flows From Financing Activities | | |
| Receipts from issue of units | | 861,814 |
| MFG contribution to offset dilutionary impact of Loyalty Units and Foundation Units issued | | 57,752 |
| MFG contribution to offset dilutionary impact of DRP discount | 2 a) | 181 |
| Payments for buyback of units | | (5,293) |
| Distributions paid | | (9,479) |
| Net Cash Inflows/(Outflows) From Financing Activities | | <u>904,975</u> |
| Net Increase/(Decrease) In Cash And Cash Equivalents | | 230,106 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | (20,086) |
| Cash And Cash Equivalents At The End Of The Period | 3 | <u>210,020</u> |

^(A) The Fund was registered on 16 July 2019 and commenced trading on 11 October 2019. The Fund's first reporting period covers 16 July 2019 to 30 June 2020 and as a result there are no prior period comparatives.

MAGELLAN HIGH CONVICTION TRUST

Notes To The Financial Statements

for the period 16 July 2019 to 30 June 2020

Overview

Magellan High Conviction Trust (the "Fund") is a registered managed scheme structured as a closed-ended unit trust that is domiciled in Australia and quoted on the Australian Securities Exchange ("ASX") (ticker code: MHH). The Fund was registered on 16 July 2019 and in accordance with the Fund's Constitution, commenced on the date that the first unit was issued, which was 8 October 2019. The Fund terminates on the earlier of the time provided by the Fund's Constitution or by law.

Magellan Asset Management Limited ("MAM") (ABN 31 120 593 946) is the Responsible Entity of the Fund.

This is the first annual financial report of the Fund and covers the period 16 July 2019 to 30 June 2020 and was authorised for issue by the Directors of the Responsible Entity on 24 August 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 Annual 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 balance date.

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

a) Accounting Policies

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

b) Foreign Currency Translation

The functional and presentation currency of the Fund is the Australian Dollar, as determined in accordance with AASB 121: *The Effects of Changes in Foreign Exchange Rates*. Transactions denominated in foreign currencies are translated into Australian Dollars at the foreign currency exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Australian Dollars at the foreign currency closing exchange rate at balance date.

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

c) Investment Income

Dividend And Distribution Income

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

Net Change In Fair Value Of Investments

Realised and unrealised gains and losses on investments 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.

MAGELLAN HIGH CONVICTION TRUST

Notes To The Financial Statements

for the period 16 July 2019 to 30 June 2020

1. Basis Of Preparation (continued)

d) Expenses

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

e) Income Tax

On 5 May 2016, the Attribution Managed Investment Trust ("AMIT") regime was established under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016*. The AMIT regime allows Managed Investment Trusts that meet certain requirements to make an irrevocable choice to be an AMIT. As detailed in the Product Disclosure Statement ("PDS") dated 13 August 2019, the Fund has elected into the AMIT regime effective from the date of registration.

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.

f) 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, has been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits ("RITC") at a rate of 55%-75% and is also eligible to recover GST on offshore transactions. Management and performance fees and other expenses have been recognised in profit or loss net of the amount of GST recoverable from the Australian Taxation Office. Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included in the Statement Of Financial Position as a receivable or payable. Cash flows are included in the Statement Of Cash Flows on a gross basis.

g) Critical Accounting Estimates And Judgements

Whilst the deterioration of market conditions since March 2020 due to the COVID-19 pandemic resulted in a decline in prices of some of the Fund's investments and also some investment portfolio changes, the Fund has experienced very few financial reporting impacts arising from COVID-19. No asset impairments have been recorded as the Fund's investments are classified as level 1 and level 2 in the fair value hierarchy (as defined in Note 6) and marked-to-market with reference to quoted prices on stock exchanges. In addition, expected credit losses have remained unchanged on the Fund's receivables, which comprise interest on cash balances and dividends, as they have since been collected or the counterparties have been assessed to have strong credit ratings. Furthermore, no other material assets or liabilities of the Fund involved forward-looking information or variables impacted by COVID-19.

In preparing these financial statements, the Directors have taken into account the impacts of COVID-19 in making judgements, estimates and assumptions that affect the amounts reported in the financial statements. The estimates and judgements are continually evaluated and are based on historical experience and various other factors, including reasonable expectations of future events. 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 12 c)). 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 TRUST

Notes To The Financial Statements

for the period 16 July 2019 to 30 June 2020

2. Distributions To Unitholders

| | 30 June 2020 |
|---|-----------------|
| Interim distribution paid (\$'000) | 12,927 |
| Final distribution payable (\$'000) | 13,662 |
| Total Distribution To Unitholders (\$'000) | 26,589 |
| The total distribution consisted of: | |
| Income (\$'000) | - |
| Return of capital (\$'000) | 26,589 |
| Total Distribution (Cents Per Unit) | 4.50 |
| Interim distribution payment date | 16 January 2020 |
| Final distribution payment date | 28 July 2020 |

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

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

a) Distribution Reinvestment Plan ("DRP")

The Fund's DRP was available to eligible unitholders during the period.

Under the terms of the DRP, eligible unitholders are able to elect to reinvest all or part of their cash distributions in additional units in the Fund, free of any brokerage or other transaction costs. Units are issued and/or transferred to DRP participants at a price that is determined by MAM in accordance with the DRP Rules.

Investors who participate in the DRP receive units at an issue price that includes a specified discount to the Net Trust Value ("NAV") per unit. To ensure that unitholders who do not participate in the DRP suffer no dilution as a result of any discount, Magellan Financial Group Limited ("MFG") pays the Fund consideration equal to the cost of this discount in accordance with the terms of the MFG Commitment Deed. The DRP issue price discount of 5%, in respect of the final distribution for the period ended 30 June 2020, payable by MFG, is recognised as a receivable in the Statement Of Financial Position.

Details of the DRP for the interim and final distributions are as follows:

| | Interim Distribution Paid 31 December 2019 | Final Distribution Payable 30 June 2020 |
|---|--|---|
| DRP issue price (\$) | 1.5470 | 1.4854 |
| DRP unitholder participation rate (%) | 27.06 | 27.19 |
| Number of ordinary units issued under DRP | 2,229,014 | 2,500,963 |
| Value of ordinary units issued under DRP (\$'000) | 3,448 | 3,715 |
| DRP 5% issue price discount (\$'000) | 181 | 196 |
| DRP issue date (distribution payment date) | 16 January 2020 | 28 July 2020 |

MAGELLAN HIGH CONVICTION TRUST

Notes To The Financial Statements

for the period 16 July 2019 to 30 June 2020

3. Cash And Cash Equivalents

| | 30 June 2020 \$'000 |
|--|---------------------------|
| Cash at bank - denominated in Australian Dollars | 2,694 |
| Cash at bank - denominated in foreign currency: | |
| United States Dollars | 207,299 |
| Euros | 18 |
| Hong Kong Dollars | 9 |
| Total Cash And Cash Equivalents | 210,020 |

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.

4. Statement Of Cash Flows Reconciliation

| | 30 June 2020 \$'000 |
|---|---------------------------|
| a) Reconciliation Of Net Cash Flows From Operating Activities | |
| Profit/(Loss) | 24,932 |
| Adjusted for: | |
| Net change in fair value of investments | (52,436) |
| Net (gains)/loss on foreign exchange settlements, derivative contracts and cash | 16,428 |
| Changes in operating receivables and payables | |
| - Net (increase)/decrease in receivables | (580) |
| - Net increase/(decrease) in payables | 1,249 |
| Net Cash Inflows/(Outflows) From Operating Activities | (10,407) |
| b) Non-Cash Investing And Financing Activities | |
| Distributions reinvested into units in the Fund | 3,448 |

5. Receivables

| | 30 June 2020 \$'000 |
|---|---------------------------|
| Recoverable GST and foreign withholding tax | 579 |
| Interest receivable | 1 |
| Other receivable | 196 |
| Total receivables | 776 |

Receivables comprise amounts due from brokers for sales of assets unsettled at balance date, dividends and trust distributions declared but not yet received, and reclaimable taxes. They are recognised and carried at amortised cost using the effective interest rate method and adjusted for changes in foreign exchange rates where applicable. A provision was deducted from receivables for uncollectible amounts 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.

MAGELLAN HIGH CONVICTION TRUST

Notes To The Financial Statements

for the period 16 July 2019 to 30 June 2020

5. Receivables (continued)

Ageing Analysis Of Receivables

At balance date, the Fund's receivables, excluding recoverable GST and foreign withholding tax, were due within 0 to 30 days. Recoverable GST is due within 30 to 90 days. Foreign withholding tax is due within 2 to 4 years depending on the jurisdiction. No amounts are impaired or past due at 30 June 2020.

6. Investments

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

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

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

| | 30 June 2020 \$'000 |
|--|---------------------------|
| a) Investments (Level 1) | |
| International listed equity securities | |
| - United States | 578,979 |
| - Hong Kong | 88,787 |
| - Germany | 55,228 |
| Total Equity Securities | <u>722,994</u> |
| b) Derivative Liabilities (Level 2) | |
| Forward foreign currency contracts | 2,439 |
| Total Derivative Liabilities | <u>2,439</u> |

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 period and the Fund's policy is to recognise transfers into and out of fair value hierarchy levels as at balance date.

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

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

MAGELLAN HIGH CONVICTION TRUST

Notes To The Financial Statements

for the period 16 July 2019 to 30 June 2020

6. Investments (continued)

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

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

The equity securities by domicile of primary stock exchange listing, held by the Fund are:

| Company Name | Stock Exchange Domicile | 30 June 2020 Holding | 30 June 2020 \$'000 |
|--------------------------------|-------------------------|----------------------|---------------------|
| Microsoft | United States | 435,076 | 128,601 |
| Alibaba | United States | 407,390 | 127,630 |
| Tencent | Hong Kong | 950,229 | 88,787 |
| Alphabet | United States | 39,114 | 80,308 |
| Facebook | United States | 221,307 | 72,988 |
| Starbucks | United States | 642,905 | 68,717 |
| SAP | Germany | 272,324 | 55,228 |
| Visa | United States | 189,817 | 53,256 |
| Estee Lauder | United States | 173,248 | 47,479 |
| Total Equity Securities | | | 722,994 |

7. Payables

| | Note | 30 June 2020 \$'000 |
|-------------------------|------------|---------------------|
| Management fees payable | 11 c) iii) | 1,249 |
| Other payables | | 437 |
| Total Payables | | 1,686 |

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 balance date, all payables mature in 0 to 90 days.

MAGELLAN HIGH CONVICTION TRUST

Notes To The Financial Statements

for the period 16 July 2019 to 30 June 2020

8. Unitholders' Equity

| | Note | 16 July 2019 To 30 June 2020 Number of units '000 |
|--|--------|---|
| Ordinary Units | | |
| Opening balance | | - |
| Units issued - Priority Offer | 8 i) | 421,237 |
| Units issued - Wholesale Offer | 8 ii) | 75,913 |
| Units issued - General Public Offer | 8 iii) | 77,392 |
| Units issued - Loyalty units issued to eligible unitholders under Priority Offer | 8 iv) | 31,045 |
| Units issued - IPO Foundation units issued to eligible unitholders under Wholesale and General Public Offers | 8 iv) | 3,403 |
| Units issued under DRP | 2 a) | 2,229 |
| Units bought back on-market and cancelled | 8 v) | (4,036) |
| Closing balance | | 607,183 |

As the Fund has elected into the AMIT regime (refer Note 1 e)) units in the Fund are classified as equity under AASB 132 *Financial Instruments: Presentation* ("AASB 132"). As a result, equity transactions including distributions have been included in the Statement Of Changes In Equity.

Ordinary Units

Ordinary units are listed on the Australian Securities Exchange ("ASX"). Each ordinary unit confers upon the unitholder an equal interest in the Fund and is of equal value to other units in the Fund. A unit does not confer upon the holder any interest in any particular asset or investment of the Fund. The rights of unitholders are contained in the Fund's Constitution and include:

- the right to receive a distribution determined in accordance with the provisions of the Fund's Constitution;
- the right to attend and vote at meetings of unitholders; and
- the right to participate in the termination and winding up of the Fund.

Redemption of units is not permitted while the Fund is listed on the ASX.

There are no separate classes of units and each unit in the Fund has the same rights attaching to it as all other units of the Fund.

i) Priority Offer

The Priority Offer was open to eligible unitholders in Magellan Global Trust, the Magellan High Conviction Fund or shareholders in MFG ("Eligible Vehicles"). Priority Applicants were invited to subscribe under the Priority Offer for up to 33,334 Units, equivalent to \$50,001. Priority Applicants with more than one holding across the Eligible Vehicles were able to participate in the Priority Offer for up to 33,334 Units in respect of each holding. Further details of the Priority Offer can be found in the Fund's PDS which is available in the 'Our Funds' section of the MFG website at www.magellangroup.com.au.

ii) Wholesale Offer

The Wholesale Offer was open to Wholesale Clients of MFG and Australian Financial Services Licence holders (applying on behalf of their clients) who received an invitation from MFG to participate in the Wholesale Offer.

iii) General Public Offer

The General Public Offer was open to eligible members of the public.

iv) Loyalty And IPO Foundation Units

Unitholders who subscribed under the Priority Offer were eligible to receive a number of additional units, being Loyalty Units, equivalent to 7.5% of the number of units allotted to them under the Priority Offer. Unitholders who subscribed under the Wholesale and General Public Offers were eligible to receive a number of additional units, being IPO Foundation Units, equivalent to 2.5% of the number of units allotted to them under the Wholesale and/or General Public Offer. Priority, Wholesale, and General Public Offer applicants needed to be a unitholder in the Fund on 31 December 2019, the Loyalty and IPO Foundation Units Determination Date, in order to receive Loyalty and/or IPO Foundation Units. A total of 31,044,775 Loyalty Units and 3,403,156 IPO Foundation Units vested to eligible unitholders on 31 December 2019 and were allotted, as ordinary units, on 15 January 2020.

MAGELLAN HIGH CONVICTION TRUST

Notes To The Financial Statements

for the period 16 July 2019 to 30 June 2020

8. Unitholders' Equity (continued)

v) Unit Buy-back

On 10 October 2019, the Responsible Entity of the Fund announced its intention to undertake an on-market buy-back. On 20 August 2020 an announcement was made to extend the on-market buy-back to 23 October 2021.

During the period ended 30 June 2020 the Fund purchased on-market and cancelled 4,036,172 ordinary units, at a total cost of \$5,535,000.

Subsequent to balance date and up until 20 August 2020 the Fund purchased on-market and cancelled 2,482,433 ordinary units, at a total cost of \$3,565,000.

9. Earnings Per Unit

Basic Earnings Per Unit ("EPU") is calculated as profit/(loss) for the period divided by the weighted average number of units on issue. Diluted earnings per unit is calculated by adjusting the basic earnings per unit to take into account the effect of any changes in income or expense associated with dilutive potential units and the weighted average number of additional ordinary units that would have been outstanding assuming the conversion of all dilutive potential ordinary units.

| | 16 July 2019 To 30 June 2020 |
|---|---------------------------------|
| Basic EPU | |
| Profit/(loss) attributable to unitholders (\$'000) | 24,932 |
| Weighted average number of units for basic EPU ('000) ^(A) | 596,619 |
| Basic EPU (Cents) | 4.18 |
| Diluted EPU | |
| Profit/(loss) attributable to unitholders (\$'000) | 24,932 |
| Weighted average number of units for diluted EPU ('000) ^(A) | 596,619 |
| Diluted EPU (Cents) | 4.18 |
| Earnings Reconciliation | |
| Profit/(loss) used in the calculation of basic and diluted EPU (\$'000) | 24,932 |

^(A) The weighted average number of units is calculated from 8 October 2019, when the Fund's first unit was allotted, to 30 June 2020.

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

10. NAV Per Unit

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

| | 30 June 2020 \$ |
|--------------|-----------------------|
| NAV per unit | 1.5086 |

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

MAGELLAN HIGH CONVICTION TRUST

Notes To The Financial Statements

for the period 16 July 2019 to 30 June 2020

11. 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 period and up to the date of this report are: Dr Brett Cairns, Mr John Eales, Mr Robert Fraser, Mr Paul Lewis, Mr Hamish McLennan, Ms Kirsten Morton and Ms Karen Phin. The Fund did not pay any compensation to the Directors of the Responsible Entity.

c) Responsible Entity Fees

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. The management fee is 1.50% per annum of the value of the Fund, calculated daily. The Responsible Entity pays operating expenses of the Fund, such as audit and tax compliance fees, distribution costs, investor reporting, custody and fund administration costs. Management fees are reflected in the daily unit prices of the Fund and are payable at the end of each month.

ii) Performance Fees

The Responsible Entity may be entitled to a performance fee of 10%, exclusive of GST, of the Excess Return of the Fund above the Absolute Return Performance Hurdle (10% per annum) over each six-month period ending 30 June and 31 December in each year ("Calculation Period"). Performance fees are accrued daily in the NAV per unit. Performance fees are paid subject to the performance hurdles and the high watermark being met for the relevant Calculation Period. The high watermark 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. Further details of the performance fees can be found in the Fund's PDS which is available in the 'Our Funds' section of the MFG website.

Performance fees crystallise at the end of a measurement period, or from the 11 October 2019 to 31 December 2019 in the case of the first performance fee measurement period. Where units are bought back by the Fund, a portion of the performance fee will crystallise if a performance fee is accrued at that date.

iii) Total Management And Performance Fees

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

| | 16 July 2019 To 30 June 2020 \$ |
|--|---------------------------------------|
| Management fees | 10,174,559 |
| Performance fees | 5,612,264 |
| Total Fees Expensed In The Statement Of Profit Or Loss And Comprehensive Income | 15,786,823 |
| Total Fees Payable In The Statement Of Financial Position | 1,248,632 |

MAGELLAN HIGH CONVICTION TRUST

Notes To The Financial Statements

for the period 16 July 2019 to 30 June 2020

11. Related Parties (continued)

d) Transactions With Related Parties

i) Unit Holdings In The Fund

Number of units held by each KMP, including their personally-related parties, in the Fund is as follows:

| | 30 June 2020 | | | | | | |
|------------------|--|---|---|-------------------------------|-----------------------------|------|-----------------------------------|
| | Priority Offer Units Allotted 9 October 2019 (A) | Loyalty/IPO Foundation Units Allotted 15 January 2020 (B) | Interim distribution DRP units allotted 16 January 2020 | Units acquired/ (disposed) | Units held at end of period | | Distributions paid/payable (C) |
| | Number | Number | Number | Number | Number | % | \$ |
| MFG | 66,668 | 5,000 | 970 | 3,334,506 | 3,407,144 | 0.56 | 78,161 |
| Directors | | | | | | | |
| Brett Cairns | 166,670 | 12,500 | 2,424 | | 181,594 | (D) | 7,836 |
| John Eales | 200,268 | 15,016 | 2,912 | | 218,196 | (D) | 9,415 |
| Robert Fraser | 233,338 | 15,833 | 3,395 | | 252,566 | (D) | 10,933 |
| Paul Lewis | 1,433,335 | 42,499 | 9,696 | | 1,485,530 | 0.24 | 65,674 |
| Hamish McLennan | 33,334 | 2,500 | 485 | | 36,319 | (D) | 1,567 |
| Kirsten Morton | 20,000 | 1,500 | 291 | | 21,791 | (D) | 940 |
| Karen Phin | 113,335 | 6,166 | 970 | | 120,471 | (D) | 5,261 |

(A) Priority Applicants were invited to subscribe under the Priority Offer for up to 33,334 Units. Priority Applicants with more than one holding across the Eligible Vehicles were able to participate in the Priority Offer for up to 33,334 units in respect of each holding (refer Note 8 i)).

(B) Unitholders who subscribed under the Priority Offer and/or Wholesale and General Public Offers were eligible to receive a number of Loyalty/IPO Foundation units (refer Note 8 iv)).

(C) Represents the interim distribution paid and final distribution payable, comprising cash paid and DRP units issued.

(D) Holding less than 0.1%.

ii) Other Transactions With Related Parties

MFG bore the economic cost associated with the issue of Loyalty Units and IPO Foundation Units (issued on 15 January 2020), being the dilutive effect on the NAV per unit, by paying the Fund an amount equal to the NAV per unit for each Loyalty Unit and IPO Foundation Unit on their issue date.

| | Note | 16 July 2019 To 30 June 2020 \$'000 |
|---|------|---|
| Cash contribution from MFG to offset the dilutionary impact of: | | |
| Issue of Loyalty and IPO Foundation Units | | 57,752 |
| DRP for the interim and final distributions | 2 a) | 377 |

12. 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 PDS). The Fund's investing activities expose it to various types of risks including concentration risk, market risk, liquidity risk and credit risk.

Financial risk management is carried out under policies approved by the Responsible Entity. The risk management programme focuses on ensuring compliance with the Fund's PDS and seeks to maximise the returns derived for the level of risk to which the Fund is exposed.

The following disclosures in relation to the various risks of the Fund's portfolio have been based on the Fund's direct holdings.

MAGELLAN HIGH CONVICTION TRUST

Notes To The Financial Statements

for the period 16 July 2019 to 30 June 2020

12. Capital And Financial Risk Management (continued)

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.

For illustrative purposes 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 profit/(loss) and unitholders' equity.

| | 30 June 2020 \$'000 |
|---|---------------------------|
| Impact on unitholders' equity and profit/(loss) | 36,150 |

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

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.

The Fund's total net exposure to fluctuations in foreign currency exchange rates, in Australian Dollars at balance date is:

| | 30 June 2020 \$'000 |
|--|---------------------------|
| Assets and liabilities denominated in: | |
| United States Dollars | 612,228 |
| Hong Kong Dollars | 88,796 |
| Euros | 55,371 |

MAGELLAN HIGH CONVICTION TRUST

Notes To The Financial Statements

for the period 16 July 2019 to 30 June 2020

12. Capital And Financial Risk Management (continued)

c) Market Risk (continued)

ii) Currency Risk (continued)

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

| | 30 June 2019 | |
|--|------------------------|------------------------|
| | 5% increase A\$'000 | 5% decrease A\$'000 |
| Assets and liabilities denominated in: | | |
| United States Dollars | (29,154) | 32,223 |
| Hong Kong Dollars | (4,228) | 4,673 |
| Euros | (2,637) | 2,914 |

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 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 had the following impact on the Fund's profit/(loss) and unitholders' equity, at balance date:

| | 30 June 2020 \$'000 |
|---------------------------------|---------------------------|
| US Dollar cash balances | 207 |
| Australian Dollar cash balances | 3 |

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 Responsible Entity'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 other significant cash balances exposed to interest rates in other currencies. In addition the Fund did 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 reserves to meet its normal operating requirements and holding investments that are traded in active markets and can be readily disposed. The majority of the Fund's listed securities are considered readily realisable as they are listed on stock exchanges around the world. Redemption of units is not permitted while the Fund is listed on the ASX.

At balance date, the Fund had an obligation to settle payables (including distribution payable) of \$15,348,000 and derivative liabilities of \$2,439,000 within 30 days. The Fund had cash and receivables totalling \$210,796,000 to cover these liabilities and derivative assets of nil.

In addition, from 10 December 2019, the fund had access to a \$100 million multi-currency uncommitted line of credit, which is available for both funding the unit buy-back (refer Note 8 v)) and investment purposes. This floating rate facility, provided by Northern Trust ("NT"), may be drawn at any time either in Australian Dollars, United States Dollars, or another currency agreed with NT. The facility may be terminated by either party without notice and any amount drawn under the facility is repayable on demand within five business days. A nominal line fee applies for the provision of the facility and covenants under this facility are not considered onerous. The facility remains undrawn.

MAGELLAN HIGH CONVICTION TRUST

Notes To The Financial Statements

for the period 16 July 2019 to 30 June 2020

12. Capital And Financial Risk Management (continued)

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 further mitigate this risk. Credit risk relating to outstanding settlements is considered small due to the short settlement periods involved.

The Fund uses derivative financial instruments for currency hedging purposes. Derivatives are not used to gear (leverage) the portfolio. The Fund may have credit risk arising from forward foreign currency positions if the market value of those positions is positive (refer Note 6 b)).

The Responsible Entity has appointed NT as the Fund's custodian. In acting as custodian, NT is required to comply with the relevant provisions of the *Corporations Act 2001*, applicable ASIC regulatory guides and class orders relating to registered managed investment schemes property arrangements with custodians. The credit quality of NT's senior debt is rated, at balance date, by 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.

13. Segment Information

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

The Fund's investments are managed on a single portfolio basis and in one business segment being equity investment, as well as in one geographic segment being Australia. The Fund continues to have foreign exposures as it invests in companies which operate internationally.

14. Auditor's Remuneration

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

| | 30 June 2020 \$ |
|--|-----------------------|
| Audit Services | |
| Audit and review of financial reports | 40,100 |
| Other assurance services | 1,267 |
| Non-Audit Services | |
| Taxation | 7,700 |
| Total Auditor's Remuneration of Ernst & Young Australia | 49,067 |

MAGELLAN HIGH CONVICTION TRUST

Notes To The Financial Statements

for the period 16 July 2019 to 30 June 2020

15. Contingent Assets, Contingent Liabilities And Commitments

The Fund has a contingent asset for the amount receivable from MFG where the Fund offers a discount to the NAV per unit on units issued under the DRP in future periods, in accordance with the terms of the MFG Commitment Deed. It is not practical to estimate the future amounts receivable to the Fund as there is uncertainty as to the level of participation in the DRP, the NAV per unit and whether the DRP will be offered (refer Note 2 a)).

At balance date, other than the above the Fund has no contingent assets, contingent liabilities or commitments.

16. Subsequent Events

In a release to the ASX on 17 August 2020, the Fund reported a NAV per unit as at 14 August 2020 of \$1.5565.

Other than the items disclosed throughout this financial report and the above there have been no matters or circumstances arising after the end of the period that have significantly affected, or may significantly affect, the Fund's operations, the results of its operations, or the Fund's state of affairs in future financial periods. Asset prices move daily and daily unit prices are available on the MFG website and also the ASX website.

MAGELLAN HIGH CONVICTION TRUST

Directors' Declaration

for the period 16 July 2019 to 30 June 2020

In the opinion of the Directors,

- a) the financial statements and notes of Magellan High Conviction Trust as set out on pages 9 to 26 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 2020 and of its performance as represented by the results of its operations and cash flows for the period ended on that date; and
 - ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001*, International Financial Reporting Standards as disclosed in Note 1 and other mandatory professional reporting requirements; and
- b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial period ended 30 June 2020.

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



Robert Fraser
Chairman

Sydney, 24 August 2020



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Independent Auditor's Report to the members of Magellan High Conviction Trust

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Magellan High Conviction Trust (the Trust), which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and comprehensive income, the statement of changes in equity and the statement of cash flows for the period 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 Magellan Global Trust 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 2020 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 Trust 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 APES110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report

Why significant

1. Investment existence and valuation

The Trust has a significant investment portfolio consisting primarily of listed equities. As at 30 June 2020, the value of these listed equities, was \$722,994,000 which equates to 77% of the total assets of the Trust.

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

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

2. Management and performance fees

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

The Trust's accounting policy for management and performance fees is described in Note 11c to the financial report. All expenses are recognised on an accruals basis, with performance fees recognised in the financial report if the performance hurdles for the Trust have been met at the end of the relevant measurement period, which is the date that the criteria have been met and the liability has been crystallised.

As at 30 June 2020, management and performance fees totalled \$15,787,000 which equates to 95% of total expenses. Of this amount, performance fees (excluding GST recovered) totalled \$5,612,000 which equates to 34% of total expenses.

Due to the complexity of the arrangements and the quantum of the amounts involved, this was considered to be a key audit matter.

How our audit addressed the key audit matter

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

We obtained and considered the assurance reports on the controls of the Trust's custodians and administrators in relation to investment management services and considered the auditor's qualifications and objectivity and results of their procedures;

We agreed all investment holdings, including cash accounts, to third party confirmations at 30 June 2020;

We assessed the fair value of all investments in the portfolio held at 30 June 2020 to independent market price sources; and

We assessed the adequacy of the disclosures in Note 6 to the financial report.

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

We obtained and considered the assurance report on the controls of the Trust's administrator in relation to Trust Administration Services for the period ended 30 June 2020 and considered the auditor's qualifications and objectivity and results of their procedures;

We recalculated management fees in accordance with contractual arrangements;

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

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



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 comprises the information included in Trust's 2020 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the Directors are responsible for assessing the Trust'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 Trust or 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 Trust'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 Trust'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 Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.



We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A handwritten signature in blue ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in blue ink that reads 'Clare Sporle'.

Clare Sporle
Partner

Sydney, 24 August 2020

MAGELLAN HIGH CONVICTION TRUST

Unitholder Information

Distribution of Unitholders

The distribution of unitholders of the Fund as at 14 August 2020 is as follows:

| Distribution of holdings | Number of unit holders | Number of units | Percentage of units on issue % |
|---|------------------------|--------------------|--------------------------------|
| 1-1,000 | 787 | 430,358 | 0.070 |
| 1,001-5,000 | 2,438 | 6,979,227 | 1.150 |
| 5,001-10,000 | 2,300 | 16,778,078 | 2.760 |
| 10,001-100,000 | 12,314 | 391,974,411 | 64.550 |
| 100,001 and over | 365 | 191,122,574 | 31.471 |
| Total | 18,204 | 607,284,648 | 100.00 |
| Number of holders with less than a marketable parcel of units | 320 | 88,314 | 0.015 |

Twenty Largest Unitholders

The names of the 20 largest unitholders in the Fund as at 14 August 2020 are listed below:

| Holder Name | Number of units | Percentage of units on issue % |
|---|--------------------|--------------------------------|
| PENPOL PTY LIMITED (HHH SUPERANNUATION FUND A/C) | 33,220,812 | 5.470 |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 17,430,149 | 2.870 |
| MIDAS TOUCH INVESTMENTS P/L | 14,144,282 | 2.329 |
| NULIS NOMINEES (AUST) LIMITED (NAVIGATOR MAST PLAN SETT A/C) | 8,521,455 | 1.403 |
| NAVIGATOR AUSTRALIA LTD (MLC INVESTMENT SETT A/C) | 8,226,096 | 1.355 |
| AZQ INVESTMENTS PTY LTD (AZQ DISCRETIONARY A/C) | 6,919,499 | 1.139 |
| NETWEALTH INVESTMENTS LIMITED (WRAP SERVICES A/C) | 6,269,844 | 1.032 |
| BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD (DRP A/C) | 6,120,584 | 1.008 |
| CITICORP NOMINEES PTY LIMITED | 4,843,414 | 0.798 |
| CAVALANE HOLDINGS PTY LTD | 3,416,667 | 0.563 |
| NOTA BENE INVESTMENTS PTY LTD (NOTA BENE INVESTMENT A/C) | 3,416,667 | 0.563 |
| MAGELLAN FINANCIAL GROUP LTD | 6,412,367 | 0.561 |
| MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED | 3,229,161 | 0.532 |
| NETWEALTH INVESTMENTS LIMITED (SUPER SERVICES A/C) | 2,572,202 | 0.424 |
| AUSTRALIAN EXECUTOR TRUSTEES LIMITED (IPS SUPER A/C) | 2,345,182 | 0.386 |
| J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 2,294,866 | 0.378 |
| WHELDONS PTY LTD | 2,050,000 | 0.338 |
| INVIA CUSTODIAN PTY LIMITED (PAJ LEWIS SUPER FUND A/C) | 1,390,219 | 0.229 |
| PADSTOW 2017 PTY LTD | 1,366,835 | 0.225 |
| SYLVANIA PTY LTD | 1,000,000 | 0.165 |
| Total Units Held By The 20 Largest Unitholders | 135,190,301 | 21.768 |
| Total Units On Issue | 607,284,648 | |

Units

All issued units carry one vote per unit and the right to distributions.

MAGELLAN HIGH CONVICTION TRUST

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

Auditor

Ernst & Young
200 George Street
Sydney NSW 2000

Unit Registrar

Boardroom Pty Limited
Level 12, 225 George Street
Sydney NSW 2000
Telephone: +61 2 9290 9600
Fax: +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

Securities Exchange Listing

Australian Securities Exchange
ASX Code: MHH

Website

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

Corporate Governance Statement

The Corporate Governance Statement for the Fund can be found on the Magellan website at <http://www.magellangroup.com.au> under Reports and ASX releases for the Fund.