



Royal Commission hits IOOF hard

Company/ASX Code	IOOF Holdings Limited/IFL
AGM date	28 November 2018
Time and location	9.30am Level 7, 161 Collins Street, Melbourne
Registry	Boardroom Pty Ltd
Webcast	Yes
Poll or show of hands	Poll
Monitor	Ian Curry, assisted by Alan Hardcastle
Pre AGM Meeting	Yes, with Chair George Venardos & Company Secretary Paul Vine

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

Summary of ASA Position

Governance and Culture

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (RC) has created a cloud over IOOF's corporate image with negative media coverage, largely attributable to perceived/actual unethical practices and sloppy housekeeping. An unhappy RC "performance" by the MD did not help with the adverse coverage.

Despite the above, in mid-July IOOF proposed raising fees for its investors but the company quickly backed down following a revolt by financial planners who described the initiative as "unfathomable", "arrogant" and "inconceivable".

It was also revealed IOOF's Portfolio for Service for Superannuation platform's 340,000 investors earned less than the risk-free cash rate. And an ongoing concern is the perceived/real conflict whereby IOOF directors are also trustees, responsible for protecting 350,000 superannuation members' in the Fund.

IOOF operates as four businesses comprising financial advice; platform management and administration; investment management; and trustee services. Underlying net profit after tax (UNPAT) for FY18 was up 13% to \$191.4M. However, statutory net profit after tax was \$88.3M, well down on 2017's \$115.9M, largely due to costs attributable to the ANZ OnePath acquisition and the Provident class action \$44.25m. All but \$8m of this amount has been recovered from insurers and brokers and the 2019 accounts will show the amount recovered.

Funds under management, administration and advice (FUMA) reached \$118.9B, up nearly 9% on FY2017. And despite negative media coverage, FUMA for the quarter to 30 September 2018 witnessed a net quarterly inflow of \$270M.

Good cost control was a feature of the year across all divisions.

The board nudged the annual dividend higher to 54 cps, compared with 53 cps in FY17, but in doing so drove the payout ratio up to 98%, well outside the company's range of 60 to 90% of UNPAT. The board justified this to "ensure shareholders are not diluted prior to the completion of the ANZ Wealth Management transaction" while also noting that the Company was holding a substantial amount of cash.

The RC hit IOOF's share price hard and the result was total shareholder return (TSR) for the 12 months to June 2018 was negative 2.8%, the 6% dividend yield more than offset by the 8.3% share price drop.

In October 2017 IOOF announced its intention to acquire the ANZ's OnePath Pensions and Investments business for a cash consideration of \$975M. However, it has been suggested that ANZ trustees would not want their ANZ members placed, unprotected, in the IOOF environment and could block the acquisition.

Both the ANZ and IOOF are keen to get the deal over the line, but should it not proceed the agreement could be unwound with paid monies coming back to IOOF and with IOOF retaining the financial advisors (660+) who have moved over. It's understood the ANZ trustee board makes its final decision regarding the sale of its pension business to IOOF in December 2018.

Summary

(As at FYE)	2018	2017	2016	2015
NPAT (\$m)	88.3	116.0	196.8	138.4
UPAT (\$m)	191.4	169.4	173.4	173.8
Share price (\$)	8.99	9.80	7.83	8.99
Dividend (cents)	54	53	54.5	53
TSR (%)	(2.8)	23.3	(6.8)	20.6
EPS (cents)	26.4	38.7	65.7	47.7
CEO total remuneration, actual (\$m)	2.9	2.9	5.0	3.6

For 2018 the CEO's total actual remuneration was **34.2 times** the Australian Full time Adult Average Weekly Total Earnings (based on [November 2017 / May 2018] data from the Australian Bureau of Statistics).

Item 2a	Re-election of Ms Elizabeth Flynn as a Non-Executive Director
ASA Vote	For

Summary of ASA Position

Ms Elizabeth Flynn was appointed to the Board in 2015. She chairs the Company's Risk and Compliance Committee and is a member of the Remuneration and APRA Regulated Entity Audit Committees. She has more than 30 years' financial services industry experience. Ms Flynn does not hold other listed company directorships but is a Non-Executive Director of leading non-listed life insurer AIA Australia Ltd. She complies with the ASA's director equity holdings (skin in the game) requirement.

Item 2b	Re-election of Mr John Selak as a Non-Executive Director
ASA Vote	For

Summary of ASA Position

Having had more than 40 years' experience in the financial and advisory services industry, Mr John Selak has been a Non-Executive Director since 2016. He is Chair of the APRA Regulated Entity Audit Committee, a member of the Group Audit Committee and has been a member of the Compliance Committee since August 2017. While he does not hold any other listed company directorships, Mr Selak is currently Chair of Corsair Capital and a Non-Executive Director of National Tiles and Turosi Food Solutions. He complies with the ASA's director equity holdings (skin in the game) requirement.

Item 3	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

Key management remuneration comprises total fixed remuneration (TFR); Short-Term Incentives (STIs) paid in cash and deferred shares; and Long-Term Incentives (LTIs) in the form of performance rights over ordinary shares, subject to 'look backs'. Actual 2018 remuneration for the CEO is shown (\$2.932M compared with 2017, \$2.866M). ASA has asked for a breakdown of actual remuneration components.

Determined by the Remuneration Committee, the STIs are judged on a number of measures, including financial, with the maximum STI set at up to 100% of TFR.

The MD's maximum STI opportunity was 100% of base salary. However, the Board took into account external events that arose during the year (the Royal Commission) and share price, thus reducing the STI payable to \$628,604 being 50% of eligible opportunity. The Board also performed a 'look back' review in regards to 35,420 deferred shares issued in August 2017 and resolved consideration be postponed until the outcomes of external events are known.

The MD's LTI is paid via performance rights, up to this year subject to a return on equity (ROE) qualifying condition and a TSR hurdle. The ROE is linked to the 10 year bond rate with a minimum of 1.5 times required before any vesting of performance rights occurs. Once the gateway is qualified, the Group's TSR over a three year period from 1 July 2017 to June 2020 must be greater than the ASX200's median TSR.

The Company does use tenure (retention rights) as an incentive but it's understood IOOF's team is paid less than 50% of the market rate and the Board needs to find ways of keeping KMPs and middle management, especially at a time like now.

Item 4	Approval of LTI grant to Managing Director
ASA Vote	For

Summary of ASA Position

It is proposed to grant 140,785 performance rights to the MD but, unlike previous years, the grant will be subject to a TSR-only performance hurdle with the ROE hurdle now considered unnecessary. The number of rights is based on the face value of shares (\$8.93) on 17 August 2018 for a total maximum value of \$1,257,208, being 100% of total base salary.

Based on share market price declines it would seem unlikely that 100% vesting would occur. The Board believes that if shareholders are not rewarded then so too management should not be rewarded. As has been noted previously, the MD's remuneration is relatively modest when compared to other ASX100 companies.

Item 5	Financial Assistance
ASA Vote	For

It is proposed that approval be given for companies and their subsidiaries being acquired by IOOF, notably individual ANZ pensions & investment businesses, to also guarantee to meet financial obligations of the parent (IOOF). This is a requirement of the Banks providing finance for the company.

The individual(s) (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

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