Australian Shareholders' Association Limited
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A company facing serious and public governance concerns

Company/ASX Code	Steadfast/SDF
AGM time and date	10:00am AEDT Friday 1 November 2024
Location	Hilton Sydney, Level 4, 488 George St, Sydney
Registry	Link Market Services
Type of meeting	Hybrid
Monitor	Elizabeth Fish, Allan Goldin & Sue Howes
Pre-AGM Meeting	Yes with Vicki Allen Chair Remuneration and Performance Committee and Shalome Ruiter Executive General Manager Investor Relations &ESG

An individual or their associates involved in the preparation of this voting intention have a shareholding in this company.

1. How we intend to vote

No.	Resolution description as per the proxy form	
1	Remuneration report	For
2	Grant of equity to Mr Robert Kelly AM, Managing Director & CEO under the Short-Term Incentive Scheme	For
3	Approval of termination benefits for the Managing Director & CEO	For
4	Election of director – Mr Andrew Bloore	For
5	Re-election of director – Mr Greg Rynenberg	Against

2. Summary of Issues and Voting Intentions for AGM/EGM

- Fallout relating to the matters raised by Four Corners (ABC TV) and the ACCC.
- Upcoming resignation and exit of the MD & CEO
- Level of acquisition activity and related competition issues.
- Resolution relating to MD & CEO payment under FY24 remuneration plan.

See ASA Voting guidelines and Investment Glossary for definitions.

3. Matters Considered

Accounts and reports

Financial performance

(As at FYE)	**2024**	**2023**	**2022**	**2021**	**2020**
NPAT ($m)	228.0	189.2	171.6	143.0	(55.2)
UPAT ($m)	252.2	207.0	169.0	130.7	111.9
Share price ($)	6.18	6.00	5.02	4.40	3.36
Dividend (cents)	17.1	15.0	13.0	11.4	9.6
Simple TSR (%)	5.85	22.5	17.0	34.3	-1.5
EPS (cents)	21.2	18.4	17.9	16.51	-6.47
CEO total remuneration, actual ($m)	6.4	5.4	5.0	3.9	N/A

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.

Steadfast was operating normally until 9 October 2024 when an ABC Four Corners program reported that Steadfast Group, the largest strata insurance broker in Australia, is facing scrutiny for allegedly misleading customers by not disclosing more affordable insurance options from competitors.

An investigation by the ABC's Four Corners program found that Steadfast, which manages 40% of the nation's strata insurance brokering and writes 55% of strata policies, recommended a higher-cost policy from its own subsidiary, while withholding a cheaper offer from a competing underwriter. The investigation also uncovered that Steadfast had been involved in arrangements where a portion of brokerage fees were funnelled to strata management firms, without disclosure to the apartment owners who ultimately pay the bill.

Steadfast went into a trading halt the next day, and when the shares recommenced trading, the share price plunged from $6.35 to $5.32 and has only moved slightly from that point. The company reported it commissioned insurance expert John Trowbridge to conduct an independent review in late 2021 to help identify how remuneration, transparency and disclosure practices can be improved for the benefit of customers and industry participants.

In the ABC program Australian and Competition and Consumer Commission (ACCC) Chair Gina Cass-Gottlieb called for a ban on commissions in the strata insurance market, citing concerns about undisclosed payments that may be inflating costs for apartment owners. While the NSW government has introduced new legislation aimed at improving oversight in the strata sector, Cass-Gottlieb said the reforms did not go far enough. She argued that financial incentives still motivate brokers and strata managers to recommend higher-cost policies, even when less expensive alternatives are available

Steadfast has expanded significantly in the strata sector since it went public on the Australian Securities Exchange (ASX) in 2013, acquiring over $1.6 billion in assets, including insurance brokers and underwriters.

Its strata business now contributes more than 20% of its total profits, amounting to $43 million last year, with its equity-owned strata insurance brokers contributing approximately 5% of Group FY24 EBITA,. Despite this, the ACCC claimed that it has rarely been notified of Steadfast's mergers and acquisitions due to the voluntary nature of Australia's merger reporting rules.

Cass-Gottlieb cited Steadfast as an example of a company that has amassed considerable market power without sufficient regulatory oversight.

Steadfast has had a good year financially with growth in revenue, profit, operating cash flow and dividends. In many segments organic growth has been higher than growth through acquisition despite the continuation of its extensive acquisition program.

Segment information:

Broking: Gross written premium (GWP) increased by 12.1% to $13.0 billion. Company now has 418 brokerages.

Underwriting: $2.3 billion of GWP.

Technologies: $1.4 billion of GWP transacted on Steadfast Client Trading Platform.

As a result of the company's acquisition program, Steadfast are now the largest intermediated insurance distribution network in Australia.

An equity raising was undertaken in November/December 2023 raising $348.1m (67.7million shares issued) to fund acquisitions. The company made 48 earnings accretive acquisitions during the year ($457.8 million), have made another $83.4m since the end of FY24 (at the Annual Report date – prior to release late August) and have a pipeline of another $297m.

During FY24 the company acquired ISU group (a network of independent brokers in the US) and Sure Insurance (underwriting agency).

ISU: The company acquired 100% of ISU in October 2023. ISU has 228 members across 40 states and generates US $7 billion of GWP.

This acquisition, which is already head of budget, facilitates SDF move into the huge USA market, despite there being numerous other large broker groups in this market. The Company believes their proprietary Network solution provides an advantage.

Sure Insurance: The company acquired Combined Agency Group Pty Ltd and its subsidiaries (Sure Insurance) on 16 November for $253.6m ($104.8m of which is deferred to be paid out based on financial performance). Due to climatic outages in Northern Queensland and Northern Territories this acquisition is not meeting it projected dividend yield.

The information provided in the notes to the annual report are aggregated and thus it is difficult to obtain a clear picture of the underlying value of any particular acquisition. However, for a total consideration paid of $619.4m, $515.3m of goodwill was generated and the total full year related metrics are:

- Revenue: $1,705.4m
- EBITA: $540.4m
- NPAT: $258.3m

This shows that the company paid 0.4x revenue and 2.3x NPAT for these acquisitions.

The FY25 acquisitions (est. $300m) will be funded by a mixture of debt and free cash flow. The company can borrow a further $366m and still remain within the maximum gearing ratio of 30%.

The acquisition further cement (exacerbate?) the position the company holds in the intermediated broker market and thus the conflict of interest issues currently being discussed are likely to continue to cause difficulties. The company has seen significant premium increases flow through to its financials in FY24, commentary around this indicates that market position combined with lack of competition may be behind this and thus may not be sustainable.

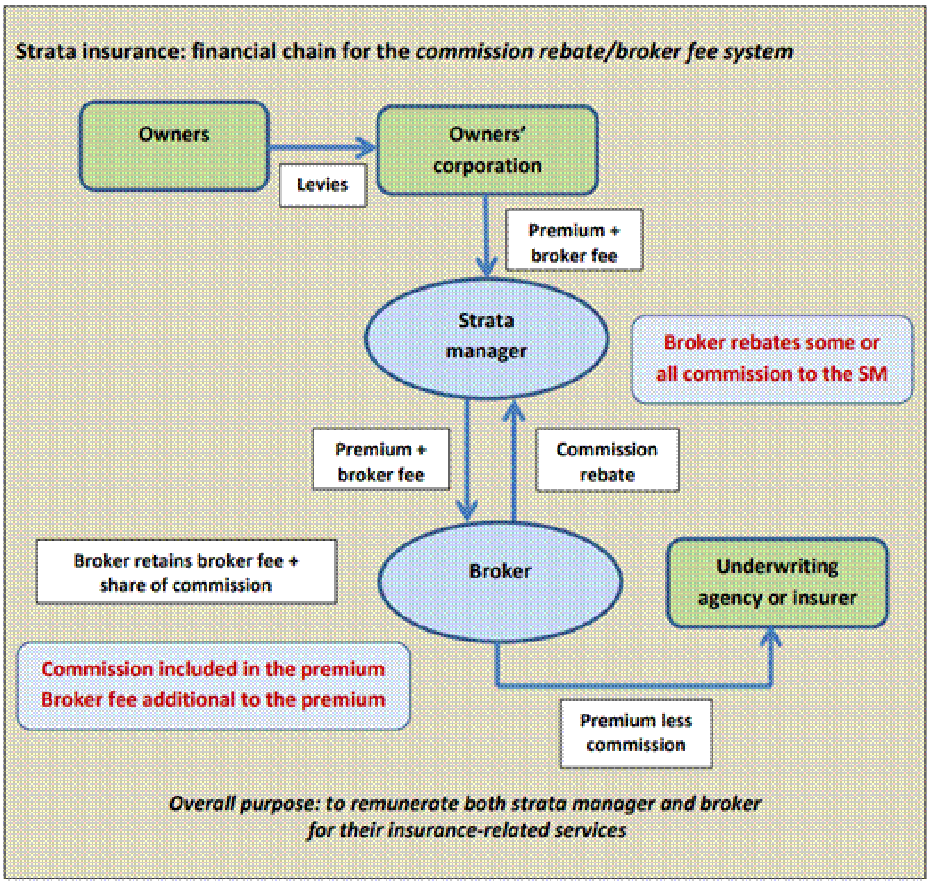
Guidance for FY25 indicates:

- Underlying EBITDA $590 – 600m
- Underlying NPAT $290 – 300m

Governance and culture

There has clearly been a governance and culture issue within this organisation.

The Company response to the Four Corner's program refers to a John Trowbridge report commissioned by Steadfast in 2021. This report provides a succinct diagram of the heart of the issue the company is facing:



Source: https://johntrowbridge.com.au/media/fpij0nup/strata-insurance-phase-3-paper-jt-17-may-2023.pdf

And contains the following discussion/recommendations:

> "Topic 11: Intermediary charges (today's market practices + Phase 2)
>
> This topic is controversial among the strata manager and broker communities because many are uncomfortable about change and fear that they may be adversely affected. On the other hand consumers and also some brokers and strata managers would welcome changes that signal an industry striving to strengthen its professionalism. The goal is to introduce changes that are better aligned to the scope, nature and quality of services being provided and that are more competitive. The remuneration should be transparent and structurally sustainable.
>
> There are three facets to be considered, which are –
>
> - *the commission rebate/broker fee system*, which I have recommended in my Phase 2 paper be phased out to eliminate its inherent conflicts of interest

- *charges that are above 'market'*: some brokers and strata managers are charging fees and commissions that are above market and unlikely to meet any reasonable test of fairness to the customer and customer best interests
- *benefits from rising premiums*: intermediaries whose remuneration is a percentage of premiums (which is the most common method) have received unexpected revenue gains arising from the large premium increases of the last three or four years, including the 2023 increases that are now being applied – some intermediaries have moderated their fees or commissions but, as far as I can tell, they are a minority. "

Which goes to the heart of the Four Corners and ACCC issues being raised.

These events are inconsistent with the company's stated governance aim of being "committed to strong and effective corporate governance that is underpinned by our ethical and responsible culture." And how they create value "Policies & customers: Protecting businesses & consumers as a key component of risk mitigation against perils and disasters.".

In our discussions with the company, it was advised that in addition to the earlier external review on broker practise and conduct, there is an internal interdisciplinary committee undertaking a review that will report back this month.

Code of conduct can directly be enforced on their 68 equity owned brokers. The 350 independent brokers would have to agree to abide by a code of conduct to use the network. All brokers on the network are subject to regular compliance audits as they require accreditation by a recognised external agency to use the Network. All equity owned brokers are accredited by Gold Seal (a third-party training and accreditation provider).

Even equity owned brokers are run by principals.

The ABC Four Corners episode caused a share price hit which they have yet to recover, but larger institutional shareholders increased their shareholding.

Key events

The capital raising and acquisitions detailed in the financial section.

The Four Corners and ACCC issues detailed in the beginning and the governance section.

The CEO deferred long term incentive

Key board or senior management changes

The MD & CEO, who was one of the people who created the company, has indicated that he will still be in the role in 2025, but with no indication as to what happens after that time. This is obviously a potential area of concern as Robert Kelly has for almost 30 years been the face of the company.

The company has in the past couple of years been preparing for this departure as well as planning for a substantial increase in the Group both in size and by geography. This has involved the creation of some new management roles and, with the appointment of the new Chief Operating Officer 18 months ago, this broadening of the management structure has been a major focus creating a structure more suitable for an ASX100 company. This means that there is a number of suitable internal candidates to assume the role of future CEO including all the current Key Management Personnel.

Andrew Bloore has joined the Board and comes with 35 years of highly relevant experience.

Sustainability/ESG

Steadfast's Environmental, Social and Governance philosophy states: Recognising climate change as a global risk and material issue for our industry, we are dedicated to a long-term sustainable future for Steadfast, including our Network brokers and underwriting agencies. We embed ESG elements into our business activities and stakeholder relationships. Whilst Steadfast does not consistently control or influence each associate and Network broker, we provide guidance and support across the Group on a range of potential ESG impacts. The following outlines our ESG commitments. Our commitment to the environment Improving our environmental performance by minimising the impact of our operations through emissions reduction. Expanding support to our Network brokers and underwriting agencies to help them reduce their carbon footprint. Our commitment to people Creating a safe, caring, inclusive and ethical culture for our people that enables them to thrive. Making a positive impact in our communities by helping businesses and communities to effectively identify, mitigate and manage risk. Supporting our Network brokers in meeting and exceeding the expectations of their clients and the broader communities they serve. Our commitment to strong and effective governance Implementing robust corporate governance that is underpinned by our ethical and responsible culture. Acting as a good corporate citizen by focusing on doing the right thing and behaving responsible

Some examples include:

Steadfast's FY24 carbon footprint

The estimated results have been calculated in alignment with the GHG Protocol and are set out below: FY24 FY23 Scope 1 tCO2e 704 547 Scope 2 tCO2e 1,358 980 In-scope entity revenue $m 1,124 768 Our total operating carbon emissions footprint increased as Steadfast continued to make broker and underwriting agency acquisitions, and our Network broker's fleet use increased with more in-person client meetings. Steadfast continues to review our CNTP. We seek to improve our data collection processes to include scope 3 emissions and work to understand the options to further reduce our environmental impact. For further information, our CNTP is available on our investor website. Green travel policy Steadfast recognises that travel, especially air travel, has a direct impact on the environment. We try to reduce the need for unnecessary business travel, encourage the use of more sustainable forms of transport across our operations and the use of virtual meetings where possible.

Carbon offsetting

We have reduced our impact on the environment by offsetting the carbon emissions for much of our corporate travel. This financial year Steadfast purchased 976 carbon offset units to retire 1,743 tCO2e from the corporate travel undertaken across the Group. We direct our carbon offsetting to a portfolio of projects through Tasman Environmental Markets. Electronic waste recycling This financial year Steadfast recycled 801kg of mixed electronic waste in our Bathurst Street office. The e-waste recycling service accepts a wide variety of e-waste such as desktops, laptops, servers, mobile phones, monitors, printers, handheld devices, switches, TVs, modems, speakers, batteries, USB devices and IT accessories.

4. Rationale for Voting Intentions

Resolution 1 Remuneration report (for)

ASA voted against the remuneration report last year. This was on the basis of maximum STI opportunity being 200% of fixed remuneration including an outperformance incentive. While this is in play for FY24, and some outperformance has occurred based on the metrics set and result achieved, the outperformance factor is being dropped for FY25 resulting in the MD&CEO having a maximum of 125% of fixed remuneration with higher metrics being applied.

The STI is still split 60% cash and 40% deferred equity right (DER), the only hurdle for which is continued employment. ASA would prefer a 50% split, but in the scheme of things this is not major enough to vote against the plan. Our bigger issue with the STI is that the key metric is ROC, calculated using underlying NPAT, a measure that removes a number of items that in this business are fully in the purview of management, in our opinion. This combined with the fact that non-financial hurdles are not clearly spelt out means it appears relatively easy to earn the STI.

LTI rights are allocated based on VWAP of 5 days prior to date of vesting, Most companies call these Performance Rights, that on meeting the hurdles will convert into no cost shares. Somewhat confusingly, Steadfast instead calls them Deferred Equity Rights (DER) which seems to imply that they have already been earned, but this is not the case until hurdles have to be met. At the same time, for further confusion the deferred equity component of the STI which have already been earned are also called DER. While dividends are included in the STI DER calculation, they are not for the LTI.

The LTI hurdles that must be met are 50% based on average underlying diluted EPS growth and 50% based on Relative TSR compared to the ASX200 (minus mining companies).

These hurdles are measured over a 3 year period as opposed to ASA's preferred 4 years.

The Board retains good discretion over deferred equity awards, which it has exercised with respect to the CEO's LTI FY24 rewards given the circumstances.

Although there is a number of concerns including questions about the difficulty of both LTI and STI hurdles, all up the remuneration plan just meets our standards. Therefore ASA will vote our open proxies in favour of this resolution

Resolution 2 Grant of equity to Mr Robert Kelly AM, Managing Director & CEO under the Short-Term Incentive Scheme (for)

This should be a two part motion. The first part approving 138,050 STI DEAs. The Managing Director & CEO was awarded a STI $2,197,964, made up of $1,318,778 in cash and the balance being 138,050 Rights subject to shareholder approval, (as calculated by dividing $879,186 by a Steadfast share price of $6.3686). The number of actual shares will be slightly higher as on vesting it will include equity equal to any Dividends that the shares would have earned.

The second part of this motion is being deferred until next year. It should have been for 204,770 LTI deferred equity rights (1,301,635 divided by $6.3686) which will convert into no cost equity based on the LTI hurdles being achieved over the next three years.

However, given recent Steadfast share price volatility Mr Kelly has asked that his 2024 grant of LTI deferred equity awards be postponed until the 2025 annual general meeting.

ASA will follow the Company's lead and vote our open proxies in favour.

Resolution 3 Approval of termination benefits for the Managing Director & CEO (for)

This is a fairly standard periodic procedure, except in this case for some reason it only applies to the CEO, not all executives. The reason for this resolution is that on leaving the company the executive or in this case the CEO could have equity from earlier approved remuneration plans that will bring his final pay to more than one year's remuneration.

ASA votes our open proxies in favour of this resolution

Resolution 4 Election of director – Mr Andrew Bloore (for)

Mr Bloore has abilities, skills and experience that are suitable for this role and we will be voting any undirected proxies for this resolution.

Resolution 5 Re-election of director – Mr Greg Rynenberg (against)

Mr Rynenberg is a Steadfast Network Broker (not owned by Steadfast) who joined the Steadfast Board in August 1998. While he is listed in the Steadfast annual report as independent, this length of tenure, based on ASA guidelines, precludes him from being independent. However as there is a majority of independent directors on the board that is not the reason for voting against him.

Mr Rynenberg sits on the Audit and Risk, Nominations and People, Culture and Governance Committees of the Steadfast Board. Given his lengthy and still current industry experience (Mr Rynenberg is currently a broker) Mr Rynenberg should have been across the very issues the company now finds itself embroiled in.

On this basis we will be voting any undirected proxies against Mr Rynenberg.

Appendix 1
Remuneration framework detail

CEO rem. Framework for FY24	Max. Opportunity $m	% of Total
Fixed Remuneration	1.3	25%
STI - Cash	1.56	30%
STI - Equity	1.04	20%
LTI	1.3	25%
Total	5.2	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.