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Hopefully this will be the year Lendlease delivers on its potential

Company/ASX Code	Lendlease Group (LLC)
AGM date	Friday, 20 November 2020
Time and location	10am web.lumiagm.com meeting ID is 302-048-635
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Allan Goldin assisted by Lewis Gomes and Mary Fifita
Pre AGM Meeting?	Yes, with Chair Michael Ullmer, Chair of the People and Culture Committee Elizabeth Proust and Company Secretary Wendy Lee

NOTE: ASA WILL BE ATENDING THE VIRTUAL AGM, VOTING ALL THE PROXIES WE RECEIVE AND ASKING QUESTIONS AS USUAL

Please note any potential conflict as follows: Individuals or their associates involved in the preparation of this voting intention have shareholding in this company.

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

A similar story to many, a solid Core operating EBITDA in the first half of $628 million was followed by a $65 million loss in the second half as the Group experienced a substantial deterioration in operating conditions due to the world-wide outbreak of COVID-19. As Lendlease has major operations in Australia, USA, UK and Europe the different restrictions in the various countries hit the company very hard.

After the disastrous hit Lendlease took a couple of years ago, it finally sold the Engineering Division to the Spanish constructor Acciona but was forced to keep the NorthConnex (Sydney) and the Kingsford Smith Drive (Brisbane) Projects. NorthConnex has just opened and Kingsford Smith Drive is scheduled to be completed in the next few months. It also retains the Melbourne Metro Tunnel Project in which it is in a three partner consortium which has run into numerous problems but it is understood that a major contract variation with the Victorian Government is close to being signed. The sale price of Engineering was $160 million to be paid in instalments by Acciona which also received the benefit of about $450 million in unbilled work-in-progress. In a sense, Lendlease funded the sale but is no doubt pleased to have it off its books.

Lendlease estimated the total cost of exiting the Engineering and Services Divisions to be $550 million which has already been accounted for in its books. The Services Division will be sold when the world is a more normal place, probably to private equity, but that is not anticipated to result in any further costs as it is a heathy business with a $1.4 billion pipeline of committed work.

The Group has substantially increased its global development pipeline by adding a further $37 billion taking it to $113 billion. One of the Group's main focuses is monetizing that pipeline, in the shortest duration as it wants to book some $40 billion of it over the next 5 years. This implementation timeframe, requiring the Group to lift its annual project spend by up to 80% which, given the resurgence of COVID-19 in Europe and the USA is very ambitious. The hoped-for pipeline acceleration is partly a timing issue with a number of its planning approvals either secured or near to it, and in addition, Lendlease is looking to increase the early entry of partners. Lendlease has operated with more than 100 partnership arrangements mainly pension funds in the past, but typically brings them in when the project has been sufficiently progressed to be substantially de-risked.

By introducing them sooner it means that the projects are valued at that early stage and are able to be booked earlier into Lendlease's accounts. However, by offloading some development risk to its partners it is also reducing its profit potential on these projects but this approach is more aligned with its new strategy of focusing more on being an investment manager with relatively steadier earnings than as a developer with typically lumpy earnings.

With COVID-19 there is a continual balancing act where, on the one hand it needs to retain its key people to cash in on its development pipeline and at the same time managing its projects with countries and states moving in and out of lockdown. This balancing has resulted in the total number of employees being temporarily 1,752 lower excluding those who were transferred to Acciona when Engineering was sold. This juggling act is also seen in areas like Communities where enquires had come back to pre COVID levels but as the current demand seems to be in waves depending on government incentives, this area will probably not make its target of 3,000 to 4,000 settlements in 2021 and these waves are affecting staff numbers in that area.

Overseas, Lendlease is a major player in building apartments to rent (BTR). While Lendlease is keen to get into this market in Australia, the returns on residential rentals are too low because of the current taxation laws The Group has considerable expertise in developing and building social housing which is another area that it would like to develop in Australia but it is typically in need of government support to make it financially viable.

The Company received about $15 million from governments around the world for salary compensation for workers that would otherwise have been laid off due to the pandemic. At the same time Lendlease gave rent relief to some 2,000 tenants. Although it could have received Jobkeeper until September 2020, when it realised that revenues had turned around, it voluntarily stopped receiving it on 22 June 2020.

As a result of the surprise of the size of the Engineering financial meltdown in 2019, all members of the board are now on the Risk Committee which meets regularly. This renewed focus is further seen in the Annual Report where there is discussion of the new Risk Appetite Framework which has been further expanded with integrating climate-related risks and opportunities into this Framework.

Lendlease is positioning itself further away from the perception of it being a construction company, to be seen as a developer and an investment manager. Although as we can see, being an investment manager can also be a rollercoaster ride. Although Funds under Management

(FUM) increased from $35.2 billion to $36.0 bllion, the EBITDA from Investments plunged from $489 million to $140 million, primarily due to adverse valuation markdowns.

The strategy of progressively moving Lendlease to becoming more of a fund manager is partly a natural progression but is probably being pushed along even faster by a board over-burdened with financial people. After the AGM there will be 7 directors of whom three were bankers and one who spent the last 8 years of her executive life as a banker. Happily, the new appointee has experience in property development.

Many shareholders will be happy to know that next year Lendlease has committed to including a five year financial review in its Annual Report. Of further note is the intention in future years to report operating earnings, this measure excludes Investments segment revaluations and therefore will reduce earnings volatility and the fluctuations in the EBITDA mix by segment, which should give greater clarity to the company's performance.

Financial Summary

(As at FYE)	**2020**	**2019**	**2018**	**2017**	**2016**
NPAT ($m)	(310)	467	792.8	758.6	698.2
Share price ($)	12.37	13.00	19.81	16.65	12.60
Dividend (cents)	33	42	69	66	60
TSR (%)	(2)	(33)	24	38	13
EPS (cents)	(51.8)	80	137	135.2	126.3
CEO total remuneration, actual ($m)	3.609	6.547	7.977	8.654	7.487

For 2020 the CEO's total actual remuneration was **39.2 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Note - For May 2020, the Full-time adult average weekly total earnings (annualised) was $91,983

Item 2(a)	**Election of Mr Robert Welanetz as a Director**
ASA Vote	**For**

Mr Welanetz joined the Board in March 2020. Mr Welanetz is based in the US and has significant executive, advisory, strategic and operational experience in the property, investment, development and construction sectors. His most recent role was as CEO in the property division of Majid Al Futtaim (MAF), based in Dubai, where he had overall responsibility for managing MAF's operating property portfolio and development pipeline Prior to joining MAF, Mr Welanetz spent over seven years in a global role including four years based in Shanghai in Blackstone's Real Estate Group evaluating and identifying acquisition opportunities in retail real estate and providing strategic guidance for Blackstone's portfolio of retail assets and retail operating companies.

He is a former Chair of the International Council of Shopping Centres and served on the board of the Galileo Property Trust, an Australian shopping centre investor. Other current appointments are a Non Executive Director of AHC (the private holding company of AWJ Real Estate) and Non Executive Director of Stone Mountain Industrial Property.

The board says Mr Welanetz has deep industry experience in Lendlease's core segments of development and investments and has worked with a diverse range of clients in the US, Australia, Asia, Europe and the Middle East. Robert's insights and experience have been of great benefit to board deliberations and as a board member.

Statement from Mr Robert Welanetz "*I was honoured to join the Lendlease Board just prior to the global pandemic and since my appointment I have been working closely with my fellow Board members to lend my experience and perspectives in our eff orts to plan and guide the Lendlease global platform through unprecedented times. My multidimensional career provides an important business background which is well aligned with core responsibilities of risk adjusted capital investment, strategic planning and business operation which are core to Lendlease*."

Mr. Weanetz has an impressive background directly related to Lendlease's business. As many USA-based directors of Australian companies tend to hold minimal shares in Australian companies of which they are directors, it gratifying to see he immediately started an alignment with shareholders by purchasing 7,000 shares. We will be voting our undirected proxies in his favour.

Item 2(b)	**Re- election of Mr Philip Coffey as a Director**
ASA Vote	**For**

Mr Coffey joined the board in January 2017. Mr Coffey served at Westpac for many years ending up as the Deputy Chief Executive Officer (CEO) of Westpac Banking Corporation from April 2014 until his retirement in May 2017. It is noted that Mr Coffey held very senior roles at Westpac during the period in which that bank was failing to adequately report its foreign transactions and which ultimately lead to AUSTRAC's massive fine of $1.3 billion. However, there is no evidence that Mr Coffey was aware of these failings during his time with Westpac and the matter did not come to light until about 18 months after he left the bank.

Mr. Coffey is currently a Non Executive Director of Macquarie Group and a Director of the Clean Energy Finance Corporation

The board's view is that Mr Coffey brings broad commercial, financial, risk and strategic expertise with experience gained in three of the four regions that Lendlease operates in including Australia, the United Kingdom and Asia. He has significant experience in Investments, which is one of the core competencies of Lendlease's business.

Statement from Mr Philip Coffey "*Lendlease is an international property and investments group with a significant development pipeline. I have over 30 years background in financial markets, funds management, strategy and risk management gained across the core Lendlease geographies. This positions me well to contribute to Board decisions that optimise opportunities for Lendlease and create long term value for our security holders*

Although Mr Coffey is part of Lendlease's banker core group, this is not seen as a reason to vote against him and his 21,216 shares shows alignment with shareholders interests. However, we will be asking him what learnings he gained from being part of the senior executive team in a company that allowed such poor oversight to occur.

Item 2(c)	**Re -election of Ms Jane Hemstritch as a Director**
ASA Vote	**For**

Ms Jane Hemstritch joined the board in September 2011. She has extensive senior executive experience in information technology, communications, change management and accounting with broad experience across the financial services, telecommunications, government, energy and manufacturing sectors and in business expansion in Asia during her a 25 year career with Accenture and Andersen Consulting, culminating in her being Managing Director Asia Pacific for Accenture.

Ms Hemstritch is President of the Board of The Walter and Eliza Hall Institute of Medical Research.

The board says she has strong business management, strategic, information technology and change management skills gained across diverse sectors and industries. She has deep international experience, particularly in Asia, one of the core geographies of Lendlease and the board has benefited greatly from her broad experience, and strategic and business expertise.

Statement from Ms Jane Hemstritch "*As a Non Executive Director of this tremendous company, I have had the privilege of visiting a number of Lendlease's operations and projects, seeing first-hand the execution of the Group's integrated business model in targeted gateway cities. I have also met with many of our talented workforce across all our geographies. I am passionate about the development of leadership capability within the company and I will carry this forward as Chair of the Nominations Committee focusing on Board renewal.*"

With 23,601 shares Ms. Jane Hemstritch is aligned with shareholders and we will be voting our undirected proxies favour of her.

Item 3	**Adoption of Remuneration Report**
ASA Vote	**Against**

In reaction to COVID-19 concerns senior staff were asked if they would be voluntarily willing to cut their wages by 20% for 6 months. Within a week the board and more than 300 senior staff participated in the cuts. Due to the business turnaround, the cut only lasted for 4 months. During that time it provided seed money for a hardship fund for staff and contractors who had to be stood down or let go.

ASA does not like the concept of Short Term Awards (STA) all being paid in cash. This year as a once off , the STA will be paid to the senior management in equity over two years. This is sensible both as a cash preservation and a retention measure. Obviously like most companies, the financial criteria of the STA were not met. As Lendlease does not have a financial gateway like many others, the question then turns to should the non-financials that met criteria be paid?

50% of Lendlease's STA is based on financial results and all those were below target. Health and Safety were performing at the best levels since 2012 then tragically a subcontractor in Malaysia died as the results of an accident, thus affecting the CEO's bonus. Strategic initiatives and managing risk performed extremely well by adding new pipelines and maintaining a strong financial position. Customer experience reached high levels and digital strategy moved well ahead and there was the endorsement of sustainability targets. Importantly where the Group had been falling behind in Leadership Effectiveness, this trend has been reversed.

As a result, the board decided to award the CEO and senior executives 35% of maximum STA as deferred equity and this level can appear justified if you assume that STA Target is just what the executives get for doing their job well.

The problem isn't so much the structure of the plan but the lack of transparency on amounts. On Page 110 of the Annual Report (AR) under a chart you see that the CEO's target STA is $1.2 million, then on Page 124 there is a line that STA outcome is limited to 150% of the senior executive's target STA. There is one mention in the AR that the CEO's STA in 2020 was 35% of his STA. Although we can't see the calculation anywhere, we will assume it is $420,000 but this year will be paid, as we said, in Deferred Equity with 50% vesting in September 2012 and the other 50% in September 2022.

When is detailed information too much? When it is Lendlease's Notice of Meeting. The concept of target has some relevance when talking about a short term bonus, but when you are discussing a Long Term Award (LTA) it is a totally unnecessary term and only used as PR puffery. Lendlease has three equal and separate criteria that an LTA can be awarded against in each, you have to reach a threshold to start receiving the bonus, and then it is paid in a straight line until the maximum is reached. What happens along the way, when you past target do bells ring and the payment accelerates? No. What about below target, is there a sad face and the bonus disappears? No.

To add to the unnecessary confusion the amount of the overall bonus is first stated in relation to the target bonus. Why? The amount that is being sought is not the so called target it is the big maximum. Be transparent.

So overall, although, we don't like the idea that even if the LTA is paid over 3, 4 and 5 and 6 years it is still tested over only 3 years. We also have some slight reservations about the non-financial STA being awarded this year. We still find the Restricted Securities Award (RSA) with its guaranteed bonus to be a strange concept.

Balancing against that is this year at least the STA is not paid in cash, but our concern remains that this is a once off arrangement. This concern combined with the some lack of transparency on actual STA amounts and the unnecessary confusing distraction of having the artificial target included in the LTA has tipped us to voting undirected proxies against this resolution.

CEO 2012 Remuneration Framework

Component	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	2.2	31%	2.2	23%
STI - Cash	1.2	17%	1.8	19%
RSA	0.5	7%	0.5	5.3%
LTI	3.2	45%	5.05	52.7%
Total	7.1	100.0%	9.55	100%

The amounts in the table above are the target and stretch 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.

Item 4	**Approval of Allocation of Performance Rights to the Managing Director**
ASA Vote	**FOR**

We voted against the Remuneration Report and although the confusing target insertion clouds transparency, the underlying measures are fine. Quantum is very high, but not enough to make us vote against this medium term bonuses which is awarded over 6 year. Swinging our vote is the very tough road to success the Company has set for itself.

This resolution is for the allocation of 442,694 Performance Rights which is valued at the time of the award as $5,050,000 or 230% of the CEO's Fixed Remuneration.

These full Performance Rights will convert at no cost to shares over a period of 3, 4, 5 and 6 years if the Company achieves the maximum results in three different criteria.

In each of the three areas Performance Rights will vest as equity once a threshold is reached, then in a straight line until the maximum is achieved which is:

Have a Total Shareholder Return (TSR) that over a 3 year period is better than 75% of the ASX 100.

Have an average operating Return on Equity (ROE) of 11% of more.

The cumulative growth in funds under management exceeds an undisclosed amount.

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