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Reduced Interest Rates Impact Profit

Company/ASX Code	Computershare Limited / CPU
AGM date	Wednesday 11 November 2020
Time and location	9am, Virtual Meeting via Lumi
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Jason Cole assisted by Stewart Burn
Pre AGM-Meeting?	Yes, with Simon Jones (Chair), Dominic Horsley (Company Secretary) and Tanya Singh (Global Head of Reward)

Please note any potential conflict as follows: The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

Item 1	**Financial Statements and Reports**
ASA Vote	No vote required

Summary of ASA Position

Computershare Ltd (CPU) is a consolidated entity which operates globally. Reporting segments, which in previous years have been aligned geographically, are now delivered across five business lines and a technology function.

The five segments are

- Issuer Services (share registry maintenance and corporate actions)
- Mortgage Services (mortgage and tenancy services)
- Employee Share Plans (administration of employee share and option plans)
- Business Services (provision of bankruptcy, class action and corporate trust administration services)
- Communication Services (document composition and printing, intelligent mailing)

Issuer Services is the largest contributor to earnings before interest tax depreciation and amortisation (EBITDA) at 40%. By region, the United States (US) contributes 60%. In comparison, Australia and New Zealand is just 4% of EBITDA.

Governance and culture

The CPU annual report contains a detailed outline of sustainability targets and the company's progression toward these.

Financial performance

Profit for the year in constant currency terms was down 44% to US $232.7m for financial year (FY2020). Earnings per share (EPS) reduced from 76 cents to 43 cents, whilst management EPS of 56 cents was 19.8% less than the previous year. Pre-COVID-19 guidance on EPS had suggested a decrease of 5% was likely this year, however the impact of interest rate cuts by central banks saw CPU's margin income decline sharply by US $45.1m (18.3%). CPU provided guidance in March and April to reflect the changing conditions. Further guidance was provided in August 2020 for FY21 with EPS expected to decrease by around 11%.

The full year dividend increased by 2 cents to 46 cents per share, franked to 30%. Total Shareholder Return (TSR) was negative 15.4%, whilst shareholder equity increased slightly to US $1.59 billion.

Key events

CPU acquired Corporate Creations, which serviced over 14,000 corporate entities in the USA, for a total consideration of US $144.8m. This was funded from existing cash balances and undrawn debt facilities. On 1 July 2020, Verbatim Global Compliance was acquired for total consideration of US$9.5 million. Both purchases extend CPU's Issuer Services Sector.

Key Board or senior management changes

No changes to the board occurred. Nick Oldfield commenced as CFO on 3 December 2019 and previous CFO Mark Davis, ceased employment on 31 December 2019. This change had been announced in July 2019

ASA focus issues

Risk Management

CPU identify 3 areas of risk, these being strategic and regulatory risk across highly regulated global markets, financial risk in that changes to foreign exchange and interest rates can materially impact performance and operational risk whereby a high volume of daily transactions can be exposed to data loss or security breaches.

With over 12,600 staff located across 21 countries, CPU felt the global effects of COVID-19. The ASA sought details as to the performance of the risk framework and crisis management. Overall, CPU has been extremely pleased with the performance of the company and key to this was communication of which they have a detailed plan. Crisis management was required at board level and in the operational side of the business.

At the onset of the pandemic, the board was meeting in London and their immediate concern was the impact of interest rates on the company's performance. They met weekly over the first two months and provided updated market guidance in March and April.

Similarly, CPU enacted its business continuity plan immediately. This resulted in 93% of staff working remotely. CPU have strong monitoring systems in place as system integrity was already identified within the existing risk framework. The company have invested significantly in IT security over the past 5-years and believe that they are well protected in this regard. CPU was not of the opinion that COVID-19 changed any already identified risks or timeframes, save for the steep reduction in interest rates that they cannot control. Each segment has been asked to assess factors pre and post COVID-19 that may become permanent changes.

Directors and Boards

The chair, who will retire at the end of this term, is not regarded as independent on tenure. Aside from this, the CPU board aligns well with objectives sought by the ASA. A majority are independent and diversity objectives are achieved with three female directors out of eight in total. Two directors are based in the northern hemisphere. A meaningful director skills matrix is provided in the annual report.

Summary

(As at FYE)	**2020**	**2019**	**2018**	**2017**	**2016**
NPAT (US$m)	232.66	418.96	308.33	271.70	161.80
UPAT (US$m)	303.8	281.4	344.7	297.3	303.5
Share price ($)	13.25	16.21	18.43	14.14	9.17
Dividend (cents)	46	44	40	36	33
TSR (%)	-15.4	-9.7	33.2	58.1	-18.9
EPS (cents)	42.97	55.17	48.76	25.55	27.61
CEO total remuneration, actual ($USm) *Actual AUD approx. at FYE*	2.141* *3.125***	2.583	2.736	2.129	1.095

** The CEO received an additional payment of US $614,990 for expatriate costs which are not included in this figure but listed in the statutory remuneration details. This arrangement ended on 31 March 2020 and was discussed in the 2019 voting intentions. Effective from 1 April 2020 the CEO is paid in his local currency (GBP) and his pay was converted from AUD to GBP via a 36-month currency average. Amounts in the Annual Report are reported in USD.*

For 2020, the CEO's total actual remuneration was **34 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Item 2	**Re-election of Mr Joseph Velli as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Velli was appointed to the board in 2014 and has an extensive background in the financial services and technology sector, having spent most of his career as Senior Executive Vice President of The Bank of New York. He is currently chair of the human resources and remuneration committee and a member of the nomination committee.

Mr Velli currently has two other directorships with Paychex, Inc (PAYX) and Cognizant Technology Solutions Corporation (CTSH) which are both listed on NASDAQ. He attended 20/22 director's meetings, his workload is considered manageable and he has appropriate levels of 'skin in the game'.

The ASA supports his re-election for another term.

Item 3	**Re-election of Ms Abi Cleland as a Director**
ASA Vote	**For**

Summary of ASA Position

Ms Cleland joined the board in February 2018 and was re-elected by shareholders in November 2018. She has a background in strategy, mergers and acquisitions, digital and business growth, having had roles in retail, agriculture and financial services. Currently, she is a member of both the nomination and human resources and remuneration committees.

Ms Cleland is at the limit of what ASA guidelines consider to be a manageable workload, currently serving as a non-executive director on three other listed companies, Orora Limited (ORA), Sydney Airport Limited (SYD) and Coles Group Limited (COL). Additionally, she is also a director of Swimming Australia.

The Annual Report states that due to Covid-19, the board met more frequently in FY2020 than is typical (22 compared to 6 for the previous year) and was initially meeting weekly, then fortnightly during the initial stages of the pandemic. Given this, and the possibility that other companies were also competing for her time, the ASA questioned CPU representatives as to whether any workload concerns arose for Ms Cleland. Noting that she attended 21 of 22 meetings, CPU representatives stated that she had been readily available and always provided valuable input.

Her level of equity in the company is appropriate and the ASA will support her re-election for another term.

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

Summary of ASA Position

CEO rem. Framework for FY21 £ **GBP***	Target* £m	% of Total	Max. Opportunity £m	% of Total
Fixed Remuneration	1.05	30%	1.05	25%
STI - Cash	.44	12.5%	0.78	18.7%
STI - Equity	.44	12.5%	0.78	18.7%
LTI	1.57	45%	1.57	37.5%
Total	3.5	100%	4.18	100%

*The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting. *Figures taken from p12 of Notice of meeting and are in £* GBP

After avoiding a second strike on the remuneration report in 2019, CPU has outlined modifications to its Long-Term Incentive (LTI) structure due to the impacts of COVID-19. An outline of the changes, justification for them and the link between remuneration, company strategy and CPU's performance are contained in a letter from the chair in the remuneration report.

In summary the letter states,

- The unforeseen outbreak of COVID-19 had a sudden and profound impact on global trading conditions, materially effecting margin income earnings through central banks cutting interest rates.
- The board and management team took decisive action through:
    1. Safeguarding the health of employees, moving over 90% to remote working.
    2. Providing clients with critical support, including facilitating over 1000 virtual AGM's across the globe.
    3. Shoring up the financial health of the business.
- This resulted in CPU being able to maintain the full year dividend and keep a sound balance sheet without the need to raise additional capital.
- The challenging economic environment in the later part of FY2020 and its impact on CPU financial performance has resulted in materially reduced outcomes in executive pay.
- Overall Short-Term Incentive (STI) payments were paid at an average of 43% of the maximum and at around 57% of the STIs in FY2019.

- The FY2018 LTI was tested and the LTI did not vest as both Earnings per Share (EPS) and Relative Total Shareholder Return (rTSR) did not meet the hurdles.
- Given the 20% reduction in the CPU share price from start to end FY2020, the board was satisfied that executive remuneration outcomes were aligned with the overall shareholder experience and did not exercise any discretion in allowing any of the FY2018 LTI awards to vest.
- It is considered that the reduction in interest rates to historic lows will influence the margin income that is generated by CPU for FY2021 and beyond. Additionally, CPU believe that the retention and incentive value in the current FY2019 and FY2020 LTI grants has been materially eroded as the EPS hurdle has been rendered ineffective. The implication of this is that no matter how much the underlying business is improved by executives in the coming years, they will not be appropriately rewarded for delivery of future shareholder value.
- The following changes are proposed for FY2021
    1. A transitional LTI will be put in place for FY2021 only, with the expectation for a new LTI plan based on prevailing conditions for FY2022. Fifty percent of the LTI grant will remain as TSR, tested against the ASX 100. However, the other half will take the form of Share Appreciation Rights (SARs), which entitle the holder to a payment in shares, of the amount by which the underlying share price has increased since the right was granted (strike price) at the end of the performance (vesting) period. See item 5a for more discussion.
    2. As the EPS hurdles are unlikely to vest for FY2019 and FY2020, this component of the LTI will be replaced by one-off SARs grants, which CPU believe will provide executives with the appropriate incentive to enhance shareholder value in the next two years. Appropriate safeguards will be put in place to ensure windfall outcomes are avoided. See item 5b for more discussion.

The CEO remuneration structure aligns well with ASA objectives, with 70% of potential pay genuinely at risk and the largest portion 45% of this being attached to the LTI. No increases were made to the CEO's fixed remuneration (FR) and it is consistent with ASA data for similar sized companies. A breakdown of the CEO's remuneration package, which is now paid in British Pounds, is provided in the notice of meeting. This disclosure is a welcome addition. Chair and NED fees remained at $335,000 and $160,000 and these sit within the bottom quartile for companies with a similar market capitalisation.

The STI award aligns with ASA guidelines with 50% of the outcome being awarded as cash and the remaining 50% being paid deferred as restricted shares for two years.

The STI opportunity is a mix of financial, strategic and non-financial objectives. Previously, the weighting applied to each objective has been clearly outlined in the remuneration report. However, this is not the case this year. Similarly, previous STI outcomes have contained several identifiable quantifiable metrics to support the board assessment, but these are less prevalent in this year's assessment. This feedback was provided by ASA. CPU felt that they had been more transparent but agreed to take the feedback on board.

For the STI, financial objectives were assessed as below target or no entitlement. Strategic and non-financial objectives were assessed as either above target or on target. This resulted in a STI payment to the CEO of USD $863,573. This was 55% of maximum and a decrease of $737,907 on the previous year.

The FY2018 LTI did not vest as the relative TSR sat below the 50th percentile and the EPS of 2.4% was below the required 5%. CPU note that as of March 2020, the LTI was set to vest at 64%, reflecting 32 months of strong performance before the impact of Covid-19.

Both actual and statutory remuneration is disclosed, and performance rights are calculated using a volume weighted average price (VWAP) from the 5 trading days following the release of the full year results.

CPU have demonstrated a willingness to outline the correlation between company performance and executive pay outcomes. Whilst the remuneration report is challenging, it is understandable, although not as transparent as in previous versions.

Company representatives provided a strong defence of the changes to the remuneration structure, feeling that it is the most appropriate way to align shareholder value with retention and appropriate reward of key management personnel (KMP) who are crucial to company performance. CPU believe that the market has built in the interest curve for the next three years and this effectively renders the EPS hurdle as dead. They prefer a different assessment method for rewarding the KMP as the only opportunity for increasing performance will be through internal operational changes. They consider that SARs are the most appropriate means to achieve this.

The ASA has supported CPU remuneration reports in previous years as, although not entirely aligning with ASA objectives, the remuneration framework has on balance been suitably reflective of them.

An individual response to each of the proposed alterations is discussed in more detail in the following items. Given the ASA intention to vote against these resolutions, existing ASA guidelines and a sense of reduced detail provided for FY2020 STI outcomes, it is considered that on balance an against vote would be the most appropriate way to vote ASA proxies for this year's remuneration report.

Item 5a	**Equity Grant to CEO Stuart Irving – FY21 LTI Grant**
ASA Vote	**Against**

Summary of ASA Position

CPU is seeking to grant 103, 809 performance rights and 367,406 SARs to the CEO in respect of his FY2021 LTI.

The performance rights are determined by dividing AUD $1,403,491 (50% of the LTI opportunity) by $13.52 (being the VWAP of CPU shares for the 5 trading days following the release of the full-year results). These will be tested against a relative TSR performance hurdle against peer companies (ASX100) as per the traditional LTI performance hurdle. The ASA supports this aspect of the resolution.

The number of SARs **(367,406)** were determined by dividing AUD $1,403,491 (50% of the LTI opportunity) by $3.82 (being the fair value of a SAR determined by the Black-Scholes pricing model). The number of CPU shares to be allocated on vesting of the SARs granted will be determined by the difference in share price between

- The start of the SAR performance period (closing price as at 30 Jun 2020 of AUD **$13.25**)
- The share price at the end of the performance period (determined by a 90-day VWAP to 30 Jun 2023)

This hurdle replaces the EPS hurdle for FY2021.

By way of example, should the CPU share price recover to pre-covid levels of around **$18.13** at the end of the testing period, then the potential LTI incentive payable for this hurdle would be approximately $1.8m. **($18.13 - $13.25) x 367,406** SARs = $1.792m

The remuneration report states that appropriate safeguards will be put in place to ensure windfall outcomes are avoided. The ASA sought more information with respect to this as whilst it is clear in item 5b as to how this will be implemented, it is less so with respect to this resolution. Company representatives advised that a hard cap had been considered. It was ultimately considered that board discretion, taking into account a full view of the market over the next 3-years, would be the best decider of the outcome

The company have comprehensively outlined how they believe that this structure will assist with meeting their objective of motivating and retaining key staff. Whilst the outcomes are also aligned to shareholder interests, the ASA view is that vesting of the LTI may become overly reliant on share price appreciation and that a financial measure should also be included as a hurdle. Given the unknown potential upside and the use of a fair price model to determine the number of SARs issued, the ASA has reservations about this aspect of the FY2021 LTI.

As such, the ASA will vote against this resolution.

Item 5b	**Equity Grant to CEO Stuart Irving – Recovery Equity Award**
ASA Vote	**Against**

Summary of ASA Position

NOTE: Resolution withdrawn by company on 29/10/2020

CPU is seeking shareholder approval for the grant of 1,001,741 SARs to the CEO in respect to the LTI awards which were granted in FY2019 and FY2020. Fifty per-cent of these awards are subject to a relative TSR hurdle which will remain in place. The other 50% is subject to an EPS performance condition which is highly unlikely to vest.

The board consider that this will create a misalignment between shareholder experience and executive reward and propose a one-off recovery grant of SARs to vest in two tranches (tranche 1 at the end of FY2021 and tranche 2 at the end of FY 2022, with no re-testing).

The number of SARs to be granted was determined as follows on the next page:

- Tranche 1 – By dividing half of the CEO's FY2019 LTI opportunity (AUD $1,240,000) by the Black-Scholes determined fair value for tranche 1 of AUD $2.23 (556,054 SARs)
- Tranche 2 – By dividing half of the value of the CEO's FY20 (AUD $1,395,000) by the Black-Scholes determined fair value for tranche 2 of AUD $3.13 (445,687 SARs)

CPU considered both Black Scholes and Monte Carlo methods in determining fair value and chose Black Scholes as the most conservative approach. The ASA opposes the use of fair value discounting methods in calculating share grants.

The proposed grant of SARs for this item are also subject to cap and offset mechanisms to mitigate the possibility of windfall gains. Essentially, this means that the vesting value that can be derived from each tranche will be capped to, or offset from, the original value of the LTI grants.

ASA guidelines oppose the re-testing of at-risk executive incentive schemes which fall short of performance hurdles. In replacing the EPS performance condition with SARs, it is considered that the FY2019 and FY2020 LTI plans are effectively being re-tested.

Additionally, CPU has long maintained that LTI testing over 3 years is the most appropriate for the company. They consider testing over a longer period, as preferred by ASA, does not work as changes to interest rates can significantly impact the business. The ASA has on several occasions put forward its preference for a longer testing period for the LTI. However, ASA has ultimately accepted the company position and not opposed the remuneration report on this basis.

Given this previous support and the other reasons outlined, it is not considered that altering the performance hurdles part way through should be supported and ASA will vote against this resolution.