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A NEW DEFINITION OF PROFIT, BUT LEADS AUSTRALIA IN FUNDING RENEWABLE ENERGY

Company/ASX Code	Macquarie Group (MQG)
AGM date	30 July 2020
Time and location	10:30 am as a Virtual meeting enter the following URL in your browser: https://web.lumiagm.com or mobile device: use the Lumi AGM app the meeting ID for Macquarie's AGM is: 362826298
Registry	Boardroom
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Allan Goldin assisted by Sue Howes
Pre AGM-Meeting?	Yes, with Chair Peter Warne, Chair of Remuneration Committee Michael Hawker, Director Jillian Broadbent, Lynnette Sarno, Global Head of HR Sam Dobson, Head of Investor Relations

NOTE: ASA WILL BE VOTING PROXIES AND ASKING QUESTIONS AT THIS VIRTUAL AGM THE SAME AS THEY WOULD AT A FACE TO FACE MEETING

Please note any potential conflict as follows: An individual (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

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

Macquarie has a wonderful independent Foundation that in total has contributed more than $400m, which has been used to enable more than 1,600 community organisations to continue doing their important good work. This year alone the staff contributed $16m and the Company $35m to the Foundation. Macquarie is a corporation whose employees believe they have a licence to do good. They also believe a business should have a purpose beyond profit.

Yet there is no bonus based on incentivising individuals and managers to make any cultural and social change, but rather reward is based purely on increasing profit. It is arguable that this is Macquarie's secret sauce. As you will read in our voting intentions on the Remuneration Report payment is not based on actual reported profit but rather Macquarie's liberal interpretation of profit. In the short-term Shareholders, the owners of the business lose, but not the senior employees.

Macquarie is nothing if not complex, not just in the multitude of different methodologies they use for a vast variety of investments around the globe, but also in trying to understand the philosophy driving this financial behemoth. From a shareholder's point of view some things seem to be contradictory.

Many times, they are totally consistent. The 20-page Environment Social Governance (ESG) explanation in the Annual Report (AR) is probably the largest and most detailed presented by any Company in corporate Australia. Then they demonstrate their commitment to a belief in planning for climate change with hard cash. There would be few, if any, companies anywhere in the world, who, like Macquarie, have invested more than $22b of renewable energy projects. A real case of putting your money where your mouth is.

However, although impairment almost doubled to $A1,040m, up from $A552 last year, based primarily on the likely effects of COVID-19, the question must be asked is this enough?

As you would expect Macquarie takes financial risk management very seriously and devotes 29 pages of its AR to this vital topic. However, the risk management section devotes a good deal of verbiage to a description of how risk is assessed and reported without really giving the insight some other companies do regarding the main risks being faced, how COVID-19 has affected the outlook and what they might do to mitigate this. While some specific data has been given, for example comparing value at risk to the previous year or average daily trading profits, these do not take into account that the market is still defiantly euphoric. For example, the derivatives book has already started to show a gap in exposure at the end of the year (largely client traded accounts on margin). Were the likely market reckoning to occur, the risk with a derivative book where both the net asset position and the net liability position are moving apart in a falling market is that client funds are not available to cover the margin – resulting in a significant loss.

While fully accepting the complex nature of Macquarie and the number of countries it operates in, and also understanding the Auditors did a great job putting everything together while working out of office during the Covid-19 shutdown, reflecting their knowledge of the Company, having the same auditor for more than 15 years without undertaking a full market review is not a good look.

We also see a contradiction when:

- On the one hand the Company says, in selecting directors, that the Board seeks to have a diverse range of skills and experience and considers a wide range of factors that could add value to Board decision. A statement which is in line with its well spelled out policy on diversity and inclusion; then
- When a non-traditional candidate stands for election as a Director, Macquarie spend an overkill ¾ of a page in the Notice of Meeting, with some unfortunate unintended implications, explaining why they are not endorsing Stephen Mayne's nomination for Directorship, when they could have simply said" he didn't complete the required information so we were unable to assess his suitability, thus we are not supporting him".

(As at FYE)	**2020**	**2019**	**2018**	**2017**	**2016**
NPAT ($m)	2,731	2,982	2,557	2,217	2,063
Share price ($)	85.75	129.4	102.9	90.2	66.1
Dividend (cents)	430	575	525	470	400
TSR (%)	-29.9	32.8	21.3	46.0	-9.2

EPS (cents)	791	883.3	758.2	657.6	619.2
CEO total remuneration, actual ($m)	17.06	19.76	23.34	24.88	26.78

For 2020, the CEO's total actual remuneration was **190.5 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Note - For November 2019, the Full-time adult average weekly total earnings (annualised) was $89,585.60 (http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0, "Full-time adult average weekly total earnings".

Item 2a	**Re-election of Ms. DJ Grady as a Director**
ASA Vote	**For**

Ms. Grady has been a Director of the Macquarie Group since 2011 and holds 9,643 shares.

Diane Grady has extensive international experience in a variety of industries having spent 25 years as a full-time independent director of public companies, not-for-profit boards and as a partner with McKinsey & Co, where for 15 years she consulted with clients in financial services, insurance, retailing, telecommunications, consumer goods and manufacturing industries. Ms Grady was a firm-wide leader of the Organisation, Culture and Change Management Practice and in Australia she focused on assisting clients to grow through service improvement, innovation and marketing strategies.

The Board considers that Ms Grady's experience with Macquarie and other major listed Australian companies with international businesses and her background in strategy and organisational issues has been of great benefit to Macquarie.

ASA will vote its undirected proxies in favour of Ms. Grady's re election

Item 2b	**Re-election of Ms. NM Wakefield Evans as a Director**
ASA Vote	**For**

Ms. Wakefield Evans has been a Director of the Macquarie Group since 2014, holds 6,929 shares and is Chairman of the Board Governance and Compliance Committee.

Nicola Wakefield Evans is an experienced non-executive director and corporate finance lawyer. As a lawyer, Nicola has significant Asia-Pacific experience and was a partner at King & Wood Mallesons (and its predecessor, Mallesons Stephen Jaques) for more than 20 years. Ms Wakefield Evans has particular expertise in the financial services, resources and energy, and infrastructure sectors.

Ms Wakefield Evans is a Director of Lendlease Corporation Limited. Her extensive Asia-Pacific experience as a corporate finance lawyer has added valuable expertise to the Macquarie Board.

ASA will vote its undirected proxies in favour of Ms. Wakefield Evans re-election.

Item 3	**Re-election of Mr. SD Mayne as a Director**
ASA Vote	**Against**

DISCLAIMER: Steven Mayne used to be a Director of ASA.

Steven would be an excellent candidate for an inactive board in charge of a moribund company. In that case Mr. Mayne's election could possibly be a catalyst for much needed change. This is not the case with Macquarie. There is no company in Australia that continually modifies or reinvents its operation model more than they do. At the same time the Macquarie board appears to work well with the executive team to (usually) provide value to shareholders.

While in agreement with Stephen Mayne that capital raising should be structured better so that retail shareholders could provide more of the new money, while maintaining or increasing their percentage of shareholding in the Company, we believe shareholders need more from a candidate than his strong input on one issue.

Stephen Mayne has an almost encyclopaedic knowledge of Australian corporate personalities, but he has not, to our mind, demonstrated the experience and knowledge that we would be looking for as part of a Board overseeing this huge, many-facetted multinational financial corporation. So, we will be voting our undirected proxies against him

Item 4	**Adoption of Remuneration Report**
ASA Vote	**Against**

The Macquarie secret sauce is, that if the Company makes money, employees are not given a bonus, but rather a healthy profit share and in the case of senior executives it results in super-sized riches, thus the Company was long ago dubbed the “Millionaire Factory”. Despite a lot to like about this novel remuneration approach, compared to others in the ASX 200, we have more than enough reason to not like it.

Compared to other similar sized companies there is comparatively low fixed annual remuneration (FAR) (CEO $800K) and for all but a small handful of senior executives the remainder totally comes from a bottom-up annual profit share which all employees participate in. For this year, as a cash conservation measure for all senior employees, it is paid in equity, vesting over a 3 to 7-year period dependent upon seniority. The Company provides specific information as to the key factors that contributed to the profit share for the 13 most senior people.

Plus, for the Executive Committee there is the Profit Share Units (PSUs) allocation. The PSUs “provide an additional incentive to Executive Committee members to drive company-wide performance over the long term.” The PSUs have two seemingly good hurdles i.e. earnings-per-share compound average growth rate (EPS CAGR) and comparative return on equity (ROE).

So, if that all seems good what do we not like?

Firstly, profit should be defined as something that shareholders, the owners of the business receive. In the last financial year, reported Net profit is down 8%, Return on Equity (ROE) down 3.5% to 14.5%, Dividends have been slashed by 25% and Total shareholder Return (TSR) Minus 29%. But for the Macquarie Executive Committee the profit share only reduced by 7%. So, in the short term the employees' profit is put before the shareholders.

Secondly, the theoretical idea of rewarding based on profit increase is sensible, but modern companies realise that they have a responsibility to incentivize employees to not just make a profit but to ensure that they do so in a socially responsible manner. Macquarie has a social responsibility platform like few others and, we imagine, a culture to match it, but because of the methodology used, no one has any individual measurement, targets or goals to ensure that these ideals are achieved, nor a reward for achieving them. Rather, there is a broad assumption that every one of the permanent employees has individually achieved all the Corporates social and culture goals. It is only those 100 + who have been found guilty of conduct policy breeches that may see their profit share reduced.

Thirdly, there is the outmoded "Fair Value" measurement of PSUs which virtually every other ASX 200 company has discarded as meaningless. Macquarie, at the request of ASA and others, now shows the "Fair Value" and Face or Actual value of all PSU'S, so you can see that the CEO will be awarded PSUs based on a "Fair Value" of $2,550,000 or $3,994,000 at face value. The ASA asks why bother with the continued usage of "Fair Value", why not make it simple and clear and just base the bonus on $4m actual?

Macquarie spends a great deal of space, quite rightly, explaining in the Annual Report how their remuneration is fair and proper and relates to the company's performance. So why not go the full transparency route and tell shareholders how much the CEO actually takes home. Simply print the actual take-home amount and explain how it was calculated, explaining the relationship to Macquarie's good financial performance and resulting strong share price.

In the past we have voted for the Remuneration report but advised we would stop doing so unless it started to make changes to its structure. Last year we voted against it and, as nothing has changed, except for their spelling out their interpretation of profit, we will again vote undirected proxies we hold against.

Item 5	**Approval of Managing Director's participation in the Macquarie Group Employee Retained Equity Plan (MEREP)**
ASA Vote	**Against**

This resolution is for the issue of $15.62 million of retained profit share as restricted share units vesting over 7 years and $3.99milliion (Fair Value $2.25 million) worth of PSUs vesting in 3 and 4 years provided the EPS CAGR and comparative ROE hurdles are achieved. Although we are theoretically in favour of the CEO being able to participate in both the restricted Share Units and Performance Share Units, because the group persists in using a Fair Value calculation and the other non- transparent factors that caused us to vote against the remuneration report we must cast our undirected proxies against this resolution.

Item 6	**Approval of agreement to issue MGL ordinary shares on exchange of Macquarie Bank Capital Notes 2**
ASA Vote	**For**

ASX listing Rule 7.4 limits the amount of equities a Company can issue in one year without shareholder approval to 15%. As the Macquarie Bank Capital Notes 2 are convertible into Macquarie Group Limited shares shareholder approval is being sought.

ASA will vote its undirected proxies in favour