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Voting Intentions – CSL 2021 AGM

ASX Code	CSL
Meeting Time/Date	10am, Tuesday 12 October 2021
Type of Meeting	Virtual
Monitor	Mike Muntisov assisted by John Whittington
Pre AGM Meeting?	Yes, with Director Megan Clark and Company Secretary Fiona Mead.

Proposed Voting Summary

2a	Re-election of Dr Brian McNamee as a Director	For
2b	Re-election of Professor Andrew Cuthbertson as a Director	For
2c	Election of Ms Alison Watkins as a Director	For
2d	Election of Professor Duncan Maskell as a Director	For
3	Adoption of Remuneration Report	For
4	Approval of grant of Performance Share Units to CEO/Managing Director Mr Paul Perreault	For
5	Renewal of proportional takeover provisions	For

Key Financials

	2021	2020	2019	2018	2017
Statutory NPAT (US$m)	$2,375	$2,103	$1,919	$1,729	$1,337
Underlying NPAT (US$m)	$2,375	$2,103	$1,919	$1,713	$1,427
Statutory EPS (US$)	$5.22	$4.63	$4.24	$3.82	$2.94
Dividend per Share (A$)	A$2.95	A$2.93	A$2.65	A$1.92	A$1.72
Share Price at End of FY (A$)	A$285	A$287	A$215	A$194	A$138
Realised CEO Remuneration (US$)	$45.4m	$28.2m	$23.3m	$7.4m	$7.4m
Total Shareholder Return (%)	0%	35%	12%	42%	25%

Statutory NPAT and EPS are the audited figure from the financial accounts. Underlying NPAT is (usually) an unaudited figure used in management presentations or commentary. Total Shareholder Return is calculated as the share price change over the year plus the dividend declared during the year, divided by the share price at end of previous year. This may differ from the figure quoted by the company.

Summary of Historical ASA Issues with the Company

CSL has a good track record on ASA focus areas including Board composition, remuneration disclosure and 'skin in the game'.

Review of Board on Governance, Transparency, Fairness to Retail Shareholders

Positives

- The Board has an independent non-executive Chair and majority of independent directors.
- The Board has at least 30% female (actual 44%) and at least 30% male directors.
- Directors and other key management personnel (KMP) hold (or on target to hold) at least one year's worth of base cash fees in company shares, within 5 years (three times base for the CEO).
- The company meaningfully discloses ESG issues or risks facing business and the processes to manage them.
- The company discloses a skills matrix of the board in the Governance Statement.

Areas for Improvement

- There has been a lot of churn on the board over the last couple of years. The result is that the board now lacks a diversity in age. Seven of the nine directors are aged 63 to 66, and all over 58.

Summary

Overall CSL is well governed, but there is some concern over the lack of age diversity on the Board

Items for Voting

Item 2a	Re-election of Dr Brian McNamee as a Director
ASA Vote	For

Dr McNamee was the inaugural CEO of CSL at listing. He grew the company very successfully over his 23 year tenure through to 2013. He was appointed to the board in February 2019. He has very significant skin in the game (a shareholding equivalent to more than 60 times his total remuneration!) and is independent. His experience in the industry is unquestioned and he does not have an excessive workload.

For these reasons, the ASA proposes to support his election.

Item 2b	Re-election of Professor Andrew Cuthbertson as a Director
ASA Vote	For

Professor Cuthbertson is currently an executive director having been appointed to the board in October 2018. He is a long-time CSL executive with a background in medicine and science. He has significant skin in the game (a shareholding valued at more than $30million). As an executive he is not independent but will retire as an executive prior to the AGM. His experience is particularly relevant, and is appropriate for the board. He does not have an excessive workload.

For these reasons, the ASA proposes to support his election.

Item 2	Election of Ms Alison Watkins as a Director
ASA Vote	For

Ms Watkins, BCom, was appointed to the board in August 2021. She is considered independent. Most recently she was CEO of Coca Cola Amatil. Her experience in the governance of ASX listed companies is appropriate for the board. Her workload is within ASA guidelines. She brings welcome diversity of age and gender.

For these reasons, the ASA proposes to support her election.

Item 2d	Election of Professor Duncan Maskell as a Director
ASA Vote	For

Professor Maskell was appointed to the board in August 2021. Trained, and with broad experience, in the UK, he is considered independent. His experience in science, commerce and research is appropriate for the board. He is currently the Vice-Chancellor of the University of Melbourne. He holds a number of academic board posts but we do not consider his workload excessive.

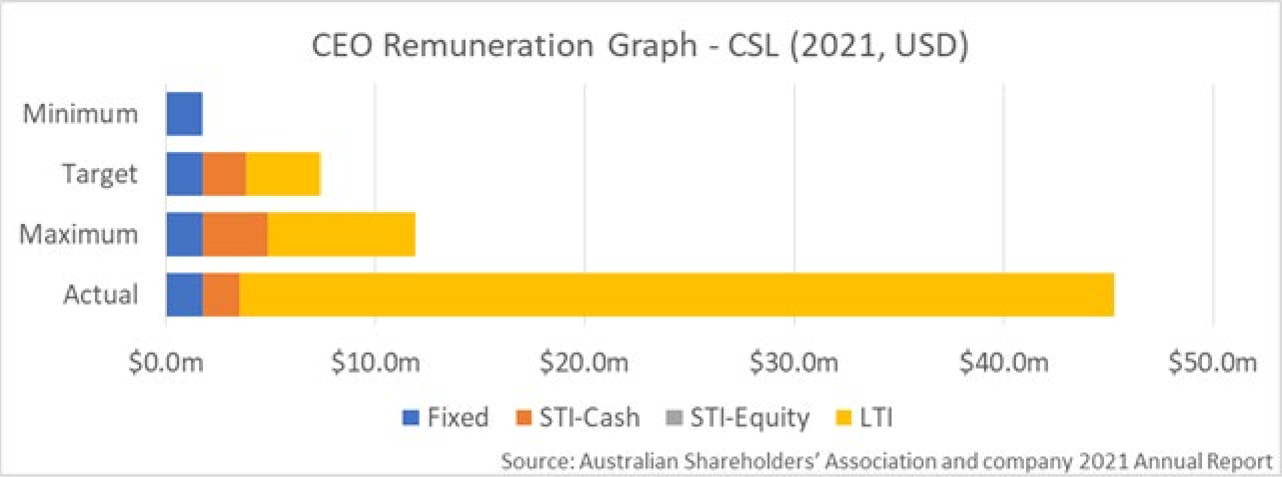
For these reasons, the ASA proposes to support his election.

Item 3	Adoption of Remuneration Report
ASA Vote	For

CEO Remuneration Framework	Target* (US$m)	% of Total	Max. Opportunity (US$m)	% of Total
Fixed Remuneration	1.751	24%	1.751	15%
STI - Cash	2.101	29%	3.152	26%
STI - Equity	0	0%	0	0%
LTI	3.502†	47%	7.004	59%
Total	US$7.354m	100%	US$11.907m	100%

*The amounts in the table above are the statutory amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting. †Threshold award level*

The actual realised pay of the CEO in 2021 was significantly above what might be expected from the remuneration framework table above. This can be seen in the graphic below.



Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

The reason for the large difference between actual and maximum is that the value of the share grants awarded to the CEO have increased in value by nearly $33million compared to their value at the award date. If valued at the initial grant value, the total remuneration would amount to around $12.4m.

Although the quantum is large, the increase in remuneration value mirrors the return experienced by shareholders over the corresponding periods. Unless the CSL share price triples from the current price, these quantum of payments are unlikely to be repeated in future LTI vesting.

CSL is changing its remuneration structure in 2022. The assessment below is based on the new structure where applicable.

Positives

- CEO’s actual take-home remuneration, as well as the target and maximum opportunity of each component is clearly disclosed.
- The total quantum of the CEO remuneration package is compatible with the Godfrey Remuneration Group report benchmarks. According to CSL their remuneration levels fall in the middle of a global peer group.
- The quantum of Board fees are within the Godfrey Remuneration Group report benchmarks.
- More than 50% of CEO’s pay is genuinely at risk.
- Majority of short-term incentives (STI) are based on quantifiable and disclosed performance metrics.
- Clear disclosure is provided for all KMP performance hurdles and the weightings applied for each incentive.
- There is no retesting of performance hurdles.
- Long-term incentive (LTI) hurdles are based on at least two hurdles, one is return on invested capital (ROIC) and the other (new) is earnings per share (EPS) growth.
- All share grants are allocated at face value not fair value.
- Share grants for non-executive directors (NEDs) are satisfied by equity purchased on-market.
- Hurdles are based on earnings are based on statutory earnings.
- No retention payment on any awards are subject only to continuing service.
- No termination payments exceed 12 months fixed pay.
- There is no full vesting in a takeover or “change of control” events.
- Overall, the Remuneration report is readable, transparent, and understandable with a logical relationship between rewards and financial performance and corporate governance.

Areas for Improvement

- ASA prefers total shareholder return (TSR), with no payment if absolute TSR is negative, as one of the performance measures for the LTI award.
- The STI is paid in cash. (CSL argue that this is better aligned with global especially US standards)
- ASA prefers the STI target award be less than fixed remuneration, but CSL argue that their approach is aligned with global industry standards.
- ASA prefers LTI hurdles be measured a minimum of four years after issue, not the (effective) three years as in CSL’s plan
- Share grants for KMPs are issued rather than satisfied by equity purchased on-market.

Conclusion on Remuneration

CSL operates in the global biopharmaceutical sphere, so Australian practices aren't always applicable. There are many attributes of the CSL remuneration plan that we favour. On the other hand, the performance period for the LTI is shorter than we like, but it is not out of line with common practice. Other areas not meeting ASA guidelines are explained by CSL better matching global standards. On balance we propose to support the remuneration report.

Item 4	Approval of grant of Performance Share Units to CEO/Managing Director Mr Paul Perreault
ASA Vote	For

Please refer to assessment under item 3

Item 5	Renewal of proportional takeover provisions
ASA Vote	For

This is a non-controversial proposal to renew CSL's constitutional provisions which do not allow a predator to only bid for a proportion of a shareholders' interest. ASA prefer full takeovers so that shareholders are not left with a controlling shareholder, and therefore we support this resolution.

Monitor Shareholding

The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.