Questions on directors and retention bonuses

Company/ASX Code	Scentre Group/SCG
AGM date	Wednesday 5 April 2023
Time and location	10am AEST Wesley Conference Centre 220 Pitt St Sydney
Registry	Computershare
Type of meeting	Physical with webcast
Poll or show of hands	Poll on all items
Monitor	Sue Howes assisted by Allan Goldin
Pre AGM Meeting?	Yes with Chair Brian Schwartz, Ilana Atlas (Director, HR Committee), Elliott Rusanow (CEO), Melinda Dolph (Head of Rewards and Benefits) and Maureen McGrath (Company Secretary)

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

Summary of issues for meeting

The main issue for ASA is director elections. The company has two key directors that we consider to lack independence given their tenure, despite the Company's protestation. This Board presided over a failed remuneration plan that included retention payments to keep a CEO in place when it was known to the Board that he would be retiring. It should also have been known to the Board, given subsequent executive appointments, that they had sufficient talent sitting in the wings to weather any fallout from not blinking.

Shareholder value has been eroded over many years, other than the obvious effect of COVID-19.

The Board has then appointed Ms Catherine Brenner last year and this year appointed Mr Stephen McCann.

Proposed Voting Summary

No.	Resolution description	
2	Adoption of Remuneration Report	For
3	Re-election of Michael Wilkins as a director	For
4	Election of Stephen McCann as a director	Against
5	Approval of grant of performance rights to Elliott Rusanow	For

See ASA Voting guidelines and Investment Glossary for definitions.

Summary of ASA Position

Consideration of accounts and reports – No vote required

Governance and culture

The company has this year moved from having a hybrid AGM to a physical plus webcast. We queried this, and understand that at the last AGM there were only two security holders who asked questions using the online facility and no questions came via other media. The company also raised the issue of the risk of technical difficulties with a virtual element of a meeting and the effect of this on governance.

While this decision is regrettable from ASA's point of view, and other companies' capacity to hold a hybrid meeting, we can understand the value argument based on time, effort and cost for the additional facilities. The company is still providing a webcast for viewing, but votes or questions will have to be lodged two days before the meeting.

SCG now has five KMPs and all have been long-term employees appointed from within (or adjacent from Westfield Corporation in US for the CEO). Gender balance has also improved. We see both as a positive as it indicates the company has been developing its staff well over time. Certainly, the new CEO, previously CFO, seems to have a very good understanding of the business and its drivers.

Succession planning has been high on the Board's agenda over the last couple of years, particularly with Mr Schwartz and Mr Ihlein coming up for re-election next year. The Board is currently larger then considered ideal because of this.

Financial performance

Both Funds From Operations (FFO) and distributed earnings showed a large increase this year as a result of higher traffic to stores and particularly increased revenue for store holders – which feeds through to rental income. However, FFO is still considerably lower than it was pre-COVID, indeed it is still below every past year since its listing with the exception of 2020 and 2021.

The share price has fallen considerably over the year, resulting in a negative total shareholder return. Some of this is driven by the nature of REIT's, which seem to trade at a discount to net tangible assets (NTA). NTA per share has eroded from $4.46 in 2019 to $3.57, largely due to an expansive capital expenditure (CAPEX) program designed to expand footprint and upgrade facilities to attract greater revenue as well as the increased interest cost on the substantial debt backing this program. It will take time for the anticipated revenue to be actualised given the long-term nature of these capital works. Additionally, asset valuations move unfavourably with increasing interest rates.

It is interesting to look at a few aspects of this company taken together over time. The table below shows the cash flows expended on both CAPEX and investment in properties. This has largely been funded by an increase in debt while FFO has not responded at a rate that would provide what one would generally consider a reasonable ROC. Expectations would therefore be for a considerable FFO uptick in future.

(As at FYE)	2022	2021	2020	2019	2018	2017	2016	2015
Funds from Ops (FFO)	1,040	863	766	1,332	1,330	1,290	1,238	1,199
Borrowings	14,692	15,417	15,747	13,926	14,543	498	12,562	10,601
CAPEX & invest	481	40	55	1,046	1,733	705	1,003	595

ASA focus issues

Scentre is very aware of its environmental footprint, has a comprehensive plan in place to reduce emissions and is well underway with practical improvements that have resulted in being ahead of plan in some areas.

Summary

(As at FYE)	2022	2021	2020	2019	2018
NPAT ($m)	301	888	(3732)	1180	2287
Funds from Ops (FFO) ($m)	1040	863	766	1332	1330
Share price ($)	2.88	3.16	2.78	3.83	3.90
Dividend (cents)	15.75	14.25	7.00	22.60	22.16
Simple TSR (%)	(3.88)	18.79	(25.59)	4.00	(1.60)
FFO per share (cents)	20.06	16.64	14.76	25.18	25.06
CEO total remuneration, actual ($m)	4.24*	4.0	4.7	7.5	9.2

*Includes 1 CEO from Jan-30 Sept, 1CFO from Jan-30 Sept and 1 CEO from 30 Sept – 31 Dec and includes 2 CEO's during the financial year

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking by the share price at the start of the year.

Election or re-election of directors

The Company has an interesting philosophy in appointing new Directors, being that if they had some bruising in their executive life, that makes them a better Director. As retail shareholders we see it differently: namely that the Company rewards CEOs, who in their previous companies destroyed significant shareholder value, with a $200,000 a year directorship. This was the case last year with the appointment of Catherine Brenner. Now we have Steve McCann, whose leadership of Lendlease led to the loss of $2-3Billion plus of shareholder value, as we discuss later.

ASA believes that after 12 years a director is no longer classified as independent. Legally, Scentre came into being in 2014, but as demonstrated by staff service contracts, intermingling of Directors etc, in reality Mr Schwartz has been a director of one part or another of the listed companies who owned the Westfield name since 2009. Mr. Michael Ihlein was first appointed Director of Westfield Retail Trust in 2010, the company that was the listed entity whose assets became Scentre.

Neither of these gentlemen are up for re-election, so we cannot directly question their independence. However, why a Scentre independent directorship is so wonderful that they cling to it well past the time that an ordinary person would think they are no longer independent is a question that causes wonder.

Considering Scentre, with one of Australia's largest boards (11 people, happily 4 are women), it is very surprising that 10 were previously in finance with only one an actual retailer. The priority should be reducing this huge board but if they appoint a new Director, it should be someone with hands on retail, digital expertise or marketing, areas of expertise that are important to the Board.

Adoption of Remuneration Report and approval of equity grants to Managing Director/CEO

Details of the remuneration structure are in Appendix 1. Generally, the overall structure is very good and we will vote for it. The one part of the remuneration report we dislike is seeing our face rubbed into the effect of the retention gift, or, getting paid for turning up. We, along with 51% of shareholders voted against this aspect 2 years ago when it was first announced. It is only being noted now to demonstrate what a case it is of giving shareholder funds for very little. The Board have assured us that they will not be floating retention payments in the future given the resounding and negative feedback received from shareholders.

The curious case of Mr Allen's retention

On 1 September 2020, Mr. Allen, the then CEO was awarded 1.65 million shares if he, in theory, remained in this role until 15 February 2024. A period of 42 months.

On 23 February 2022 Mr Allen announced he was retiring 18 months after receiving the 42-month retention gift.

On 30 September 2022 Mr. Allen vacated the CEO office 25 months after receiving the 42-month retention gift.

Just prior to this AGM Mr. Allen was paid $2,458,500 as if he had remained in his role for 30 months, fulfilling the first tranche of the retention gift.

On 15 February 2024 Mr. Allen will receive a similar sum, just as he would have if he had actually stayed in his role for 42 months instead of the 25 months that actually happened.

Item 3 - Re-election of Michael Wilkinson as a Director

As a Chair of a company that recently suffered a major data breach he may offer some examples to hopefully prevent Scentre suffering a similar fate.

Although another one of finance brigade, ASA will be voting their undeclared proxies in favour of his reappointment.

ITEM 4 – Election of Stephen McCann as a Director

ASA will be voting its undeclared proxies against Mr. McCann, both because it is hard to see what expertise he will add to the Board and due to how Lendlease unravelled under his leadership. A few of the low points:

- In 2010 LLC acquired Baulderstone Abi Engineering Group for approximately $1 billion. This then formed the basis of the Lendlease engineering Division. Losses from this Division have cost LLC shareholders some $2 to $3 billion.
- Mr. McCann waited until his last year in office to initiate an overdue substantial restructure that created clear reporting lines and responsibilities.
- It became obvious as Mr. McCann was leaving the CEO position that three of Lendlease's major urban redevelopment will show a tax impairment of approximately $250 million as on completion they will not generate the profits forecast.

- In Mr. McCann’s last year he forfeited his short-term incentive due to his responsibility as CEO for the write offs. The Chair also cut is own salary by 20% due to the right offs.

Item 5 – Approval of grant of performance rights to Elliott Rusanow, Managing Director and Chief Executive Officer

Although the 2023 accounts will show the CEO received a retention grant worth $1.38 million on the date of vesting, this is not a reason to vote against the reasonable tests applying to the Performance grants.

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Appendix 1
Remuneration framework detail

CEO rem. Framework for FY2023	Max. Opportunity $m	% of Total
Fixed Remuneration	1.8	21%
STI – Cash	1.6	19%
STI - Equity	0.7	8 %
LTI	3.2	37%
Retention	1.3	15%
Total	8.6	100%

Details of the remuneration plan are well set out in the explanatory notes to the Notice of Meeting.

Scentre should be congratulated on the inclusion of a 5-year performance and remuneration outcomes table that clearly shows the percentage of STVR and LTVR awarded each year. The company clearly discloses the actual remuneration provided to the CEO and CFO and uses face value to calculate the number of performance rights awarded. The company doesn't pay dividends on rights but does calculate the dividend amounts accrued when they vest and pays this in cash upon vesting.

It is pleasing to see that Scentre now recognises that there are more than two executives who direct the company's activities and have increased the number of executive key management people (KMP) to five.

The company does not believe in target remuneration, rather they prefer the executive KMPs to aim at "shooting the lights out" and therefore only set maximum remuneration. Saying that, it is somewhat disappointing to see that 50% of the (long asked for RSTR) award is made when Scentre only **equals** their competitor group, which is made up of similar REITS.

While ASA prefers that more of the STVR be delivered in equity than cash, the fact that the 30% equity is awarded as performance rights rather than actual shares, means the Company's continued performance is important to the value of the shares when they vest.

At the same time the company has improved its disclosure and reporting around the metrics used and achieved for the STVR and this is very pleasing.

LTVR is delivered in two tranches: the first 50% after 3 years and the second 50% after 4 years. The two measurements that govern if or how much of the LTVR is awarded is firstly return on contributed equity (ROCE) for 70%. 30% is awarded based on relative shareholder return (RTSR) measured against a group of domestic REITs. Both criteria are measured over 3 years, as opposed to ASA's preference for 4 years.

The Board has used the appointment of a new CEO to substantially reduce the remuneration on offer for the CEO:

Fixed remuneration moves from $2million to $1.8 Million

STVR opportunity has been reduced from 150% of to 130% of fixed remuneration

LTVR previously was 155% plus an additional 25% for achieving over target of ROCE.

The maximum overall LTVR is now 175%