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Covid recedes, profits improve

Company/ASX Code	Vicinity Centres / VCX
AGM date	16 November at 11.00am
Time and location	Sheraton Grand Hotel, 161 Elizabeth Street, Sydney
Registry	Link Market Services Ltd
Type of meeting	Hybrid
Poll or show of hands	Poll on all items
Monitor	Henry Stephens assisted by Rod McKenzie
Pre AGM Meeting?	Yes with Trevor Gerber (Chairman), Jane Kenny (Investor Relations), Rohan Abeyewardene (Company Secretary)

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

Summary of issues for meeting

No real issues. This Company is well governed and performing well.

The CEO announced his resignation on 31 October, so we are seeking additional information on the award of long-term incentive payments (LTI) before we finalise our vote on item 5. We also have some concerns with the workload of director Mr Michael Hawker and are seeking further information before we decide on our vote on item 3b.

Proposed Voting Summary

No.	Resolution description	
2	Adoption of the Remuneration Report	**For**
3a	Re-election of Ms Tiffany Fuller	**For**
3b	Re-election of Mr Michael Hawker	**Undecided**
3c	Re-election of Mr Dion Werbeloff	**For**
3d	Re-election of Ms Georgina Lynch	**For**
3e	Re-election of Mr Trevor Gerber	**For**
4	Increase in Non-Executive Director fee pool	**For**
5	Approval of equity grant to CEO and Managing Director	**Undecided**
6	Re-insertion of Partial Takeovers Provisions in Company constitution	**For**
7	Re-insertion of Partial Takeovers Provisions in Trust constitution	**For**

Summary of ASA Position

Consideration of accounts and reports - No vote required

See comments below under financial performance.

Governance and culture

In 2019, Vicinity set a long-term goal to be net zero carbon emissions in common areas by 2030 in alignment with the Paris Agreement. The Company has adopted an Integrated Energy Strategy which focuses on renewable generation, storage, energy efficiency and demand management. The Company is tracking well towards this goal and has reduced energy usage by 27% and carbon intensity by 38% since June 2016. To date the Company's solar systems, generate enough energy to power 8,000 Australian homes per year. For a full discussion of the net zero carbon issue see pages 27-29 in the 2022 Annual Report.

Financial performance

The Australian retail sector rebounded during the second half of FY2022 underpinned by growing customer preference for visiting physical stores, elevated household spending and a very tight labour market. Despite four months of lockdown in NSW and Victoria, the Company's moving annual turnover rose 6.7%, net property income increased 8% and statutory net profit turned around strongly from a loss of $258 million in FY2021 to $1.21 billion profit for FY2022. Funds from operations (FFO), which excludes revaluation adjustments and some other non-cash items, increased 7% to $598.3 million from $558.8 million for the previous year.

Vicinity leased 374 vacant stores during the year and the overall occupancy rate increased slightly to 98.3%. Very positively 94% of all new leasing deals were negotiated with fixed annual increases of at least 4%. The Group provided rental assistance (and continues to provide rental assistance) in the form of rental waivers, payment deferrals and other temporary modifications to eligible tenants that continue to experience financial hardship distress.

Key events

The pandemic and notably the lockdown in New South Wales and Victoria from July 2021 until late October 2021 had the biggest effect on the company as these states account for 71% of the Group's assets by value and 65% of revenue.

Key Board or senior management changes

Ms Karen Penrose will resign from the Board effective 15 September 2022. She became a director in June 2015 and was Chair of the Audit Committee and a member of the Risk and Compliance Committee.

Mr Adrian Chye was promoted to the role of Chief Financial Officer on the 13th of September 2021.

On the 31st of October 2022, Vicinity announced the retirement of its CEO Mr Grant Kelley. After more than five years in the role, he will retire by 30 June 2023, which means the Company will have up to 8 months to find a replacement. This announcement is a total surprise to the ASA and at the time of writing we have not heard back from the Company for more information. The matter remains under review.

ASA focus issues

In December 2020, the Company was included in CDP's prestigious A-List for the second year in a row, which recognises leading action on climate change. Vicinity was one of only three companies in Australia to achieve this top ranking as part of a small number globally. CDP is a global not for profit organisation operating in 90 countries. In 2020, there were only 277 companies on the A-List out of over 9,600 companies analysed.

Summary

(As at 30 June)	2022	2021	2020	2019	2018
NPAT ($m)	1215.2	(258.0)	(1801.0)	346.1	1218.7
Funds from Operations (FFO) ($m)	598.3	558.8	520.3	689.3	708.7
Share price ($)	1.835	1.545	1.43	2.45	2.59
Dividend (cents)	10.4	10.0	7.7	15.9	16.3
Simple TSR (%)	25.5	15.0	(39.9)	0.6	7.0
FFO / security (cents)	13.14	12.28	13.7	18.0	18.20
EPS (cents)	26.64	(5.67)	(47.3)	9.0	31.3
CEO total remuneration, actual ($m)	2.1	2.2	1.6	2.0	1.5

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 Board currently has 5 independent directors (including the Chair) out of 8 directors of whom 2 (25% of the board) are women. Ms Karen Penrose left the Board in September 2022 and Dr David Thurin will leave the board in November. They will be replaced by Ms Tiffany Fuller, Ms Georgina Lynch, Mr Michael Hawker, and Mr Dion Werbeloff if they are elected at this AGM. This will lift the total number of directors to 10 of which 3 (27% of the Board) will be female. The current Chairman Mr Trevor Gerber is also up for re-election. The 5 directors being considered for election are regarded as independent except for Mr Dion Werbeloff (discussed below). In our discussions with the Chairman, we were told that the Board size has been increased this year because of expected resignations over the next 1-2 years and because the nominated directors are available and wanting to join the Company.

ASA intends to vote for the 5 directors standing for election this year.

Ms Tiffany Fuller, who will join the board if elected, is an experienced public company director with experience in accounting, corporate finance, investment banking and management consulting. She is currently on the boards of Computershare Limited, Washington H Soul, Australian Venue Co and the Royal Children's Hospital Foundation. The ASA considers Ms Fuller to be independent and not overloaded with other board responsibilities.

Ms Georgina Lynch, who will join the board if elected, has 25 years of property and financial services experience including significant experience in corporate transactions, capital raisings, initial public offerings and funds management. She is currently Chair of the industry super fund Cbus Property and a director of Waypoint REIT, Tassal Group and Evolve Housing (a social and affordable housing provider). The ASA considers Ms Lynch to be independent and not overloaded with other board responsibilities.

Mr Michael Hawker, who will join the board if elected, is a professional director with over 35 years' experience in the financial services industry including senior positions at Westpac Bank and Citibank and as CEO of Insurance Australia Group from 2001 to 2008. He is currently a director of Westpac, Washington H Soul Pattinson Ltd, Allianz Australia, BUPA Global (UK based Board) and BUPA Australia. The ASA considers Mr Hawker to be independent however we are unsure if his workload is too high and are seeking further information before we finalise our vote.

The current Chairman, Mr Trevor Gerber is up for re-election. He joined the Board in June 2015 and became the Chairman in 2019. Mr Gerber has considerable experience in property and funds management. He spent 14 years at Westfield as Group Treasurer and subsequently Director of Funds Management where he was responsible for Westfield Trust and Westfield America Trust. He is Chairman of the Nominations Committee and a member of the Audit Committee and the Remuneration and Human Resources Committee. Mr Gerber is also Chairman of Terrace Downs Group, Chairman of the Advisory Board of Jarden Australia and a Director of the Judith Neilson Family Group. The ASA considers Mr Gerber to be independent, not overloaded with other board responsibilities, and holds close to the equivalent of one year's fees in company shares.

The Gandel Group's CEO, Mr Dion Webeloff, who will join the board if elected, has been nominated to replace Dr David Thurin as a Non-Executive Director and Gandel Group representative on the Board. He is not independent as the Gandel Group is a co-owner of the Company's largest asset, Chadstone, and a major shareholder in the Vicinity Group.

Increase in Non-Executive Director Fee Pool

Item 4 requests a $450,000 increase in the Non-Executive Director (NED) Fee pool from $2.25 million to $2.70 million effective 1 July 2022. The current maximum fee pool has not been increased since November 2011 and Directors base fees were last increased effective 1 January 2018. The increase is to allow for additional directors when necessary and to ensure that fees remain competitive to attract appropriate calibre NEDs who have the required skills and experience and the fees are commensurate with comparable ASX listed entities fee structure.

The NED fees will be increased effective 1 July 2022 as follows: Board Chair fee increases 5% from $463,500 to $486,500 and NED base fee to increase 6.2% from $164,800 to $175,000. These fee increases and two additional directors will take the total cost of the Board to around $2.2 million and hence the requirement for an increase in the NED Fee pool. This is in line with the Godfrey Remuneration Group guidelines for a company capitalised at over $8 billion. The ASA believes the proposed increase in fees is fair and comparable with Boards of similar sized companies.

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

The ASA supports the Remuneration Report and the reasons are discussed in the Appendix below.

Shareholders are asked to approve a grant of performance rights with a face value of $2,025,000 to the CEO, Mr Grant Kelley, as part of his FY2023 remuneration package. The grant is equal to 135% of the CEO's total fixed remuneration (TFR) and will vest at the end of four years subject to various conditions.

The performance rights will be subject to two performance measures, namely Relative Total Securityholder Return (TSR) and Total Return (TR). 50% of the performance rights will be subject to the Company achieving a TSR hurdle that is higher than a Comparator Group defined in the Notice of Meeting. If Vicinity's TSR is below the Comparator Group no vesting will take place and if it exceeds the Comparator Group by 2.7% pa then 100% vesting can occur. Pro rata straight line vesting occurs in between 50% and 100%.

50% of the performance rights will be subject to the Company achieving a TR hurdle over four years. The TR formula is clearly defined in the Notice of Meeting along with the vesting schedule. If the TR per annum is below 5% no vesting will take place and if above 7.5% then 100% vesting can occur. This TR range has increased slightly from the range of 4.5% to 7.25% with respect to the performance rights granted in FY2022. The ASA supports the issue of performance grants to the CEO. The four-year term of the LTI is in line with the ASA guidelines. We note that according to Godfrey Remuneration Group research, the CEO's TFR is in the bottom quartile and his STI and LTI are in the upper quartile which the ASA supports as it results in a larger part of his pay being at risk and this helps to align shareholders' interests with management.

Re-Insertion of Partial Takeovers Provisions in the Company Constitution

This proposal is being put to shareholders to re-insert into the Company's constitution the partial takeover provisions that have lapsed. This resolution must be passed by at least 75% of the votes cast at the AGM. Under the Corporations law and the Company's Constitution these provisions apply for a maximum of three years and if passed at the AGM they will last for another 3 years. These provisions will not allow a predator to only bid for a proportion of a shareholders' interest unless and until a resolution to approve the bid is passed by a majority of unitholders at a Special Meeting of Shareholders. The ASA prefers full takeovers so that shareholders are not left with a controlling shareholder and a minority interest in the Company. The ASA will support the motion.

Re-Insertion of Partial Takeovers Provisions in the Trust Constitution

This is the same proposal as the one above except that it applies to the Trust Constitution and not the corporation. The ASA will support the motion.

Appendix 1
Remuneration framework detail

CEO rem. Framework for FY22	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.500	32%	1.500	30%
STI - Cash	0.562	12%	0.750	15%
STI - Equity	0.563	12%	0.750	15%
LTI	2.025	44%	2.025	40%
Total	4.650	100.0%	5.025	100%

The amounts in the table above are the 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.

The remuneration framework largely remains the same as last year except the Total Securityholder Return (TSR) comparator group has been slightly revised. The aim is to have a benchmark with similar organisations and Home Co has been added into the comparator group for FY22. The fixed remuneration for the CEO did not change in FY2022. Approximately 70% of the CEO's remuneration is "at risk" and there is a good alignment between shareholder interests, executive performance and remuneration.

The STI for the CEO is paid 50% up front and 50% deferred into equity after 2 years. The CEO is assessed against a scorecard of financial and non-financial measures. The financial measures are weighted 40% at target and comprise funds from operations, net property income and retailer cash collection. The strategy and portfolio enhancement objective is weighted 30% and is linked to the growth and enhancement of the portfolio including the development pipeline, cost management and operational efficiencies. Leadership and operational excellence are weighted 30% and include objectives linked to corporate reputation and sustainability, people and organizational capability.

Access to the STI is normally contingent on achievement of a FFO gateway of 97.5% of target. This ensures a minimum financial hurdle must be met before any incentive is paid. If the gateway is achieved, performance for each measure is assessed on a range from "threshold" to "maximum". The FFO gateway did not apply in FY2022 because of the extreme difficulty of setting robust financial targets, and as was the case in FY2021, the Board assessed the financial performance taking into account overall securityholder experience and expectations. For the CEO, Grant Kelley, target STI is 75% of fixed remuneration with a maximum opportunity of 100% and for FY2022 he received 75.6% of the maximum STI opportunity or $1.134 million.

The CEO's FY2022 LTI opportunity has a face value of 135% of total fixed remuneration.

There are two performance measures to test for the LTI – 50% subject to a total return (TR) measure and 50% subject to a relative total shareholder return (TSR). The TR hurdle is a compound minimum annual return of 4.5% to 7.25% with pro-rata straight line vesting and 100% vesting at 7.5%. The TSR hurdle is relative to a comparator group of 5 REITS (see page 54 in the Annual Report). There is zero vesting if Vicinity's TSR is less than the comparator group and at the 75th percentile there is 100% vesting and straight line vesting in between. The performance period for vesting of rights is four years and face value is used in determining the number of rights awarded for a given value of the award.

In FY20 an absolute TSR 'gate' was introduced ensuring a benefit will only be derived from the TSR performance rights when positive TSR performance is delivered over the four-year term of the plan, regardless of performance relative to competitors. The ASA was disappointed that this was dropped in the revised LTI arrangement for FY22 (see page 66 of the Annual Report) and we raised this issue with the Chairman who reminded us that we have been through a major pandemic which resulted in a loss of value for many companies on the stock market. He was not comfortable not paying executives their bonus during these difficult times when they have clearly worked extremely hard. It was felt that there would be a serious issue of demotivation of his best executives if rewards were reduced too much for factors beyond the control of executives.

Some of the directors appear to hold shares in the Company that have a total value of less than one year's director's fees which is contrary to the ASA's guidelines. Vicinity's policy is that a director only needs to pass the test for equity once and there is no re-testing even if the stock price falls considerably which the price has done over the last 12 months.