



IFL tries to offset a difficult year through better governance and board renewal

Company/ASX Code	IOOF Holdings Limited/IFL
AGM date	28 November 2019
Time and location	9.30am Sheraton Melbourne Hotel 27 Little Collins St Melbourne
Registry	Boardroom
Webcast	Yes
Poll or show of hands	Poll
Monitor	Alan Hardcastle assisted by Christine Haydon
Pre AGM Meeting?	Yes, with Chair Allan Griffiths and Non-Executive Director Jane Harvey

Item 1	Receipt of Financial Statement and Reports
ASA Vote	No vote required

Governance and culture

Restoring trust has been a key feature of IFL’s Board and Management’s strategy, especially during the past nine months. Significant board changes have been complemented with culling of senior management ranks. This was driven by actions driven from the Australian Prudential Regulation Authority (APRA) and Australian Securities Investment Commission’s (ASIC) investigations that stemmed from the Hayne Royal Commission. The case against IFL was dismissed in September 2019 with the Federal Court deciding that APRA’s case was unpersuasive and inadequate.

Importantly, considering the seriousness of the charges that were levelled against IFL, it seems like governance gaps have been addressed. A new Chief Risk Officer has been appointed and given widened responsibilities, and the company has also established an Office of the Superannuation Trustee. Late 2018 APRA gave notice of additional licence conditions on IFL’s APRA regulated entities. By August 2019 the Company said it had met all of its 30 June 2019 requirements and was on track to meet remaining requirements by relevant deadlines. The Chair, in his meeting with ASA, emphasised that IFL has ‘re-set’ its relationship with APRA and described it as ‘now excellent’.

Financial performance including dividends and shareholder returns

Underlying net profit after tax (UPAT) (including discontinued operations) was \$198 million (m), up 3.4% from the \$191.4m in Financial Year 2018 (FY18), IFL’s statutory net profit after tax (NPAT) of \$28.6m was impacted by the advice review the Company undertook which resulted in a \$223m provision for advice remediation, an amount ASA has been assured of as being very conservative (it is expected to come in well under the provision). The Company declared a final dividend of 12 cents for FY19 plus a special dividend of 7 cents which was also declared for FY20 totalling 44.5 cents per share (cps) for the year, compared with 54 cents in 2018 - all fully franked. That took the total dividend pay out to 79% of UPAT and within stated pay out range of 60 to 90%. Because of the almost halving of share price, total shareholder return (TSR) was -38.3% compared with -2.8%

in 2018. The latest Funds Under Management (FUM) reports have revealed a mixed picture but IFL has performed relatively better than AMP and a few others.

Key events such as restructures, acquisitions, buy backs and capital raisings

IFL is still awaiting Australian Prudential Regulation Authority (APRA) approval for the completion of its ANZ's Pensions and Investments business (OnePath) \$825m acquisition. While the Company is confident of receiving APRA's go ahead as well as the OnePath trustee's OK, it is not known when the acquisition will be complete. In line with IFL's focus on 'core assets that fit with' its advice-led strategy, the Company sold off its holdings in AET Corporate Trust, Ord Minnett and Perennial Value Management.

Key Board or senior management changes

There was significant Board change with the departure of Chief Executive Officer (CEO) and Board member Chris Kelaher, replaced (June 2019) by senior executive Renato Mota. Previous Chair George Venardos 'took leave' (December 2018) from his role and leaves the Company at this Annual General Meeting (AGM), replaced by Non-Executive Director (NED) Allan Griffiths as chair in April 2019. The addition of two fresh NEDs being Michelle Somerville (from October 2019) and Andrew Bloore (from September 2019) rounds out a 'new look' Board. Senior management was strengthened with the appointment of Chief Risk Officer (CRO) Amanda Noble who will be responsible for governance and risk management; and Melissa Walls as Chief People Officer (CPO), charged with assisting in the acceleration of cultural change.

Ongoing litigation issues

Somewhat distracting for IFL's Board and Management are litigations that have been factored in in terms of remediation and monies and in some cases are historical (inherited). Lawyers Quinn Emanuel and Shine Lawyers have both initiated class actions against IFL regarding its savage share price collapse at a time the Board and Management did not flag existing internal governance issues which were subsequently raised at the Royal Commission. The Australian Securities and Investments Commission (ASIC), late October, commenced legal action - arising from Royal Commission evidence - against one of the Company's subsidiaries, RI Advice, an advisor inherited in the purchase of the ANZ business.

Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	28.6	88.3	116.0	196.8	138.4
UPAT (\$m)	197.8	191.4	169.4	173.4	173.8
Share price (\$)	5.17	8.99	9.80	7.83	8.99
Dividend (cents)	44.5	54	53	54.5	53
TSR (%)	(38.3)	(2.8)	23.3	(6.8)	20.6
EPS (cents)	8.1	26.4	38.7	65.7	47.7
CEO total remuneration, actual (\$m)	2.2*	2.9	2.9	5.0	3.6

*The current CEO, Renato Mota, was appointed to the Company permanently only in June 2019 and has been Acting CEO for IFL since December 2018. The remuneration amount presented here includes the award former CEO Chris Kelaher received combined with the award Mr received until his appointment as CEO.

For 2019, the CEO's total actual remuneration was nearly **25 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Item 2 (a)	Re-election of Allan Griffiths as a Non-Executive Director
ASA Vote	For

Summary of ASA Position

On the IFL Board since 2014, Mr Griffiths has had to play a key role in overseeing the Company through a very problematical time with regulatory authorities as well as managing Board regeneration. He has more than 30 years' professional experience, notably in the finance and insurance industries. While he does not hold any other publicly listed company Board positions, Mr Griffiths is Chair of the Westpac/BT Insurance Boards and Chair of Metrics Credit Partners. He has an appropriate IFL shareholding.

Item 2 (b)	Election of Andrew Bloore as a Non-Executive Director
ASA Vote	For

Summary of ASA Position

Andrew Bloore has very specific information technology (software) skills and experience, particularly in the superannuation administration business. He has focused on the development of key disruptive technologies and distribution services in traditional markets to create business efficiencies. Mr Bloore brings much needed IT expertise to the Board.

Item 2 (c)	Election of Michelle Somerville as a Non-Executive Director
ASA Vote	For

Summary of ASA Position

Having worked in the financial services industry, in both executive and non-executive roles, Michelle Somerville has brought relevant finance, risk and governance experience to the Board. She presently also sits on the Boards of The GPT Group, Bank Australia and a number of smaller organisations. Before her non-executive roles, Ms Somerville was an audit partner with KPMG Australia for nearly 14 years, focusing on the financial services industry both locally and internationally.

Item 3	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

Shareholders were severely adversely impacted by the Company's share price fall. In place were Short Term Incentives (STIs), 50% cash and 50% deferred shares, based on a 'balanced scorecard which included' total shareholder return (TSR), return on equity (ROE), and 50% discretionary-based. Due to negative TSR, no STIs were awarded to any Key Management Personnel (KMP) while executive performance rights did not vest in the 2019 year. Remuneration committee chair Jane Harvey has stated that there will be significant changes to the remuneration framework, policies and practices in future years. 2020 will be a transitional year.

The Remuneration committee is considering removing STIs while Long Term Incentives (LTIs) are expected to change to a minimum four-year vesting period with an increased focus on non-financial performance metrics. ASA's view, communicated to the NED responsible for remuneration Ms Jane Harvey, is that non-financial measures should be limited to 10 to 30% of the award. They should be related to building long-term company value, measurable, clearly explained and linked to the company's long-term goals. For 2019, the CEO's LTI is 100% share based and is a maximum of 100% of Total Fixed Remuneration. The LTI is 50% performance rights relative to TSR against the ASX 200 with a three-year vesting period and 50% tenure-based with a three-year vesting period subject to an additional one year holding lock.

The Board is aware that ASA does not agree with additional remuneration award being paid on reaching particular tenure. ASA has stated in previous years - when tenure was a 'yardstick' - that IFL's KMPs are paid significantly less than the market and the Board has to find ways of keeping KMPs, especially at a time like now of regulatory issues, KMP changes, Board renewal and concomitant low share prices. Thus, while the ASA votes for the adoption of this Item, there's a proviso that the ASA expects to see IFL's 2020 remuneration scheme - presently being formulated 'with independent input provided by KPMG - be more in-line with ASA guidelines.

In terms of the CEO remuneration, the previous CEO, Chris Kelaher, resigned from IFL in December 2018 having served from July 2018. Current CEO Renato Mota was appointed in December 2018 and served as Acting CEO until 24 June 2019 and was appointed permanent CEO on 25 June 2019. Prior to his appointment as acting CEO, Mr Mota served as the Group General Manager for wealth management. The nature of these financial arrangements has made it difficult to identify the exact remuneration framework that applies to the CEO position for FY19.

For FY20, Mr Mota's remuneration arrangements are simple and transparent. The CEO will earn a total fixed remuneration of \$1.2m with no STI component and an LTI component with a maximum opportunity of 100% of the total fixed remuneration. The LTI will vest after four years.

Item 4	Grant of Performance Rights to CEO Renato Mota
ASA Vote	For

Summary of ASA Position

It's proposed that CEO Renato Mota receive 75,000 performance rights for FY20. The number of rights was determined by the Board based on Mr Mota's previous general manager and acting CEO roles. The hurdles will be measured over three years with 50% of the rights assessed against tenure and the other 50% assessed against Total Shareholder Return (judged against each S&P/ASX200 company). At or above the 75th percentile 100% will vest; between the median (50%) and 75th percentile there will be progressive vesting; at the median 50% will vest; and below the median no performance rights will vest. Predicated on Mr Mota's relatively modest fixed remuneration and the fact that the Company's remuneration scheme is in a transitional phase, we would vote in the affirmative. Again, with the proviso that tenure, if used again, be significantly reduced and that IFL's new remuneration scheme is more in-line with the ASA's guidelines.

The individuals or their associates involved in the preparation of this voting intention have no shareholding in this company.

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