



Board Charter

Magellan Flagship Fund Limited

ACN 121 977 884

Board Charter

1. Introduction

- 1.1 Magellan Flagship Fund Limited ("**Company**") is an ASX-listed investment company.
- 1.2 The Company's investment activities are managed by Magellan Asset Management Pty Limited ("**Manager**") pursuant to an investment management agreement dated 10 November 2006 ("**IMA**").
- 1.3 The Company has also outsourced key aspects of its corporate administration to the Manager pursuant to an administrative services agreement dated 10 November 2006 ("**ASA**").
- 1.4 The board of directors of the Company ("**Board**") is responsible for the overall operation and stewardship of the Company and, in particular, is responsible for its success and long-term growth, and corporate governance.
- 1.5 The purpose of this Charter is to:
 - (a) promote high standards of corporate governance;
 - (b) clarify the role and responsibilities of the Board; and
 - (c) enable the Board to provide strategic guidance for the Company and effective operational oversight.
- 1.6 This Charter is supported by the charter for the Audit and Risk Committee of the Board.
- 1.7 This Charter will apply subject to applicable legal and regulatory requirements, including, without limitation, duties and obligations imposed on the directors by statute and general law.
- 1.8 The Board may review and amend this Charter at any time.

2. Board size, composition and independence

- 2.1 There must be a minimum of three directors and a maximum of 10 directors.
- 2.2 The Board aims to have a majority of independent non-executive directors, subject to compliance with the requirements of clause 2.3 of this Charter.
- 2.3 The Board must comprise:
 - (a) directors with an appropriate range of skills, experience and expertise;
 - (b) directors who can understand and competently deal with current and emerging business issues; and
 - (c) directors who can effectively review and challenge the performance of the Manager and exercise independent judgment.
- 2.4 An independent non-executive director is one who is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment.

3. The Board's role and responsibilities

- 3.1 The Board acts on behalf of shareholders and is accountable to them for the overall direction, management and corporate governance of the Company. The Board has authorised the

Manager to make decisions concerning the Company (see clause 4), but has expressly reserved certain matters requiring a decision of the Board.

3.2 The Board is responsible for:

- (a) approving the appointment and removal of:
 - (i) Chairperson; and
 - (ii) Company Secretary.
- (b) assessing the Company's overall performance;
- (c) establishing committees of the Board and, in relation to each committee:
 - (i) appointing the members and chairperson;
 - (ii) setting the committee's charter; and
 - (iii) delegating authority to that committee;
- (d) subject to the law and the Company's constitution, determining the remuneration of the non-executive directors (including the members of all committees of the Board);
- (e) nominating candidates for election to the Board by shareholders;
- (f) reporting to shareholders;

Investment Management

- (g) exercising all rights conferred on it and performing all obligations imposed on it under the IMA;
- (h) reviewing at regular intervals relevant aspects of the IMA;
- (i) reviewing and having input into overall target portfolio composition;
- (j) providing strategic guidance on investments to the Manager;
- (k) monitoring and assessing the performance of the Manager under the IMA;

Corporate Administration

- (l) exercising all rights conferred on it and performing all obligations imposed on it under the ASA;
- (m) reviewing at regular intervals relevant aspects of the ASA;
- (n) monitoring and assessing the performance of the Manager under the ASA;

Financial Matters

- (o) recommending to shareholders any increase or decrease in the share capital of the Company;
- (p) issuing, allotting, granting options over, offering or otherwise dealing with or disposing of unissued shares in the capital of the Company or rights to subscribe for or convert any security into shares in the capital of the Company in accordance with the Company's constitution. The directors, however, will not, in the absence of extraordinary circumstances, do so without the approval of the Company's

shareholders obtained in general meeting, unless such issue, allotment, grant of offer is made pro-rata to all of the Company's shareholders;

- (q) making calls in respect of any money unpaid on shares and forfeiting or accepting surrender of shares in accordance with the Company's constitution;
- (r) approving an appropriate debt/equity ratio of the Company;
- (s) approving material Company funding facilities;
- (t) approving by the end of June of each year an operating budget for the Company, for the financial year ahead;
- (u) approving the transfer or transmission of shares in accordance with the Company's constitution, provided that such power may be delegated to a share registry;
- (v) approving the financial markets on which the Company's securities will be listed;
- (w) approving any notifications to the relevant exchanges for listings, suspensions, delistings or relistings;
- (x) declaring the amount of profits available for payment of dividends, to fix the amount of a dividend to be recommended to shareholders, and to declare and make arrangements for the payment of interim dividends in accordance with the Company's constitution;
- (y) approving the establishment of a dividend re-investment scheme;
- (z) approving the giving of guarantees and letters of comfort by the Company;
- (aa) approving any security, mortgage or other pledge given over any of the Company's assets or revenues;
- (bb) approving the Company's annual financial statements and reports to shareholders;
- (cc) approving the Company's half year financial statements and reports to shareholders;
- (dd) authorising charitable contributions by the Company;
- (ee) continuing the Board policy that the Company does not make donations to any political parties;
- (ff) reporting as appropriate, that the business is a going concern, with supporting assumptions or qualifications as necessary;
- (gg) on advice from the Audit and Risk Committee of the Board, approving the Company's accounting policies;

Professional appointments/advice

- (hh) approving the appointment and removal of the external auditors of the Company;
- (ii) considering and, if appropriate, accepting external audit reports, including management letters;
- (jj) reviewing any recommendation from the Audit and Risk Committee of the Board arising from internal audit reports;

Risk management

- (kk) reviewing reports and appraisals from the Audit and Risk Committee of the Board on market and operational controls;
- (ll) reviewing and overseeing the implementation of the Company's Code of Conduct;
- (mm) monitoring and ensuring compliance with legal and regulatory requirements and ethical standards and policies;
- (nn) monitoring and ensuring compliance with best practice corporate governance requirements;
- (oo) ensuring the risk management systems, including internal controls, operating systems and compliance processes are operating efficiently and effectively;

Public affairs/stakeholder relations

- (pp) convening meetings of shareholders (including the annual general meeting) and to exercise all other powers relating to shareholders' meetings given to directors in the Company's constitution;
- (qq) approving all resolutions being put and matters concerned with a notice of general meeting or annual general meeting;
- (rr) approving the Company's Continuous Disclosure Policy and monitoring compliance with this Policy;

General

- (ss) approving the establishment of overseas branch registers of the Company;
- (tt) approving any material related party transaction and any transaction that any director would directly benefit from;
- (uu) approving any material conflict of interest that the Company or a director may have prior to relevant transactions being entered into.

Save where, and to the extent, restricted by law, regulation or the Company's constitution, the Board may delegate any of the above powers to individual directors, committees of the Board or the Manager. Any such delegation shall be in compliance with the law and the Company's constitution.

4. The Board and Manager

4.1 The Manager is authorised to make decisions in relation to the Company pursuant to the IMA and the ASA, except for the matters set out in clause 3 above (which are expressly reserved to the Board for its collective decision), and those matters reserved for the Board through the Audit and Risk Committee Charter of the Board. This authorisation is subject to the law (see clause 1.7).

4.2 Notwithstanding anything contained in the IMA or the ASA, the Manager is obliged to consult with, and report to, the Board on significant matters, including:

- (a) any material project or other material decision which in the opinion of the Manager:
 - (i) amounts to a major initiative;
 - (ii) is a significant policy change or a significant departure from the Manager's obligations under the IMA or the ASA;
 - (iii) is likely to be of significant public interest;

- (b) all material matters affecting the Company and significant decisions made in discharge of the Manager's obligations under the IMA and ASA, including:
 - (i) all material compliance issues;
 - (ii) material litigation or potential litigation involving the Company;
 - (iii) any capital expenditure affecting the Company approved by the Manager of more than \$1,000,000;
 - (iv) appointments and resignations of members of the Manager's senior investment or executive teams;
- (c) any material or relevant correspondence from ASX or other regulators or ratings agencies;
- (d) any material potential financial or regulatory impact which is considered more likely than not to arise; and
- (e) performance of the Company's investment portfolio on, at least, a monthly basis.

5. **Audit and Risk Committee**

- 5.1 The Board has established the Audit and Risk Committee to assist it in carrying out its responsibilities, to share detailed work and to consider certain issues and functions in detail.
- 5.2 The charter of the Audit and Risk Committee setting out matters relevant to its composition, responsibilities and administration must be approved by the Board. The Audit and Risk Committee will review its charter from time to time as appropriate.

6. **Chairperson of the Board**

- 6.1 The chairperson of the Board is appointed by the directors.
- 6.2 The responsibilities of the chairperson of the Board include:
 - (a) providing leadership to the Board;
 - (b) promoting the efficient organisation and conduct of the Board's functions;
 - (c) monitoring the performance of the Board;
 - (d) facilitating Board discussions to ensure core issues facing the Company are addressed;
 - (e) briefing all directors in relation to issues arising at Board meetings;
 - (f) facilitating the effective contribution and ongoing development of all directors;
 - (g) promoting constructive and respectful relations between Board members and between the Board and the Manager; and
 - (h) chairing general meetings.

7. **Directors**

- 7.1 Directors are expected to attend and participate in Board meetings and meetings of committees on which they serve.

- 7.2 Directors are expected to spend the time needed, and meet as often as necessary, to properly discharge their responsibilities.
- 7.3 Directors are expected to review meeting materials before Board meetings and committee meetings.
- 7.4 Directors are encouraged to ask questions of, request information from, and raise any issue of concern with, the Manager. Directors are encouraged, where possible, to ask any questions and raise issues of concern before a meeting so that the Manager is prepared to address them.
- 7.5 Directors must exercise independent judgment when making decisions.
- 7.6 Publicly, directors are expected to support the letter and spirit of Board decisions.
- 7.7 Directors must keep Board information, discussions, deliberations, and decisions that are not publicly known, confidential.
- 7.8 Directors are expected to comply with their legal duties when discharging their responsibilities as directors. Broadly, these duties are:
- (a) to act in good faith and in the best interests of the Company;
 - (b) to act with care and diligence;
 - (c) to act for proper purposes;
 - (d) to avoid a conflict of interest or duty; and
 - (e) to refrain from making improper use of information gained through the position of director or taking improper advantage of the position of director.

8. **Conflicts**

- 8.1 Directors are expected to be sensitive to conflicts of interest or duty that may arise and mindful of their fiduciary obligations.
- 8.2 Directors must:
- (a) disclose to the Board any actual or potential conflict of interest or duty that might reasonably be thought to exist as soon as the situation arises;
 - (b) take necessary and reasonable action to resolve or avoid any actual or potential conflict of interest or duty; and
 - (c) comply with the *Corporations Act 2001* (Cth) and the Company's constitution in relation to disclosing material personal interests and restrictions on voting.
- 8.3 If a conflict exists, it is expected that any director to whom the conflict relates will leave the room when the Board is discussing any matter to which the conflict relates.
- 8.4 Directors are expected to inform the chairperson of the Board of any proposed appointment to the board, committee or executive of another company as soon as practicable.

9. **Access to information and independent advice by directors**

- 9.1 Directors have access to any information they consider necessary to fulfil their responsibilities and to exercise independent judgment when making decisions.
- 9.2 Directors have access to:

- (a) the Manager to seek explanations and information from the Manager; and
- (b) auditors, both internal and external, to seek explanations and information from them without the Manager being present.

9.3 Directors may obtain independent professional advice at the Company's expense, subject to making a request to, and obtaining the prior authorisation of, the chairperson of the Board. Where the chairperson of the Board wishes to obtain independent professional advice, he or she is required to make a request to, and obtain the prior authorisation of, the chairperson of the Audit and Risk Committee of the Board.

9.4 Notwithstanding clause 9.3, directors must make independent judgement when making decisions in accordance with the procedures agreed by directors.

10. **Retirement of directors**

10.1 This clause 10 shall be read consistently with the Company's Constitution.

10.2 At the end of every annual general meeting, one-third of the directors (to the nearest whole number) must retire and may stand for re-election.

10.3 A director must retire at the end of the third annual general meeting after the director's appointment even if it means that more than one-third of directors retire at an annual general meeting.

10.4 Those directors who have been longest in office since their last appointment must retire by rotation. Directors appointed on the same day may agree among themselves or determine by lot who must retire.

10.5 A director appointed to fill a casual vacancy or as an addition to the Board is not subject to retirement by rotation and is not taken into account when determining how many directors must retire by rotation. A director appointed to fill a casual vacancy or as an addition to the Board must retire at the next annual general meeting after their appointment.

11. **Ethical Standards**

11.1 The directors and other employees are expected to act lawfully, in a professional manner and with the utmost integrity and objectivity in their dealings with clients, contractors and competitors, the community and each other, striving at all times to enhance the reputation and performance of the Company.

12. **Communication of information**

12.1 The Board will:

- (a) communicate effectively with shareholders;
- (b) give shareholders ready access to balanced and understandable information about the Company and its goals; and
- (c) make it easy for shareholders to participate in general meetings.

13. **Review of Board performance**

13.1 The performance of the Board and the directors will be reviewed every two years.

13.2 This review will consider:

- (a) the Board's role;

- (b) the processes of the Board and committees of the Board;
- (c) the Board's performance; and
- (d) each director's performance before the director stands for re-election.

14. **Approved and adopted**

This charter was approved and adopted by the Board on 10 November 2006

