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

Voting Intentions – Mystate 2021 AGM

ASX Code	MYS
Meeting Time/Date	10:30am, Wednesday 20 October 2021
Type of Meeting	Virtual (Lumi) at https://web.lumiagm.com/351636476
Monitor	Ian Day assisted by John Whittington
Pre AGM Meeting?	Yes, with Chair Miles Hampton

Proposed Voting Summary

2	Election of Director – Stephen Davy	For
3	Re-election of Director – Warren Lee	For
4	Re-election of Director – Robert Gordon	For
5	Remuneration Report	For
6	Authority to issue shares to the MD/CEO Melos Sulicich under the Executive Long Term Incentive Plan	For

Key Financials

	2021	2020	2019	2018	2017
Statutory NPAT ($m)	36.341	30.060	30.987	31.461	30.080
Statutory EPS (cents)	39.18	32.86	34.17	34.97	34.04
Dividend per Share (cents)	12.50	28.70	28.70	28.70	28.70
Share Price at End of FY ($)	4.68	3.93	4.49	5.01	4.85
Statutory CEO Remuneration ($)	1.086	0.708	0.754	0.791	0.733
Total Shareholder Return (%)	22%	-6%	-5%	9%	24%

Statutory NPAT and EPS are the audited figure from the financial accounts. Total Shareholder Return is calculated as the share price change over the year plus the dividend declared during the year, divided by the share price at end of previous year. This may differ from the figure quoted by the company.

Summary of Historical ASA Issues with the Company

In 2020 we had concerns about inadequate disclosure of short-term incentive (STI) metrics, STIs paid entirely in cash, and that there was no table of actual remuneration in the remuneration report. We supported the remuneration report but indicated that significant improvement would be required before we could support it again. However a combination of Covid and it being the first year monitoring Mystate meant we didn't have a great opportunity to engage with the company and provide this feedback.

Review of Board on Governance, Transparency, Fairness to Retail Shareholders

Positives

- The Board has an independent Non-Executive Chair (albeit right at our tenure limit) and majority of independent directors.
- All but one director and the CEO have invested at least one year's worth of fees in company shares. The remaining director was appointed recently and is progressing well to this level. There is also a satisfactory minimum shareholding requirement for non-executive directors (NEDs).
- Whilst the company raised capital during the year by using an institutional placement, this was accompanied by a pro-rata non renounceable entitlement/rights offer accompanied by a reminder shortly before the offer closed.
- If retail shareholders had taken up their full entitlements in the capital raising there would have been little dilution (however as they didn't, they received only 43.6% of the new shares issued although they comprise about 76% of the shareholder base).
- The company shopped around when looking for an organisation to conduct the capital raising and seems to have negotiated a reasonable rate.
- There is some discussion of ESG in the annual report.
- The company assures us they have made no political donations although there is no specific policy against it.

Areas for Improvement

- The company does not provide a meaningful skills matrix of the board in the corporate governance statement or annual report.
- No details are provided in either annual report (preferred) or corporate governance statement regarding when the current audit company was first appointed, when the last competitive audit tender was held, or when the lead audit partner was last rotated.
- In the capital raising, no "overs" were offered.
- Diversity (in gender, age, and culture) of the Board is below that of the workforce and customer base.
- The company does not meaningfully disclose ESG issues or risks facing the business.
- We believe the minimum shareholding requirement for the CEO at 50% of total fixed remuneration (TFR) is too low – should be equivalent to at least 100%, many companies require 200% or even 300%.

Summary

The main issue this year was the capital raising carried out during the year which was done by an institutional placement plus a pro-rata non renounceable entitlement/rights offer. Whilst we would have preferred a purely renounceable entitlements/rights issue, this was probably a pragmatic solution where 55,000 of 60,000 shareholders hold less than 400 shares (worth approx. $2000) so the value of the tradeable rights would have been eaten up by brokerage. We have discussed the issue with the Chair who is a supporter of renounceable rights issues.

Items for Voting

Item 2	Election of Director – Stephen Davy
ASA Vote	For

Mr Davy, a former CEO of Hydro Tasmania who also has early career banking experience, was appointed to the board in July 2021. He does not yet hold any Mystate shares and is independent. His experience seems to be appropriate, and we do not consider his workload excessive.

For these reasons, the ASA proposes to support his election.

Item 3	Re-election of Director – Warren Lee
ASA Vote	For

Mr Lee, who has significant experience in the financial services industry, was appointed to the board in October 2017. He has adequate skin in the game (a shareholding equivalent to 111% of his fees as at 30 June) and is independent. His experience seems to be appropriate, and we do not consider his workload excessive.

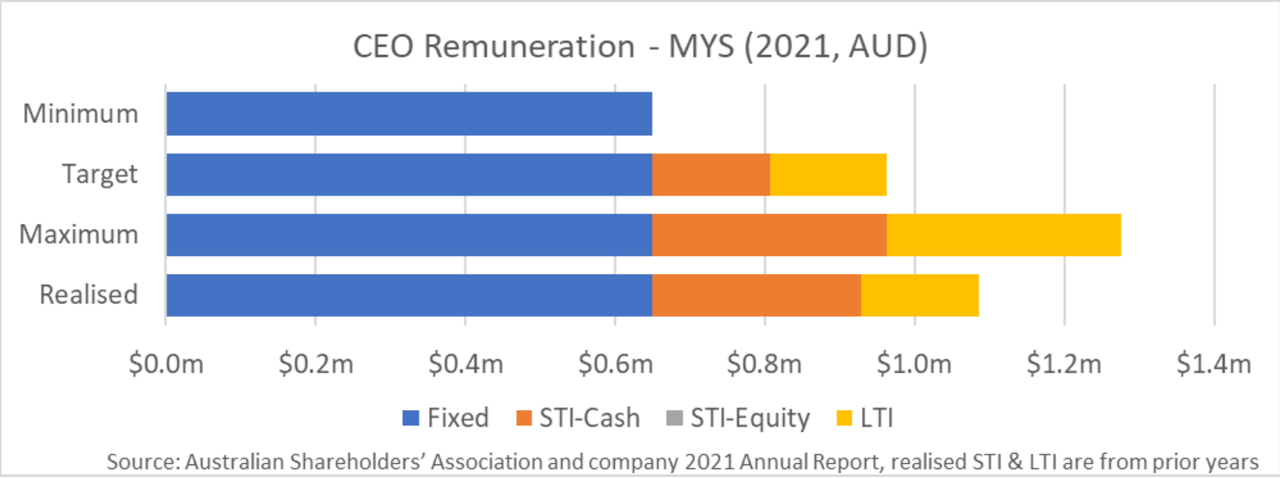
For these reasons, the ASA proposes to support his election.

Item 4	Re-election of Director – Robert Gordon
ASA Vote	For

Mr Gordon, a former Managing Director of Forestry Tasmania, was appointed to the Mystate board in February 2009 and had been a Director of Mystate's predecessors since 1998. With this long association, whilst he can provide excellent corporate knowledge to the board, we do not consider him independent. He has adequate skin in the game (a shareholding equivalent to 136% of his fees as at 30 June), appropriate experience, and we do not consider his workload excessive.

For these reasons, the ASA proposes to support his election.

Item 5	Remuneration Report
ASA Vote	For (just)



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.

Positives

- The CEO remuneration package is at the median for similar sized companies in the Godfrey Group report benchmarks.
- NED fees are only slightly above the median for similar size companies in the Godfrey Group report benchmarks.
- 50% of CEO's pay is genuinely at risk, with STIs less than fixed remuneration.
- Long-term incentive (LTI) shares are "at risk" (ie not allocated) until five years after issue and are based on two hurdles, total shareholder return (TSR) and return on equity (RoE).
- LTI share grants are allocated at face value not fair value.
- LTI TSR awards do not vest unless absolute TSR is positive (ie shareholders are better off than they were at the start) and performance is >50th percentile of the comparator group.
- No awards are subject only to continuing service.
- No termination payments exceed 12 months fixed pay.

Areas for Improvement

- The remuneration report is not very readable, transparent, or understandable.
- Executive actual take-home remuneration (in the form of a table of actual remuneration) is not clearly disclosed.
- There is no disclosure of STI quantifiable performance metrics or weightings. Shareholders have no idea whether the metrics are based on statutory or adjusted measures.
- None of STI is deferred or paid in equity.
- LTI hurdles are measured over only three years.
- Share grants are usually satisfied by the issue of new shares.

Conclusion on Remuneration

There are a number of good aspects of Mystate remuneration, primarily being that the level of remuneration seems appropriate for a company of its size. The LTI plan is generally well structured and whilst we have some doubts about using the ASX300 rather than a smaller targeted group, the company has put forward strong arguments in its favour (the smaller group can be gamed). Our discussion with the Chair suggests that his views are aligned with ours on many issues.

On the other hand, we are concerned about the report itself, which seems to be written more to comply rather than communicate and has far too little information about actual take home pay and STI performance metrics and weightings.

We therefore view whether we support or oppose this as a very close call. We haven't closely engaged with the company in recent years but having done so this year believe that Mystate's heart is probably in the right place and the issues outstanding that should be able to be easily fixed. Having communicated our concerns, we will support the report and vote undirected proxies in favour this year, however we would not support this item in future years without significant improvements in communications/transparency of the report itself.

Item 6	Authority to issue shares to the MD/CEO Melos Sulicich under the Executive Long Term Incentive Plan
ASA Vote	For

This item is an unusual one which is re-approving a grant which was approved by shareholders in 2018. It is not approving a new scheme as Mr Sulicich is retiring at the end of the year and any share issue for the new CEO will have to be approved at next year's AGM.

We see no reason to object to this award given it has been already approved and seems reasonable and will vote undirected proxies in support.

Monitor Shareholding

One of the individuals involved in the preparation of this voting intention has a shareholding in this company.