Navigator Global Investments Limited (ASX:NGI)

ASX Appendix 4D

For the six months ended 31 December 2018

Results for announcement to the market

(all comparisons to the six months ended 31 December 2017) *Amounts in USD'000*

				31 December 2018
Revenue from ordinary activities	Up	39%	to	**58,620**
Earnings before interest, tax, depreciation, amortisation and impairment	Up	25%	to	**20,125**
Profit from ordinary activities after tax attributable to members	Up	155%	to	**14,662**
Net profit for the period attributable to members	Up	155%	to	**14,662**

Dividends	Amount per ordinary share	Franked %	Conduit foreign income %
Interim 2018 dividend per share (paid 9 March 2018)	USD 7.0 cents	0%	100%
Final 2018 dividend per share (paid 31 August 2018)	USD 9.0 cents	0%	100%

The directors have determined an unfranked interim dividend of United States (US) 8.0 cents per share (with 100% conduit foreign income credits). The interim dividend dates are:

Ex-dividend date:	20 February 2019
Record date:	21 February 2019
Payment date:	8 March 2019

NGI dividends are determined in US dollars. However, shareholders will receive their dividend in Australian dollars. Currency conversion will be based on the foreign exchange rate on the record date of 21 February 2019.

Dividend Policy

The Company set a policy to apply from the 2017 financial year of paying a dividend of 70% to 80% of the earnings before interest, depreciation, amortisation, impairment expense and tax (EBITDA). Dividends will be unfranked, however may have conduit foreign income credits attached.

The payment of dividends will be subject to corporate, legal and regulatory considerations.

The above policy allows the NGI Group to retain a portion of cash generated from operating activities, and to therefore have funds available to make additional investments into the Lighthouse Funds where such investments further the overall operating interests of the Group, or to act on external investment and/or acquisition opportunities as and when they may arise.

A dividend reinvestment plan does not operate in respect to dividends of the Company.

Net tangible assets	**31 December 2018**	31 December 2017
Per ordinary share	USD 38.21 cents	USD 31.85 cents

Additional Appendix 4D requirements can be found in the directors' report and the 31 December 2018 interim financial report and accompanying notes.

This report is based on the 31 December 2018 interim financial report (which includes consolidated financial statements reviewed by Ernst & Young).

Navigator Global Investments Limited
and its controlled entities

ACN 101 585 737

Interim Financial Report

31 December 2018

Navigator Global Investments Limited

ACN 101 585 737

Principal Office

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Toowong QLD 4066

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Registered Office

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Shareholder information and inquiries

All inquiries and correspondence regarding shareholdings should be directed to the share registry provider:

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Sydney NSW 2000
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Sydney South NSW 1235

1300 554 474

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NAVIGATOR GLOBAL INVESTMENTS

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Unless otherwise indicated, the numbers in this interim financial report have been presented in

US Dollars (USD)

Directors' Report

The Directors present their report together with the interim financial statements of the Group comprising Navigator Global Investments Limited ('Navigator' or 'the Company') and its subsidiaries for the six months ended 31 December 2018.

Board of directors

The Directors of the Company at any time during the interim period and up to the date of this report are set out below. All of the Directors have been in office for the entire period:

Michael Shepherd, AO (Chairman)	Appointed 16 December 2009
Fernando (Andy) Esteban	Appointed 18 June 2008
Andrew Bluhm	Appointed 17 October 2012
Randall Yanker	Appointed 14 October 2014
Sean McGould	Appointed 3 January 2008

Principal activities

The principal activity of the Group during the course of the financial year was the provision of investment management products and services to investors globally.

Navigator Global Investments Limited is a company limited by shares that is incorporated in Australia, and is the ultimate parent entity of Lighthouse Investment Partners, LLC ('Lighthouse').

Lighthouse is a US based investment manager which has been operating multi-manager hedge fund portfolios for diversification and absolute return since 1999. As at 31 December 2018, Lighthouse is managing $14.7 billion of assets.

Lighthouse believes the most effective way to achieve diversification from traditional markets is through exposure to intelligently designed and actively managed portfolios of hedge fund strategies. Lighthouse's overall objective is to create and deliver innovative investment solutions that compound investor capital.

Lighthouse has offices in New York, Chicago, Palm Beach Gardens, London, Hong Kong and Tokyo.

Lighthouse has an investor base that spans North America, Europe, the Asia-Pacific and the Middle East. It includes high net worth individuals, family offices, endowments, foundations, trusts, investment banks, benefit plans, pension funds, healthcare and insurance companies.

The success of the Group is driven by 3 key factors

We earn revenue from managing assets on behalf of our clients (which we refer to as "Assets Under Management" or "AUM").

We seek to attract and retain AUM by offering quality investment products and services, and delivering competitive performance and features.

Our ability to do this can be impacted by external factors such as global markets and investor sentiment.

The revenue we earn on our AUM depends on the management and performance fees we are entitled to charge for our services.

The fees that we earn from clients can vary depending on the structure of their investment with us, as well as tailoring of the services provided to individual clients.

We operate in a highly competitive market, and there is pressure from investors to negotiate lower fee rates across the global investment management industry.

Our success relies on attracting and retaining talented employees.

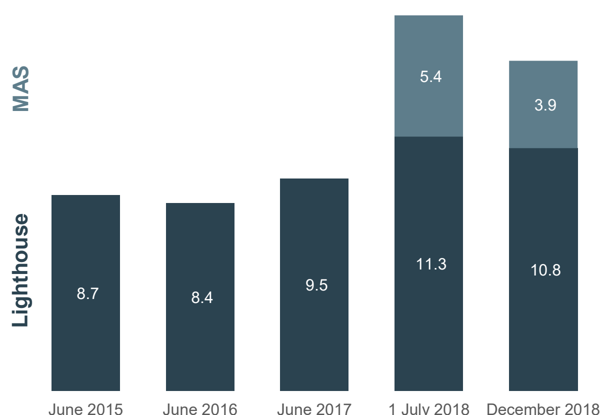
It is our employees who use their skills and knowledge to enable us to provide quality investment products and services, to innovate to meet changing investor needs and to respond to compliance requirements in what is a highly regulated industry.

To attract, motivate and retain quality employees Navigator needs to offer competitive compensation and incentive packages.

AUM

On 1 July 2018, the Group acquired $5.4 billion of assets under management in a transaction with Mesirow Advanced Strategies (MAS), a division of Mesirow Financial (Mesirow).

Group AUM reduced by $2.0 billion over the six months to 31 December 2018 due to a combination of investment losses and faster than anticipated redemptions from the transitioned MAS assets.



Notes on AUM:

- *Net flows include monies received by Lighthouse for applications and any redemptions effective 1 January 2019. This convention in relation to the reporting of net flows and AUM has been consistently applied by the NGI Group since January 2008.*
- *Performance includes investment performance, market movements, the impacts of foreign exchange on non-USD denominated AUM and distributions (if any).*
- *31 December 2018 AUM is estimated and is based on performance estimates which may be subject to revision near the 20th business day of the month and upon final audit. AUM excludes a non-discretionary long-only managed account structured for a single investor. AUM may include transfers from other Lighthouse Funds that occurred on the first day of the following month.*

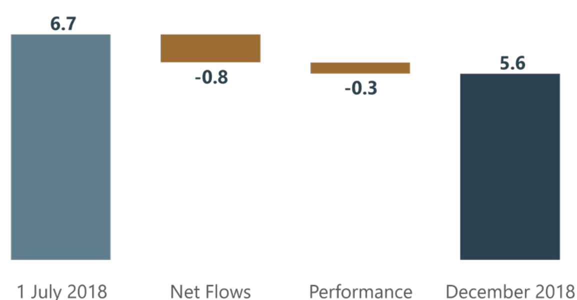
Drivers of AUM movement

Almost the entirety of the net outflows for the six months to December 2018 are attributable to the MAS transitioned assets. When announcing the acquisition of the MAS client relationships, we highlighted that we expected a higher rate of redemption on these assets. At the Annual General Meeting on 28 November 2018, we advised that we considered a loss of 25% of the initial $5.4 billion of assets transitioned would be a reasonable result. We hit this number as at 31 December 2018, a key driver of which are certain custom funds that transferred earlier than expected. Redemptions for the remainder of the 2019 financial year are expected to be in normal ranges for the six-month period.

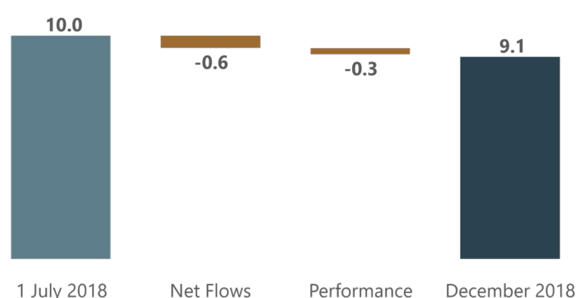
The negative investment performance occurred mainly over the December 2018 quarter, when global asset markets were particularly volatile and suffered severe downturns. As a result, AUM reduced by $610 million over the half across all portfolios, representing a 3.6% reduction on the half's opening AUM of $16.72 billion. $520 million of these investment losses were incurred by Lighthouse portfolios.

Lighthouse Commingled Funds experienced net outflows of $160 million over the same period, however this was offset by $180 million of net inflows from Customised Solutions clients. In normal circumstances, we would have expected higher net inflows over the six months to 31 December 2018, however the increased volatility and downturn in global asset markets has delayed the timing on some key client decisions. We expect that if global markets normalise over the near term, the pipeline and related timeline for new opportunities will also normalise, particularly for the Lighthouse Customised Solutions products.

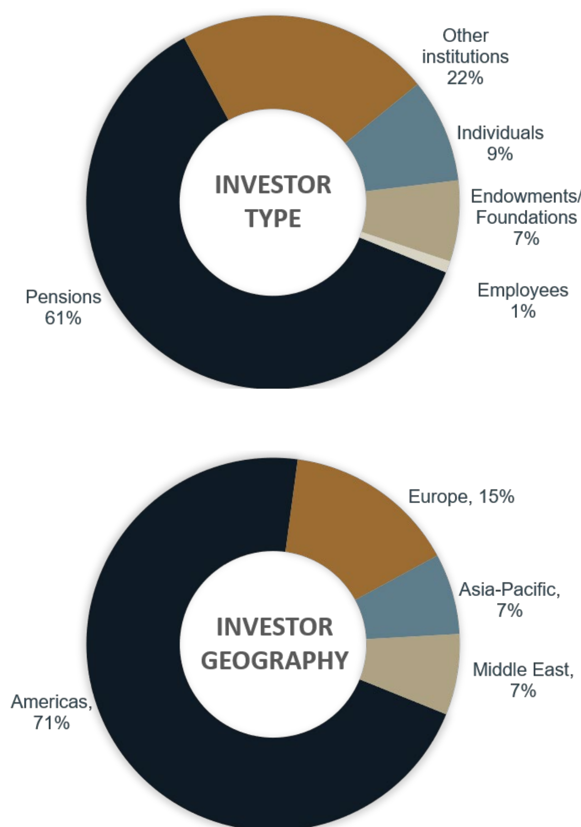
Commingled Funds AUM movement



Customised Solutions AUM movement

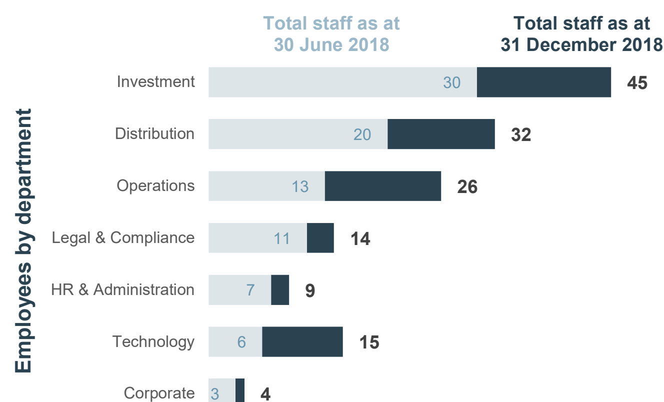


Composition of AUM as at 30 November 2018



People

The Group has 145 employees across the following functional divisions as at 31 December 2018:



With the acquisition of the MAS client relationships on 1 July 2018, the Group also welcomed 56 former MAS staff on that date. These staff were employed across all functional divisions of Lighthouse, although the highest increases to staff numbers were to Investments, Distributions and Operations. There is also an increase in staff numbers in the Technology division to ensure that there are sufficient resources to manage the transition of historical MAS client data to Lighthouse systems, as well as to focus on other Lighthouse technology initiatives for the managed account platform and the development of a proprietary trading system.

Fee rates

Fees are a key consideration for investors, and there is pressure to reduce fees across the broader asset management industry. We engage with clients and potential clients to ensure that fees are structured to provide an alignment of interests.

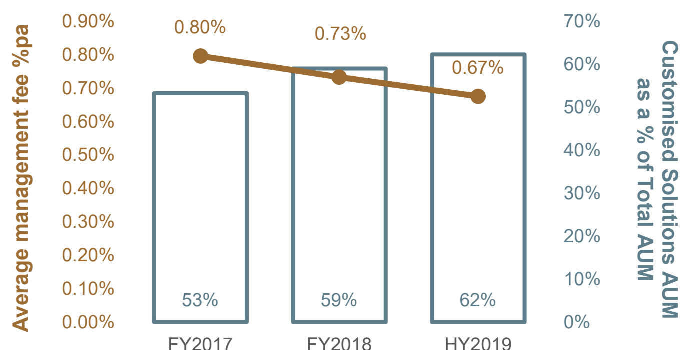
We have created share classes in our Commingled Funds to provide more optionality for these investors to select a fee structure which best suits their requirements.

Fee arrangements for Customised Solutions clients are negotiated individually. Whilst most arrangements involve only a management fee, some clients also have a performance fee component as part of their fee structure.

Management fees

The average management fee for the six months to 31 December 2018 was 0.67%pa (FY2018: 0.73%pa).

This management fee rate represents the blended net management fee rate across all AUM. While there a number of factors which impact the average management fee rate across periods, a key driver is the change in the relative proportion of AUM in Commingled Funds and AUM in Customised Solutions. Customised Solutions generally have a lower management fee, so as the proportion of total AUM which is invested by Customised Solutions clients increases, there is a reduction in the average fee rate as a whole.



In previous financial reports, the Group provided both:

- *"gross" average fee rates which were calculated using gross management fee revenue without a reduction for fee rebates or distribution expense; and*
- *"net" average fee rates, which were calculated on management fee revenue less both fee rebates and distribution expense.*

The Group has adopted a policy of recognising fee rebates directly against management fee revenue, and the above "average management fee" rates are calculated based on management fee revenue (net of fee rebates) without a reduction for distribution expense.

Performance fees

The difficult markets over the past period, particularly in the December 2018 quarter, have resulted in the Group earning performance fee income for the six months to 31 December 2018 of $0.2m, down $2.2m or 91% on the same period in the prior year.

Performance fees are variable in nature, and it is difficult to forecast how much, if any, performance fee revenue will be earned by the Group in future periods.

Summary of the Navigator Group HY19 result

EBITDA up 25% to a record **$20.125 million** half

	Consolidated US$'000		
	31 December 2018	31 December 2017 *(Restated)*	% change
Management fee revenue	54,798	37,777	45%
Performance fee revenue	216	2,457	(91%)
Revenue from reimbursement of fund operating expenses	2,738	1,350	103%
Revenue from provision of office space and services	753	492	53%
Other income	115	-	-
Total revenue	**58,620**	**42,076**	39%
Operating expenses[1]	(38,077)	(26,523)	(44%)
Result from operating activities[1]	**20,543**	**15,553**	32%
Net finance income / (costs), excluding interest	(418)	941	(144%)
Share of loss of equity accounted investee	-	(378)	-
Earnings before interest, tax, depreciation, amortisation and impairment losses (EBITDA)	**20,125**	**16,116**	25%
Net interest income	69	93	(26%)
Depreciation and amortisation	(639)	(447)	(43%)
Impairment losses	-	(1,132)	-
Profit before income tax	**19,555**	**14,630**	34%
Income tax expense[2]	(4,893)	(41,393)	88%
Net profit / (loss) after income tax	**14,662**	**(26,763)**	155%
Basic EPS (cents per share)	9.04	(16.51)	

1 Excludes net finance income / (costs) including interest, depreciation, amortisation, impairment losses and share of loss of equity accounted investee. These items have been excluded so as to present the expenses and results arising from the Group's core operating activities.

2 $36.8 million of the income tax expense for the six months ended 31 December 2017 relates to the restatement of the Group's deferred tax assets due to the reduction in the US Federal income tax rate from 35% to 21%. Page 9 includes further information in relation to the income tax expense impact of this reduction.

The above presentation of the Group's results is intended to provide a measure of the Group's performance before the impact of expense items such as depreciation, amortisation and impairment losses and non-operating items such as net interest income. Net profit before and after income tax reconciles to the consolidated income statement on page 15.

Revenue

Management fees

The Group earned $54.8 million management fees, a 45% increase on the prior comparative period.

The key driver of the increase in management fees for the six months to December 2018 was the increase in average total AUM. This was due to a combination of the $5.4 billion of MAS assets which transitioned on 1 July 2018 ($3.9 billion as at 31 December 2018), as well as the effects of Lighthouse's record 2018 financial year where they achieved $1.3 billion of net inflows into Lighthouse products.

As foreshadowed in the 2018 Annual Report, we have seen a decrease in the overall average management fee rate, which was 0.67%pa for this half year (FY2018: 0.73%pa). A key driver for this is the continually increasing proportion of total AUM which represents Customised Solutions. We are also seeing a reduction in the average management fee rate for Commingled Funds due to an increase in the proportion of AUM in Commingled Fund classes with lower management fee rates. One of the drivers for this has been a restructure of arrangements with a long-term distribution partner which eliminated the distribution expense associated with this arrangement with the transfer of relevant assets to lower fee classes.

Performance fees

The Group earns performance fees on selected Commingled Funds and Customised Solutions portfolios. The fees represent an agreed share of investment outperformance of a fund or portfolio over a defined benchmark and/or high watermark, and may be subject to hurdles.

Performance fees for the period were $0.2 million, a decrease of $2.2 million on the corresponding prior period. This is not unexpected given the impact on investment performance from the particularly severe downturn and volatility across global asset classes experienced over the December 2018 quarter.

Performance fees are variable in nature, and it is difficult to forecast how much, if any, performance fee revenue will be earned by the Group in future periods.

Revenue from reimbursement of fund operating expenses

The Group has applied AASB 15 *Revenue from Contracts with Customers* from 1 July 2018. The major change arising from this application is how the reimbursement for certain fund operating expenses is accounted for.

The Group is entitled to reimbursement for fund expenses that it has paid on behalf of the funds. While the funds generally pay their own operating expenses directly, there are some expenses, such as financial data services, software and technology expenses, where it is more practical for the Group to incur and pay the expense and then be reimbursed by the relevant fund(s).

The reimbursement is recognised as revenue, and there is a corresponding off-setting expense. As the revenue and expense directly off-set, there is no net impact on EBITDA or net profit after tax.

Revenue from reimbursement of fund operating expenses and reimbursable fund operating expenses incurred for the six months to 31 December 2018 were both $2,738 thousand (31 December 2017: $1,350 thousand).

Revenue from provision of office space and services

The Group provides office space and services to a number of external parties at its New York and London offices.

Operating expenses

Operating expenses (excluding reimbursable fund operating expenses, depreciation and amortisation) increased by $10.2 million compared to the corresponding prior period.

Employee costs

There was an $8.0 million increase in employee costs for the Group as compared to the prior period. The key drivers of the increase are:

- the addition of 56 new staff from MAS on 1 July 2018.
- excluding the above MAS staff, an increase in average headcount to 93 employees (31 December 2017: 84).

Distribution expense

Distribution expense relates to third party distribution arrangements, whereby ongoing payments are made to third parties in relation to clients they have introduced and who continue to be invested in Group portfolios. Distribution expense does not include rebates on management fees paid to clients, as these are off-set directly against management fee revenue.

Distribution expenses were $0.5 million lower and as a percentage of management fee revenue for the six months ended 31 December 2018 were 3.4% (31 December 2017: 6.3%).

Information and technology expenses

There has been a $1.1 million increase in information and technology expenses compared to the prior half year.

- $0.7 million of the increase relates to additional technology expenses incurred for the transition of MAS data, systems and staff. Whilst most of these costs are a transition expense, a portion will be on-going.
- $0.2 million of the increase is due to changes for upgrading of datacentre services and other improvements to technology for cyber security and business continuity arrangements.

Professional & consulting fees

The Group utilises a number of expert consultants across its business, in particular to provide specialist assistance and support in technology, legal, platform operations and investment process. Professional and consulting fees vary depending on the specific projects and operating needs in each period.

Professional fees for the half year are $2.6 million, a $0.9 million increase compared to the corresponding prior half year. Particular projects contributing to the higher expense include:

- $0.3 million higher spend on risk management and analysis projects;
- $0.3 million spend on a new initiative to develop a proprietary trading platform;
- $0.3 million of MAS related consulting and transition costs; offset by a
- $0.1 million reduction in legal fees

Occupancy costs

Occupancy costs increased by $0.3 million for the half due to additional premises in Chicago for the new MAS employees.

Income tax expense

The Group has a non-cash accounting income tax expense for the period of $4.9 million (31 December 2017: $41.4 million), representing an effective tax rate for the six months of 25.0% (31 December 2017: 31.4%). The prior period income tax expense included a $36.8 million one-off adjustment due to the reduction in the US Federal tax rate from 35% to 21% from 1 January 2018.

The balance sheet remains solid

	Consolidated US$'000	
	31 December 2018	**30 June 2018**
Assets		
Cash	29,288	38,212
Receivables	21,634	14,628
Investments	15,876	16,459
Intangible assets	95,905	95,078
Recognised deferred tax assets	57,069	61,878
Liabilities	**10,022**	**16,271**
Net tangible assets per share	**38.21**	**35.79**

Sources and uses of cash

The Group's primary sources and uses of cash during the six months to 31 December 2018 have been:

+	7.1 m	generated from operating activities
-	14.7 m	paid to shareholders as dividends
-	0.4 m	paid for leasehold improvements and acquisition of equipment
-	1.1 m	paid for capitalised MAS transaction costs
+	0.2 m	related to movements in investments, other current assets and foreign currency movement.

Receivables

Receivables have increased by $7.0 million compared to the prior half due to the additional revenue earned from the MAS client assets acquired 1 July 2018.

Investments

The Group holds two key types of investments: investment in Lighthouse funds and investment in external entities.

- The Group's investments in Lighthouse funds decreased by $0.6 million over the period to $10.2 million.
- The Group holds a number of small, strategic investments in external entities. There has been no change to the fair value of these investments since 30 June 2018, and they continue to be carried at a fair value of $5.6 million as at 31 December 2018.

Intangible assets

MAS Transaction

The Group acquired the rights to manage $5.4 billion of assets on behalf of clients from MAS on 1 July 2018. As substantially all of the fair value of the assets acquired in the transaction related to the intangible client relationships, the transaction has been accounted for as an asset acquisition.

- Consideration payable for the transaction is contingent on agreed earnout calculations over seven years. There is inherent uncertainty in being able to reasonably estimate the contingent consideration, and the Group has not recognised any liability for future contingent consideration as at 31 December 2018.
- Intangible client relationships of $1.1 million were recognised in the statement of financial position on 1 July 2018.
- The client relationships will be amortised on a straight-line basis over 7 years.

Other intangibles, including goodwill

When the Company acquired Lighthouse in January 2008, it recognised $76.1 million of identifiable intangible assets in the form of client relationships, trademarks and software, as well as $499.5 million of goodwill.

- The identifiable intangible assets are amortised over their useful lives (between 5 and 20 years). The acquired customer relationships and software were fully amortised as at December 2015, leaving only a small residual balance of acquired identifiable intangible assets on the balance sheet as at 31 December 2018.
- An impairment loss of $405.7 million was recognised against the goodwill balance in the 2009 financial year. The Company has continued to carry a written-down goodwill balance of $93.8 million since that time.

Deferred tax assets

The Group's balance sheet includes a deferred tax asset of $57.1 million which is comprised of carried forward tax losses and deductible temporary differences relating to the US tax consolidated group.

It is not expected that the Group will be in a tax payable position for a number of years other than in relation to some relatively nominal US state-based taxes.

Liabilities

The Group's liabilities as at 31 December 2018 comprise trade and other payables, and provisions for employee benefits. The Group does not have any drawn down loans or borrowings as at reporting date.

Outlook

On 9 January 2019 the Group made an ASX announcement in relation to the expected impact on EBITDA in the second half of this financial year due to the reduction in AUM which occurred in the December 2018 quarter. The guidance provided is that we estimate full year EBITDA for the 2019 financial year of approximately $36 million.

The 20% reduction of EBITDA in the second half is due to a combination of:

- Lower than expected management fee remuneration (due to the reduction in AUM); and
- an expectation that operating expenses will stay materially the same as the first half (other than an adjustment to employee bonus expense).

The Group expects the transition of the MAS assets into Lighthouse business operations to be largely complete by the start of the next financial year, after which we anticipate being able to introduce efficiencies in our operating model.

Whilst the first six months of this financial year have been challenging from an investment performance perspective, we see some positive signs for improvement. The past decade has not been conducive to actively managed, hedged strategies. Central bankers have successfully supressed interest rates and volatility globally in their efforts to move beyond the 2008 financial crisis. This created elevated demand for risk assets and a lack of dispersion in fundamental results and prices. It appears that we have begun to move out of that market environment. This transition is likely to be messy and difficult at times for both traditional asset classes and hedge funds, as was seen in the December 2018 quarter. We believe, however, that the security selection strategies that hedge funds employ will benefit from a normalisation in volatility, higher cost of capital and dispersion in growth trajectories.

We remain convinced that our approach will continue to add value to our client portfolios:

- a focus on specialist managers with a history of excellence in security selection and risk management; combined with
- our ability to evaluate quickly and adjust our portfolios as risk and opportunities present themselves.

From a strategic perspective, the Group continues to execute its strategy to retain and grow our AUM through:

- a focus on consistently delivering investment performance in accordance with the investment strategies of the relevant funds and portfolios;
- broadening our global distribution reach through building new relationships and leveraging our existing relationships around the world;
- providing a high level of service to our clients from all parts of our business, with quality and timely reporting on their investments and a proactive approach to ensuring we are meeting all their investment needs; and
- continuing to innovate on how we can deliver solutions to existing and prospective clients.

Dividends

At the date of this report, the directors have determined an unfranked dividend of USD 8.0 cents per share (with 100% conduit foreign income credits) payable on 8 March 2019. The record date for entitlement to the interim dividend is 21 February 2019.

Significant changes in state of affairs

In the opinion of the directors there were no other significant changes in the state of affairs of the Group that occurred during the financial period not otherwise disclosed in this financial report.

Likely developments and expected results

Further information on likely developments in the operations of the Group and the expected results of operations have been included in this interim financial report on pages 5 to 11.

Events subsequent to end of financial period

There has not arisen in the interval between the end of the reporting period and the date of this report, any other item, transaction or event of a material nature, likely to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young Australia during or since the financial year.

Auditor's independence declaration

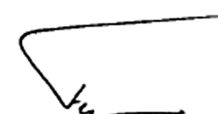
The lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 12 and forms part of the directors' report for the six months ended 31 December 2018.

Rounding of amounts

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of directors:

Michael Shepherd, AO
Chairman and Non-Executive Director



F P (Andy) Esteban
Non-Executive Director

Sydney, 14 February 2019

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Auditor's independence declaration to the Directors of Navigator Global Investments Limited

As lead auditor for the review of Navigator Global Investments Limited for the half-year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Navigator Global Investments Limited and the entities it controlled during the financial period.

Ernst & Young

Rebecca Burrows
Partner
14 February 2019

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Liability limited by a scheme approved under Professional Standards Legislation

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Interim Financial Statements

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Income statement

For the six months ended 31 December 2018

	Note	Consolidated US$'000	
		31 December 2018	31 December 2017 *(Restated)*
Management fee revenue	2	54,798	37,777
Performance fee revenue	2	216	2,457
Revenue from reimbursement of fund operating expenses	2	2,738	1,350
Revenue from provision of office space and services	2	753	492
Other income	2	115	-
Total revenue		**58,620**	**42,076**
Operating expenses	3(a)	(38,716)	(26,970)
Results from operating activities		**19,904**	**15,106**
Finance income	4(a)	137	1,065
Finance costs	4(a)	(486)	(31)
Share of loss of equity accounted investee		-	(378)
Impairment losses	3(b)	-	(1,132)
Profit before income tax		**19,555**	**14,630**
Income tax expense	5	(4,893)	(41,393)
Profit / (loss) for the period		**14,662**	**(26,763)**
Attributable to equity holders of the parent		**14,662**	**(26,763)**

Earnings per share		Consolidated US cents	
		31 December 2018	31 December 2017
Basic earnings per share	7	9.04	(16.51)
Diluted earnings per share	7	9.04	(16.51)

The accompanying notes form part of these consolidated financial statements

Statement of comprehensive income

For the six months ended 31 December 2018

	Note	Consolidated US$'000	
		31 December 2018	**31 December 2017**
Profit / (loss) attributable to equity holders of the parent		**14,662**	**(26,763)**
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Income tax on financial assets at fair value through other comprehensive income	4(b)	-	313
Other comprehensive income for the period		**-**	**313**
Total comprehensive income / (loss) for the period		**14,662**	**(26,450)**
Attributable to equity holders of the parent		**14,662**	**(26,450)**

The accompanying notes form part of these consolidated financial statements

Statement of financial position

As at 31 December 2018

	Note	Consolidated US$'000	
		31 December 2018	30 June 2018
Assets			
Cash		29,288	38,212
Trade and other receivables		21,634	14,628
Current tax assets	5(b)	-	2
Total current assets		**50,922**	**52,842**
Investments recognised at fair value	8	15,876	16,459
Plant and equipment		3,743	2,688
Deferred tax assets	5(c)	57,069	61,878
Intangible assets	9	95,905	95,078
Other non-current assets		1,443	2,310
Total non-current assets		**174,036**	**178,413**
Total assets		**224,958**	**231,255**
Liabilities			
Trade and other payables		2,671	3,326
Employee benefits		4,775	11,785
Current tax liabilities	5(b)	52	-
Total current liabilities		**7,498**	**15,111**
Trade and other payables		2,417	1,052
Employee benefits		107	108
Total non-current liabilities		**2,524**	**1,160**
Total liabilities		**10,022**	**16,271**
Net assets		**214,936**	**214,984**
Equity			
Share capital		257,355	257,355
Reserves		30,019	31,368
Accumulated losses		(72,438)	(73,739)
Total equity attributable to equity holders of the Company		**214,936**	**214,984**

The accompanying notes form part of these consolidated financial statements

Statement of changes in equity

For the six months ended 31 December 2018

Consolidated US$'000

Amounts attributable to equity holders of the parent

	Note	Share capital	Share based payments reserve	Fair value reserve (financial assets at FVOCI)	Translation reserve	Parent entity profits reserve	Accumulated losses	Total equity
Balance at 1 July 2017		**257,355**	**13,326**	**1,495**	**850**	**13,279**	**(34,661)**	**251,644**
Net loss for the period		-	-	-	-	-	(26,763)	(26,763)
Transfer to parent entity profits reserve[1]		-	-	-	-	12,435	(12,435)	-
Other comprehensive income								
Income tax on other comprehensive income	4(b)	-	-	313	-	-	-	313
Total other comprehensive income, net of tax		-	-	313	-	-	-	313
Total comprehensive income / (loss) for the period, net of tax		**-**	**-**	**313**	**-**	**12,435**	**(39,198)**	**(26,450)**
Dividends to equity holders	6	-	-	-	-	(13,042)	-	(13,042)
Total transactions with owners		-	-	-	-	(13,042)	-	(13,042)
Balance as at 31 December 2017		**257,355**	**13,326**	**1,808**	**850**	**12,672**	**(73,859)**	**212,152**
Balance at 1 July 2018		**257,355**	**13,326**	**2,281**	**850**	**14,911**	**(73,739)**	**214,984**
Net profit for the period		-	-	-	-	-	14,662	14,662
Transfer to parent entity profits reserve[1]		-	-	-	-	13,361	(13,361)	-
Total comprehensive income for the period, net of tax		**-**	**-**	**-**	**-**	**13,361**	**1,301**	**14,662**
Dividends to equity holders	6	-	-	-	-	(14,710)	-	(14,710)
Total transactions with owners		-	-	-	-	(14,710)	-	(14,710)
Balance at 31 December 2018		**257,355**	**13,326**	**2,281**	**850**	**13,562**	**(72,438)**	**214,936**

[1] Relates to the net profit of the parent entity (Navigator Global Investments Limited).

The accompanying notes form part of these consolidated financial statements

Statement of cash flows

For the six months ended 31 December 2018

	Note	Consolidated US$'000	
		31 December 2018	31 December 2017 (Restated)
Cash flows from operating activities			
Cash receipts from operating activities		51,867	42,007
Cash paid to suppliers and employees		(44,836)	(31,027)
Cash generated from operations		7,031	10,980
Interest received		69	93
Income tax paid		(30)	(18)
Net cash from operating activities		**7,070**	**11,055**
Cash flows from investing activities			
Acquisition of plant and equipment		(352)	(1,366)
Proceeds from disposal of investments		277	3
Acquisition of investments		(120)	-
Transaction costs associated with MAS transaction		(1,088)	-
Acquisition of other non-current assets		(100)	-
Net cash used in investing activities		**(1,383)**	**(1,363)**
Cash flows from financing activities			
Loans to associates		-	(925)
Dividends paid to equity holders of the parent	6	(14,710)	(13,042)
Net cash used in financing activities		**(14,710)**	**(13,967)**
Net decrease in cash		**(9,023)**	**(4,275)**
Cash balance at 1 July		38,212	33,153
Effect of exchange rate fluctuations on cash balances held in foreign currencies		99	142
Cash balance as at 31 December		**29,288**	**29,020**

The accompanying notes form part of these consolidated financial statements

Notes to the financial statements

For the six months ended 31 December 2018

1. Operating segments

As at 31 December 2018, the Group had one reportable segment, being the US based Lighthouse Group, which operates as a global absolute return funds manager for investment vehicles.

Corporate includes assets and liabilities and corporate expenses relating to the corporate parent entity, Navigator Global Investments Limited, and balances that are eliminated on consolidation of the Group and are not considered to be operating segments.

No operating segments have been aggregated to form the above reportable operating segments.

The CEO and board of directors review internal management reports on a monthly basis to monitor the operating results for the purpose of making decisions about resource allocation and performance assessment. Performance is evaluated based on the financial information as set out below, as well as other key metrics such as Assets under Management and the average net management fee rate.

		Lighthouse US$'000		Corporate US$'000		Consolidated US$'000	
	Note	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Revenue	2	58,549	41,942	71	133	58,620	42,076
Earnings before interest, tax, depreciation, amortisation and impairment losses		**20,394**	**16,220**	**(269)**	**(104)**	**20,125**	**16,116**
Reportable segment profit / (loss) before income tax		**19,820**	**14,731**	**(265)**	**(101)**	**19,555**	**14,630**

Segment assets and liabilities

There has been no material change in the allocation of segment assets and liabilities compared to the Group's consolidated financial statements as at and for the year ended 30 June 2018.

2. Revenue

	Consolidated US$'000	
	31 December 2018	31 December 2017
Management fees from commingled funds	32,012	25,588
Management fees from customised solutions clients	22,786	12,189
Performance fees	216	2,457
Operating revenue	**55,014**	**40,234**
Revenue from reimbursement of fund operating expenses	2,738	1,350
Revenue from provision of office space and services	753	492
Other income	115	-
Other revenue	**3,606**	**1,842**
Total revenue from contracts with customers	**58,620**	**42,076**

Notes to the financial statements

For the six months ended 31 December 2018

2. Revenue (continued)

Management fees

Management fees are received for providing:

- services to commingled funds, which incorporates investment management and related services.
- services to customised solutions clients, which may include investment management and / or the provision of managed account services.

Management fee revenue is based on a percentage of the commingled fund or customised solutions client portfolio value and is calculated in accordance with the applicable offer document, constituent document and / or investment management agreement. The revenue is recognised in the income statement as the services are provided.

Performance fees

Performance fees may be received from some commingled fund share classes and some customised solutions client portfolios. The amount of the performance fee is calculated in accordance with the applicable offer document, constituent document and / or investment management agreement. The entitlement to performance fees for any given performance period is dependent on the portfolio achieving a positive performance, and in some cases in outperforming an agreed hurdle. Performance fees are generally also subject to a high watermark arrangement which ensures that fees are not earned more than once on the same performance.

Due to the uncertainty associated with the estimate of performance fees, they are not recognised in the income statement until the entitlement to receive the fee becomes certain, which is at the end of the relevant performance period. At all times prior to this, there is a high probability of any revenue recognised being reversed. Performance periods for performance fee arrangements range from between 1 month to 1 year.

Revenue from reimbursement of fund operating expenses

The Group is entitled to reimbursement for fund expenses that it has paid on behalf of the funds. While the funds generally pay their own operating expenses directly, there are some expenses, such as financial data services, software and technology expenses, where it is more practical for the Group to incur and pay the expense and then be reimbursed by the funds.

Revenue from reimbursement of fund operating expenses recognised for the six months to 31 December 2018 was $2,738 thousand (2017: $1,350 thousand). A corresponding amount of reimbursable fund operating expenses has also been recognised for the period (see note 3).

Revenue from reimbursement of fund operating expenses has been recognised in accordance with the requirements of AASB 15 *Revenue from contracts with customers*, adopted from 1 July 2018 (see note 18).

Revenue from the provision of office space and services

The Group has a number of agreements with external parties to license desk / office space at their New York and London offices. As part of these agreements, licensees are charged license fees and service charges on a monthly basis. The revenue from these agreements is now described as ‘Revenue from provision of office space and services’ (previously termed of ‘Rent, outgoings and other operating expenses on-charged to sublease tenants’). The amounts are unchanged.

Notes to the financial statements

For the six months ended 31 December 2018

3. Expenses

a) Operating expenses

	Consolidated US$'000	
	31 December 2018	31 December 2017
Employee expense	(24,508)	(16,463)
Reimbursable fund operating expenses	(2,738)	(1,350)
Professional and consulting expenses	(2,646)	(1,736)
Information and technology expense	(1,961)	(889)
Distribution expense	(1,853)	(2,362)
Occupancy expense	(1,953)	(1,688)
Travel expense	(863)	(700)
Depreciation	(389)	(283)
Amortisation of intangible assets	(250)	(164)
Other expenses	(1,555)	(1,335)
Total expenses	**(38,716)**	**(26,970)**

Reimbursable fund operating expenses

The Group is entitled to reimbursement for fund expenses that it has paid on behalf of the funds. While the funds generally pay their own operating expenses directly, there are some expenses, such as financial data services, software and technology expenses, where it is more practical for the Group to incur and pay the expense and then be reimbursed by the funds.

Reimbursable fund operating expenses incurred for the six months to 31 December 2018 were $2,738 thousand (2017: $1,350 thousand).

A corresponding amount of revenue from reimbursement of fund operating expenses has also been recognised for the period (see note 2).

Reimbursable fund operating expenses have been recognised in accordance with the requirements of AASB 15 *Revenue from contracts with customers*, adopted from 1 July 2018 (see note 18).

Distribution expense

Distribution expenses are paid to external intermediaries for marketing and investor servicing, largely in relation to commingled funds. Distribution expenses are variable in line with AUM and the associated management fee revenue. This expense is recognised on an accrual basis. Distribution expense for the six months to 31 December 2018 was $1,853 thousand (2017: $2,362 thousand).

Notes to the financial statements

For the six months ended 31 December 2018

3. Expenses (continued)

b) Impairment losses

	Consolidated US$'000	
	31 December 2018	31 December 2017
Impairment of investment in equity accounted investee	-	(122)
Impairment of unsecured loan to equity accounted investee	-	(1,010)
Total impairment loss	**-**	**(1,132)**

The Group had a 40% interest in a US based limited partnership which it transferred to the remaining partner in September 2018. The Group recognised impairment losses in the prior period of $1,132 thousand in relation to the value of its equity interest in the partnership and an unsecured loan advanced to the partnership.

4. Finance income and costs

a) Recognised directly in profit or loss

	Consolidated US$'000	
	31 December 2018	31 December 2017
Finance income		
Interest income on bank deposits	69	93
Net foreign exchange gains	68	133
Net change in fair value of financial assets at fair value through profit or loss	-	839
Total finance income	**137**	**1,065**
Finance costs		
Bank charges	(59)	(31)
Net change in fair value of financial assets at fair value through profit or loss	(427)	-
Total finance costs	**(486)**	**(31)**
Net finance income / (costs) recognised in profit or loss	**(349)**	**1,034**

b) Recognised directly in other comprehensive income

	Consolidated US$'000	
	31 December 2018	31 December 2017
Income tax expense recognised directly in equity in the fair value reserve	-	313
Net finance costs attributable to equity holders recognised directly in equity	**-**	**313**

Notes to the financial statements

For the six months ended 31 December 2018

5. Income tax

The Company is the only Australian resident tax-paying entity within the Group. Non-Australian entities within the Group are part of a US consolidated tax group.

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

As at 31 December 2017 the Group revised its estimated annual effective rate to reflect a change in the US federal statutory corporate rate from 35% to 21% effective from 1 January 2018. The rate change was administratively effective at the beginning of the financial year ended 30 June 2018, resulting in a blended effective tax rate for the six months ended 31 December 2017 of 31.44%. In addition, during the six-month period ended 31 December 2017, the Group recognised an income tax expense of $36,794 thousand related to the adjustment in the carrying value of existing deferred tax assets to reflect the new corporate tax rate.

The effective tax rate for the current six months ended 31 December 2018 is 25.02%, reflecting the full annual impact of the drop in the US federal statutory corporate rate to 21% and US state corporate taxes.

a) Reconciliation of effective tax rate

	Consolidated US$'000	
	31 December 2018	**31 December 2017**
Profit before income tax	19,555	14,630
Income tax using the Company's domestic tax rate of 30% (2017: 30%)	(5,867)	(4,389)
Effect of tax rates in foreign jurisdictions	1,063	(234)
Non-deductible / non-assessable amounts included in accounting profit	(195)	140
Deductible amounts not included in accounting profit	35	89
Current year tax for which no deferred tax asset is initially recognised	71	(277)
Changes in estimates related to prior years	-	72
Effect of change in tax rate under newly enacted US tax legislation on deferred tax assets	-	(36,794)
Total income tax expense reported in profit or loss	**(4,893)**	**(41,393)**

b) Current tax assets and liabilities

	Consolidated US$'000	
	31 December 2018	**30 June 2018**
Current tax liabilities	**52**	**-**
Current tax assets	**-**	**2**

Current tax assets and liabilities represent the amount of income taxes receivable from / payable to the relevant tax authority, using tax rates current at reporting date.

Notes to the financial statements

For the six months ended 31 December 2018

5. Income tax (continued)

c) Deferred tax assets

Deferred tax assets – US Group

Deferred tax assets have been recognised in respect of the following items:

	Consolidated US$'000	
	31 December 2018	**30 June 2018**
Carried forward tax losses	28,739	27,582
Goodwill and intangible assets	25,632	30,400
Employee benefits	1,163	2,597
Financial assets at fair value through profit or loss	323	217
Financial assets at fair value through other comprehensive income	(753)	(754)
Other items	1,965	1,836
	57,069	**61,878**

As at 31 December 2018 it is considered more likely than not that the US Group's carried forward tax losses and deductible temporary differences will be fully recovered. This position is supported by the current profitability of the US Group which is expected to continue into the future.

Carried forward tax losses relating to the US Group that originated prior to 31 December 2017 have a life of 20 years, and will expire during the period from 2029 to 2037. Carried forward tax losses relating to the US Group that originated after 31 December 2017 do not expire under current legislation.

Deferred tax assets – Australia

Deferred tax assets have not been recognised in respect of the following items:

	Consolidated US$'000	
	31 December 2018	**30 June 2018**
Deductible temporary differences	59,642	62,456
Tax losses	3,463	3,704
	63,105	**66,160**

Unrecognised deferred tax assets relating to the Australian parent entity consist of deductible temporary differences (including impairment losses recognised in previous financial years), and carried forward operating tax losses.

As at 31 December 2018, it is not probable that the Australian parent entity will produce sufficient taxable profits against which these deferred tax assets can be utilised and therefore the deferred tax assets remain unrecognised. $59,642 thousand (30 June 2018: $62,456 thousand) of the deductible temporary differences not recognised relate to an impairment write-down taken during the year ended 30 June 2009 on the carrying value of the Lighthouse Group. The movement in this balance relates to foreign currency movements only. The realisation of this tax asset is subject to the application of relevant tax legislation and the structure of any future business transactions in relation to the Lighthouse Group, if and when any such transaction was to occur.

Tax losses relating to the Australian parent entity and deductible temporary differences do not expire under current tax legislation.

Notes to the financial statements

For the six months ended 31 December 2018

6. Dividends

Dividends paid

The following dividends were paid by the Company:

	Consolidated US$'000	
	31 December 2018	31 December 2017
Final ordinary dividend for the year ended 30 June 2018 of USD 9.0 cents	14,710	-
Final ordinary dividend for the year ended 30 June 2017 of USD 8.0 cents	-	13,042
	14,710	**13,042**

The Directors have determined an unfranked interim dividend of 8.0 cents per share (with 100% conduit foreign income credits). The dividend will be paid on 8 March 2019. The dividends have not been provided for as at 31 December 2018, and there are no income tax consequences.

7. Earnings per share

	Consolidated US$'000	
	31 December 2018	31 December 2017
Basic earnings per share	9.04	(16.51)
Diluted earnings per share	9.04	(16.51)

Reconciliation of earnings used in calculating earnings per share

Basic and diluted earnings per share

	Consolidated US$'000	
	31 December 2018	31 December 2017
Profit / (loss) attributable to ordinary equity holders of the Company used in calculating basic and diluted earnings per share	**14,662**	**(26,763)**

Weighted average number of shares used in calculating basic and diluted earnings per share

		'000 shares	
		31 December 2018	31 December 2017
Issued ordinary shares	10	162,148	162,148
Weighted average number of ordinary shares used in calculating basic, diluted and underlying earnings per share		**162,148**	**162,148**

The Company did not have any potential ordinary shares outstanding at balance date. The weighted average number of shares used in calculating basic and diluted earnings per share are therefore the same.

Notes to the financial statements

For the six months ended 31 December 2018

8. Investments recognised at fair value

	Consolidated US$'000	
	31 December 2018	30 June 2018
Financial assets at fair value through other comprehensive income	5,638	5,638
Financial assets at fair value through profit or loss	10,238	10,821
	15,876	**16,459**

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprise non-controlling equity holdings in unquoted securities of US based companies over which the Group does not have significant influence.

These investments are measured at fair value, with changes in fair value recognised in other comprehensive income and presented in the fair value reserve in equity. Note 11 provides details on the methods used to determine fair value for measurement and disclosure purposes.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise of the following:

	Consolidated US$'000	
	31 December 2018	30 June 2018
Investments in unquoted securities of entities managed by Lighthouse	10,238	10,821
	10,238	**10,821**

These assets have been classified as fair value through profit or loss upon initial recognition, with changes in fair value are recognised in profit or loss. Note 11 provides details on the methods used to determine fair value for measurement and disclosure purposes.

Notes to the financial statements

For the six months ended 31 December 2018

9. Intangible assets

	Consolidated US$'000	
	31 December 2018	31 December 2017
Goodwill	93,801	93,801
Client relationships	999	-
Trademarks	855	902
Software	250	375
	95,905	95,078

Acquisition of MAS client relationships

The Group's United States subsidiary, Lighthouse Investment Partners, LLC (Lighthouse) acquired the rights to manage $5.4 billion of assets on behalf of clients from Mesirow Advanced Strategies (MAS) on 1 July 2018. The transaction was completed in accordance with a formal agreement with MAS whereby Lighthouse acquired the contractual rights to act as investment manager of these assets, along with some de minimus intellectual property, tangible property and prepayments. Lighthouse also made employment offers to 56 of the MAS staff, and these staff commenced as Lighthouse employees on 1 July 2018.

Purchase consideration

The key terms of the purchase consideration are:

- The purchase consideration is a contingent consideration arrangement.
  - The contingent consideration that may be paid in the future will be determined under earnout payment terms over seven years, calculated as an agreed percentage of EBITDA generated by the transitioned assets above a floor amount.
  - Significant assumptions must be made in estimating the contingent consideration, including but not limited to, the retention level of the assets over the full earnout period and the operating expenses required to support these assets.
  - There is inherent uncertainty in being able to reasonably predict earnout payments over a seven-year period. The Group has not recognised any liability for future contingent consideration as at 31 December 2018.
- Under the agreement, there was no upfront consideration at acquisition date, other than $343 thousand paid for transferred prepaid operating expenses. The Group also incurred $1,088 thousand of transaction costs.
- The transaction did not require an issue of equity by the Group or for the Group to obtain debt funding.

Accounting treatment

The Group engaged Grant Thornton, LLP (US) to determine the fair value of assets acquired in the transaction. Based on these valuations, the Group has assessed that substantially all of the fair value of the assets acquired in the transaction relate to the intangible client relationships. The Group has early adopted recent changes to AASB 3 *Business combinations*. Under these amendments to the standard, as the fair value of all the acquired assets and liabilities is concentrated in a group of similar assets, namely the intangible client relationships, the Group has determined that the transaction should be accounted for as an asset acquisition rather than a business combination.

- The total purchase price for the transaction is $1,431 thousand.
- Prepaid operating expenses assumed under the transaction are recognised at their fair value of $343 thousand, whilst the remaining assets are recognised at their relative fair value as a proportion of the remaining purchase price.
- As the transaction is accounted for as an asset acquisition, no goodwill or bargain from a purchase has been recognised.
- Intangible client relationships of $1,077 thousand were recognised in the statement of financial position on 1 July 2018. The client relationships will be amortised on a straight-line basis over 7 years.

Notes to the financial statements

For the six months ended 31 December 2018

10. Capital

Ordinary shares on issue

	Shares '000	
	31 December 2018	30 June 2018
Ordinary shares on issue as at 31 December / 30 June	162,148	162,148

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects. The Company does not have authorised capital or par value in respect of issued shares. All ordinary shares rank equally with regard to the Company's residual assets. Ordinary shares have the right to receive dividends as declared and are entitled to one vote per share at general meetings of the Company.

11. Financial instruments

Fair value of financial instruments

Fair value hierarchy

The Group classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The different levels of fair value hierarchy are:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data.

Fair value measurements

The following table shows the fair values of financial assets and their levels in the fair value hierarchy.

	Note	Level 1	Level 2	Level 3	Total
			30 June 2018		
Financial asset at fair value through other comprehensive income					
Investment in unquoted securities of externally managed entities	8	-	-	5,638	5,638
Financial assets at fair value through profit or loss					
Investments in unquoted securities of entities managed by Lighthouse	8	-	10,821	-	10,821
			31 December 2018		
Financial asset at fair value through other comprehensive income					
Investment in unquoted securities of externally managed entities	8	-	-	5,638	5,638
Financial assets at fair value through profit or loss					
Investments in unquoted securities of entities managed by Lighthouse	8	-	10,238	-	10,238

There were no transfers between levels during the six months ended 31 December 2018 or the financial year ended 30 June 2018.

Notes to the financial statements

For the six months ended 31 December 2018

11. Financial instruments (continued)

Valuation techniques used to derive level 2 and level 3 fair values

The fair value of financial instruments that are not in an active market are determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available. If the significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3, as is the case for unlisted equity securities.

Specific valuation techniques used to value level 2 and level 3 financial instruments include:

Share in unquoted securities of entities managed by Lighthouse

The Group holds investments in entities managed by Lighthouse. Each investment entity has an external administrator who is responsible for determining the fair value of the underlying investments of each entity and using this to calculate the net asset value per share at which any investor in the entity can redeem their investment holding ('the exit price'). The fair value of these investments as at 31 December 2018 and 30 June 2018 is the exit price as calculated and provided by the external administrator of the investment entities. All significant inputs required to fair value the investments are therefore observable.

Unquoted securities of externally managed entities

The shares held in other externally managed entities are unquoted and are considered level 3 as the inputs to the fair value are not based on observable market prices.

Boutique asset manager

The fair value of this investment has been determined with reference to publicly available current industry valuation multiples, and then applying a liquidity/marketability discount to take into account the unlisted nature of this investment.

Operator of an online marketplace for alternative investments

The fair value of this investment is based on a sale transaction between existing equity holders which occurred in May 2018, and then applying a liquidity/marketability discount to take into account the unlisted nature of the investment.

Text analytics platform provider

The fair value of this investment is based on the price per share of additional capital issued by the entity as part of a Series B capital raising in May 2018.

Movement in Level 3 assets

The following table presents the change in Level 3 assets for the financial year ended 30 June 2018 and for the six months ended 31 December 2018:

	Note	Investment in unquoted securities
Opening balance 30 June 2017		5,005
Increase in fair value through other comprehensive income		633
Closing balance 30 June 2018	8	**5,638**
Increase in fair value through other comprehensive income		-
Closing balance 31 December 2018	8	**5,638**

There were no transfers in or out of Level 3 during the six months ended 31 December 2018 or the financial year ended 30 June 2018.

Notes to the financial statements

For the six months ended 31 December 2018

12. Capital commitments

As at 31 December 2018 the Group had commitments of $1,171 thousand in relation to furniture and fitout for a new office premises in Chicago and the purchase of new computer servers.

13. Subsequent events (events occurring after reporting date)

There has not arisen in the interval between the end of the reporting period and the date of this report, any other item, transaction or event of a material nature, likely to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

14. Corporate information

Navigator Global Investments Limited (the 'Company' or 'Navigator', formerly HFA Holdings Limited) is a public company incorporated in Australia and is listed on the Australian Securities Exchange. The registered office of the Company is Level 21, 10 Eagle Street, Brisbane QLD 4000.

These consolidated interim financial statements of the Company as at and for the six months ended 31 December 2018 comprise the Company and its subsidiaries (the 'Group').

15. Statement of compliance

These interim financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting*; the Corporations Act 2001; and IAS 34 *Interim Financial Reporting*. They do not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 June 2018 and any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The consolidated financial statements of the Group as at and for the year ended 30 June 2018 are available on the Company's website at www.navigatorglobal.com.au, or a copy can be requested by contacting the Company.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out in note 18.

These interim financial statements were authorised for issue by the Company's board of directors on 14 February 2019.

16. Basis of measurement

The consolidated financial statements have been prepared on a going concern basis. The consolidated financial statements have been prepared on a historical cost basis except for the following items:

Items	Measurement basis
Financial instruments at fair value through profit or loss	Fair value
Financial instruments at fair value through other comprehensive income	Fair value
Contingent consideration	Fair value

The methods used to measure fair value are discussed further in note 11.

17. Functional and presentation currency

The consolidated financial statements are presented in US dollars ('USD'), which is the Company's functional currency.

The amounts contained in this financial report have been rounded to the nearest thousand dollars in accordance with the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016, unless otherwise stated.

Translation of foreign currency

Transactions in foreign currencies are translated to the respective functional currency of Group entities at rates of exchange ruling on the date of those transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies, are recognised in profit or loss.

Notes to the financial statements

For the six months ended 31 December 2018

18. Other accounting policies

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- note 5 - recognition of deferred tax assets: availability of future taxable profit against which carried forward tax losses can be used;
- notes 8 and 11 - fair value measurement of investments; and
- note 9 - purchase consideration for client relationships acquired.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value. The methods used to determine fair values for measurement and / or disclosure purposes are included in the following notes:

- notes 8 and 11 - investments in financial assets at fair value through profit or loss;
- notes 8 and 11 - investment in financial assets at fair value through other comprehensive income; and
- note 9 - relative fair value of assets acquired through the MAS transaction.

Changes in accounting policies

New and amended standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current reporting period:

AASB 9 *Financial instruments*

AASB 9 brings together three aspects of accounting for financial instruments: classification and measurement, impairment and hedge accounting. The standard has been applied by the Group for the reporting period commencing 1 July 2018. The adoption of AASB 9 did not have a material impact on the disclosures or the amounts recognised in the Group's financial statements.

a) Classification and measurement

The Group continues to measure all financial assets currently held at fair value.

Trade receivables (which are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest) continue to be classified as amortised cost. The Group analysed the contractual cash flow characteristics of these instruments and concluded that they meet the criteria for amortised cost measurement under AASB 9. Therefore, reclassification of these instruments is not required.

The investments in unquoted securities of externally managed entities were previously held as available for sale, and accordingly fair value gains and losses for these assets were recorded in other comprehensive income (OCI). The Board has made an election to continue to present fair value changes in OCI for these investments. As such, the application of AASB 9 has not resulted in a material impact on the amounts recognised in the Group's financial statements. However, under this election, the fair value reserve associated with these investments is now prohibited from being recycled to the profit and loss on disposal, but can be transferred within equity.

b) Impairment

AASB 9 requires the Group to record expected credit losses on its receivables on either a 12-month or lifetime basis. As the Group's trade receivables are short-term in nature and do not contain a significant financing component, the Group has elected to apply the simplified approach and assess lifetime expected losses on all trade receivables.

For all other financial instruments in-scope of the impairment requirements of AASB 9, the Group assesses expected credit losses on a forward-looking basis and the impairment methodology applied will depend on whether there has been a significant increase in credit risk.

Due to the short-term nature of the Group's trade receivables, the fact that the majority relate to Group managed products, and the historically low default rates, the application of the expected credit loss model has not resulted in the recording of a credit allowance.

c) Hedge accounting

The Group does not currently have any existing hedge relationships. As such, there was no impact.

AASB 15 *Revenue from contracts with customers*

AASB 15 establishes a comprehensive five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard has been applied by the Group for the reporting period commencing 1 July 2018 using the full retrospective method (no practical expedients have been applied).

a) Revenue from the provision of services

The consideration received by the Group for the provision of services is in the form of management fees, and in the case of some customers, performance fees. Historically, management fees have been recognised in the income statement as services have been provided. Performance fees have been recognised only when the entitlement to receive the fee has become certain, which is at the end of the relevant performance period.

Notes to the financial statements

For the six months ended 31 December 2018

18. Other accounting policies (continued)

The adoption of AASB 15 has not resulted in a change in timing or amount of revenue recognised in relation to either management fees or performance fees. This is because of the uncertainty associated with the estimate of performance fees, which is not included in the transaction price until the final performance has been determined at the end of the relevant performance period. At all times prior to this, there is a high probability of any revenue recognised being reversed. All relevant performance periods are 12 months or less.

b) Reimbursement of fund operating expenses

The Group is entitled to reimbursement for fund expenses that it has paid on behalf of the funds. While the funds generally pay their own operating expenses directly, there are some expenses, such as financial data services and software and technology expenses, where it is more practical for the Group to incur and pay the expense and then be reimbursed by the fund. These reimbursements have historically been recognised on a net basis in the income statement.

Under the principal versus agency considerations in AASB 15, the Group now recognises the fund expense reimbursements it incurs on a gross basis. Reimbursements received from funds are classified as 'Revenue from reimbursement of fund operating expenses', and payments made on behalf of funds are classified as 'Reimbursable fund operating expenses'. The prior period income statement and cashflow have restated to reflect this change.

The impact of this change for the six months to 31 December 2018 is an increase to both revenue and expense of $2,738 thousand. (31 December 2017: $1,350 thousand). This change does not have a net impact on the Group's income statement or statement of financial position.

c) Agreements for the provision of office space and services

The Group has a number of agreements with external parties to license desk / office space at their New York and London offices. As part of these agreements, licensees are charged license fees and service charges on a monthly basis.

The Agreements represent contracts with a customer under AASB 15. The revenue from these agreements is now described as 'Revenue from provision of office space and services' (previously termed of 'Rent, outgoings and other operating expenses on-charged to sublease tenants'). The amounts are unchanged.

AASB 3 *Business Combinations*

AASB 3 has been amended to include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. This election is made on a transaction by transaction basis.

The amendments to AASB 3 are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. The Group has early adopted the amendments from 1 July 2018 as permitted by the standard.

Acquisition of MAS client relationships

The Group's United States subsidiary, Lighthouse Investment Partners, LLC (Lighthouse) acquired the rights to manage $5.4 billion of assets on behalf of clients from Mesirow Advanced Strategies (MAS) on 1 July 2018. The transaction was completed in accordance with a formal agreement with MAS whereby Lighthouse acquired the contractual rights to act as investment manager of these assets, along with some de minimus intellectual property, tangible property and prepayments. Lighthouse also made employment offers to 56 of the MAS staff, and these staff commenced as Lighthouse employees on 1 July 2018.

The Group has assessed that substantially all of the fair value of the assets acquired in the transaction relate to the intangible client relationships. As the fair value of all the acquired assets and liabilities is concentrated in a group of similar assets, namely the intangible client relationships, the Group has determined that the transaction should be accounted for as an asset acquisition rather than a business combination.

Other Standards

- AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014–2016 Cycle and Other Amendments
- AASB 2016-5 Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions

These amendments did not have a material impact on the disclosures or the amounts recognised in the Group's financial statements.

Notes to the financial statements

For the six months ended 31 December 2018

18. Other accounting policies (continued)

Accounting standards and interpretations issued but not yet effective

The following Australian accounting standards that are relevant to the Group's operations have been issued but are not yet effective and have not been adopted by the Group for the period ended 31 December 2018:

AASB 16 *Leases*

AASB 16 removes the classification of leases as either operating or finance leases for a lessee and introduces a single approach to accounting for leases requiring the lessee to recognise an asset and liability in relation to the lease. The standard does not become mandatory until 1 January 2019.

The Group has a number of leases for office premises and equipment, and adoption of this standard is expected to result in the following impacts to the Group's consolidated financial statements:

- recording additional assets and liabilities in its balance sheet;
- removing lease payments as an operating expense and replacing this amount with a depreciation and finance cost expense in the income statement; and
- a reclassification in the cash flow statement for payments relating to leases from operating cash outflows to financing cash outflows.

The full quantum of financial and disclosure impacts are yet to be determined with the choice of transition yet to be decided. Further information will be provided in the annual financial report for the year ended 30 June 2019.

Other Standards

The following additional new or amended standards have not yet been adopted and are not expected to have a significant impact on the Group's consolidated financial statements:

- AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation
- AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures
- AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle
- AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement
- AASB Interpretation 23 Uncertainty over Income Tax Treatment
- AASB 2014-10 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

Directors' declaration

In the opinion of the directors of Navigator Global Investments Limited (the 'Company'):

(a) the consolidated financial statements and notes that are set out on pages 15 to 34 are in accordance with the Corporations Act 2001, including:

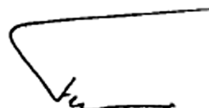
  (i) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

  (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.

Michael Shepherd, AO
Chairman and Non-Executive Director



F P (Andy) Esteban
Non-Executive Director

Sydney, 14 February 2019

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Independent Auditor's Review Report to the members of Navigator Global Investments Limited

Report on the Interim Financial Report

We have reviewed the accompanying interim financial report of Navigator Global Investments Limited, the Company and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2018, the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Interim Financial Report

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

Auditor's Responsibility

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

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

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Independence

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

Ernst & Young

Rebecca Burrows
Partner
Brisbane
14 February 2019

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