



A very disrupted year in retail

Company/ASX Code	Scentre Group/SCG
AGM date	Thursday 8 April 2021
Time and location	10:00am - online only
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Sue Howes
Pre AGM Meeting?	Yes with Chair Brian Schwartz, NED Andrew Harnos, CFO Elliott Rusanov and Company Secretary Maureen McGrath

Please note any potential conflict as follows: The individual involved in the preparation of this voting intention has no shareholding in this company.

The company has elected to have an online meeting only. The ASA will be voting all proxies in the name of Australian Shareholders Association and questioning directors as we would in a face to face AGM.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

Governance and culture

Both directors and senior management reduced their fees and fixed remuneration by 20% for a period of three months during the year in response to COVID-19. Given the failure of the long-term at-risk remuneration (LTAR) to vest the Board felt the need to provide retention awards to senior executives to ensure their continued service. This has worked well overall, with the exception of one executive who elected to leave regardless.

We questioned the Chair about succession planning given his tenure on the Board. The Board consider his tenure to have commenced in 2014 when the companies combined rather than including his tenure on the predecessor Board. As such Mr Schwartz has not contemplated retirement from the Board, however, advises that succession planning has commenced and is ongoing.

With regard to auditor tenders, the current partner has two years remaining on their rotation and it is likely that the auditor will then be reviewed and a tender may occur.

The company has identified climate change as a key financial risk and has adopted clear targets to reduce emissions.

Financial performance

Half the company's portfolio of properties is valued each half year. While the December valuation roughly maintained values, the June valuation took into account the anticipated effect of COVID and dropped significantly. The Board expects valuations to revert to something close to previous levels in the June 21 valuation.

The FFO has been impacted by lost revenue, lower project income and an expected credit charge. The company advises that while it has renegotiated 94% of tenancies the credit charge is required to remain in place until the new leases have been signed and completed. The credit charge will, however, include an increased level of bad debt.

The changes to lease terms are likely to feed into property valuations in the FY21 year, although the company expects these to remain stable following the valuation mentioned above.

Key events

The company has shored up its liquidity without capital raising during the year by restructuring its debt. The company now holds \$3.6 bn of bank facilities, \$2.4 bn of long-term bonds and \$4.1 bn of subordinated notes giving it current liquidity of \$6.9 bn, which is sufficient to cover all debt maturities until 2024. No financial support was received from Australian or NZ governments.

Key Board or senior management changes

Guy Russo was appointed to the Board during the year and is now standing for election. He has significant relevant retail experience to bring to the Board and this fills a noted gap. His appointment has reduced the gender ratio to 25%, but the Chair has indicated that there could be an additional appointment during the year and that diversity is high on the agenda in these deliberations.

Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT (\$m)	(3732)	1180	2287	4218	2991
Funds from Ops (FFO)	766	1332	1330	1285	1234
Share price (\$)	2.78	3.83	3.90	4.19	4.64
Dividend (cents)	7.0	22.60	22.16	21.73	21.30
TSR (%)	(25.59)	4.00	(1.60)	(4.20)	15.80
FFO per share (cents)	14.8	25.18	25.06	24.20	23.23
CEO total remuneration, actual (AUD\$m)*	4.7	7.5	9.2	8.9	7.1

* FY20 Remuneration includes STAR and LTAR relating to FY17 and FY18 and excludes the Retention Awards identified in the annual report.

For FY20, the CEO's total actual remuneration was **51.10 times** the Australian Full time Adult Average Weekly Total Earnings (based on Nov 2020 data from the Australian Bureau of Statistics).

Note - For November 2020, the Full-time adult average weekly total earnings (annualised) was \$92,034 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings").

Item 2	Adoption of Remuneration Report
ASA Vote	Against

Summary of ASA Position

CEO rem. Framework for FY21	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.0	22%
STI - Cash	2.1	24%
STI - Equity	0.9	10%
LTI	3.9	44%
Total	8.9	100%

Directors and the senior executive took a temporary 20% reduction in board fees and fixed remuneration for one quarter in relation to COVID-19.

Share grants are based upon face value.

The CEO achieved short-term-at-risk remuneration (STAR) of 55% this year while shareholders suffered a -26% total shareholder return (TSR). As such this award can't be said to be at risk given the disparity between the outcome for the CEO and the outcome for shareholders.

The LTAR failed the hurdles that had been set. The company has advised that given performance it is likely that three years of ROCE hurdles will not be met and therefore these benefits will likely fail to vest.

As a result of this the company has changed the LTAR for FY21 forward to be:

ROCE¹ 50%

Relative TSR² 30%

Strategic measure³ 20%

1. The hurdle for the ROCE to be met has also moved from being based on FFO to requiring a minimum growth in ROCE over a three year period of 15%, this being set as a gateway to vesting occurring, and operating within a range of 15% to 25% growth of ROCE.
2. TSR is measured relative to a peer benchmark and results in vesting ranging from 0 for performance against benchmark of less than 2% to potential maximum vesting at 2.5% capped at 125%.
3. Strategic Benchmark has a number of areas allocated in which hurdles can be set. Our advice is that the benchmarks chosen and the performance against them will be published once the year is finalised.

As a result of the likely three-year failure of LTAR to vest the company has decided to issue senior management with significant Retention Awards. For the CEO this award involved the issue of 1.65m shares that vest in two equal tranches in February 2023 and 2024. As these awards were settled using securities purchased by the company on market, they were able to, and did, grant these awards without reference to shareholders. At an end of year share price of \$2.78 this grant is worth the equivalent of \$4.59m, or 229% of FR.

As part of the negotiations that have evidently taken place regarding CEO remuneration, the good news is that the CEO service agreement has been amended to incorporate a notice period of 12 months and severance pay of 12 months (not for cause).

The remuneration plan continues to suffer from the existing issues of:

- LTAR being set at 155% of FR plus a 25% uplift;
- 3/4 year measurement period rather than the preferred 4/5;
- STAR being 150% of FR with 70% payable in cash and the remaining 30% able to be paid in cash at the Board's discretion.

Some of the changes to remuneration are welcomed, particularly the inclusion of TSR as part of the calculation. There are, however, a number of issues that we see:

- The first is that having set and staunchly supported the previous remuneration plan, both rapid deployment of a plan likely not to be beset by the same issues as well as issue of supplementary securities outside the plan would seem to ensure that management does not feel the pain of downside while shareholders do, so failing to align remuneration plans with the interests of shareholders in the current year.
- The inclusion of a relative TSR is seen as a step in the right direction, doing this at a time when the share price at the end of the year is a significant margin below the fairly static share price of the previous 5 years, albeit a relative TSR, could result in the grant of benefits to management while shareholders are still suffering poor returns. For example, if all other companies in the index had a TSR of zero for the year while SCG earns a TSR of 2.5%, the executive is in line for 155% of FR x 30% weighting x 125% while shareholders have had a pretty poor result.
- The third measure is subjective and not transparent. While the general headings of performance that will be considered have been published, no specific targets will be published prior to reporting on the outcome for the given year. This means shareholders are being asked to vote on the remuneration plan without details as to how a significant portion of it will be granted.

On balance, while there have been some improvements, there are some serious shortcomings both with the existing structure and the most recent changes to the plan and ASA will be voting all undirected proxies against this resolution.

Item 3	Re-election of Carolyn Kay as a Director
ASA Vote	For

Summary of ASA Position

Ms Kay has served on this Board since 2016 and brings a background of experience in law and finance. While Ms Kay has only one public board role, she holds five other private board roles or trusteeships. Given 2020 has been a year of crises, and 2021 seems to be continuing the trend to a lesser extent, the ASA is concerned to ensue that all Boards receive adequate attention from their members. We quizzed the company representatives on this point and the Chair indicated that there have been a total of 23 Board meetings and 5 Audit & Risk sub committee meetings and Ms Kay has attended all while also providing ad hoc contributions throughout the year.

Our view is that Ms Kay seems to be an active and dedicated Board member who brings significant experience to the Board.

Item 4	Re-election of Margaret Seale as a Director
ASA Vote	For

Summary of ASA Position

Ms Seale brings a background in consumer goods and publishing to the board and has also served since 2016. Her background in the publishing industry, including being involved in the transition to digital will likely assist the company given the headwinds the retail sector is and is likely to continue to face.

ASA will be voting all undirected proxy votes for this candidate.

Item 5	Election of Guy Russo as a Director
ASA Vote	For

Summary of ASA Position

Mr Russo has a background in retail including key involvement in the turnaround of Kmart. These skills will fill a retail experience gap that the board has had for some time. At present Mr Russo is Chair of another listed entity – SomnoMed, chairs the board of Guzman Y Gomez – private company and chairs international charity OneSky.

ASA will be voting undirected proxies for this candidate.

Item 6	Approval of grant of performance rights to Peter Allen, MD and CEO
ASA Vote	Against

Summary of ASA Position

On current lower than usual prices this award is worth around \$4m, at pre-COVID prices this would be worth \$5.6m. As the ASA is recommending voting against the remuneration report it is also recommending voting against the granting of performance rights.

ASA Disclaimer

This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:

- makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.