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ASX Market Announcements
Australian Securities Exchange Limited
Exchange Centre
20 Bridge Street
Sydney NSW 2000

Magellan Flagship Fund Limited
ABN 32 121 977 844

Level 7, 1 Castlereagh Street,
Sydney NSW 2000 AUSTRALIA

General: +61 2 8114 1888
Facsimile: +61 2 8114 1800
Website: www.magellangroup.com.au

AMENDMENT TO INVESTMENT MANAGEMENT AGREEMENT

Magellan Flagship Fund Limited ('**MFF**') and Magellan Asset Management Limited ('**MAM**', a subsidiary of ASX listed Magellan Financial Group Limited) have agreed to vary the Investment Management Agreement dated 10 November 2006 ('**IMA**') to effectively cap fees and increase alignment for MFF shareholders. The Independent Directors of MFF have agreed to remove the requirement for their consent in certain circumstances when MAM establishes new funds.

Summary of Key variations to IMA

With effect from 1 July 2013, MFF and MAM have agreed to amend the calculation of the Base Fee under the IMA, effectively capping it to the lower of the number of MFF Ordinary Shares on issue as at 30 June 2013 (approximately 346 million), or the actual number of MFF Ordinary Shares on issue. Under the new methodology where MFF grows its asset base through the issuance of additional shares, such as upon exercise of MFF's 2017 Options (ASX: MFFO) or under MFF's Dividend Reinvestment Plan, the quantum of the Base Fee no longer automatically increases. The quantum of the Base Fee will rise if the value per MFF Ordinary Share rises.

The rate of the Base Fee remains at the equivalent of 1.25% per annum payable quarterly in arrears and in consideration for this MAM will continue to provide services to MFF under the Administrative Services Agreement at no additional charge.

MFF and MAM have also agreed that Performance Fees under the IMA will cease after 31 December 2016 and that the maximum total Performance Fees paid over the period 1 July 2013 to 31 December 2016 will be capped at \$8 million. MFF and MAM have agreed that no Performance Fee is payable unless the Total Shareholder Return ('**TSR**') exceeds the rate of 10% per annum annually compounded, with four measurement periods each commencing 1 July 2013 and ending on 30 June 2014, 30 June 2015, 30 June 2016 and 31 December 2016 respectively. The Performance Fee that MAM may earn in respect to each period is \$2 million, and is non-cumulative.

MFF and MAM have agreed that MFF will have the right to terminate the IMA upon 3 months notice and MAM will have the right to terminate upon 6 months notice, which notice cannot expire prior to 12 December 2016. Until that time, termination rights without cause have been limited to where Chris Mackay ceases to be the portfolio manager, and MAM is unable to provide a replacement portfolio manager that is acceptable to MFF (acting reasonably).

The MFF Directors regard that these revised arrangements with MAM will create a stronger alignment with shareholder interests and improves MFF's financial position, by supporting a reduction in the management expense ratio over time if MFF grows its asset base. The MFF Directors intend that these revised arrangements will contribute to a strong basis for growth in MFF's shareholder value and investment performance with robust risk controls.

Yours faithfully,



Leo Quintana
Legal Counsel & Company Secretary