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Improved remuneration structure but targets still too low

Company/ASX Code	Scentre Group/SCG
AGM time and date	10am on Wednesday, 9 April 2025
Location	Wesley Conference Centre 220 Pitt St Sydney
Registry	Computershare
Type of meeting	Hybrid (physical and online)
Monitor	Lewis Gomes assisted by Craig Lee
Pre-AGM Meeting	Yes with Ilana Atlas Board Chair, Catherine Brenner Non-executive Director and Chair of the Human Resources Committee and Maureen McGrath Company Secretary

Monitor Shareholding: The individuals (or their associates) involved in the preparation of this voting intention have no shareholdings in this company.

1. Summary of Issues and Voting Intentions for AGM

The ASA acknowledges and extends its condolences to those people who lost their lives or suffered serious injuries or trauma during the incident at Westfield Bondi in April 2024. The selfless acts of bravery exhibited by many bystanders, police and other first responders, shoppers, shopkeepers, and Scentre staff was impressive. It is noted that a coronial inquiry is scheduled to begin in April 2025.

While the Group's financial performance has steadily improved over the last 5 years (post-COVID-19), it is still below that seen 10 years ago. Assets under management have been static at about $50 billion and the security price has ranged between high $2's to the mid $3's, it was once over $4. An overriding question is: where is future growth going to come from?

Three directors are standing for re-election and one new director for election to the board of SCG. The ASA is supporting 3 of these candidates but will vote against the re-election of Michael Ihlein given his extended tenure on the board and his very low personal security holding, which reflects poorly on his view on the outlook for the company.

Remuneration is well reported and structured, but targets are still at the low end notwithstanding some tightening after last year's remuneration strike.

Capital management within SCG remains a concern with high debt levels and associated interest costs weighing on operating profit and distributions. Year-on-year debt continues to increase and appears to be used to partly fund distributions.

Public announcements have been made recently about the prospect of SCG developing high rise residential developments on land it owns adjacent to its shopping centres (e.g. 53 storeys at Hornsby in Sydney). No information has been given on how these developments are to be funded nor how they are to be project managed during development. While SCG is obviously very experienced in developing and managing large-scale shopping centres, it has no experience in major housing developments compared to Meriton.

Proposed Voting Summary

No.	Resolution description	
2	That Ilana Atlas AO be re-elected as a Director of the Company	For
3	That Catherine Brenner be re-elected as a Director of the Company	For
4	That Michael Ihlein be re-elected as a Director of the Company	Against
5	That Craig Mitchell be elected as a Director of the Company	For
6	That the Remuneration Report for the financial year ended 31 December 2024 be adopted.	For
7	That approval is given for the issue to, and acquisition by, the Managing Director and Chief Executive Officer Elliott Rusanow of 1,146,429 performance rights	For
8	Spill Resolution - That subject to and conditional on at least 25% of the votes validly cast on Resolution 6 being cast against that resolution, that an extraordinary general meeting be held within 90 days of the passing of this resolution.	Against

2. Matters Considered

Consideration of accounts and reports -No vote required

Scentre Group is to be congratulated for continuing to run a hybrid meeting thus providing the best opportunity for all shareholders to make their voices known.

Funds from operations (FFO) was $1,132 million (21.82 cps) up 3.5% on the previous year. Distributions for the year were $893 million (17.20 cps) up 3.8%. Statutory profit was $1,050 million up substantially from $175 million in FY23, which was adversely affected by property valuation write-downs. Record level of sales was achieved during 2024 of $29 billion, up $544 million on the previous year. Occupancy increased to 99.6% from 99.2% with new specialty lease spreads of 2.0% and average specialty rent escalation of 5.2% during 2024. Net operating income for 2024 was $2,030 million, an increase of 4.0% on 2023. The Group's target FFO for 2025 is 22.75cps representing a 4.3% growth for the year.

While the financial performance over the last two years, and, indeed, over the last five years, shows a promising increasing trend, comparisons with pre-COVID years are not flattering. For the year 2019, FFO was $1,332 million (25.18 cps) and the distribution was 22.60 cps. Assets under management has been static at around $50 billion for the last 5 years and the security price has ranged from the high $2's to mid/low $3's over that period compared with over $4 years ago. Net debt was $16.3 billion at the end of FY24 up from $15.1 billion the previous year while financing costs increased from $633 million to $816 million at an average interest rate of 5.7%. Gearing is stated to be 31% but that appears to be based on (net debt)/(total assets + net debt) whereas conventional gearing would be (net debt)/(net tangible assets) or 90%, so the business is highly geared as are many other property businesses. By comparison, Goodman Group runs at a conventional gearing ratio of under 10%.

The income statement suggests that if debt were reduced by (say) 30%, net interest expense would be reduced by around $245 million, which would increase operating profit (all else being equal) to $1,367 million or 26.33cps, an increase of 22% which could then be reflected in the distributions to security holders. Furthermore, if one looks at the cash flow statement, net cash flow from operating activities was $1,071 million from which net cash outflow from investing activities (most of which is stay-in-business capex) consumes $460 million leaving $611 million for cash needed for financing activities such as distributions which were $842 million in FY24. Net cash raised from financing activities was $488 million being essentially increased borrowing used to assist the funding of distributions, among other items. While a very simplified analysis, it suggests that SCG is overborrowed and underfunded from the perspective of security holders. No wonder the security price has gone nowhere over the last 5 or 6 years.

Customer visitation to the 42 Westfield destinations was 526 million, up 14 million or 2.7% on 2023. SCG has embarked on a major upgrading and repurposing programme of works across 4 Westfield centres totalling 64,000 sqm with a future development pipeline of over $4 billion. In particular a lifestyle, dining and entertainment redevelopment has been announced for Westfield Bondi. This is part of the continued customer-focused drive to make Westfield centres a destination that customers want to visit. The result of all this activity is that the retail tenants achieved $29.0 billion in sales, an increase of $544 million or 2% compared to 2023, and representing another record across the Westfield platform.

Some of the increased debt arose post-COVID to fund necessary expenditure without adding to securityholder equity demands. However, COVID has now passed, and it is time to reassess the debt needs of the business. One obvious way to reduce debt is to reduce the landholdings held on the balance sheet by bringing more capital partners into the business. For example, assets under management (AUM) are stated at $50 billion while SCG's share of AUM is $35 billion or 70%.

By contrast, Goodman Group has used capital partners now for many years and funds around 25% of AUM while collecting management fees on the full 100% of assets. Although currently some $15 billion worth of SCG retail assets are in joint ownership, it owns 100% of another 12 Australian shopping centres valued at $20 billion. The Group could enter a 50% joint venture of 5 or 6 of these assets to significantly reduce debt, while providing cash for development. In fact, if Scentre desired, it could technically sell down some or all the Westfield Destinations to 25% ownerships level while still retaining the management rights in perpetuity.

In our pre-AGM meeting, SCG acknowledged the high debt levels it is carrying and the impacts of higher interest rates, noting that it decided that raising debt was preferable to raising equity from security holders in the aftermath of COVID. It noted our comments about bringing in more capital partners but noted that it shopping centres are "big ticket" items outside the reach of most investor groups but of possible interest to our larger superfunds and overseas investor houses. It acknowledged the success of Goodman Group in its capital management and committed to further consideration of possible sell-down opportunities if attractive prices can be achieved.

The other major opportunity is 670 hectares of land both in the existing 42 Westfield Centres and their land bank. All this land is situated in major population centres near good transport links. The ability to develop these landholdings in a non-retail manner is a substantial opportunity, which has only recently been raised in public statements. For example, a 53-storey apartment tower has been proposed at the Westfield Hornsby site in Sydney with rezoning approval and an opportunity for largescale residential development at Belconnen in Canberra is being pursued.

While these are interesting opportunities, SCG has been silent so far on how these large developments would be funded and how they would be project managed. While SCG is a pre-eminent shopping complex developer and operator, it has no experience in residential developments of the scale proposed and it is certainly no Meriton! In our pre-AGM meeting SCG acknowledged that it has not yet given much consideration to how these opportunities may be developed, rather it is indicating an interest in possible future opportunities. SCG refers in its Annual Report to a future development pipeline in excess of $4 billion but no details are given about these opportunities nor how they may be funded.

Financial performance

(As at FYE)	**2024**	**2023**	**2022**	**2021**	**2020**
NPAT ($m)	1,050	175	301	888	(3,732)
Funds from Ops (FFO) ($m)	1,132	1094	1040	863	766
Share price ($)	3.43	2.99	2.88	3.16	2.78
Dividend (cents)	17.20	16.60	15.75	14.25	7.00
Simple TSR (%)	20.47	10.43	(3.88)	18.79	(25.59)
FFO per share (cents)	21.82	21.11	20.06	16.64	14.76
CEO total remuneration, actual ($m)	7.16	5.46	4.24	4.0	4.7

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.

Sustainability/ESG

Sustainability continues to be reported as part of the Risk and Sustainability Committee headed by Margaret Seale. It is fair to say that the reporting on sustainability is cursory and limited to just two pages headed Environment and provides few details of specific actions to address sustainability concerns. Since 2014, Scentre has achieved a 41 per cent reduction in Scope 1 and 2 emissions across the portfolio of Westfield Destinations, a figure unchanged since last year. The target year for achieving net zero for Scopes 1 and 2 remains at 2030.

The ASA noted in our pre-AGM meeting that SCG is probably doing a lot more in the energy reduction/solar generation space than it is reporting. Perhaps there is a better story here than is currently being told.

Brief mentions are made of waste and water plans but with few specifics. Scope 3 emissions are noted as being currently measured under 4 categories but there is no reporting on results. The Annual Report states that its first mandatory Scope 3 reporting will be in the financial year ending December 2026, that is, potentially some 18 months away!

3. Rationale for Voting Intentions

Resolution 2 That Ilana Atlas AO be re-elected as a Director of the Company - For

Ms Atlas was first appointed to the board of Scentre Group in May 2021 and became Chair in 2023. She has extensive public company experience and in senior executive and management roles. She is a former director of ANZ and Coca-Cola Amatil. Prior to those roles she was in senior positions at Westpac and a partner at Mallesons Stephen Jacques.

She currently holds some 230,856 securities, having bought another 100,000 over the last year. The ASA will vote all undirected proxies in favour of her re-election.

Resolution 3 That Catherine Brenner be re-elected as a Director of the Company - For

Ms Brenner was first elected to the board of Scentre Group in 2022 and heads the Human Resources Committee. She began her career as a corporate lawyer and investment banker. She is perhaps best known for her role as Chair of AMP during a period of some turmoil for that company. Prior to that she had roles with Boral and Coca-Cola Amatil as a non-executive director.

She currently holds 100,000 securities. The ASA will vote all undirected proxies in favour of her re-election.

Resolution 4 That Michael Ihlein be re-elected as a Director of the Company - Against

Mr Ihlein joined the board of Scentre Group in 2014 and prior to then he held non-executive director roles at various Westfield trusts. He was CEO of Brambles from 2007 to 2009 after being in the CFO role from 2004.

Mr Ihlein has been with Scentre Group and its predecessor companies as a director for over 10 years and does not appear to offer any particular skills that are not available from other directors of more recent vintage. In our pre-AGM meeting, the Chair did say that she asked Mr Ihlein to stay on for another year or so to enable a smooth transition of his role as Chair of the Audit and Finance Committee to new director Craig Mitchell. Consideration had been given to this chair role being transitioned to Steve McCann, but his departure meant that an alternative nomination was needed. The ASA accepts this explanation but continues to note its considerable concern that after such a long period of office, Mr Ihlein holds only 48,000 securities currently valued at about \$160,000, which is well below the requirement of one year’s base director fees of \$210,000. Given the commitment of most other directors to demonstrating considerable personal optimism in the company through their personal security holdings, the ASA believes that a message needs to be given that security holders expect well remunerated directors to show strong personal commitment to the companies on which they are privileged to serve as a director.

The ASA will therefore vote all undirected proxies against his re-election.

Resolution 5 That Craig Mitchell be elected as a director of the Company - For

Mr Mitchell was appointed to the board of Scentre Group in October 2024 and is standing for election at this year's AGM. He has more than 25 years' experience in the property industry spanning retail, construction, development, and funds management. He has previously held senior management roles at Grocon and Dexus.

He acquired 60,000 securities during 2024 and hence is already very close to the minimum required holding for a director. He clearly brings much needed property management and investment skills to the Scentre board as no other director has the level of experience that he has in this field which is core to the operations of the Group. The ASA will therefore vote all undirected proxies in favour of his election.

Resolution 6 That the Remuneration Report for the financial year ended 31 December 2024 be adopted - For

More details of the remuneration arrangements and structure are presented in the Annual Report (Pages 48 to 74) and in Appendix 1.

Scentre's Remuneration Report is among the most transparent that ASA sees and must be praised for this, plus the fact that the structure has improved greatly over the past few years. After the first strike received at the 2024 AGM, Scentre has acknowledged that its Short-Term Variable Reward (STVR) and Return on Contributed Equity (ROCE) targets were not sufficiently stretching and has made a number of important changes to its remuneration plan to be presented to this year's AGM.

The board has now used actual performance results from 2023 so that KMP will only receive an STVR if year-on-year performance is improved. Also, the board has set the FFO target at 21.90 cps rather than using the 2023 actual of 21.11 cps, a modest 3.7% increase. For the LTVR, 70% is based on achieving ROCE targets and 30% on Relative Total Shareholder Return (RTSR). The ROCE target has been increased by reference to actual ROCE achieved in 2023 and the vesting at threshold has been reduced from 50% to 30%. These are all improvements which will be supported by the ASA, although we still believe that the targets are at the softer end of the scale.

The ASA is not comfortable with the 3-year testing period for the LTVR and believes it should be 4 years. We would also like to see the ROCE and RTSR equalised to 50% for each metric. Furthermore, the RTSR is based on a very limited pool of six similar companies, which notably does not include outperformers such as Goodman Group. The ASA would prefer to see a wider group of companies, which would provide further stretch to the Scentre targets.

Notwithstanding the above comments, the ASA will vote all undirected proxies in favour of this resolution given the improvements that have been made in recent years.

Resolution 7 That approval of the grant of performance rights to the Managing Director and Chief Executive Officer Elliott Rusanow of 1,146,429 Performance Rights - FOR

This resolution relates to two different awards.

Firstly 174,935 of performance rights, at the time of grant worth $630,238 or $3.6027 per security, is the 30% equity component of the 2024 STVR. These rights have been earned and will automatically vest at the end of 2027.

The other 971,494 performance rights are the maximum number that will convert to Scentre securities on December 2027 and December 2028. The exact number of shares that vest will be determined by fulfilment of criteria mentioned in Resolution 6 and Appendix 1.

As we voted for the remuneration report we feel compelled to vote all undirected proxies for this resolution even though we do not feel the targets for the awards are as demanding as they could be.

Resolution 8 Conditional Spill Resolution - AGAINST

This resolution arises from the fact that more than 25% of votes cast at last year's AGM (being 27.76%) were against the 2023 remuneration report. Should an against vote greater than 25% of cast votes occur at this year's AGM, a spill motion will automatically come into play. The ASA is proposing to vote for this year's remuneration report but in any event will vote against the spill resolution should it come to pass. The ASA does not believe that spill motions of this nature are to the benefit of securityholders given the significant disruption that would occur if the board was spilled and subject to re-election.

Appendix 1
Remuneration framework detail

CEO rem. Framework for FY24	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	2.0	35	2.00	25
STI - Cash	1.4	24	1.82	22
STI - Equity	0.6	11	0.78	10
LTI	1.75	30	3.50	43
Total	5.75	100	8.10	100

The Remuneration report is well set out, with good detail on what the KMP's are paid with the actual and the statutory tables.

No fixed remuneration increases were awarded to executive KMP for 2025. Furthermore, no changes were made to the financial metrics to allow for the impacts of the April 2024 incident at Westfield Bondi.

The Short-Term Variable Remuneration (STVR) is measured over 1 year. Some 70% of the STVR is paid in cash at the end of the year. The other 30% is delivered as performance rights, which vest 3 years after the grant date at no cost to executives. Pages 56 and 57 of the Annual Report set out the criteria to be measured, the weighting of each and, where appropriate, the target. Last year, the CEO Elliot Rusanow received 80.8% of his maximum STVR compared with 89.9% for the previous year.

The Long-Term Variable Remuneration (LTVR) is measured over 3 years as opposed to ASA's preferred 4 years. For the CEO, this award is a maximum of 175% of his fixed remuneration of which 50% of vests at the end of the 3 years and the other 50% at the end of 4 years.

70% of the LTVR is based on Return on Contributed Equity (ROCE). For the 2025 award in December 2027, the threshold (for 30% vesting) has been set at the actual 2024 ROCE of 9.93% while the maximum ROCE is set at 10.53%, which would require the operating profit to grow by 7.5% over the 3-year period.

The other 30% is paid based on a three-year cumulative performance compared to a group of six domestic REITS. In relation to the index of these comparative companies, SCENTRE must be equal to the index to get 50% of the award and 600 basis points (6%) more than the index to get 100%. While the criteria are good, merely being equal to get 50% of the bonus is not rewarding outstanding performance. Again, being average means the CEO will get an additional $735,000 in remuneration but less than the $1,225,000 he would have received under the previous arrangements.