

Next Generation Active ETFs - Single Unit Structure

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Magellan Funds with Single Unit Structure

Fund	Exchange Ticker	APIR Code
Airlie Australian Share Fund	AASF	MGE9705AU
Magellan Global Fund (Open Class)	MGOC	MGE0001AU
Magellan Sustainable Fund	MSUF	MGE4669AU
MFG Core International Fund	MCSG	MGE3851AU
MFG Core ESG Fund	MCSE	MGE8722AU
MFG Core Infrastructure Fund	MCSI	MGE9182AU
Magellan FuturePay	FPAY	MGE9989AU

NEXT GENERATION ACTIVE ETFS - OVERVIEW OF SINGLE UNIT STRUCTURE

The purpose of this report is to explain the mechanics of the **Single Unit Structure**. The Single Unit Structure provides the opportunity to access an open-ended fund offering either “off-market” or “on-market.” Investors have access to the same fund through their preferred means.

Open-Ended versus Closed-Ended Funds

Let’s start with taking a look at the difference between open-ended and closed-ended funds.

Open-Ended Funds - Funds where units can be created and redeemed on any given day. In addition to the impact of investment performance, the amount of funds under management will increase or decrease depending on the issue or redemption of units. The Single Unit Structure **only** applies to open-ended funds.

Closed-Ended Funds - Funds have a “captured” amount of capital that is raised and units are bought and sold in a secondary market. The amount of funds under management remains unchanged (except for changes in the value of the underlying investments). Capital can only be increased through a capital raise and the issue of new units. Closed-ended funds can be listed or unlisted.

How Does the Single Unit Structure Work?

When an investor buys units in a fund off-market, the investor completes an application form and submits it to the fund’s registry. Once the submission is processed, the investor is issued with a Securityholder Reference Number (SRN).

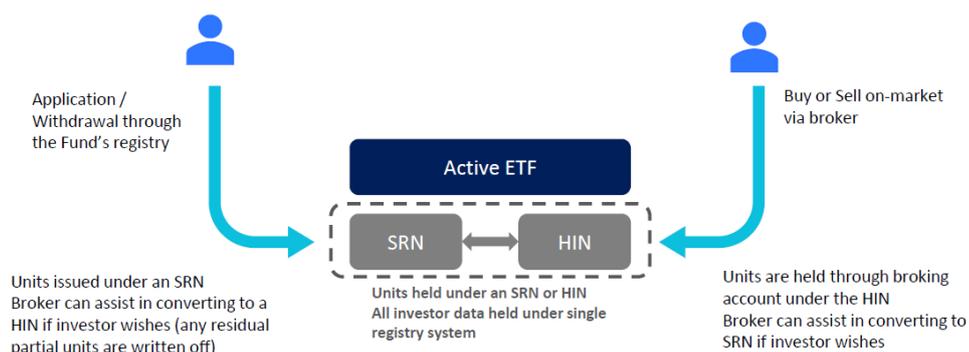
When an investor buys units in a fund on-market, the investor submits a purchase order with a stockbroker or online trading account. Once the transaction has been cleared, the units are settled to the investors Holder Identification Number (HIN).

Under the Single Unit Structure, when an investor wants to exit the fund, they have the choice of either selling on the stock exchange or redeeming directly with the fund via the unit registry. When selling on the stock exchange, a stockbroker will generally require that the units are held on a HIN associated with that stockbroker and the settlement occurs in a similar manner to the purchase of units on the stock exchange. If units are held on a SRN, the stockbroker will generally require the investor to convert their holding from a SRN holding to a HIN holding to ensure that the stockbroker has control over the units and doesn’t have any issues settling the sale.

If an investor wants to redeem units directly with the unit registry, the investor will need to ensure that the units are held on a SRN. The unit registry cannot redeem units that are held on HIN as the stockbroker associated with that HIN controls the units. The investor needs to contact their stockbroker and asked for their holding to be converted from their HIN to a SRN (detailed in the below graphic).

Do I have to change the way I trade the units? No. We would expect most unitholders to buy and sell units through the same method, either off-market or on-market. Under this structure, the option to change is available, however, the key benefit to investors is that all investors can gain access to the same fund using their preferred method of transaction.

How to Buy & Sell Units in a Magellan Fund with a Single Unit Structure



Source: Magellan Financial Group

On-Market Transactions

Units can be purchased through a broker or online trading account through the ASX or Chi-x. Investors buying and selling units on-market will incur a brokerage fee in addition to a spread on the NAV. There are no minimum investment amount requirements when acquiring units on-market, therefore access via this method may suit those that are acquiring units on a regular basis, such as part of a savings plan, or are looking to invest less than the minimum investment amount required for an unlisted fund at any given point in time. When buying units on-market, trades can be executed throughout any given trading day.

Off-Market Transactions

If an investor chooses to acquire units directly from the issuer, a minimum investment amount is typically required.

To acquire units off-market an investor must make an application directly to the Responsible Entity. If an investor submits a valid application for units in a fund by the cut-off time on any given business day and transfers the application money to the fund's application trust account, units in the fund will be issued the following business day at the NAV per unit in respect of the day of their valid application. Investors will incur a spread upon entry and/or exit, which will vary depending on the terms and conditions of the fund.

Redemption requests will often take a number of days before the unitholder receives the funds in their account. For example, for the Airlie Australian Share Fund redemption requests may take up to 7 days to receive the proceeds.

It's important to note that while the Single Unit Structure gives investors access to the same fund through multiple access points, the outcome for investors may differ depending on which path is taken. On-market investors can trade the units throughout the day, whereas off-market investors will receive the unit price as at the end of the relevant business day, depending on when the purchase/redemption request is received. This will impact the return to investors. The difference in the price received will likely have a greater impact for active investors than for long-term investors, unless there is a significant event during any given day.

The costs involved with a transaction will also differ. On-market transactions will incur a spread on the NAV and brokerage fees. Off-market transactions will incur the buy/sell spread associated with the fund. These costs may differ and have an impact on the return generated.

Pros and Cons of the Single Unit Structure

Advantages

- ◆ The Single Unit Structure allows for investors to choose their preferred method of accessing a Fund. If an investor's preferred transaction method changes over time, the method in which the investor transacts with respect to their units can change with them without additional costs (ie. no CGT or additional brokerage triggered from changing the investment pathway).
- ◆ Provides the option for real time liquidity to investors in traditional unlisted funds.

- ◆ The two pathways provide access to investors of all sizes. There are no minimum investment requirements for on-market purchases, with the exception of minimum investment amounts imposed by brokers or online trading platforms (typically ~\$500 for online platforms).
- ◆ The structure will likely facilitate more unlisted funds coming to market which will provide greater choice for investors.
- ◆ The costs for the issuer are reduced which can then result in lower fees and fund expenses.

Disadvantages

- ◆ The listed structure may promote more active levels of trading in the fund than would otherwise occur for an unlisted fund. This may result in more frequent transactions and additional tax implications for unitholders.
- ◆ Those unitholders that transact off-market bear the risks of any transactions that the RE takes to provide liquidity to the on-market units. The provision of liquidity may provide benefits or losses to the fund.

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For further information, please contact IIR at: client.services@independentresearch.com.au



Independent Investment Research (Aust.) Pty Limited

SYDNEY OFFICE

Level 1, 350 George Street
Sydney NSW 2000
Phone: +61 2 8001 6693
Main Fax: +61 2 8072 2170
ABN 11 152 172 079

MELBOURNE OFFICE

Level 7, 20–22 Albert Road
South Melbourne VIC 3205
Phone: +61 3 8678 1766
Main Fax: +61 3 8678 1826

HONG KONG OFFICE

1303 COFCO Tower
262 Gloucester Road
Causeway Bay, Hong Kong

DENVER OFFICE

200 Quebec Street
300-111, Denver Colorado USA
Phone: +1 161 412 444 724

MAILING ADDRESS

PO Box H297 Australia Square
NSW 1215