Australian Shareholders' Association

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A 500 million share buyback, is that a good result for AMP shareholders?

Company/ASX Code	AMP Limited/AMP
AGM date	Friday 31 March 2023
Time and location	10am Wesley Theatre, Wesley Convention Centre, 220 Pitt St, Sydney
Registry	Computershare
Type of meeting	Hybrid
Poll or show of hands	Poll on all items
Monitors	Julieanne Mills and Miles Wu
Pre AGM Meeting?	Yes with Chair- Debra Hazelton, Michael Sammells – NED, Chair of Remuneration Committee Rebecca Nash – Head of People & Culture Richard Nelson - Head of Investor Relations

Monitor Shareholding: An individual involved in the preparation of this voting intention has a shareholding in this company.

Summary of issues for meeting

The markets response to the FY22 results saw the years 25% share price gains disappear within a day. The results were not too bad, the disappointment seemed largely about the lack of clarity around the return of capital to shareholders after the sale of AMP Capital. A 20% franked 2.5c dividend didn't appease. What does the board see as the long-term value of AMP post that sale? What is the vision for its future?

We question whether the extra 500 million share buyback is the best way to distribute the proceeds or would it be better to be returned to shareholders as a capital return/dividend?

Proposed Voting Summary

No.	Resolution description	
2a	Re-election of Debra Hazelton as a Director	For
b	Re-election of Rahoul Chowdry as a Director	For
c	Re-election of Michael Sammells as a Director	For
d	Election of Andrew Best as a Director	For
3	Adoption of FY 2022 Remuneration Report	Against
4	Approval of the CEO, Alexis George long term incentive for 2023	For
5	Approval to exceed 10/12 buyback limit	Undecided

See ASA Voting guidelines and Investment Glossary for definitions.

Summary of ASA Position

Alexis George has now had a full year as CEO to implement her new “simplify and reposition for growth strategy” and it is gradually showing green shoots. AMP is a very different company to the one dragged into the Royal Commission in 2018. Unfortunately, it still has legacy issues and costs that are holding it back. Progress has been made but shareholders are not seeing much of it.

Our pre-AGM meeting with NEDs and management started with the company mentioning the stabilisation of board and the demerger part of the business. They continued by saying AMP is trying to create value by focusing on cost and capital management, portfolio simplification and return of capital to shareholders.

Financial performance

AMP share price dived despite reporting a profit in FY22 results, with underlying NPAT down 34% to $184 million and final dividend declared of 2.5 cents per share, franked at 20%. AMP Bank is growing well due to their acquisition of Nano, but net interest margins are being compressed by competition. The company also explained the fall in NPAT due to volatility of investment market which hurt assets under management.

AMP priorities this year include the remaining share buyback and other capital management activities to return $1.1 billion to shareholders. The group wants to grow its bank through digital channels while also growing financial advice with better service for clients and advisers.

The board is seeking approval to exceed a 10% buyback limit over the next 12 months, to buy 500 million shares, which represents approximately 16% of the company’s 3.04b shares on issue as at 16-Feb 2023. See Item 4 below.

Governance and culture

AMP has made significant improvements in governance and culture. The refocused purpose, improvements in diversity, has achieved 40:40:20 gender balance across board, management and employees. Employee Engagement improving markedly since Alexis’s appointment to a score of 73. Reptrak has been engaged to track progress on reputation, that will be linked to remuneration outcomes, providing a greater focus on rebuilding the brand.

ESG

AMP has reported an upward trend in its benchmark with S&P CSA, ISS ESG and Sustainalytics. In 2022, AMP was included in the Dow Jones Sustainability Australia Index for the first time. With a long history of social impact in the communities, AMP has been driving a new focus to deliver positive outcomes for shareholders, customers, people and communities.. Since 2013, AMP has been reducing scope 1 and 2 emissions and offsetting residual emissions arising from office building and scope 3 emissions from air travel.

Key events

Significant sale of AMP Capital is nearly complete with sale of Infrastructure debt in February 22, and asset sales to Digital Bridge and Dexus. Close to $2.5b has been raised from asset sales. There is a planned $1.1bn return of capital, $350m earmarked for share buybacks, with $267m already spent in FY22. $400m in total is being returned this year to shareholders including $75m as a 2.5c dividend franked at 20%. Another $350m will be returned in 2023.

Key board or senior management changes

Peter Fredricson was appointed CFO on 9 January 2023, he has a track record of adding value and driving growth in the energy and infrastructure sectors and has 15 years of experience in financial services and investment banking.

Nicola Rimmer-Hollyman was promoted from within the group to Chief Risk Officer.

Non-executive Director John O'Sullivan resigned in April 2022.

A reduction in the number of board committee members, (all board members were initially on all committees), and the implementation of advisory groups to address ESG and Technology transformation has simplified and reduced board costs. In 2022 a total $2.264m was spent on board fees, they have been reduced by 40% from 2019 highs. See appendix for more details.

Summary

(As at FYE)	**2022**	**2021**	**2020**	**2019**	**2018**
NPAT ($m) underlying	184	356	233	439	680
NPAT ($m) statutory	387	(252)	177	(2,467)	28
Share price ($) @31 Dec	1.31	1.01	1.56	1.79	2.29
Dividend (cents)	2.5	0	10	0	24.5
Simple TSR (%)	32%	(35%)	(7.2%)	(22%)	(47.7%)
EPS (cents)underlying	5.7	8.4	8.6	14	23.3
CEO total remuneration, actual ($m)	2.792	2.936	4.69**	3.53	*

*not calculated due to 3 CEOs: De Ferrari, Craig Meller along with the Chair Mike Wilkins.
**Includes De Ferrari sign on payments his remuneration was reported as $2.2m.

Election or re-election of directors

The 8 member board has 7 independent Directors and 1 Executive Director. Gender diversity is well covered with 50% female. There is a good spread of skills, diversity and tenure.

Item 2a. Debra Hazelton was elected to the board in June 2019, she became chair in August 2020. She has considerable expertise across financial markets, institutional banking, risk management, and corporate cultural transformation. She has overseen considerable cultural change in an organisation with many legacy issues culturally and structurally, and a significant strategic shift to downsize the company with the sale of assets.

Debra has no other directorships of ASX listed companies but is a non-executive director (NED) of Treasury Corporation of Victoria. She owns 450,285 AMP shares as of 31-Dec-2022 her minimum requirement of shares to value of $516,000 is due June 2023

Item 2b. Rahoul Chowdry was elected to the board in January 2020. He was chair of the Risk committee from 2020-2022, chair of the Audit Committee in 2022 and sits on the Nominations, Risk and Compliance committee. Rahoul has 40 years in professional services advising complex multinational organisations. He is a Senior Advisor at Minter Ellison and is a member of the firms Audit and Risk of the firms Partnership board. 2018-2021 he was Partner and National Leader of

Minter Ellison Financial Services practice in Australia. He has no other ASX listed directorships. His current shareholding is 205,000 as of 31-Dec-2022

Item 2c. Michael Sammells was appointed to the board in March 2020. He is chair of the Remuneration committee and a member of the Audit and Nominations Committee. Michael has significant experience in senior executive financial roles including as CFO of ASX listed companies.

As Chair of the Remuneration Committee, he has overseen a clearer more transparent remuneration report, the implementation of the prudential regulator remuneration requirements (APRA CPS511) and the reduction in some fees.

Michael is NED and Chair of Sigma Healthcare. His current shareholding is 170,000 as of Feb-2023

Item 2d. Andrew Best was appointed to the board in July 2022. He is a member of the Nominations, Risk and Compliance committee, AMP Bank and its Risk and Compliance committee. He has 30 years of industry experience as a financial services executive at JP Morgan Chase. He brings capital management, financial markets and mergers and acquisitions experience to the board.

He has no other directorships at present. His current shareholding is 150,000 as of Feb-2023.

Item 3. Adoption of Remuneration Report

The remuneration report is clearly described, and there is a transparent framework in place with meaningful measures and scorecard. A minimum shareholder requirement is in place and Directors and KMP are complying.

The ASA is concerned that the maximum potential for STI is still set at 200% of fixed remuneration which is more than the LTI. This along with the increase in the cash component to 60% increases the short-term incentive significantly. We are also concerned that the maximum quantum of remuneration is not in line with the new size and scale of the company. The CEO total incentive remuneration remains unchanged at a maximum of $6.86m even though the size of the business has been significantly reduced, and there is no reduction in the 2023 framework. We would expect with the simplification of the business, a significant reduction in total remuneration for KMP and board, to reflect the new simplicity of the business. While we acknowledge the reduction in board fees, we ask does it go far enough? See appendix.

While the ASA appreciates the improvements at AMP, the implementation of its strategy to simplify the business, improvements in reputation and culture, and the execution of the sale of assets, we cannot see a corresponding improvement to shareholder return. There is still a lot to be done to improve on the financials and this is reflected in the scorecard results. We question the discretion used to increase STI outcome.

We appreciate that the board is making every effort to turn the company around in difficult circumstances and on balance we understand their frustration with shareholder expectations. However, the response of the market and the expectations from last year's AGM, were for a return of capital to shareholders. It is just not happening fast enough and there is a lack of clarity around how the capital is to be returned and how much.

On balance we feel that the CEO potential incentive remuneration of $6.86m is excessive for a $3b Market Cap company. AMP is no longer an ASX 100 company and is now ranked 132. At this scale we would expect total remuneration to be under a $3.5m max and fixed remuneration around $1.3m in line with other financial companies of this size. There has been no reduction this year or projected for next year and it is predominantly for these reason that we will vote **Against** the remuneration report.

Item 4. Approval of CEOs Long Term Incentives for 2023

Approval is sought for a grant of up to 1,253,472 performance rights with a face value $1.715m, to CEO, Alexis George. VWAP of $1.36

Performance hurdles: 35% relative TSR of ASX 200 financials, 35% adjusted EPS, 30% reputation. Performance period of 3 years plus up to 3 year restriction period pro-rata.

We are pleased to see the additional financial and non-financial measures included and the extra year of restriction and on balance see the LTI is reasonable. Our concerns are mainly confined to the STI and quantum of fixed remuneration. We therefore support the LTI and will vote **For** Item 4.

Item 5. Approval to exceed 10/12 buyback limit.

Shareholder approval is needed for the purchase of up to 500 million shares to extend the on-market share buyback beyond 10% of the company's shares within the next 12 months. Discussions with the board on this issue centred around the flexibility to implement the most effective distribution of the $1.1b capital return program. This does allow for a broader buy back if there is no other alternative.

At this point this seems to be the preferred option as it will likely support the share price and reduce the number of issued shares and therefore potentially increase shareholder returns in the long term, and it does not require franking credit support.

The question for shareholders is whether a share buyback is the best way of distributing capital to them?

Individual shareholders may see different value in method of distributing the capital proceeds of the AMP Capital sale on their investment horizons and we would encourage them to vote accordingly.

Appendix 1
Remuneration framework detail

Refer to PG 43 Annual Report

CEO rem. Framework for FY23 & FY22	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.715	33.3	1.715	25
STI – Cash 60%	1.029	20	2.058	30
STI – Equity 40% year 2, 3, 4.	.686	13.3	1.372	20
LTI 6 years (5 years in FY22)	1.715	33.3	1.715	25
Total	5.145	100.0%	6.86	100%

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

In 2022 STI was paid 60% in cash and 40% in equity with a deferral period of 4 years for the CEO and over 3 years for the KMP. This was brought forward in line with 2023 changes. The LTI had a 3 year performance period and a 1 year restriction on top for CEO and KMP. LTI was measured only against relative TSR. No vesting occurs unless it goes above 50th percentile. There was no LTI awarded in FY22. The ASA prefers 2 measures and this has been rectified going forward in 2023.

Board discretion was used to adjust the scorecard up from 68% up to 85% with 15% withheld until the AMP Capital sale completes. Why not just wait until next year???

The CEO received 89% of her STI target for FY22. STI as % of target for the six other members of KMP in 2022 ranged between 80% and 100%.

The APRA CPS511 requirements come into effect from January 2023. Changes that will be made to the 2023 year include the extension of LTI restriction period and increase time frame out to 6 years, and additional financial and non-financial measures that will improve alignment with long term shareholders. The STI will be paid 60% in cash and 40% in equity. The ASA prefers a 50:50 split. According to the company, this is to compensate for the longer time frames. The equity vests pro-rata in year 2, 3 & 4.

The chair receives $561k base fee and the board members base fee is $204k, committee fees range from $21,590 to $46,750 for the chair. The board fees were capped at $4.62m in 2015 when AMP's market cap was around $12bn. In 2022 a total $2.264m was spent on board fees, they have been reduced by 40% from 2019 highs.

There is a Minimum Shareholder Requirement (MSR) of base fees within 4 years, with 25% /year expected. All directors comply.

LTI is measured 70% financial (35% rTSR 35% EPS growth), 30% non-financial metrics based on reputation (2022 it was 100% rTSR) LTI now vests after 6 years for the CEO and 5 years for KMP allowing for clawback and malus if necessary. CEO LTI 3 Year performance period and an increased restriction period of 3 years (6 Years in total) previously 1 year restricted period KMP is increased to 2 years restriction period.

KMP STI is now paid out as 60% cash and 40% equity with 1/3 paid out in year 2, 3 and 4 in alignment with the CEO.

Actual remuneration is disclosed in a table on pg 45.

CEO MSR 200% of FR by August 2026 already $2.53m includes share rights.