



## **Corporate Governance Statement**

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**Magellan Asset Management Limited**

**as Responsible Entity for Magellan High Conviction Trust**

**ARSN 634 789 754**

**Current as at and approved by the Board on 12 August 2019**

## Overview

Magellan Asset Management Limited (**'Responsible Entity'**, or **'MAM'**) is the responsible entity for the Magellan High Conviction Trust (**'Trust'**, **'MHH'**, ASX:MHH), a registered managed investment scheme that is listed on the Australian Securities Exchange (**'ASX'**). The Responsible Entity is a wholly owned subsidiary of Magellan Financial Group Limited (ASX:MFG) (**'MFG'**) and the key operating subsidiary. MFG and MAM are referred to as **"Magellan"** in this Corporate Governance Statement.

MAM is the holder of an Australian Financial Securities Licence (AFSL 304301) and is registered as an investment adviser in the United States and as a Promoter and Investment Manager to Irish authorised collective investment schemes. In addition to the Trust, MAM is the Responsible Entity of the:

- Magellan Global Fund;
- Magellan Global Fund Hedged;
- Magellan Infrastructure Fund;
- Magellan Infrastructure Fund Unhedged;
- Magellan High Conviction Fund;
- Airlie Australian Share Fund;

together with the ASX AQUA quoted funds:

- Magellan Global Equities Fund (ASX:MGE);
- Magellan Global Equities Fund (Currency Hedged) (ASX:MHG) and;
- Magellan Infrastructure Fund (Currency Hedged) (ASX:MICH);

and the ASX listed fund:

- Magellan Global Trust (ASX: MGG).

MAM is also the Trustee of two unregistered managed investment schemes, Magellan Core Infrastructure Fund and Airlie Concentrated Share Fund. MAM has statutory and fiduciary obligations to act in the best interest of the funds, the unitholders and direct investors and clients.

This Corporate Governance Statement reports against the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* 3<sup>rd</sup> Edition, March 2014 (**'ASX Corporate Governance Principles'**).

## Principle 1: Lay solid foundations for management and oversight

As the Trust is externally managed by MAM the following recommendations are not applicable:

- 1.1 Role and Responsibilities of the Board
- 1.2 Board composition
- 1.3 Written agreements with directors and senior executives
- 1.4 Role of company secretary
- 1.5 Diversity
- 1.6 Evaluation of board and committee performance
- 1.7 Evaluation of senior executive performance

**Alternative to recommendation 1.1 for externally managed listed entities: The responsible entity of an externally managed listed entity should disclose:**

- (a) the arrangements between the responsible entity and the listed entity for managing the affairs of the listed entity; and**
- (b) the role and responsibility of the board of the responsible entity for overseeing those arrangements.**

In operating the Trust, the Responsible Entity's overarching principle is always to act in good faith and in the best interests of the Trust's unitholders in accordance with its fiduciary duty. The Responsible Entity's duties and obligations in relation to the Trust principally arise from: the Constitution of the Trust; the Compliance Plan for the Trust; ASX Corporate Governance Principles, regulatory requirements of the Australian Securities and Investments Commission and legislative and regulatory requirements of jurisdictions in which the Responsible Entity operates.

The Board of Directors of Magellan, in consultation with management, determine appropriate corporate governance practices, taking into account the matters outlined in the preceding paragraph. Where, after due deliberation, corporate governance practices differ from an ASX Corporate Governance Principle, this Corporate Governance Statement will set out the reasons for the difference.

The Responsible Entity has, as far as practicable, adopted the governance framework of MFG being cognisant of its fiduciary duty. The composition of the Boards of both MFG and the Responsible Entity are near identical.

## Principle 2: Structure the Board to add value

As the Trust is externally managed the following recommendations are not applicable:

- 2.1 Nominations Committee
- 2.2 Board skills matrix
- 2.4 Independent directors
- 2.5 Board chairman independence
- 2.6 New director induction

### **Recommendation 2.3 – A listed entity should disclose:**

**(a) the names of the directors considered by the board to be independent directors;**

**(b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and**

**(c) the length of service of each director**

The Board of the Responsible Entity comprises 7 directors: 2 Executive Directors and 5 independent Non-Executive Directors as detailed below:

<b>Director Name</b>	<b>Independent Yes/No</b>	<b>Reason if No</b>	<b>Length of Service (Date Appointed)</b>
Robert Fraser (Chairman)	Yes	-	23 April 2014
Brett Cairns (CEO)	No	Executive	22 Jan 2007
John Eales	Yes	-	1 July 2017
Paul Lewis	Yes	-	20 Dec 2006
Hamish McLennan	Yes	-	1 March 2016
Kirsten Morton (Chief Financial Officer)	No	Executive	5 October 2018
Karen Phin	Yes	-	23 April 2014

An independent Director is a Non-Executive Director who is independent of Magellan and free of any interest, position, association or relationship that could materially influence (or could reasonably be perceived to materially influence) in a material respect, his/her capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of Magellan, its securityholders generally, and in the case of the Responsible Entity, in the best interests of unitholders. In making this determination, the MFG Board has reviewed and assessed previous and current relationships.

## Principle 3: Act ethically and responsibly

### **Recommendation 3.1 – A listed entity should:**

**(a) have a code of conduct for its directors, senior executives and employees; and**

**(b) disclose that code or a summary of it.**

#### **Code of Conduct**

Magellan has a Code of Ethics that applies to all Directors and employees of Magellan. The Board requires all Directors and employees to comply with the Code. The purpose of this Code is to:

- communicate the standards of behaviour that Magellan expects of its employees;
- encourage the observance of obligations and standards of conduct to protect and promote the interests of Magellan, its clients, funds under management, shareholders, unitholders and other stakeholders;
- guide employees through the practices thought necessary to maintain confidence in Magellan's integrity; and
- set out the responsibilities and accountabilities of employees to report and investigate reports of unethical practices.

All employees of Magellan are required to make an annual declaration confirming their compliance with the Code of Ethics.

A copy of the Code of Ethics can be found in the Shareholder Centre section on Magellan's website at [www.magellangroup.com.au](http://www.magellangroup.com.au) under Corporate Governance.

## Principle 4: Safeguard integrity in corporate reporting

### **Recommendation 4.1 - The board of a listed entity should:**

**(a) have an audit committee which:**

**(1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and**

**(2) is chaired by an independent director, who is not the chair of the board, and disclose:**

**(3) the charter of the committee;**

**(4) the relevant qualifications and experience of the members of the committee; and**

**(5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or**

**(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.**

The MFG Board has established an Audit and Risk Committee ('ARC') under a separate Charter which can be found in the Shareholder Centre section on Magellan's website at [www.magellangroup.com.au](http://www.magellangroup.com.au) under Corporate Governance.

The ARC comprises the five (5) independent Non-Executive Directors. The Chairman of the ARC is an independent Non-Executive Director who is not the Chairman of the MFG Board.

The Chairman of the ARC is also the Chairman of the Responsible Entity's Board. For good governance, the Chairman will not chair a MAM Board meeting while the financial statements of either MAM or its managed investment schemes are being considered.

Details of the ARC members' qualifications and experience are contained in the MFG Annual Report. The number of times the ARC met during the year, including individual attendances of members, is also set out in MFG's Annual Report and is available on Magellan's website.

The role of the ARC is to oversee Magellan's responsibilities relating to financial reporting, relevant statutory requirements, statutory external financial audits and audits in relation to certain aspects of the risk management and compliance frameworks. The ARC will meet at a minimum, three times each year. The Chairman of the ARC will report to the MFG Board in respect of each ARC meeting. The ARC conducts an assessment of its performance in accordance with the Charter every two years.

Magellan's independent external auditor is Ernst & Young. The ARC is responsible for recommending to the MFG Board the appointment and removal of the external auditor. The independence and effectiveness of the external auditor is reviewed periodically. The ARC is also responsible for ensuring that the external audit engagement partners are rotated in accordance with relevant statutory requirements. The external auditors regularly attend the ARC's meetings and when Magellan's Financial Statements are being considered or where relevant items are on the ARC's agenda.

**Recommendation 4.2 - The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.**

The Responsible Entity's Chief Executive Officer and Chief Financial Officer make the following certifications to the Responsible Entity Board prior to the approval of the Trust's half year and annual financial statements:

- the financial records of the Trust for the financial year have been properly maintained;
- the Trust's Financial Statements and notes applicable thereto give a true and fair view of its financial position and performance and comply with the requirements of the Accounting Standards, Corporations Act 2001 (*Cth*) and Corporations Regulations 2001 (*Cth*);
- the integrity of the Trust's financial statements is founded on a sound system of risk management and internal compliance and control which, in all material aspects, implements the policies adopted by the Responsible Entity's Board; and
- Magellan's risk management and internal compliance and control systems are sound, appropriate, operating effectively managing the Trust's material risks.

**Recommendation 4.3 - A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.**

As the Trust does not intend to hold an Annual General Meeting this Recommendation is not applicable. If the Trust were to hold an Annual General Meeting in the future, the Recommendation would be complied with.

## Principle 5: Make timely and balanced disclosure

**Recommendation 5.1 - A listed entity should:**

**(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and**

**(b) disclose that policy or a summary of it.**

**Continuous disclosure policy**

The Responsible Entity's Board has adopted a Continuous Disclosure Policy for the Trust that assists with clear and effective communication to unitholders by ensuring:

- the Trust, at a minimum, complies with its continuous disclosure obligations under the Corporations Act and the ASX Listing Rules;
- the Trust provides Unitholders, together with the market, timely, direct and equal access to information issued by it; and
- information which is not generally available and which may have a material effect on the price or value of the Trust's Units be identified and appropriately considered for disclosure to the market.

The Trust's Continuous Disclosure Policy can be found on Magellan's website at [www.magellangroup.com.au](http://www.magellangroup.com.au) under Reports & ASX Releases for the Trust.

## Principle 6: Respect the rights of security holders

**Recommendation 6.1 - A listed entity should provide information about itself and its governance to investors via its website.**

The Responsible Entity recognises that unitholders are entitled to accurate, timely and relevant information and should be fully informed of material matters that affect the Trust's position and prospects. Any prospective investors should be able to make informed investment decisions regarding the Trust. The Trust seeks to accomplish this through the release of:

- the daily Net Asset Value per unit ("NAV");
- the intraday indicative NAV ("iNAV");
- weekly and monthly NAV notices to the ASX;
- monthly updates in respect of the Trust;
- annual portfolio disclosure;

- an Annual Investor Letter;
- the Trust's Half Year results each year;
- the Trust's Full Year results each year; and
- significant information on Magellan's website promptly after it is disclosed to the market.

All information is available on Magellan's website at [www.magellangroup.com.au](http://www.magellangroup.com.au).

Magellan also maintains information about itself, the Trust and its governance on Magellan's website including:

- a copy of MFG's Board and Committee Charters and corporate governance policies;
- ASX Releases;
- Unit Registry details and a link to the ASX for share price information; and
- the Trust's Distribution Schedule and Policy.

A copy of the Trust's constitution is available upon request.

### **Recommendation 6.2 - A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors**

The MAM Distribution Team has an investor relations program which has been designed to facilitate effective two way communication with unitholders which includes the release of monthly updates and annual Investor Letters in respect of the Trust.

### **Recommendation 6.3 - A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.**

The Responsible Entity recognises the importance of unitholder interaction and supports the principle of participation. If any meetings are held, the Responsible Entity will provide the required documents to, and inform unitholders, run the meeting as required and make the required ASX disclosures.

### **Recommendation 6.4 - A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.**

The Responsible Entity recognises the benefits of using electronic communications and unitholders have the option to receive communications from, and send communications to, the unit registry electronically. The following information can be received electronically:

- distribution statements;
- periodic statements;
- annual taxation statements;
- Annual Reports;
- if any meetings are held, notices of meetings and proxy forms and the ability to vote online; and

- other general Trust communications.

Unitholders can log into their account to make these changes. The unit registry can also be contacted via email or telephone. Contact details can be found on Magellan’s website at [www.magellangroup.com.au](http://www.magellangroup.com.au).

## Principle 7: Recognise and manage risk

### **Recommendation 7.1 - The board of a listed entity should:**

#### **(a) have a committee or committees to oversee risk, each of which:**

- (1) has at least three members, a majority of whom are independent directors; and**
- (2) is chaired by an independent director, and disclose:**
- (3) the charter of the committee;**
- (4) the members of the committee; and**
- (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or**

#### **(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity’s risk management framework.**

Refer to Recommendation 4.1 for a description of the MFG Audit and Risk Committee.

In relation to risk, the Committee assists the MFG Board to discharge its responsibilities in relation to the effectiveness of the financial and operational risk management framework and associated internal controls. The Responsible Entity’s Board, chaired by an independent Chairman, otherwise has oversight of the operational risk and compliance frameworks as it considers risk management matters should be a strong focus of the entire Responsible Entity Board.

The Responsible Entity’s Board has established a Risk and Compliance Committee (“**RCC**”) to assist it in discharging its corporate governance and oversight responsibilities in relation to Magellan’s obligations, which include the requirement for adequate risk management and compliance systems. The RCC consists of the Chief Executive Officer, Chief Financial Officer, Responsible Managers and senior MAM employees including the Chief Compliance Officer.

The Responsible Entity’s Board has also established a Management Information Technology Risk Committee (“**ITRC**”) which has oversight and provides direction on Magellan’s information technology risk management activities. The ITRC consists of the Chief Executive Officer, Chief Compliance Officer and other senior MAM employees responsible for information technology.

### **Recommendation 7.2 - The board or a committee of the board should:**

#### **(a) review the entity’s risk management framework at least annually to satisfy itself that it continues to be sound; and**

#### **(b) disclose, in relation to each reporting period, whether such a review has taken place.**

Magellan has adopted a risk management framework based on AS ISO 31000:2018 *Risk management—Guidelines* and RG 259 *Risk Management Systems of responsible entities*. The Framework supports a structured and focussed approach to identifying, managing and reviewing risk to complement the strategies adopted to achieve the corporate objectives of Magellan.

The Magellan Boards conduct a review of the risk management framework at least annually. This review includes whether any changes are required to the MFG and MAM Board's risk appetite and whether the risk management framework remains sound.

A review of the risk management framework was conducted for the 2019 financial year.

**Recommendation 7.3 - A listed entity should disclose:**

**(a) if it has an internal audit function, how the function is structured and what role it performs; or**

**(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.**

Magellan does not have an internal audit function although periodic monitoring of compliance with key policies and procedures is performed by MAM's Risk and Compliance team and the results are reported to the MAM Board.

MAM is subject to external audit of the design and operating effectiveness of its compliance and control environment relating to asset management services. In addition, Magellan's culture, size, simple and scalable operations, transparent reporting and flat organisational structure allow the Boards and management full and direct visibility of the key activities undertaken.

The Boards and senior management have the skills and expertise to understand and rigorously review and challenge the information provided and recommendations submitted for approval. Where additional assurance is desired, the relevant Board can commission external independent advice and reviews as necessary.

**Recommendation 7.4 - A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.**

Details in relation to environmental and social sustainability risks can be found in the Product Disclosure Statement which can be found on Magellan's website at [www.magellangroup.com.au](http://www.magellangroup.com.au).

## Principle 8: Remunerate fairly and responsibly

As the Trust is externally managed the following recommendations are not applicable:

- 8.1 Remuneration committee
- 8.2 Disclosure of remuneration policies and practices
- 8.3 Equity based remuneration schemes

**Alternative to recommendation 8.1, 8.2 and 8.3 for externally managed listed entities: An externally managed listed entity should clearly disclose the terms governing the remuneration of the manager:**

The rates of the management and performance fees payable to the Responsible Entity in respect of the Trust can be found in the Product Disclosure Statement dated 13 August 2019 on Magellan's website at [www.magellangroup.com.au](http://www.magellangroup.com.au). Further details of actual management and performance fees paid can be found in the Half Yearly Reports and Annual Reports of the Trust on Magellan's website at [www.magellangroup.com.au](http://www.magellangroup.com.au).