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No go for acquisition of Link, so where to now?

Company/ASX Code	Link Administration Holdings Limited/ LNK
AGM date	Wednesday, 30 November 2022
Time and location	9:00am (AEDT), Sheraton Grand Sydney Hyde Park Hotel, 161 Elizabeth St, Sydney
Registry	Link Market Services
Type of meeting	Hybrid – details of online participation are in the Notice of Meeting
Poll or show of hands	Poll on all items
Monitor	Peter Gregory
Pre AGM Meeting?	Michael Carapiet Chair, Dr. Sally Pitkin Chair of Human Resources and Remuneration Committee, Fiona Trafford- Walker Chair of Audit Committee and Tariq Chotani, General Manager – Investor Relations

Monitor Shareholding: The individual involved in the preparation of this voting intention has no shareholding in this company.

Summary of issues for meeting

Implications of FCA advice re the LF Woodford Equity Income Fund (Woodford)

The proposed acquisition of Link Administration Holdings (Link) by Dye and Durham (D&D) was conditional on the approval of the UK Financial Conduct Authority (FCA).

Link has been in discussion with the FCA regarding issues with its subsidiary, Link Fund Solution Limited's (LFSL) role as authorised corporate director to Woodford. The background is Woodford, which had been worth A$20 billion was suspended when its value fell to approximately A$7 billion. LFSL dismissed the Manager and had the assets realised for distribution to investors. LFSL was merely an administrator, had nothing to do with the equity selection, and as reported in its 2019 Annual Report Link expected that an FCA enquiry into Woodford would result in LFSL having to pay a fine. There has been no indication that Link expected the fine would be a significant amount, or that any responsibility or liability would extend beyond the subsidiary LFSL.

FCA in responding to the request to approve the D&D acquisition, issued a draft notice (not a final decision) stating that D&D, to obtain FCA approval, would have to commit to having funds available to cover the possible redress payments that LFSL may be required to make. The commitment that FCA required was £350 million (approx. AU$600 million). D&D and Link were not able to agree on a resolution to this, so the acquisition of Link by D&D did not proceed.

Link announced on 20 October 2022 that it is exploring options to divest of LFSL. At the pre-AGM meeting, the likelihood of a divestment happening was discussed. Link is of the view that LFSL is a standalone business and that any FCA decision can be confined to that entity. Given the FCA action with the D&D acquisition it is difficult to see the FCA will allow any divestiture of LFSL, prior to their final decision, without that amount being underwritten by either Link or the acquirer of that business. This will be further questioned at the AGM.

Future direction of the business

Over the past two years there have been expressions of interest in acquiring Link. And these, including the aborted D&D bid, have been a major distraction for the company, and have consumed a considerable amount of energy from the board and management.

The company now states it is refocused on the path forward and is considering a number of options to build a business that will deliver value to shareholders.

As a first step, the board expects to make an in specie distribution of at least 80% of its holding in PEXA to its shareholders. Link is submitting a ruling application to the ATO to obtain tax roll over relief before progressing this distribution.

During the pre-AGM meeting we discussed the strengths and vulnerabilities of the Link business.

It is notable that there appears no geography where Link has strength in every product category, and no product category where Link has a position of strength in every geography. This missed opportunity to build upon strengths and thus achieve significant revenue gain at incremental cost is a concern.

In addition to the proposed action with Pexa it is understood there is consideration being given to divesting the Banking and Credit Management business and some of the approximately 10 countries in "Other countries" are being exited.

However, given Link's circumstances it is appropriate that shareholders be fully appraised of where the board and management intend to lead our company and that this is underpinned by a longer term strategic focus built on an understanding on where Link has sustainable competitive advantage. We will seek a better understanding of the way forward for shareholders at the AGM.

Proposed Voting Summary

No.	Resolution description	
1	Re-election of Director – Michael Carapiet	Against
2	Re-election of Director – Anne McDonald	Against
3	Adoption of Remuneration Report	For
4	Approval of CEO & Managing Director's Participation in the Link Group Omnibus Equity Plan	For
5	Spill motion (contingent resolution)	Against

See ASA Voting guidelines and Investment Glossary for definitions.

Summary of ASA Position

Consideration of accounts and reports - No vote required

Financial performance

Link has underperformed for many years with the current board having overseen the share price fall from $7.33 on 30 June 2018 to $3.79 today. Adding to that pain is the reality that, based on today's price of Pexa shares, Link's 42% holding of Pexa accounts for around $2.18 per Link share, leaving the core Link business valued by the market at around $1.61 a share.

NPAT has been negative for the past 3 years with the total loss for that period totalling $333 million.

Operating NPATA is the metric which the board claims to be the best measure of company performance. While in FY22 at $121 million it did improve 7% over FY21 it is still significantly below the average for the last 4 years of $162 million p.a.

Not surprisingly shareholders are disappointed – for many the original exit price of $5.81 offered by D&D looked attractive. Now that dream has vanished.

Governance and culture

In the 1H 21 investor briefing, in the FY21 annual report and at the FY21 AGM shareholders heard how the mantra "Simplify, Deliver and Grow" would be "Delivering for our Shareholders" – it appeared to be a plausible strategy and strong theme to unite the organisation around. But in the short time since this strategy was announced in December 2020, it appears to be diminished as a clear point of focus, in our mind creating some confusion and uncertainty about the company direction. We wonder how Link employees feel?

Key events

The non-completion of the D&D acquisition has been discussed previously.

On 26 August 2021, Link commenced an on-market buy-back of up to 5% of Link shares. On 5 November 2021, following the receipt of the conditional, non-binding indicative proposal from Carlyle Asia Partners, Link suspended the buy back, having purchased approx. 2.2% of Link shares.

On 6 August 2021, Link Group acquired 100% of Casa4Funds SA for €10 million ($16.8 million). Casa4Funds, headquartered in Luxembourg, is one of the oldest European independent third-party UCITS (undertakings for collective investment in transferable securities) Management Companies and Alternative Investment Fund Managers (AIFM).

Key Board or senior management changes

There have been changes in the senior management team:

- Antoinette Dunne was appointed CEO of Banking and Credit Management (BCM) on 1 June 2021 expanding on her BCM responsibility for Italy and Ireland.
- Following Chris Addenbrooke's retirement as CEO of Fund Solutions, Karl Midi was appointed to that role on 1 February 2022. Karl joined Link in 2017 and has had 25 years of experience in the industry.
- Nicole Pelchen joined Link in October 2021 as Chief Technology Officer.

All the Link senior management have been appointed since 2019.

ASA focus issues

Link has presented as part of their annual report a sustainability plan based on the pillars of:

- A responsible business;
- Aligning and building capability; and
- Sustainable growth.

The plan provides information about achievement to date and includes their targets of net zero in scope 2 emissions by 2025 and net zero emissions by 2030. It would have been more informative for shareholders to see more specifics about how these targets will be achieved.

Summary

(As at FYE)	2022	2021	2020	2019	2018
NPAT ($m)	-68	-162.7	-102.5	324.1	139.8
Operating NPATA ($m)	121.3	113.2	137.6	196.9	203.2
Share price ($)	3.79	5.04	4.1	5	7.33
Dividend (cents) **	3	10	19	20.5	20.5
TSR (%)	-24.2	25.4	-16	-29	-5
EPS (cents)	-13.14	-30.75	-19.67	60.71	27.86
CEO total remuneration, actual ($m)	2.41	1.13	1.56	1.035	1.825

** Final FY22 dividend has not yet been announced

Re-election of directors

Four of the independent Link directors were appointed prior to the Link listing on the ASX on 27 October 2015. Anne McDonald was appointed to the board in July 2016, Peeyush Gupta in November 2016 and Andrew Green in March 2018. So, all have a material amount of knowledge of the company and have been involved in the major decisions made by the company.

The CEO and Managing Director, Vivek Bhatia joined Link in November 2020.

The board is comprised of a group of individuals, each well experienced as directors, bringing a diversity of industry backgrounds and mix of entrepreneurial, regulatory, technology and professional service capabilities.

However, it appears that there is limited actual industry (share registry and custody) experience with NEDs and the CEO.

All NEDs have met the minimum shareholding requirement of equivalent to a year's fees, so can be considered to have "skin in the game".

In determining how to vote for Michael Carapiet and Anne McDonald the monitor took into account the following:

- the financial results and return for shareholders have been disappointing in recent years
- there appears to be a lack of a clear strategy to improve the company outcome
- there is no evidence that the board has held management to account for the lack of results from the Simplify, Deliver, Grow strategy that was expected to "Deliver for our shareholders"
- the board has overseen acquisitions that do not appear to have been scalable and accretive. Some appear opportunistic rather than strategic.

- while the board is well credentialed and has wide experience there is a lack of direct industry experience.

On balance, we see there is a need for renewal of the board to restore value to shareholders. Board renewal should use an effective skills matrix that details the level of skills and experience of each director to determine gaps that require filling.

Shareholders are encouraged to review the information made available by Link and to provide ASA with a directed proxy for these resolutions.

To contribute to ensuring the board renewal process, all our undirected proxies will be voted against the re-election of Michael Carapiet and Anne McDonald.

Adoption of Remuneration Report and approval of equity grants to Managing Director/CEO

Link received a remuneration first strike in FY21.

While Link's performance has been disappointing, this is largely attributed to circumstances described in the "Directors re-election" section. The KMP and senior management team are relatively new and need to be motivated to deliver. Going forward if this remuneration structure is accompanied with the achievement of true stretch targets that align with shareholder outcomes the management team deserve to be rewarded.

The FY22 Remuneration Report is largely in line with ASA guidelines as described in the Appendix and all undirected proxies will be voted for these resolutions.

Spill motion (in the event of a second strike on remuneration report)

We have stated in the "re-election of directors" section Link has a need work through a process of board renewal. This renewal should be completed in an orderly and considered fashion; a board spill is a dramatic and disruptive step that is not expected to achieve this outcome.

Therefore, should this resolution be put to the meeting undirected proxies will be voted against it.

Appendix 1
Remuneration framework detail

Link CEO Remuneration FY22

CEO rem. Framework for FY22	FY22 CEO Remuneration Plan						Actual FY22	
	Hurdle		Target		Maximum			
	$'000	% of Total	$'000	% of Total	$'000	% of Total	$'000	% of Total
Fixed Remuneration	**1,400**	**56%**	**1,400**	**29%**	**1,400**	**18%**	**1,400**	**42%**
STI - Cash	540.8		676		1,014		567	
STI - Equity	540.8		676		1,014		567	
Total STI	**1,081.6**	**44%**	**1,352**	**28%**	**2,028**	**27%**	**1,134**	**34%**
LTI	**0**	**0%**	**2075**	**43%**	**4150**	**55%**	**838.6**	**25%**
Total	**2,482**	**100%**	**4,827**	**100%**	**7,578**	**100%**	**3,373**	**100%**

In FY2022, Executives, Dee McGrath and Andrew MacLachlan, received an equity grant as part of a retention scheme to retain key talent during a critical period for the Company where the CEO & Managing Director transitioned, and the Company dealt with demands of multi-transaction takeover. These are rights that vest half after 1 year and half after 2 years. While retention payments are generally not supported by ASA, given these circumstances and critical need for Link performance to improve, combined with these executives having minimal Link equity, it is seen to be in shareholders' best interest that this retention incentive be in place.

During FY22 the CEO received a fixed remuneration increase of $100,000 to $1,400,000. This is at the upper end of the market rates for a company the size of Link.

Link received a strike for the FY21 Remuneration Report. While the FY22 report states that the Board has responded to the issues raised by stakeholders it is not clear from this year's report what changes have been made.

While the information about the Remuneration structure is contained in the report it does take some research to be able to understand how KMP are rewarded and we would encourage Link to simplify their communication about this so that shareholders can more readily determine how to vote on this motion.

In summary:

- there is a financial gateway in place for the STI, although it is not clear how it is arrived at
- the at risk component of the "at target" CEO package is 71% and this is predominantly in LTI – 43% of at target package

- the STI award is 50% for financial targets, 30% for client/ customer targets and 20% for people targets. There is just enough information provided to describe the performance measures and the achievement of each executive.
- the STI award is 50% cash and 25% equity deferred for one year and 25% equity deferred for 2 years
- the LTI award is performance rights based on targets for EPS (75%) and relative TSR (25%). The rights convert into shares with 50% delivered after 3 years, 25% subject to a holding lock for a further year and the remaining 25% held for a further year.