Australian Shareholders' Association

Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, Level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235
t (02) 9252 4244 | f (02) 9071 9877
e share@asa.asn.au

Another record year, is this the last for a while?

Company/ASX Code	Macquarie Group / MQG
AGM date	Thursday 28 July 2022
Time and location	10:30am Grand Hyatt Melbourne and online
Registry	Link
Online meeting	web.lumiagm.com/346571356 (webcast on website “macquarie.com”)
Poll or show of hands	Poll on all items
Monitor	Sue Howes and Mike Muntisov
Pre AGM Meeting?	Yes, with Glenn Stevens (Chairman), Jillian Broadbent (Chair of Remuneration Committee), Lynnette Sarno, Global head of HR and Sam Dobson, Head of Investor relations

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

Summary of issues for meeting

The main issue for the AGM is the resolution on the remuneration report as there are changes being made to the remuneration plan going forward that are being voted on in this year’s resolution. More information can be found under the resolution item in this report.

Item 1	**Consideration of financial statements**
ASA Vote	No vote required

Summary of ASA Position

Macquarie has had a significant run of solid growth and good returns for shareholders over the last 5 plus years (share price has increased 5.5x since March 2013), whilst, unlike many of its peer companies, also avoiding any major hits to its reputation and bottom line. While there have been some issues, these have not proved overly detrimental to the company or its profits.

The company takes risk, culture and ESG seriously and puts its money where its mouth is, making serious investments in opportunities that pursue its social and environmental agenda.

Governance and culture

The APRA requirements resulting from the Royal Commission into Financial Services review of the company seem broad in scope and will require significant change over a considerable breadth of the organisation over multiple future years. While the remediation bill was small compared to peers, there are extensive governance and risk changes being implemented and ongoing intensive engagement with the regulator continues. A new Chief Risk Officer has assisted in developing a good relationship.

The company has been disappointed by developments at Nuix (NXL) (Macquarie held 76.2% of Nuix at prospectus date, and acted as Joint Lead Manager in the listing in 2020). Macquarie has fully reviewed its processes and still feel that all was done properly at its end.

Macquarie has a strong Environmental Social Governance (ESG) commitment and has indicated it has strategic objectives to pursue Social Infrastructure (affordable and social housing, disability housing) and energy transition investments that align ESG with profit opportunities. It will be interesting to see this unfold given that Macquarie is unlikely to make investments that meet ESG requirements without also providing significant profit opportunities.

Board renewal and skills were discussed with the Chair. ASA expressed the view that there is a predominance on the Board of people with working backgrounds in financial services and we would like the Board to consider wider business experience in its selection process. The Board's general approach is to mix financial services and risk with broader commercial experience.

The company has found the addition of Rebecca McGrath to be very valuable as she is used to companies with a high safety culture, and Macquarie has had to move this way given its more recent investments.

A skills assessment has recently been undertaken and a skills matrix produced (internally) that indicates that they need to add skills in technology, with which we agree, and energy background would also be helpful. The challenge now is how the Board would manage this as they do not see it as a straightforward matter, given any candidate would need both good technology skills and high-level governance experience.

Michelle Hinchliffe, the newest director, is seen as bringing an international lens given her overseas experience.

<u>Financial performance</u>

The company has provided another block-buster result, increasing profit by 56% over last year's record result to post $4.7 billion. The main contributor to this result was Macquarie Capital, which saw net profit contribution increase to $2,400m from $651m in the prior year, most of which was attributed to asset realisations, and so is unlikely to be repeated in the near future.

Net trading income also contributed significantly with net trading income increasing to $3,996m from $3,482m in the prior year.

Growth in Australian home mortgages, with the home loan portfolio growing by 34%, in excess of the 32.5% growth rate experienced in the prior year, has also contributed to the good result.

The company has declined to provide guidance for 2023 financial year (FY23), citing a cautious stance and conservative approach, which may indicate that reaching these heights again next year could seem unlikely at this point.

The company sees the previous year as particularly favourable, but did remind us that volatility affords opportunity, which is particularly true for a company like Macquarie, which seems very adept at grasping opportunity when it presents itself.

The current and foreseeable economic instability will make some aspects of its business more difficult, but the company see itself as having the skills necessary to be successful in a rising rate environment. Itis also comfortable with the quality of its loan book and current provisioning.

Teams continue to come to the Board and management with useful propositions and with its balance sheet the company is in a good position to deploy capital effectively.

The outworking of the profit-sharing remuneration structure has resulted in record remuneration to key employees, notably Nick O'Kane, with total awarded remuneration of $36m ($26m FY21) and Shemara Wikramanayake of $26m ($21m FY21). This will be discussed further under the remuneration resolution.

Key events

A ($A2.8b) capital raise was completed in late 2021 through an Institutional Placement ($A1.5b @ 194.00) and Share Purchase Plan ($A1.277b @ 191.28), clearly giving retail shareholders sufficient opportunity. The key reason for the raise is to provide capital to invest in new opportunities as well as ensuring the company maintains sufficient surplus while growing.

The effect of both asset realisations and capital raising has resulted in cash balances increasing from $18.4b FY21 to $52.8b at end March 2022.

Key Board or senior management changes

Chairman Peter Warne is retiring at this AGM. Glenn Stevens was appointed Chair effective 10 May 2022, while Philip Coffey moved to Chair the Risk Committee effective 1 March 2022, replacing Mr Stevens.

Michelle Hinchliffe has joined the Board during the year.

There has been considerable change in senior management, most of which involves long-term employees retiring and seems to have been handled in a seamless manner involving appropriate handover. Details can be found on page 9 of the Annual Report.

Summary

(As at FYE)	2022	2021	2020	2019	2018
NPAT ($m)	4,706.0	3,015.0	2,731.0	2,982.0	2,557.0
Share price ($)	203.27	152.83	85.75	129.40	102.90
Dividend (cents)	622.0	470.0	430.0	575.0	525.0
Simple TSR (%)	37.07	83.90	(29.90)	32.80	21.30
EPS (cents)	1,271.7	842.9	791.0	883.3	758.2
CEO total remuneration, actual ($m)	15.193	14.760	17.060	19.760	23.340

ForFY22, the CEO's total actual remuneration was **162.6 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2021 data from the Australian Bureau of Statistics).

Note - For May 2021, the Full-time adult average weekly total earnings (annualised, original) was $93,444 (http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0, "Full-time adult average weekly total earnings".

Simple total shareholder return (TSR) is calculated by change in share price plus dividend paid during the year, excluding franking, divided by the share price at the start of the year.

Item 2a	Re-election of Ms JR Broadbent as a Director
ASA Vote	For

Summary of ASA Position

Ms Broadbent joined the Board in November 2018 and has served as Chair of the Remuneration Committee for a number of years. With a career encompassing banking and risk management as well as Board experience in energy and property, the ASA considers her to have suitable qualifications, experience, skills and available time for this Board role.

With a shareholding in the company valued around 10 times her director's fees she is considered to have both skin in the game and independence.

Accordingly, we will be voting any un-directed proxies in favour of this director.

Item 2b	Re-election of Mr PM Coffey as a Director
ASA Vote	For

Summary of ASA Position

Mr Coffey also joined the Board in 2018 and brings a background in banking, including overseas experience. Mr Coffey's CEO experience adds to the depth in the Board to support the Management Team of this large and complex organisation. He has just moved into the Risk Chair role following Glenn Steven's move to the Board Chair role.

With a shareholding in the company valued around 6 times his director's fees he is considered to have both skin in the game and independence. His other directorships leave ample time to allow dedication to his increased role.

Accordingly, we will be voting any un-directed proxies in favour of this director.

Item 2c	Election of Ms MA Hinchliffe as a Director
ASA Vote	For

Summary of ASA Position

Ms Hinchliffe was appointed to the Board in March this year and is standing for election at the AGM. While also having an extensive career in financial services, both her audit and overseas experience should allow her to cast a fresh set of eyes over the company and probe for weakness.

While we have expressed our views to the Board on wider scope of experience in Board backgrounds, we consider Ms Hinchliffe to have the experience, skills and time available to contribute amply to this Board and will be voting any un-directed proxies in favour of this director.

Item 3	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

Details of the remuneration structure can be found in Appendix 1 at the end of this report.

The remuneration report being voted on at this AGM includes changes that will take effect in FY23 and FY24. The changes affect fixed remuneration (FR), Profit share (PS) and Malus provisions. Malus is the ability of the Board or its delegate to reduce or eliminate unvested profit share for certain senior employees in certain circumstances.

There will be a large increase to FR effective FY24. This is to bring FR into better alignment with peers and allow the company to attract talent in overseas markets where Macquarie's structure is not well understood, and FR is seen as guaranteed and important.

This may not seem relevant at present given the tenure and commitment of key staff, the level of overall remuneration, the long-term tie in due to length of vesting and proportion held as equity. However, this is a large and complex company, and the Board should be looking long-term at talent acquisition and development for key positions, so this seems quite sensible.

The other proposed changes are to the profit share retention and timing of vesting of these benefits, bringing both forward, at the same time as extending out the vesting for any post-employment profit share (in the event of retirement, redundancy).

While we have a preference for the higher retention ratio and longer vesting period, what is proposed is not unreasonable particularly as:

- The way Macquarie defines the vesting timing, this is actually over years 4 to 6;
- The vast majority of remuneration is at risk and vested over a long period;
- Remuneration is closely aligned with shareholder experience; and
- The malus provisions have been ramped up.

Our biggest issue with the remuneration scheme here is that there is no way for a close reader of the annual report and accounts to clearly identify how the profit share was arrived at. While the Company identifies the list of factors taken into account, the remainder of the determination process is opaque. We do acknowledge that it is probably a complex, iterative and lengthy process that does not lend itself to reporting, but given the quantum of amounts paid, this is a downside.

There is considerable push back on the amounts paid by the Company to senior staff as profit share, but our calculations indicate that the total profit share paid to the executive team is around 3% of net profit after tax (NPAT).

The company has had two years of incredible profits, a good portion from one-off events. While the company will give no guidance on FY23, and although it has a considerable war chest to deploy, a similar profit (and profit share) next year may be difficult to achieve.

While the numbers are extremely large, the company is a large and complex beast that continues to perform well and reward shareholders. On balance we think the scheme and the changes reasonable and will be voting any undirected proxies for the remuneration resolution.

Item 4	**Approval of Managing Director's (Shemara Wickramanayake) participation in the Macquarie Group Employment Retained Equity Plan (MEREP)**
ASA Vote	**For**

Summary of ASA Position

Approval is being sought to allocate $18m as Restricted Share Units (RSUs) in accordance with the restricted profit share identified in the remuneration report. These shares will be allocated at the volume weighted average price (VWAP) during the buying period, which ran from 16 May 2022 to 29 June 2022.

Approval is also being sought to allocate $4m Performance Share Units (PSUs) in accordance with the PSU's granted under the remuneration report. The shares will be allocated following the grant date being achieved and shareholder approval at the AGM and is likely to occur around 2 August 2022.

Appendix 1
Remuneration framework detail

Macquarie Group Remuneration

Macquarie's remuneration comprises a fixed component and variable component, but unlike the rest of the ASX 200 Macquarie does not have a variable remuneration structure based on a defined measurement of several different factors. Instead, all employees are given a profit share based on the actual financial results, their personal contribution, their business unit and individual non-financial factors. Executive Committee members also participate in Performance Share Units (PSU's).

Fixed Remuneration (FR)

The company has a very low fixed remuneration. The remuneration plan being voted on in this year's resolutions includes a proposed significant increase in FR effective FY24, as indicated in the table below:

Role	Current ($Am)	Revised ($Am)
CEO	0.8	1.5
MBL CEO	0.7	1.3
Executive KMP	0.7-0.75	1.0-1.1

While this is a significant increase, it largely brings fixed into line with peers. The FR has not been changed for several years. In our discussions with the company the main reasons behind this are that they find it difficult to attract talent from overseas markets with so much of the remuneration at risk and realise they need to adjust this.

Profit Share

Part of the profit share is paid out in cash, with the rest retained and vested in equity over a number or years.

Role	Retained %	% of retained invested in Equity (MEREP)*	Vesting
CEO	80	90	One-fifth in each of years 3–7
MBL CEO	60	80-90	One-fifth in each of years 3–7
Executive Committee members	60	50	One-fifth in each of years 3–7
Designated Executive Directors (Eds)	50	80-100	One-fifth in each of years 3–7
Executive Directors	40	25	One-third in each of years 3–5
Staff other than EDs	25-60	100	One-third in each of years 2–4

*(balance is invested in Macquarie managed fund)

For senior employees retained profit share can be clawed back for Malus

The standard policy is that staff who cease employment with Macquarie will forfeit their unvested retained profit share.

There are changes being made to this structure as well, also effective FY24. The Company indicates this is to better align with the requirements of Australian Prudential Regulation Authority (APRA) Prudential Standard on Remuneration, CPS511. These changes reduce the retention % and vesting period for grants as follows:

	Current		Revised	
Role	Retention %	Vesting & Release	Retention %	Vesting & Release
CEO	80	One-fifth in each of years 3–7	70	One-third in each of years 3–5
MBL CEO	60		60	
Executive KMP	60		50	
Designated Executive Directors	50		40	

Which significantly brings forward these benefits. However, this is balanced by other changes being made, to the vesting and release of profit share post retirement or redundancy.

Currently the Board can use its discretion to allow vesting of retained profit share to continue in these circumstances. This currently occurs over 6 to 24 months for all Executive Directors and above. In FY23 this will change to ’12 to 24 months’ and in FY24 will further change to ‘0 to 60 months’ for Executive KMP and Designated Executive Directors and ’12 to 24 months’ for other executive directors.

Malus and clawback provisions have been strengthened.

Performance Share Units (PSU)
Executive Committee members are the only group of staff eligible to receive PSUs, which are subject to forward-looking performance hurdles and determined with reference to Macquarie’s performance as a whole. From FY24 the vesting period will be extended by a year to five years for the CEO and the MBL CEO.

Hurdles

<u>EPS CAGR hurdle 50% of PSU award</u>

Performance measure Compound annual growth rate (CAGR) in EPS over the vesting period (four years).

Hurdle Sliding scale applies:

- 50% becoming exercisable at EPS CAGR of 7.5%
- 100% at EPS CAGR of 12%.

For example, if EPS CAGR was 9.75%, 75% of the relevant awards would become exercisable.

ROE hurdle Application 50% of PSU award

Average annual ROE over the vesting period (four years) relative to a reference group of global financial institutions.

Sliding scale applies:

- 50% becoming exercisable above the 50th percentile
- 100% at the 75th percentile.

For example, if ROE achievement was at the 60th percentile, 70% of the relevant awards would become exercisable.

Malus provisions apply

The standard policy is that unvested PSUs will be forfeited upon termination.

In the case of retirement from Macquarie, redundancy, death, serious incapacitation, disability, serious ill-health or other limited exceptional circumstances, the Board or the Board Remuneration Committee (BRC) has the authority to either accelerate the vesting of PSUs or to permit the PSUs to continue to vest in accordance with the original award schedule and remain subject to the same performance hurdles. Please refer to page 100 of the annual report for detailed information on Malus and changes.

General comments

While the remuneration report is comprehensive, the structure is complex and it is not easy to get a handle on all the moving parts. The most effective way to comprehend it is with an example.

CEO remuneration

The allocated remuneration for the CEO for FY22 is made up of:

	$A	%
Fixed	$820,887	2.8%
Cash PS	$5,000,000	16.8%
Retained PS	$20,000,000	67.0%
PSU award	$4,000,000	13.4%
Total	$29,820,887	100.00%

Statutory remuneration for the CEO is given as $23.72m, as this takes into account the calculation of the present value of the retained portion of the remuneration allocated.

The actual remuneration for the year is as follows:

Fixed			$820,887
Cash PS			$5,000,000
Retained profit share vesting	Year	Shares	
	14	8,036	$1,215,686
	15	8,521	$1,289,057
	16	10,894	$1,648,044
	17	9,805	$1,483,300
	18	9,832	$1,487,385
PSU			
	17	8,388	1,323,626
	18	5,890	925,378
Total			$15,193,364

Shares valued using closing share price at date of vesting of RSUs (May 2021)of $151.28, and the amounts advised in the annual report at page 139 for the PSUs (equivalent to a share price of circa $157).

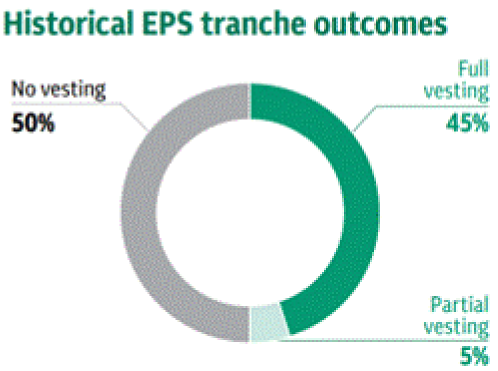
The other main issue with the remuneration report is around how the profit share pool and split amongst staff is determined. While the report indicates the general items taken into account to determine the profit share pool, the actual calculation and the split are quite opaque. This is not ideal given the quantum of profit share in total remuneration and also the serious amounts of money paid to KMP over recent years.

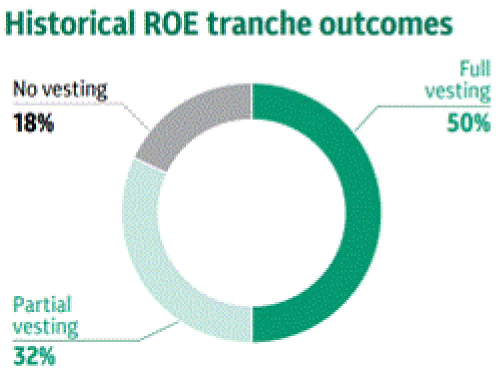
What we can see, however, is the relationship between the profit share pool and the NPAT.

Year	**2022**	**2021**	**2020**	**2019**	**2018**
NPAT	4,706	3,015	2,731	2,982	2,557
Total Executive KMP awarded profit share	123.82	106.9	99.4	106.6	115.9
PSP/NPAT %	2.6%	3.5%	3.6%	3.6%	4.5%

This table shows that while the dollar amounts paid as profit share seem enormous, when viewed as a % of NPAT the % is quite reasonable compared to other companies and has in fact reduced over time.

The other dynamic is that PSU units with Macquarie really are at risk, as can be seen by the historic PSU vesting graphic below (page 106 of the 2022 annual report).





The bottom line is that when KMP are well rewarded at Macquarie, the shareholders are also rewarded well.