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At the mercy of commodity prices

Company/ASX Code	Alumina Ltd/AWC
AGM date	Wednesday 20 May 2020
Time and location	10am Virtual Hybrid meeting
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Mike Muntisov assisted by Christine Haydon
Pre AGM Meeting?	Yes with Chair Peter Day, CEO Mike Ferraro and company secretary Stephen Foster.

One of the individuals (or their associates) involved in the preparation of this voting intention has a shareholding in this company.

Item 1	**Measures to deal with COVID-19 and impact on the meeting**
ASA Vote	No vote required

Procedural matters dealing with the preparation for, and handling of the meeting.

Item 2	**Financial and other reports**
ASA Vote	No vote required

Summary of ASA Position

<u>Financial performance</u>

Alumina is engaged in investing in bauxite mining, alumina refining which is the conversion of bauxite ore to the principal component required for the production of aluminium metal and selected aluminium smelting operations. It does this through its 40% ownership of Alcoa World Alumina and Chemicals (AWAC).

AWAC and therefore Alumina Ltd's financial results are strongly correlated with the spot price of alumina. Hence a drop of 25% in the realised alumina price in 2019 is the most significant determinant of an approximate two-thirds reduction in company NPAT and dividends compared the record 2018 year.

<u>Key events</u>

The ramping up of capacity in 2019 at the world's largest alumina refinery, Alunorte in Brazil, after a 50 per cent reduction of its capacity following extreme rainfall and subsequent environmental issues in 2018, together with subdued demand from smelters were factors contributing to the reduced alumina price.

ASA Focus Issues

Alumina met the ASA guideline of 30% gender equity on its Board.

Alumina policy is for Directors to hold equity equivalent to 50% of base remuneration after 5 years compared with the 100% ASA guideline after 3 years. The Chair advised that a review of the policy had been undertaken in 2019, which found that the majority of ASX-100 companies had a 100% equity holding policy. However the Board felt that given the non-operating nature of the Alumina business (it is largely a holding company) that the current policy was still appropriate as the Board and management had less ability to influence outcomes than in most companies. We concur with this view.

Summary

(As at FYE)	**2019**	**2018**	**2017**	**2016**	**2015**
NPAT (US$m)	214	635.4	339.8	(30.2)	88.3
Share price ($)	2.30	2.30	2.43	1.83	1.30
Dividend (US cents)	8.0	22.7	13.5	6.0	6.3
TSR (%)	16	8	42	37	(31)
EPS (US cents)	7.4	22.1	11.8	(1.0)	3.1
CEO total remuneration, actual (A$m)	1.726	1.653	3.252*	2.652	1.557

For 2019, the CEO's total actual remuneration was **19 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2019 data from the Australian Bureau of Statistics).

Item 3	**Adoption of Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

CEO	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.5	60%	1.5	60%
Conditional Rights - Equity	0.475	19%	0.475	19%
LTI	0.525	21%	0.525	21%
Total	2.50	100.0%	2.50	100.0%

The CEO package consists of 60% as fixed cash remuneration plus 19% equity (3 year trade restriction) conditional on share price performance and 21% performance rights as a Long Term Incentive (LTI) subject to 3 year performance criteria (see note at end). There is no formal Short Term Incentive (STI).

A review of the CEO remuneration by the Board this year led to an overall increase in remuneration for 2020 of 6%. This places the CEO's reward opportunity at the 8th percentile of the ASX51-75 comparator group. This aligns with the Board target to be within the bottom quartile so as to reflect the non-operating nature of the Alumina business.

Key Management Personnel (KMPs) other than the CEO retain an STI component to their packages. The STI criteria are defined including the weightings applied. In 2019, 25% of the maximum STI opportunity STI was forfeited by KMPs.

The at-risk component of CEO and KMP remuneration is less than the minimum 50% ASA guideline, but the nature of this company (a holding company) and the low overall quantum of individual remuneration levels compared to peers, are ameliorating factors.

The company uses face value to determine performance rights, an approach the ASA supports.

Alumina includes an actual 'Take Home' pay table in the Remuneration Report.

It was interesting to note that Alumina conducted a review of LTI performance periods, and found that in their case, a company at the mercy of commodity pricing, that there was virtually no difference in outcome between a 3 year and a 4 year performance period over different rolling periods. The 3 year period had a slightly higher correlation with Total Shareholder Returns, so they have retained a 3 year period.

The Board reviewed the Director Fees and as a result have increased the Board Committee fees while holding the base fees unchanged. This is the first increase since 2011.

Item 4	**Election of Director Peter Day – Non Executive Director**
ASA Vote	**For**

Summary of ASA Position

Mr Day was appointed as a Director of the Company on 1 January 2014 and was appointed Chairman of the board on 1 April 2018.

His other Board roles are non-executive chairman of Australian Unity Investment Real Estate, and Non-Executive Director of Ansell Ltd. This is at the limit of the ASA guidelines for director workload.

He is a former CFO of Amcor Ltd.

Mr Day holds around 75,000 shares in Alumina, which at the average 2019 share price of around $2.30 is within reach of the company policy of 50% of base fee equity holding. He has until 2023 to fully meet this requirement.

We have no objection to Mr Day's re-election.

Item 5	**Grant Of Performance Rights to Chief Executive Officer and Managing Director (Long Term Incentive)**
ASA Vote	**For**

Summary of ASA Position

The CEO package is described in Resolution 2. The quantum of rights is $525,000 with performance measured over 3 years. Two performance measures are used with equal weighting. One is the relative TSR against a group made up from the ASX20-100, and the other is the relative TSR against an international group of 9 companies which operate in the aluminium and related industries.

50% of rights will vest if performance is at the 50%ile of the comparator groups and 100% if performance is in the top quartile of the comparator groups.

The ASA in general prefers vesting schemes which have 30% vesting at 51%ile, and rising progressively to 100% when 85%ile performance is achieved. The ASA has taken up this issue with the company which believes the performance hurdles are appropriate given the ongoing competition in the industry.

The proposed vesting arrangements are typical for ASX listed companies and while we continue to advocate for our guidelines, we see no benefit to shareholders in opposing the current arrangement.