

## CORPORATE GOVERNANCE STATEMENT

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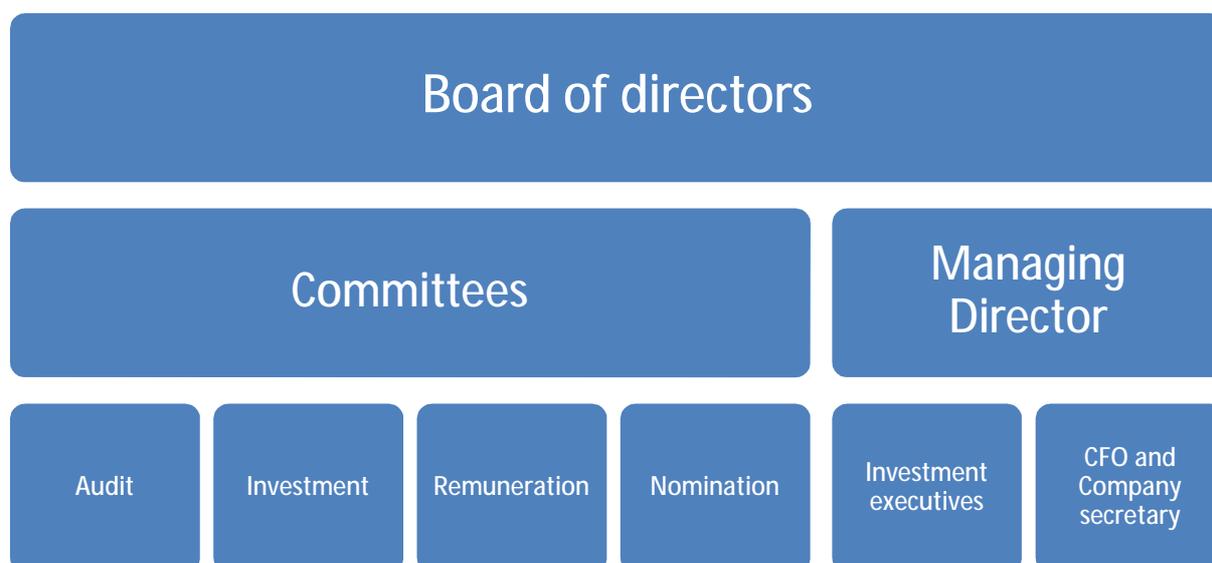
The directors of Milton consider sound corporate governance practices promote behaviour that is in the best interests of the company and is likely to assist in the delivery of increasing returns to shareholders over the long term.

This statement details the corporate governance framework put in place by the board of directors to promote sound management of the company. Ultimately the board is responsible for the operational and financial performance of the company.

This statement has been approved by the board of directors and is current as at 4 August 2016.

### 1. Corporate structure

The chart below shows the corporate structure that has been established by the board.



### 2. Responsibilities

The board operates in accordance with its Board Charter which includes the responsibilities specifically reserved for the board, the board's composition and how it is to operate.

The board's responsibilities are:

- Approving the corporate objective;
- Approving the investment philosophy and corporate strategy;
- Approving the business plan and budget;
- Monitoring the operational and financial performance of Milton;
- Approving the financial reports, shareholder communications and other public documents;
- Declaring dividends;
- Capital management including approval of all share issue offers such as the share purchase plan and dividend reinvestment plan and as consideration for company acquisitions;
- Approving portfolio movement recommendations above pre set limits;
- Reviewing of the internal control systems;
- Reviewing the performance of management and the Board itself;
- Approving the remuneration of the senior executives;
- Approving the appointment of senior executives; and
- Making recommendations regarding the election of directors.

Day-to-day management of the company's affairs and the implementation of strategy and policy initiatives are formally delegated by the board to the chief executive.

### 3. Board composition and independence

The board comprises a majority of independent directors and currently there are five non executive and the managing director.

All of the non executive directors are considered to be independent. Each year the board formally considers the independence of directors taking into account length of service and any other factors that may compromise their exercise of independent judgement. All non executive directors are required to advise the board of any change in circumstances which may affect their independence.

The board is of the opinion that the independence of long serving directors, Messrs R.D. Millner, F.J. Church and Dr. I.A. Pollard, has not been impeded and they continue to represent all shareholders. As a long term investor Milton benefits from their experience and corporate knowledge they have gained whilst being a director of Milton.

Milton's chairman, Mr. Millner, is also chairman of Washington H Soul Pattinson & Co Limited, a substantial shareholder of Milton. The Washington H Soul Pattinson holding of less than 6% of Milton's issued capital represents less than 5% of Washington H Soul Pattinson's assets and therefore the board considers it is unlikely to impact the chairman's independence. Mr. Millner has consistently demonstrated his commitment to represent the interests of all shareholders and therefore the board unanimously consider him to be independent.

In accordance with the Corporations Act 2001, any director who has an interest of any kind in relation to any matter dealt with at a board or committee meeting is required to advise the meeting and abstain from participation in the decision process.

The names of the current directors, the date of their appointment and their qualifications are set out below.

Name of Director	Length of service as at 30 June 2016	Qualifications
Non executive and independent		
Mr. Robert D. Millner	17 years 11 months	FAICD
Mr. John F. Church	30 years 3 months	FCSA, F Fin, FAICD
Mr. Graeme L. Crampton	7 years 1 month	B.Ec, FCA, FAICD
Mr. Kevin J. Eley	4 years 7 months	CA, F Fin, FAICD
Dr. Ian A. Pollard	17 years 10 months	BA (Macq), MA (Oxon), D Phil (IMC), FIAA, FAICD
Executive and non independent		
Mr. Francis G. Gooch	11 years 9 months	CPA

Two of the non executive directors have been partners in accounting and legal firms and the other three non executive directors have been chief executives in a range of industries. Collectively the board has extensive experience in:

- Investment management;
- Industries such as banking, insurance, retail, mining, primary production and telecommunications;
- Corporate strategy;
- Finance and accounting;
- Governance and risk management;
- Legal matters, governance and regulation; and
- Mergers and acquisitions

## 4. Committees

The board has established committees to assist it in carrying out its responsibilities. The roles and responsibilities of these committees have been approved by the board and are detailed in their charters which are available on Milton's web site.

### *Audit Committee:*

The Audit Committee, consisting of at least three independent directors, reviews the effectiveness of the risk management and internal controls, the reliability of financial information and the appointment and effectiveness of the external auditor. The committee for the 2015/16 year comprised of Mr. K.J Eley, Dr. I.A. Pollard and chaired by Mr. G.L. Crampton.

To assist in this function, the committee may invite the external auditor and senior executives to report to meetings. Any significant non-audit services to be provided by the external auditors must be approved in advance by the Audit Committee. The Audit Committee considers that the provision of those non-audit services provided to date by the external auditor would not affect the auditor's independence.

The latest review of the risk management framework and internal control systems and processes in relation to the 2015/16 financial year was carried out by the Audit Committee in June 2016.

### *Investment Committee:*

The Investment Committee, consisting of three independent directors and the managing director, meets regularly to review the investment portfolio, to consider management's recommendations and to make investment decisions within defined limits. All directors may attend the Investment Committee meetings. The defined limits are reviewed by the board from time to time.

### *Nomination Committee:*

The Nomination Committee consists of those directors who are not seeking re-election. The committee for 2015/16 financial year consists of Mssrs. R.D. Millner, J.F. Church, G.L. Crampton, K.J.Eley and F.G.Gooch. The Committee is chaired by Mr. R.D.Millner who is an independent director. Dr. I.A Pollard will be seeking re-election at the next annual general meeting to be held in Oct 2016.

All non-executive directors are subject to re-election at least every three years. The Nomination Committee reviews the composition of the board annually and makes recommendations on the appropriate skill mix, personal qualities, expertise and diversity. The committee also makes recommendations to the board regarding the election of directors by shareholders.

The Nomination Committee is also responsible for conducting the annual review of the performance of the board as a whole and its committees in accordance with Milton's Performance Evaluation policy. The latest such performance review was conducted by the Nomination Committee in June 2016.

### *Remuneration Committee:*

The Remuneration Committee consists of three independent directors including the Chairman. The committee for 2015/16 financial year consists of Mssrs. R.D. Millner (Chair), G.L. Crampton and Dr. I.A. Pollard.

The committee formally reviews the performance of the managing director and each year it makes specific recommendations to the board on remuneration packages and other terms of employment for senior executives and directors.

The latest performance reviews of the managing director and senior executives were conducted in June 2016.

## 5. Director induction

The board is responsible for the selection and appointment of new directors after the appropriate background checks have been made.

In accordance with Milton's induction programme new directors are provided with a formal letter of Appointment, Deed of Indemnity, Insurance and Access agreement, Constitution, Corporate Governance Statement and related charters and policies. Milton has written agreements with each of its directors which details their terms of appointment.

New directors are encouraged to meet with management and attend all committee meetings to develop a deep understanding of the operation of the company.

Ongoing director professional development is facilitated through regular management presentations on key business functions as well as statutory and regulatory updates. Services of external consultants are engaged to cover specific topics of interest areas as and when required.

Independent professional advice may be sought by a director at Milton's expense with the prior approval of the chairman. A copy of advice received by the director is made available to the chairman to be dealt with at his discretion.

## **6. Diversity**

The board has established a diversity policy which is available on Milton's website.

The policy acknowledges the advantages of gender diversity as well as diversity of age and skills.

The key element of the diversity policy is that Milton will seek the best person with the appropriate characteristics that is available for the position and will not discriminate against candidates on the grounds of gender, age, ethnicity or cultural background.

In relation to the appointment of each new director, the board will consider a broad range of candidates and seek to appoint the person that would best complement the collective skills, experience and diversity of the current directors.

The current board comprises six male directors. Milton considers gender diversity whenever the opportunity arises and appointment of a director will always be based on the relative merits of the candidates.

Milton has achieved gender diversity amongst its employees with women representing 57% of total employees and 40% of senior executives. Senior executive positions at Milton include CEO, CFO and the investment team responsible for making investment portfolio recommendations. The team members have different backgrounds, age and experience.

## **7. Company Secretary**

Mr. Nishantha Seneviratne is the Company Secretary and Chief Financial Officer of Milton having overall responsibility for company secretarial, finance and governance functions.

The Company Secretary is directly accountable to the Board, through the Chair on all matters relating to the proper functioning of the Board.

## **8. Continuous disclosure and shareholder communication**

The Company Secretary has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules.

The board reviews and approves all announcements to the ASX, except for the monthly net asset backing announcements which are reviewed by the chief financial officer and the managing director.

Milton has established a website to enhance communication with its shareholders and potential investors. The website contains historical information, copies of all information disclosed to the ASX and a corporate governance section that includes details of the various committee charters and policies. Shareholders, who have advised Milton of their email addresses, are notified by email of all announcements to the ASX. The Milton communications policy is available on Milton's website.

## **9. Risk management**

The managing director and chief financial officer report annually to the Audit Committee on Milton's risk management system.

A written declaration in relation to the 2015/16 financial year has been provided to the board by the managing director and chief financial officer stating that, in their opinion, the financial records of Milton 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 Milton and that the opinion has been formed on the basis of a sound system of risk management and internal controls which is operating effectively.

The board considers an internal audit function is not necessary due to the nature and size of Milton's operations. The external auditors report to the Audit Committee on risk management issues identified during the course of the audit. The risk management policy is available on Milton's website.

Milton is not directly exposed to material environmental and social sustainability risks. However, Milton may have indirect exposure through its investments in companies that have material exposure to such risks. Milton regularly evaluates its overall risks of its existing investments as well as potential investments. Assessment of economic, environmental and social sustainability risks of companies in which Milton invests forms part of Milton's overall evaluation of performance of its investments.

#### **10. Trading policy in relation to listed securities**

Milton has developed a trading policy to ensure directors and employees comply with insider trading provisions of the Corporations Act and to avoid the risk they are perceived to have traded while in the possession of insider information.

The trading policy is provided to all directors and employees so that they are aware of the restrictions that apply to them in relation to their dealing in securities.

The trading policy is available on the Milton webpage at [www.milton.com.au/trading](http://www.milton.com.au/trading) policy.