Australian Shareholders' Association Limited
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A more muted year, but still an excellent result

Company/ASX Code	Macquarie Group / MQG
AGM time and date	10:30am on Thursday, 25 July 2024
Location	Sheraton Grand Sydney Hyde Park, Level 2 Grand Ballroom, 161 Elizabeth Street, Sydney
Registry	Link Market Services
Type of meeting	Hybrid
Monitor	Sue Howes assisted by Gareth Eastwood and Craig Lee
Pre AGM Meeting?	Yes, with Glenn Stevens (Chairman), Jillian Broadbent (Chair of Remuneration), Lynnette Sarno, Global Head of HR and James Baudzus, Investor relations

Monitor Shareholding: The individuals (or their associates) involved in the preparation of this voting intention have shareholdings in this company.

Summary of issues for meeting

Macquarie has had a good result this year even if lower than the previous two outstanding years. The share price has bounced back to near record levels while remuneration has decreased with the profit result.

The Chair did comment, though, that this is as low as they want the return on equity (ROE) to be, which is why capital awaiting deployment continues to be the company's agenda.

An audit review has resulted in a number of policy changes taking place.

Proposed Voting Summary

No.	Resolution description	
2a	Re-election of Ms RJ McGrath as a Director	For
2b	Re -election of Mr M Roche as a Director	For
2c	Re-election of Mr GR Stevens as a Director	For
3	Adoption of Remuneration Report	For
4	Approval of Managing Director's participation in the Macquarie Group Employment Retained Equity Plan (MEREP)	For

See ASA Voting guidelines and Investment Glossary for definitions.

Summary of ASA Position

Consideration of accounts and reports - No vote required

Macquarie has had another very good profit year, although significantly lower than the FY23 or FY22, which were exceptional, net profit after tax (NPAT) was higher than FY21 and prior years.

The Company has been clearly messaging this result for some time. The interesting thing is the segments of the company from which the profit emerged this year, with Capital providing the standout result, Banking providing a small profit increase on existing good returns and a significant decrease in Commodities and Global Markets (CGM) and Asset Management (MAM).

The company continues to react well to market risk and take opportunities where they identify them. The company has indicated that they react to client needs and requests rather than chasing risk.

This flows through to the banking business where they deal with brokers who can manage the paperwork well and appreciate good service and a quick decision turnaround, which allows them to target a 70-80% loan to value ratio (LVR) and corresponding low default rate in their mortgage portfolio.

The Board has also indicated that in relation to green investments and sensitive investment mandates they are both careful about what they sign up to and invest directly via MAM to nurture early-stage green investments. They are increasingly transitioning these to Macquarie investment funds, rather than selling to external parties, so that they can continue to manage and benefit from these investments once they are operational.

Governance and culture

This year sees the retirement of Ms Wakefield Evans (29 February 2024). Other than that, this is another year of general stability. The Board conducted Board and Committee reviews this year.

The company considers their number of external directors (seven) to be about right. Macquarie is seeking to appoint one or two more overseas directors over time.

The Company also undertook a review of the Auditor and its auditor arrangements and made a number of policy changes (page 48 of the annual report), the most significant being the mandating in policy of the audit firm not supplying non-audit services to the company or its subsidiaries (effective 1/4/2025).

The company is satisfied that the audit remains with PWC, however, a tender for these services will be conducted no later than mid-2026. They are yet to determine whether PWC will be invited to re-tender. Noting the complexity of the audit process, as the company has around 100 entities globally, they expect to re-tender around once per decade.

Financial performance

Group profit was down 32% on the previous record year while dividends decreased 15% on the prior year. The share price has rebounded to close to the FY22 year-end level.

Profit contribution

(As at FYE)	2024 Profit ($ billion)	% Change previous year	2023 Profit ($ billion)	% Change previous year
Banking and Financial Services (BFS)	1.24	3	1.2	20
Commodities and Global Markets (CGM)	3.21	(47)	6.0	54
Macquarie Asset Management (MAM)	1.21	(48)	2.3	(23)
Macquarie Capital	1.05	31	0.8	(47)

The company cites 'ongoing economic uncertainty and subdued market conditions in many parts of the world' in their report on the 2024 result. However, the company remains strong and profitable. Its four main divisions continue to display an entrepreneurial spirit with operational discipline to deliver strong shareholder returns.

This year the company has increased its loan portfolio by 10% to $A140.2 billion with a corresponding increase in deposits. Funds on platform increased a healthy 15%.

Capital levels are reported in the Pillar 3 disclosures. Macquarie Bank (MBL) is currently supported by a higher proportion of capital than each of the big 4 Australian banks. This measure will increase in relevance while the focus of Macquarie shifts to increasing business and retail lending.

Tier 1 Capital ratios	%
Macquarie	15.5
ANZ	15.2
Westpac	15.0
CBA	14.2
NAB	14.1

The company has a significant capital base sitting ready for opportunities. Last year the Board indicated they were taking steps to reduce this, including a buy-back. This year the capital ratio has increased further, largely due to reduced activity in some sections of the organisation freeing up some capital. The Board has indicated a preference for finding opportunities to deploy capital going forward now that the buy-back has reached its current level.

Key Board or senior management changes

After 28 years with Macquarie and five years as Group Head Nicholas O'Kane stepped down as Head of CGM and the Executive Committee on 27 February 2024. The working of the remuneration plan results in Mr O'Kane receiving $1.02m of fixed remuneration and no performance related remuneration for the year. Mr O'Kane also forfeited 615,729 RSU awards and 68,617 PSU awards unvested from previous years.

Simon Wright (previous Head of CGM's Global Financial Markets) became Group Head, joining the Executive Committee on 1 April 2024.

Summary

(As at FYE)	**2024**	**2023**	**2022**	**2021**	**2020**	**2019**
NPAT ($m)	3,535	5,168	4,706	3,015	2,731	2,982
Share price ($)	199.70	175.66	203.27	152.83	85.75	129.40
Dividend (cents)	640.0	750.0	622.0	470.0	430.0	575.0
Simple TSR (%)	17.33	(9.89)	37.07	83.90	(29.90)	32.80
EPS (cents)	916.6	1,353.7	1,271.7	842.9	791.0	883.3
CEO total remuneration, actual ($m)	29.301	28.310	15.193	14.760	17.060	19.760

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.

ASA focus issues

ESG

Macquarie divides its ESG approach into eight areas, of these, environmental and social risks are considered material. In December, the Macquarie Net Zero and Climate Risk Report stated that it is on-track to FY25 net zero emissions targets for business operations. MAM investment in "green energy assets" generation capacity is down 1GW on 2023. Reduced asset realisations in green investments were reported as contributing to lower year on year result in MAM.

A new Australian based renewable energy business, Aula Energy was initiated during the year. Macquarie also reports that it is on-track to exit all lending and equity exposure to the coal sector by the end of 2024.

The Macquarie model for social risks is more proactive with investment dedicated to the social impact investing, including funding via the Macquarie Foundation.

Macquarie continues to demonstrate increasing gender diversity across most levels of senior management. In February it reported a gender pay gap of 22.1% (this metric does not consider seniority).

Election or re-election of directors (For)

The three directors standing for re-election seem to be performing well and contributing to the Board and the company. Risks have been dealt with effectively by the Board, the company continued to do well and do what it does best and no unaddressed issues have emerged.

We note the good working relationship that seems to exist between the CEO and Chair. The Chair transition from Mr Warne was conducted smoothly and Mr Stevens is proving to be an effective Chair.

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

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

The share price has recovered from its dip toward the end of the previous financial year. While profit has reduced, it is still a good result seen over time. The two prior years were exceptional.

Vesting aspects of the remuneration plan continue to work and have delivered the CEO 3% increase in actual remuneration while the statutory result shows a 3% reduction.

The statutory remuneration takes into account the value of awards not yet vested, which vary with profitability and results. The actual takes into account the current value of past years' awards affected by hurdles.

We generally agree with the MQG remuneration scheme, despite the somewhat eyewatering numbers that the outworking of the scheme has produced in recent years. The Chair drew attention to senior executive remuneration reflecting the reduced profit result.

Approval of Managing Director's participation in the Macquarie Group Employment Retained Equity Plan (MEREP) (For)

Given we are voting for the remuneration plan we will also be voting any undirected proxies for this resolution.

Appendix 1
Remuneration framework detail

With the departure of Nick O'Kane during the year, the CEO resumes her position as the highest paid executive in the Group.

Macquarie's remuneration comprises a fixed component and variable component, but unlike the rest of the ASX200, 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.

Role	FY24 ($Am)
CEO	1.5
MBL CEO	1.3
Executive KMP	1.0-1.1

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) (balance is invested in Macquarie managed fund)	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	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 executive directors	25-60	100	One-third in each of years 2–4

For senior employees retained profit share can be clawed back for Malus, although the company considers this a last resort given the many other levers at its disposal prior to profit share actually vesting.

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

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

Currently the Board can use its discretion to allow vesting of retained profit share. This currently occurs over 0 to 60 months Executive KMP and Designated Executive Directors.

Malus and clawback provisions exist.

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.

<u>ROE hurdle Application 50% of PSU award</u>

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 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.

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 FY23 is made up of:

	$A	%
Fixed	$1,527,224	5.22%
Cash PS	$7,125,000	24.34%
Retained PS	$16,625,000	56.79%
PSU award	$4,000,000	13.66%
Total	$29,277,224	100.00%

Statutory remuneration for the CEO is given as $29.37m, 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:

				Source
Fixed			$1,527,224	P130 Rem report
Cash PS			$7,125,000	P130 Rem report
Restricted profit share (2016 – 2020 rem report)	Years 17 to 21		$3,468,057	2017-2021 Rem reports (Appendix 2)
Earnings on prior year restricted profit share			$1,785,358	P147 Rem report
Retained profit share vesting	Year	Shares	$12,481,303	Page 151 Rem report
PSU vested	19	16,416	$2,913,840	Page 153 Rem report
Total			**$29,300,782**	

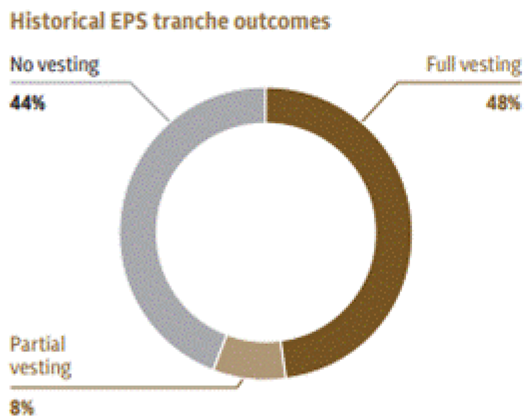
The other main issue with the remuneration report is around how the profit share pool and split amongst staff is determined. While the report indicates the general items taken into account to determine the profit share pool, the actual calculation and the split are quite opaque. This is not ideal given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

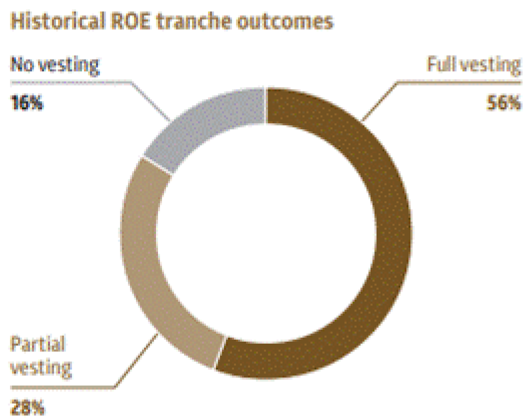
What we can see, however, is the relationship between the profit share pool and the NPAT.

Year	2024	2023	2022	2021	2020	2019
NPAT	3,535	5,182	4,706	3,015	2,731	2,982
Total Executive KMP awarded profit share	80.2	151.6	123.82	106.9	99.4	106.6
PSP/NPAT %	2.3%	2.9%	2.6%	3.5%	3.6%	3.6%

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 annual report).





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