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Computershare looks to avoid second strike

Company/ASX Code	Computershare Limited/CPU
AGM date	Wednesday 13 November 2019
Time and location	10am at Yarra Falls, 452 Johnston St, Abbotsford, Victoria
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 Chair - Simon Jones and Company Secretary - Dominic Horsley

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

Computershare Ltd (CPU) is a consolidated entity which in the past year has operated across seven segments. Six of the segments are geographic (Asia, Australia and New Zealand, Canada, Continental Europe, UK/Ireland/Africa and USA). The seventh segment is technology and comprises the provision of software and a research and development function.

Within each geographic segment, CPU offers a combination of its core products and services. These being, Issuer Services (share registry maintenance), Business Services (mortgage servicing activities), Plans Services (administration of employee share plans), Communication Services (intelligent mailing), Stakeholder Relationship Management (provision of investor analysis and management information services to companies).

From 1 July 2019, following a review, CPU's management structure and reporting was changed from a regional model to a global business model. Consequently, the operating segments in the financial year ending June 2020 will be changed to reflect this.

The issuer services segment is the largest contributor to earnings before interest tax depreciation and amortisation (EBITDA), comprising 47%. By region, the United States contributes 54% of the EBITDA whilst Australia and New Zealand contributes just 4% to total EBITDA.

<u>Governance and culture</u>

The CPU Corporate Governance Statement states that the board can have a maximum of ten directors, which is contrary to ASA guidelines. However, with the current board comprising eight directors, there remains flexibility for shareholders to appoint an additional director without removing existing directors.

The board skills matrix provided in the Annual Report shows an appropriately high ratio of director experience across the geographic markets in which CPU operates. At the pre-AGM meeting, the chair indicated that the big challenge was obtaining the right geographic mix of directors and that further representation from the northern hemisphere would assist with this.

PricewaterhouseCoopers (PwC) are listed as having been appointed as external auditors in May 2002, with PwC rotating partners every five years as required by Corporations Act. It is stated that auditor services have been put out to tender since the initial appointment. ASA raised this at the pre-agm meeting and was advised that the last tender was conducted in 2015.

Financial performance

Management Earnings Per Share (EPS) increased by 12.8% in constant currency terms for financial year 2019 (FY19) and this was in line with the guidance upgrade announced to the market in February 2019. CPU announced in August that it expected management EPS in constant currency in FY20 to decrease by around 5% on FY19 results.

Whilst profit growth is still expected in core business, two factors are expected to cause the decrease in management EPS. These being, the delayed migration of UK loans onto CPU platforms (details were announced in the 2019 Investor Day Presentations) and the adoption of Australian Accounting Standard (AASB 16) for leases.

Statutory EPS was up over 38%, helped by the gain on the disposal of the Karvy business.

The total dividend for the year increased by 10% to A$ 44 cents per share, franked at 30%. The dividend pay-out ratio remained steady at around 49%. The reduction of the share price contributed to a Total Shareholder Return (TSR) of -9.7% for FY19. This result follows consecutive TSRs of 33.2% and 58.1%

Management EBITDA increased by 10.2%, whilst Shareholder Equity increased 18.1% to US$ 1.57 billion. Both measures are in constant currency.

Key events

In November 2018, CPU completed the acquisition of Equatex Group, a European Employee Share Plan administration business. This was the second largest acquisition in CPU history with an acquisition consideration of EUR370.2m (nearly A$600m). The acquisition has seen stronger than initially expected transactional revenues to the employee shares plans segment.

CPU acquired 100% of LenderLive Financial Services on 31 December 2018 and this is expected to further strengthen CPU's growth in the US mortgage services market.

The sale of Karvy Computershare was completed on 19 November 2018. This was an Indian venture of which CPU had a 50% stake. A gain of US$106.4m has been recognised in accounts from the disposal of this business.

An on-market share buyback to the value of up to A$200m was announced in August for capital management purposes and this commenced on 3 September. As at 25 October, approximately $30m worth of shares had been bought back.

An impairment charge of $13.5mn was recognised due to the write-off of CPU's investment in SETL Development Ltd. The notes to the consolidated financial statements (section 31, p111) advise that SETL Development Ltd entered administration in the reporting period and that CPU's investment was written off in full.

SETL proposed to transform settlement and post trade administration using centralised blockchain technology. CPU had a 10.8% ownership interest and its investment was presented in detail by

CPU at its investor and analyst presentation in April 2016. Consequently, ASA sought further information at the pre-AGM meeting and was advised that CPU's investment in SETL was initially designed to allow CPU to get closer to block chain technology, in order to understand what CPU may be able to do in this space.

SETL entering administration related to challenges that it had with another shareholder and it is expected that CPU will have a smaller shareholding in SETL once these issues are rectified. CPU still consider that SETL will be a useful vehicle to address issues with blockchain technology going forward.

Key Board or senior management changes

Chief Financial Officer Mark Davis announced in July 2019 his intention to step down from the position in the coming year, after 7 years in the role.

In the CPU Notice of Meeting, Chair Simon Jones announced that should he be re-elected, it is his intention that this would be his last term as Chair of CPU.

2019 ASA focus issues

The highest priority focus issue in 2019 relates to Board Composition. In this respect CPU aligns reasonably well with ASA guidelines. The skills and experience of directors seeking re-election are thoroughly outlined in the notice of meeting and the current board comprises three female directors out of the eight board members. As such, the CPU board meets ASA target of at least 30% female and 30% male directors. Similarly, the board comprises five directors considered independent under ASA criteria, resulting in a majority of independent directors.

ASA does not consider the Chair to be independent due to a current tenure of 14 years and director Tiffany Fuller does not meet ASA guidelines for "skin in the game", which was another area of focus for ASA in 2019.

As both directors are seeking re-election, these issues will be discussed in more depth in their respective individual items.

Summary

(As at FYE)	**2019**	**2018**	**2017**	**2016**	**2015**
NPAT (US$m)	418.96	308.33	271.70	161.80	157.28
UPAT (US$m)	381.4	344.7	297.3	303.5	332.7
Share price ($)	16.21	18.43	14.14	9.17	11.71
Dividend (cents)	44	40	36	33	31
TSR (%)	-9.7	33.2	58.1	-18.9	-3.7
EPS (cents)	76.57	55.17	48.76	28.55	27.61
CEO total remuneration, actual (US$m)	2.583**	2.736*	2.129	1.095	2.962

** The CEO actual remuneration was reported in the 2018 Annual Report as $2.736m, whereas the 2018 comparison figure in the 2019 Annual Report shows actual remuneration as $1.74m. This relates to the expatriate payments made to the CEO which are now listed in the Statutory*

Remuneration details. The CEO received $0.996 million in expatriate costs in 2018. Company representatives consider that this is the most appropriate way to represent the expatriate payment, as it is not considered as being part of the CEO's remuneration package.

*** Expatriate costs were $0.91 million for 2019, resulting in a comparison figure with 2018 of $3.493 million if these costs were reported in the same way as in the 2018 Annual Report.*

For 2019, the CEO's total actual remuneration was **29.3 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Item 2	**Re-election of Mr Simon Jones as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Jones was appointed to the board as a Non-Executive Director (NED) in 2005 and has been Computershare Chair since November 2015.

He is suitably qualified for the role being a chartered accountant with extensive background in investment advisory, mergers and acquisitions, valuations, public offerings, audit and venture capital.

He is Chair of the Nomination Committee and a member of the Risk and Audit, Acquisitions and Human Resources/Remuneration Committee's.

Mr Jones has enough holdings in CPU to meet ASA minimum shareholding requirement guidelines. He is involved with two non-listed entities, as Chair of an Advisory Board and a Director, and this workload satisfies ASA criteria. In addition, he has impeccable attendance at board and committee meetings over his previous 3-year term.

Mr Jones has currently served 14 years on the board and is no longer considered independent according to ASA tenure guidelines. The CPU board consider Mr Jones independent and on page 34 of the Annual Report offers its perspective relating to this independence.

Mr Jones has indicated that should he be re-elected; it is his intention for this to be his last term as Chair of CPU. Two other board members are non-independent, these being the CEO and the company founder Chris Morris, who has been on the board for 41 years.

Of the remaining five directors, three have less than two-years' service. The remaining two directors, Tiffany Fuller and Joseph Velli have just completed five-years on the board. Ms Fuller is also seeking re-election and ASA has concerns around her level of "skin in the game" and Mr Velli is based in the USA.

Mr Jones indicated to ASA that upon commencing as Chair 4 years ago he initiated a platform of board renewal, which he expected to transition over a 10-year period. Mr Jones considers that a final term would allow the new directors enough time to settle and the new chair to be identified.

ASA agrees with these thoughts and considers that Mr Jones is the logical Chair of the current board. Therefore, his re-election for a final term will be supported.

Item 2	Re-election of Ms Tiffany Fuller as a Director
ASA Vote	**Against**

Summary of ASA position

Ms Fuller has been on the board for five years and was last re-elected in 2017. Her last term has been only 2-years, and this is to enable a more even spread of director re-elections.

She has broad experience in chartered accounting, corporate finance and management consulting and is well qualified for the role.

She is currently a director of two other ASX listed companies, Washington H. Soul Pattinson and Co. Limited (SOL) and Smart Parking Limited (SPZ), so satisfies ASA guidelines for director workload.

Ms Fuller is currently Chair of CPU's Risk and Audit Committee and a member of the Nomination Committee.

In 2019 ASA has increased focus on non-executive directors having a meaningful equity investment in the company to align themselves with shareholders' interests. It is in this area that Ms Fuller is below ASA expectations.

Ms Fuller has now served two terms on the board and five years in total. ASA would expect her to have shareholdings equivalent to the base director fee of $160,000. Ms Fuller most recently purchased CPU shares on August 15, 2019, when she purchased 3,500 ($50,700) to increase her total holdings to 5,500.

Her current holdings are valued at approximately $88,500 which equates to around 55% of ASA expectations.

In her other directorships Ms Fuller has holdings of approximately $41,000 in SOL, measured against a base fee of around $200,000. She was appointed to the board in December 2017 so has not yet served a full term on SOL. These holdings were purchased shortly after her appointment. For SPZ, Ms Fuller has holdings equating to twice the base fee she receives for this directorship.

This issue was raised by ASA when Ms Fuller last sought re-election in 2017 and again last year at the pre-AGM meeting with the company. Ms Fuller is held in the highest regard by the Chair Mr Jones and he considers that her contribution to the board is amongst the highest of any directors. She is also considered a fantastic Chair of the Risk and Audit Committee.

CPU also presented an alternative viewpoint regarding director shareholdings, stating that some directors consider themselves to be more independent by not owning shares. Additionally, CPU questioned whether a minimum shareholding requirement hindered diversity objectives and reduced the available director talent pool. CPU currently encourages NED's to own shares in the company.

Considerable thought has been given to ASA position on Ms Fuller's re-election. She is undoubtedly well qualified and assists the CPU board to achieve ASA's gender diversity objectives. However, it can't be ignored that Ms Fuller's equity investment, even after her most recent purchase, sits well below ASA expectations and subsequent alignment with shareholder interests.

For reasons of maintaining a consistent approach across ASA, “skin in the game” being a focus area for 2019 and Ms Fuller is now seeking a third term on the board, ASA will vote against Ms Fuller’s re-election on this occasion.

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

Summary of ASA Position

CEO FY20 (A$)	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.86	30%	1.86	26.6%
STI - Cash	.775	12.5%	1.1625	16.7%
STI - Equity	.775	12.5%	1.1625	16.7%
LTI	2.79	45%	2.79	40%
Total	**6.2**	**100%**	**6.975**	**100%**

*The amounts in the table above are the statutory 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.*

CPU received a first strike on its remuneration report at the 2018 AGM and as a result has provided considerable detail in the 2019 Annual Report about the steps undertaken to address the concerns that were identified. These concerns related to

- The quantum of expatriate expenses paid by the Company to the CEO for relocation to the UK.
- The significant increase in the Fixed Annual Remuneration (FAR) for the CEO that came into effect in FY2019 and was notified to shareholders in FY2018.
- A discretionary bonus awarded by the board to a select number of senior executives (not including the CEO) in FY2018.

A comprehensive response to each of these concerns is given in the Remuneration Report (p50-51).

In summary, the board advised that the CEO’s expatriate assignment ends no later than March 2020 and that the CEO made a voluntary personal pre-tax contribution of $A200,000 to help mitigate these costs during the year.

Regarding the FAR increase for the CEO, it was considered that the CEO’s pay was set a comparatively low level on appointment and that his total remuneration package remained considerably below the 25th percentile when independently benchmarked in 2018.

Subsequently, the CEO's fixed remuneration was increased in FY19 to sit around the median for a comparator group of companies ranked in the ASX 25-75. No increase to the CEO's fixed pay or total remuneration is necessary in FY20. The revised CEO FAR set by CPU is consistent with ASA data for similarly sized companies.

Fees payable to NED's increased by $10000 in FY19 and this was the first increase since 2015. The fee for the Chair now sits at $335,000, whilst NED's receive $160,000. Additional amounts are payable for members of the various Committees. The company advised that benchmarking had demonstrated that NED fees were at or below the bottom quartile of comparator group (ASX 25-75). This claim is also consistent with ASA data for companies with a similar market capitalisation. The fee pool is currently $2.0 million which was approved Nov 2014.

By way of comparison, the new fees are below peer company Link Administration Holdings (LNK) with this company having a significantly smaller market capitalisation of $3.0 billion as opposed to $8.5 billion

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 full year results.

The Annual Short-Term Incentive (STI) is well aligned with ASA guidelines consisting of 50% of the available award being paid as cash and the remaining 50% being paid in equity with a deferred vesting period of two years. The maximum STI award that can be achieved by the CEO and CFO is 150% of on-target STI, whilst other executives can be awarded up to 175%.

The target remuneration mix for the CEO was reviewed for FY20 and this resulted in 5% of the STI on-target opportunity being transferred to the LTI on-target opportunity. Despite this, the maximum potential STI exceeds the CEO's fixed remuneration which is against ASA guidelines.

The STI plan is largely based on quantifiable performance metrics. Financial Objectives (EBITDA / Growth in Management EPS) account for 50% of the opportunity, whilst 25% is measured against several of the company's strategic objectives which are also quantifiable. The remaining 25% is assessed against non-financial objectives relating to customer satisfaction and risk management.

A description of the Board's assessment against all measures is provided in the Annual Report. In FY19 several above target outcomes were achieved resulting in the CEO receiving 85.5% of the maximum STI opportunity, whilst other member of key management personnel received between 62.5% and 78% of the maximum STI opportunity.

CPU's Long-Term Incentive (LTI) is tested over 3 years, which is less than ASA preference of 4 or 5 years. ASA again raised this at the pre-AGM. The company considers that 3 years is the most appropriate and that a longer period does not work with this company, as changes to interest and exchange rates can significantly affect the business. LTI consists of two performance hurdles being Average Growth in Management Adjusted EPS and Relative TSR ranking against a peer group (ASX100).

ASA prefers EPS to be based on statutory EPS rather than a "normalised" profit measure and ASA questioned the use of EPS growth in both STI and LTI. The company advised that these measures are looked at each year by the remuneration committee and at this stage it is considered that they are the most suitable to align with shareholders' interests. In FY19, the "normalisation" resulted in a reduced EPS compared to statutory EPS, mainly due to the gain received on the disposal of Karvy being removed.

LTI awards granted in November 2016 were tested. The average annual growth in EPS over the performance period was 10.2% and this resulted in 75.8% of the LTI awards subject to the EPS performance test being vested.

The TSR LTI opportunity is tested against a peer group with 50% vesting at the 50th percentile, progressing pro rata to 100% vesting at or above the 75% percentile. This is more generous than ASA's preferred position of 30% vesting at the 51st percentile.

CPU achieved a positive TSR of 84% across the performance period which gave a relative TSR ranking against the peer group of 85%, resulting in the vesting of 100% of the LTI awards subjected to the TSR performance test.

The remuneration report is understandable and extensively outlines the remuneration strategy and its link to performance, in addition to a transparent outline of the board assessed outcomes for both short- and long-term incentive plans.

ASA consider that CPU has adequately addressed the issues relating to last year's first strike in this year's remuneration report. Remaining concerns are not new, rather a legacy of those that were highlighted last year. They are either due to cease soon or have not been repeated this year.

The CPU remuneration report is largely in line with objectives sought by ASA guidelines, save for improvements that could be made in terms of length of LTI performance testing and the percentage of vesting at the 50th percentile.

On balance, ASA will support this year's remuneration report.

Item 5	**Grant of Performance Rights to CEO Stuart Irving**
ASA Vote	**For**

Summary of ASA Position

The total number of performance rights to be granted to the CEO is 190,143. This number was determined based on the CEO's maximum FY20 LTI opportunity which is calculated by dividing A$2.79m (45% of the CEO's total remuneration opportunity) by $14.65 (being VWAP of CPU shares over the five trading days following the release of FY19 results)

The number of performance rights has increased by approximately 60,000 on the previous year due to an increase in the total remuneration opportunity and a nearly $4.50 decrease in the VWAP of CPU shares.

The performance conditions are as outlined in the discussion on the remuneration report (item 4).

Item 6	Spill motion (contingent resolution)
ASA Vote	**Against**

Summary of ASA Position

This resolution will only be considered should CPU receive a second strike (25% or higher against vote on the remuneration report - item 4). Given the serious consequences, ASA is generally opposed to supporting motions to spill the entire board and only taken in extreme circumstances.

As ASA is supporting item 4, it will vote AGAINST this resolution should it be considered at the AGM.

The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.