

Investing for a Vibrant Dairy Future

Board Governance Charter

Reviewed April 2019

Contents

| SECTION | PAGE |
|---|------|
| 1 PREAMBLE | 3 |
| 2 INTRODUCTION | 3 |
| 3 BOARD COMPOSITION | 4 |
| 3.1 Board Composition and Size | |
| 3.2 Director Independence and Tenure | |
| 4 BOARD ROLE AND RESPONSIBILITIES | 5 |
| 4.1 Board Role | |
| 4.2 Board Key Responsibilities | |
| 4.3 Reserved Authorities | |
| 4.4 Directors | |
| 4.5 Remuneration | |
| 5 DELEGATION OF DUTIES AND POWERS | 6 |
| 5.1 Relationship with the Chief Executive | |
| 5.2 Role of the Chief Executive | |
| 5.3 Delegation to committees | |
| 6 BOARD PROCESS | 7 |
| 6.1 Meetings | |
| 6.2 The Chair | |
| 6.3 The Secretary | |
| 6.4 Access to Independent Professional advice | |
| 6.5 Board Evaluation | |
| 7 CONFLICT OF INTEREST | 8 |
| 8 EQUAL OPPORTUNITY | 8 |
| 9 DIRECTORS' AND OFFICERS' INDEMNITY | 8 |
| 10 APPOINTMENT OF EXTERNAL AUDITORS & ROTATION OF EXTERNAL AUDIT PARTNERS | 9 |
| 10.1 Selection criteria | |
| 10.2 Selection and appointment process | |
| 10.3 Rotation of External Auditor Partners and Staff | |
| 11 BUDGET RESERVE AND EXPENDITURE SETTING | 10 |
| 12 BUSINESS OF THE FOUNDATION | 10 |



1 PREAMBLE

The Geoffrey Gardiner Dairy Foundation Limited (the **Foundation**) was formed in 2000 following the deregulation of the dairy industry.

The Board's principal activity is to take an active role in investing in RD&E, supporting industry initiatives and managing the investment of funds to maximise the benefits to all sectors of the Victorian Dairy Industry and Victorian Dairy Communities in accordance with section 65 of the *Dairy Act 2000*.

This Board Governance Charter recognizes the Parliamentary oversight of the activities and Constitution of the Foundation and its Ministerial designation as the custodian of funded assets, formerly held by VDIA, on behalf of the Victorian dairy industry and dairy communities.

2 INTRODUCTION

This Board Governance Charter sets out the corporate governance principles of the Foundation.

The Board's role is to:

- promote and protect the best interests of the Members and by extension the Foundation; and
- act honestly, fairly, diligently and in accordance with the law.

The Board and the Members of the Foundation have adopted this Board Governance Charter to outline the manner in which its constitutional powers and responsibilities will be exercised and discharged, having regard to principles of good corporate governance, international best practice and applicable laws. The Board Governance Charter is made in accordance with, and supports, the Constitution of the Foundation and in the event of inconsistency, the Constitution takes precedence.

The Board Governance Charter has been prepared and adopted on the basis that strong corporate governance can add to the performance of the Foundation, create Member and stakeholder value, and engender the confidence of the responsible Minister for Agriculture.

This Board Governance Charter is to be reviewed by the Board and Members as required and at least once every year.

This Board Governance Charter includes an overview of:

- Board composition and process
- Board role and responsibility
- Relationship and interaction between the Board and management
- Authority delegated by the Board to Chief Executive and Board committees
- Director's conflicts of interest
- Workplace equal opportunity
- Directors Indemnity
- Appointment and rotation of auditors
- Budget reserve and expenditure setting policy
- Business of the Foundation



3 BOARD COMPOSITION

3.1 Board Composition and Size

Under the Constitution, the Board is appointed by the Members. All Directors are non-executive and are engaged through a Deed of Agreement.

The Constitution sets out terms which govern the size and composition of the Board. Under the Constitution, the number of independent Directors must be equal to or greater than the number of non-independent Directors, unless there are six Directors, in which case the number of independent Directors must be four.

Except during the 12 month period prior to the Chair's retirement where there may be up to six Directors as further described in section 6.2, there will be up to five Directors (three of which must be independent Directors).

The Board is to have an appropriate range of skills, expertise and experience. Clause 24.7 of the Constitution stipulates the range of attributes required for the Board.

3.2 Director Independence and Tenure

The Board only considers Directors to be independent where they are independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of their unfettered and independent judgment.

For the purposes of clauses 24, 25 and 38 of the Constitution, 'independent' means a person who is not a current employee or officer of a Member, and who is not a current employee, officer or proprietor (whether of the whole or a part, but excluding the holding of 5% or less of the equity or capital of a business, company, trust or partnership) of a Dairy Farm, Dairy Processor or Dairy Manufacturer.

Board renewal is critical to the performance of the Board and the Board has the responsibility for ensuring board renewal is undertaken. To maintain continuity of skills and expertise, the Board will strive to have staggered terms for Directors, that is, seek to avoid all Directors' terms of office coming to an end at the same time.

The Board will review the duration of each Director's tenure in succession planning. The Constitution provides that, in nearly all cases, a Director remains in office until the end of the annual general meeting (AGM) which is closest to the expiration of the Director's three year term but will be eligible for re-election at that meeting.

Generally, Directors are expected to serve two terms of three years with a maximum of a third term of between 1 to 3 years permitted (subject to Members approval). A third term will, generally, only be considered for addressing critical skill and knowledge retention, and/or orderly Board succession.

3.3 Exceptional Circumstances

In the event that the Board is considering 'exceptional circumstances' pursuant to clause 26.2 of the Constitution, the Members will be consulted by the Chairman in advance of the Board's final consideration and decision, provided that in any event a Director must not serve more than a maximum of three terms.



4 BOARD ROLE AND RESPONSIBILITIES

4.1 Board Role

The Board's role is to:

- oversee and appraise the Foundation's strategies, policies and performance. This includes overseeing the financial and human resources that the Foundation has in place to meet its objectives and reviewing management performance;
- protect and optimise the Foundation's performance and build sustainable value to pursue the Foundation's objects in accordance with any duties and obligations imposed on the Board by law and the Constitution, within a framework of prudent and effective controls that enable risk to be assessed and managed;
- frequently review the Fund Managers performance and deliberate on the merit of seeking alternative Funds Managers, strategies or approach to investment;
- retain an external expert to conduct an independent triennial review of the external Funds Managers;
- retain an external expert to set, review and ensure compliance with the Foundation's values and governance framework including establishing and observing high ethical standards and articulating these in a Charter); and
- ensure Members are kept informed of the Foundation's performance and major developments affecting its state of affairs.

4.2 Board Key Responsibilities

The responsibilities/functions of the Board include:

- selecting, appointing and evaluating from time to time the performance of, determining the remuneration of, and planning succession of, the Chief Executive;
- contributing to and approving the Chief Executive's development of the Foundation's strategy, including setting strategic objectives, performance objectives and approving operating budgets;
- reviewing, ratifying and monitoring systems of risk management and internal control and ethical and legal compliance. This includes reviewing policies to identify the main risks associated with the Foundation's businesses and the implementation of appropriate systems to manage these risks;
- approving major expenditure;
- monitoring and reviewing management processes aimed at ensuring the integrity of financial and other reporting;
- developing and reviewing the Foundation's corporate governance principles Charters and policies; and
- performing such other functions as are prescribed by law or are assigned to the Board, including pursuant to the Constitution.

4.3 Reserved Authorities

Matters which are specifically reserved for the Board (and which the Board may delegate to a committee in accordance with the Constitution) include:

- appointment of the Chair from time to time where the elected Chair is unable or unwilling to act as Chair, together with a Vice-Chair(s) (as applicable);
- appointment and removal of the Chief Executive;
- establishment of Board committees, their membership and delegated authorities;
- approval of strategy and annual budgets;
- approval of expenditure, in excess of authority levels delegated to management;
- approval of the appointment (including the termination of an engagement) of the external auditors with respect to corporate governance best practice on a 5 year auditor rotation in accordance with the arrangements set out in clause 10 of this Charter; and
- any other specific matters nominated by the Board from time to time.

4.4 Directors

Directors commit to the collective, group decision-making processes of the Board. Individual Directors will always respect the contributions of other Directors, and strive to understand their perspective and contributions to Board debate and discussion. Directors will debate issues openly and constructively and be free to question or challenge the opinions presented at meetings where their own judgement differs from that of other Directors.

In accordance with general governance practice, the Chair is remunerated at 2 times the unit fees of the directors. Directors will be expected to participate in all induction and orientation programs and any continuing education or training arranged for them by the Foundation.

The Board collectively, and each Director individually, has the right to seek independent professional advice, subject to the approval of the Chair, or the Board as a whole and with the assistance of the Secretary.

4.5 Remuneration

The aggregate amount payable to the Directors (as approved by the Company in general meeting from time to time) must be divided among the Directors in such proportion and manner as the Directors agree and, in default of agreement, equally, provided that in all cases, the Chair will be entitled to additional remuneration commensurate with the additional responsibilities of that role.

In accordance with general practice, the Chair is remunerated at 2 times the unit fees of the directors.

The Remuneration of directors will be agreed by the Members at a general meeting of the Foundation, on a three yearly cycle.



5 DELEGATION OF DUTIES AND POWERS

5.1 Relationship with the Chief Executive

The Board will approve corporate objectives for the Chief Executive to satisfy and, jointly with the Chief Executive will develop the duties and responsibilities of the Chief Executive.

Subject to formal delegations of authority and the powers reserved to the Board in section 4.3, the Board delegates to the Chief Executive all authority to achieve the corporate objectives approved by the Board. However, ultimate responsibility for strategy rests with the Directors.

The Chief Executive is accountable to the Chair for the exercise of the authority that is delegated to the Chief Executive.

With the support of management, the Chief Executive must report to the Board and its committees on the exercise of authority in a timely and efficient manner that will enable the Board and its committees to discharge their duties effectively.

The Board and its committees require timely and accurate reports from the Chief Executive that will enable the Board and its committees to make assessments and judgments, conduct inquiries and to gain assurance that the decisions and actions of the Chief Executive, and the performance of the Foundation, are directed toward the Foundation's objectives and fall within the delegation of authority limits.

Directors are entitled to request additional information from the Chief Executive, via the Chair, at any time when they consider it appropriate.

5.2 Role of the Chief Executive

The management function is conducted by, or under the supervision of, the Chief Executive as directed by the Board (and by other officers to whom the management function is properly delegated by the Chief Executive). The level of delegation is captured in a Delegation of Authority instrument which is reviewed annually by the HR Governance & Communications Committee of the Board.

The Chief Executive is responsible for implementing the Foundation's objectives, strategic objectives, plans and budgets approved by the Board.

The Chief Executive is free to take all decisions and actions which further the Foundation's objectives and which are reasonable in his or her judgement having regard to the authority limits approved by the Board.

The Chief Executive will report to the Board on the achievement of the Foundation's objectives and material developments in the following areas:

- the development and implementation of strategy and the annual plan;
- the business and financial performance of the Foundation and material events which are critical to the achievement of the corporate objectives; and
- the activities covered by the delegation of authority.

The Board will monitor the decisions and actions of the Chief Executive and the performance of the Foundation to gain assurance that progress is being made towards the approved corporate objectives and towards shorter and medium term plans.

The Chair of the Board, the chairs of committees, the Chief Executive and the Secretary will strive collaboratively to ensure that effective systems are in place for the production and transmission of information and reports.

The Chair of the Board, the chairs of committees, the Chief Executive and the Secretary will strive collaboratively to ensure that internal administrative overheads are minimised to an extent reasonably possible and that specialist tasks and expertise are procured externally via an outsourcing approach.

5.3 Delegation to Committees

The Board from time to time may establish committees to streamline the discharge of its responsibilities and support the Board in the consideration of matters that require more intense review.

Each standing committee will adopt a formal 'Terms of Reference' as determined by the Board, setting out the matters relevant to the composition, responsibilities and administration of the committee.

The permanent standing committees of the Board are the Finance, Audit Investment & Risk (FAIR) Committee, the Community and People Development (CPD) Committee, and the Human Resources (HR) Governance and Communications Committee. The Terms of Reference for the Board Committees are reviewed annually.

In addition there are two advisory committees to the Board. A Scientific Advisory Committee (SAC) and Farmer Advisory Committee (FAC). These independent advisory committees will be chaired by the Board Chair and include the Chief Executive with other independent participants. Unless specifically determined otherwise, the board advisory committees will bring their recommendation for Board consideration and decision.



6 BOARD PROCESS

6.1 Meetings

The Board will meet regularly and Directors will allocate sufficient time to perform their duties effectively.

Periodically, the Board may meet without executive management present.

Board meetings are set consultatively annually in advance on a calendar year cycle and all Directors will commit to this annual schedule.

Directors will use all reasonable endeavours to attend Board meetings in person. If unable to attend in person, every effort to attend via alternative means of technology should be sought. Directors unable to attend a meeting must advise the Chair and the Secretary as soon as practicable with a proposal for an alternative method for linking in.

The Constitution governs the regulation of Board meetings.

6.2 The Chair

The Chair of the Company is the independent Director elected as the Chair by unanimous resolution of the Members after consultation with the Directors as set out in clause 38 of the Constitution.

The Chair will facilitate the work of the Board at its meetings and be responsible for ensuring that the principles and processes of the Board are maintained.

The Chair will set the agenda for each meeting in consultation with the Chief Executive. Any Director may request that an item be added to the agenda.

The Chair represents the Board to the Members and communicates the Board's position.

The Chair has authority to act and speak for the Board between its meetings, including engaging with the Chief Executive and conducting the monitoring activities of the Board in section 4.2. The Chair will report to the Board and the Chairs of the committees as appropriate on decisions and actions taken between meetings of the Board.

The Chair may be removed from office by unanimous resolution of the other Directors or unanimous resolution of the Members in a meeting, and a new Chair will be elected in accordance with clause 38.3 of the Constitution.

For the purposes of succession planning and providing a handover period, the Selection Panel that is convened under clause 24.4 of the Constitution for the AGM that is 12 months prior to the AGM at which the current Chair is due to retire, will consider potential candidates with attributes necessary for eligibility for the position of Chair upon the current Chair's retirement (either from amongst the current Directors or a new person).

The Selection Panel's written report to be provided for the AGM will include its recommendation of a potential candidate for the position of Chair upon the current Chair's retirement.

If the Selection Panel's recommended candidate for election as the new Chair is not a current Director, that person will be put forward for election as a Director at the AGM at which the Selection Panel's report is first tabled. If that person is approved by the Members in accordance with clause 25.2 of the Constitution, the number of Directors will increase by an additional Director (up to a maximum of six) for the 12 month period prior to the current Chair's retirement.

The person recommended by the Selection Panel for the position of Chair (whether a current Director or a new person elected as Director as set out above) will be put forward for election as Chair by the Members in accordance with clause 38.1 of the Constitution at the AGM at which the current Chair will retire. If approved by the Members, that Director will become Chair at the close of the AGM, and with the retirement of the outgoing Chair the number of Directors will again reduce to a maximum of five Directors.

6.3 The Secretary

The Board will appoint a Secretary, accountable to the Board.

The Secretary will advise the Chair, and through the Chair, the Board and individual Directors on matters of governance process.

The Secretary is responsible for coordination of all Board business, including agendas, Board papers, minutes, communication with regulatory bodies, and all statutory and other filings.

The Secretary will develop and maintain the information systems and processes that are appropriate for the Board to fulfil its role and to achieve the approved corporate objectives.

6.4 Access to Independent Professional Advice

The Board may access independent experts and professional counsel for advice where appropriate and may invite any person from time to time to attend meetings of the Board.

6.5 Board Evaluation

The Board will conduct performance evaluations of the Board as a whole, its committees, the Chair, individual Directors, and the governance processes which support the Board. These evaluations will be conducted periodically as the Board considers appropriate but not less than annually.



7 CONFLICT OF INTEREST

The Board must ensure that processes are in place to deal with Director's conflicts of interest that apply to both financial and non-financial interests. That process must:

- require Directors to make a full disclosure of the conflict of interest at meetings of the Board;
- require that disclosure to be recorded in the minutes of the Board meeting;
- require the Board to determine whether that conflict of interest is material;

- enable the Board to:
 - require the Director who has a conflict of interest in a matter to be absent from the meeting while the Board is considering that matter or
 - prohibit the Director from taking part in any decision of the Board on that matter.

The Board must also ensure that there is a policy in place for Directors and staff that prevents Directors or staff from seeking or accepting, for themselves or others, gifts or benefits that could be reasonably perceived as influencing them.

8 EQUAL OPPORTUNITY

The Foundation is committed to providing a safe, flexible and respectful environment for Directors and staff and those with whom the Foundation deals, free from all forms of discrimination, bullying, sexual harassment, and racial & religious vilification.

The Board will work with the Chief Executive to take reasonable and proportionate measures to eliminate discrimination, sexual harassment and victimisation as

far as possible, and to seek to ensure that all Foundation Directors and staff are required to treat others with dignity, courtesy and respect.

The Chief Executive, in consultation with the Board, will develop and implement an HR Policy including Workplace Equal Opportunity Procedure(s) for the Foundation.

The Board acknowledges the Victorian State Government policy regarding gender balance and supports diversity on boards. The Board also supports affirmative action to deliver high quality candidates with the necessary skills and experience to fulfill the role.

9 DIRECTORS' AND OFFICERS' INDEMNITY

The Company will take out appropriate insurance cover on behalf of Board members for civil damages for breach of duty, negligence or breach of trust but only if the Board members' conduct does not constitute a

willful breach of duty or a contravention of sections 182 or 183 of the Corporations Act 2001. Insurance will be maintained for each member of the Board for at least 7 years after they cease to hold office.



10 APPOINTMENT OF EXTERNAL AUDITORS & ROTATION OF EXTERNAL AUDIT PARTNERS

The Finance Audit Investment & Risk Committee has carriage of the Foundation's External Auditor relationship and makes recommendations to the Board in relation to the appointment, termination and oversight of the External Auditor. It also ensures that key partners within the appointed firm are rotated from time to time in accordance with Governance best practice.

10.1 Selection Criteria

The Foundation requires its External Auditor to review, test and challenge its accounting policies, accounting processes and internal financial controls. Accordingly, the Foundation will appoint as the External Auditor, a nationally recognised and respected accountancy firm which has access to expert accounting standards and research relevant to the not for profit and financial services sector and demonstrable audit quality control processes.

10.2 Selection and Appointment Process

Key aspects of the External Auditor selection and appointment process are:

- The Board is responsible for appointing the External Auditor, subject to Member approval.
- The Finance Audit Investment & Risk Committee will annually review the External Auditor's performance and independence and periodically benchmark the cost and scope of the external audit engagement.
- The appointed External Auditor is required to present to the Finance Audit Investment & Risk Committee an annual external audit proposal.

- The Finance Audit Investment & Risk Committee, in consultation with management, will review and recommend the scope of the audit, the terms of the annual engagement letter and audit fees.
- Management will prepare the annual engagement letter on behalf of the Finance Audit Investment & Risk Committee.
- Upon engagement, the External Auditor or will have unfettered access to management, and staff records and company facilities. The External Auditor will be permitted a reasonable agreed time to conduct its audit.

10.3 Rotation of External Auditor Partners and Staff

The External Auditor is required to rotate the Foundation audit and review partners at least once every 5 years. A previous audit partner should not be involved in the Foundation audit for at least 2 years subsequently. Alternatively, the External Auditor firm may be subject to the 5 year rotation.

The External Auditor must manage its audit team members to ensure adequate rotation of staff.

These matters will be confirmed via an audit engagement letter to the Finance Audit Investment & Risk Committee.



11 BUDGET RESERVE AND EXPENDITURE SETTING

Budget Reserve

A Budget Reserve will be defined and approved by the Board. It will form part of the strategic asset allocation (SAA) to cash (current SAA 5% of total). There will not be a separate account established for the Budget Reserve to ensure maximum returns on the cash component.

A Budget Reserve of ~\$2m will be established and may serve as a source of funds in the event of:

1. a decline in revenue;
2. the need for a short-term cash allocation to the budget when the sale of capital is required to meet the budget allocation;
3. there is a transition to new strategic priorities; and
4. tactical projects larger than the normal budget allocation.

Budget Setting and Expenditure

The budget target will be set by the Board - in line with the earnings projections from the Investment Advisor; requirement to maintain market value of the Corpus; trended expenditure; long term strategic commitments to R&D and best practice for endowment expenditure formulae.

To achieve this, the following spending principles have been adopted:

1. annual expenditure is not normally to be more than the income (net of management fees) projected by the Investment Manager/s (noting the potential role of the Budget Reserve in supplementing the budget); and
2. when returns from investment yield are insufficient to supplement revenue to cover expenditure, then returns from capital growth/cash/Reserve will be accessed to match budgeted revenue to cover expenditure.

12 BUSINESS OF THE FOUNDATION

The purpose of the Foundation is the prudent stewardship of the assets, formerly held by VDIA, for the benefit of the Victorian Dairy Industry. This primary activity is delegated to an external Funds Manager. The performance of the Funds Manager is considered on an annual basis and formally reviewed on a triennial basis as outlined in section 4.1.

The Foundation is not in a position under clause 29.2 (b) of the Constitution to change the fundamental business the Foundation. The Foundation is not in a position nor does it seek to, manage alternative funds on behalf of other agencies be they within or external to the Victorian Dairy Industry.

From time to time, the Foundation may be the potential beneficiary of bequests. The approach to receiving, evaluating and acceptance of such funds will be determined on a case by case basis. Part of that evaluation will include an assessment of any specifications accompanying the bequest to ensure they align with the Foundation's constitutional remit.

Date April 2019

BRUCE KEFFORD
Chair of the Board

