Australian Shareholders' Association Limited
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Extraordinary profits, extraordinary rewards

Company/ASX Code	Macquarie Group / MQG
AGM date	Thursday 27 July 2023
Time and location	10:30am Sofitel Sydney Wentworth
Registry	Link Market Services
Type of meeting	Hybrid
Poll or show of hands	Poll on all items
Monitor	Sue Howes assisted by Gareth Eastwood and David Brennan
Pre AGM Meeting?	Yes, with Glenn Stevens (Chairman), Jillian Broadbent (Chair of Remuneration), Lynnette Sarno, Global Head of HR and Mayling Fitzsimmons, Investor Relations

Monitor Shareholding: The individuals (or their associates) involved in the preparation of this voting intention have shareholdings in this company.

Summary of issues for meeting

The contradictory share price movement, given the stellar result, and the outworking of the profit share is probably our key, interrelated issue. While total shareholder return (TSR) has been negative, the profit share is linked to company's financial performance and thus the shareholder experience does not necessarily align with profit share distribution. However, as we explain below, this is more a timing issue than a disconnect between shareholders and management.

The company has indicated it has not received tainted advice from PWC and has checked that no audit team members were involved in the PWC tax leak issues.

The company has a considerable level of capital that has not been deployed into new opportunities over the year and will need to be used or returned at some point so that it does not weigh heavily on the balance sheet.

Proposed Voting Summary

No.	Resolution description	
2a	Re-election of Ms Nicola Wakefield Evans AM as a Director	For
2b	Election of Ms Susan Lloyd-Hurwitz as a Director	For
3	Adoption of Remuneration Report	For
4	Approval of Termination Benefits	For
5	Approval of Managing Director's participation in the Macquarie Group Employment Retained Equity Plan (MEREP)	For

See ASA Voting guidelines and Investment Glossary for definitions.

Consideration of accounts and reports - No vote required

Macquarie has another bumper year of profits, again Commodities and Global Markets (CGM) has been the main contributor. However, this year the share price has shown a significant drop, providing a negative total shareholder return for the year. This seems to reflect more market mood and anticipation than alignment with company results.

The company continues to react well to market risk and take opportunities where they identify them. The company has indicated that they react to client needs and requests rather than chasing risk.

Governance and culture

Following the changes at the previous AGM, this year has been one of general stability. The Board is mooting renewal plans, however, please see the director sections for more information.

The Australian Prudential Regulation Authority (APRA) remediation work to strengthen the voice of the Bank within the group has an additional two to three years to run, and the company expects to announce a third bank-only non-executive director (BOND) to the Macquarie Bank Limited Board in the very near future. MQG has been looking for someone with a good tech background to enhance their skills mix.

The company has noted the increasing cost burden (labour and actual expenses) of the increasing regulatory requirements being imposed on banking institutions.

Last year the CEO role was enhanced, and the focus changed. The Board is pleased with the results from this and indicates it is working well.

MQG has a strong ESG ethic and now has 97GW of green energy projects in development. The appointment of Susan Lloyd-Hurwitz to the Board is likely to assist in the company's strategic push into affordable and social housing.

In light of the PwC tax leaks matter, we questioned PwC's ongoing role as auditor and any tax advice received by MQG. We were assured that Macquarie had taken steps to ensure that no staff on the audit team for MQG were involved in the leaks and that the team seemed stable. MQG asserted that they had had no such advice from PwC. MQG have indicated they will be reviewing their audit arrangements in FY24.

Financial performance

While profits have increased 9.8% from the already stellar previous year and dividends are up 21%, the share price has dropped 14% to the end of the year and has since fallen slightly more.

Profit contribution	Profit ($ billion)	% change
Banking and Financial Services (BFS)	1.2	20
Commodities and Global Markets (CGM)	6.0	54
Macquarie Asset Management (MAM)	2.3	(23)
Macquarie Capital	0.8	(47)

The company has pulled back from the home mortgage market recently having seen the competitive position lead to unprofitable business being written, a situation the company does not want to engage in.

The company has a significant capital base sitting ready for opportunities. The Board has indicated that they are very conscious that this has been sitting for over a year awaiting opportunity and that there is a need to use it effectively or return it to shareholders. However, their risk management process does ensure that capital is not deployed unless there is a sound opportunity.

Key Board or senior management changes

Ms Wakefield Evans is standing for re-election and Ms Lloyd-Hurwitz is standing for election. Please see resolutions below.

ASA focus issues (not discussed under remuneration report or re-election of directors

Macquarie releases its first Net Zero and Climate Risk Report in December 2022 and will update this later this year. The company has committed to reaching net zero in Scope 1 and 2 emissions by FY2025 and is in the process of developing emission reduction strategies for Scope 3. 100% of the company's global electricity consumption in FY23 is from renewable resources and the company has reduced energy intensity per capita by 57% since FY14.

Summary

(As at FYE)	**2023**	**2022**	**2021**	**2020**	**2019**
NPAT ($m)	5,168	4,706	3,015	2,731	2,982
Share price ($)	175.66	203.27	152.83	85.75	129.40
Dividend (cents)	750.0	622.0	470.0	430.0	575.0
Simple TSR (%)	(9.89)	37.07	83.90	(29.90)	32.80
EPS (cents)	1,353.7	1,271.7	842.9	791.0	883.3
CEO total remuneration, actual ($m)	28.310	15.193	14.760	17.060	19.760

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking) by the share price at the start of the year.

Election or re-election of directors

Ms Wakefield Evans joined the Board in February 2014 and retires by rotation. The Board has indicated that she will retire during FY24, however is standing for re-election to ensure stability for the Board in the near term.

Ms Lloyd-Hurwitz is a new addition to the Board following a career in investment and real estate, most recently as the CEO of Mirvac. We consider Ms Lloyd-Hurwitz to have suitable business experience and expertise to contribute to the Board and will extend the skillset of the directors into areas the company is in the process of pursuing.

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

Details of the remuneration structure can be found in Appendix 1 at the end of this report.

The remaining remuneration changes highlighted in the previous year's annual report take effect in FY24.

The biggest issue this year is the disconnect between share price performance and the company's performance, resulting in shareholders who bought in at the beginning of the financial year seeing a paper loss.

The reason for this is that the remuneration plan is essentially a profit share with quite long vesting that aligns pay with corporate performance. While the company has had another exceptional year, the share price has dropped. This could be for many reasons, but among them anticipation of poorer performance to come due to economic conditions – although Macquarie alludes to this risk with each bumper result and then finds some way to capitalise on economic changes that occur.

However, the outworking of the use of profit share and vesting periods over which the profit share is delivered effectively includes a delay mechanism should economic conditions and profit deteriorate. This can be seen in the subdued actual remuneration for the CEO over several years since COVID as various tranches failed to vest.

If the company profit were to reduce the profit share delivered to key management personnel (KMP) would proportionately reduce. The Performance Share Units (PSUs) would be affected both by a proportionate reduction in PSU allocated in the given year but also the hurdles for past years likely not being met and thus allocated and actual remuneration in these circumstances would reduce considerably, while the share price may already have baked in these results and not suffer to the same extent.

It is for these reasons that we agree with the MQG remuneration scheme, despite the somewhat eyewatering numbers that the outworking of the scheme has produced in recent years. It will be interesting to see how accurate the market's view on FY24 for the company compares with reality at the end of the financial year.

Approval of termination benefits

The MQG remuneration plan sets out the remuneration payable upon the termination of employees. The Corporations Act 2001 applies a number of restrictions on companies regarding the payment of certain termination benefits to executive staff without shareholder approval. Macquarie has, for many years, provided a resolution to shareholders to approve the payment of benefits in accordance with its remuneration plan.

Given our vote for the remuneration plan we will also be voting any undirected proxies for this resolution.

Approval of Managing Director's participation in the Macquarie Group Employment Retained Equity Plan (MEREP)

Given we are voting for the remuneration plan we will also be voting any undirected proxies for this resolution.

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Appendix 1
Remuneration framework detail

The CEO is not the highest paid in the Group, that award (reward?) goes to Nick O'Kane, the Head of Commodities and Markets. His $57.6m makes him not only the highest paid listed company executive in Macquarie, but also the country. CGM profit contribution for 2023 was $6.0 billion.

Macquarie's remuneration comprises a fixed component and variable component, but unlike the rest of the S&P/ASX200, Macquarie does not have a variable remuneration structure based on a defined measurement of several different factors. Instead, all employees are given a profit share based on the actual financial results, their personal contribution, their business unit and individual non-financial factors. Executive Committee members also participate in PSUs.

Fixed Remuneration (FR)

The company has a very low fixed remuneration. The remuneration plan shareholders will vote on in this year's resolutions includes a proposed significant increase in FR effective FY24, as indicated in the table below:

Role	Current ($Am)	Revised ($Am)
CEO	0.8	1.5
MBL CEO	0.7	1.3
Executive KMP	0.7-0.75	1.0-1.1

The Head of MAM has received a relatively large increase in fixed remuneration this year. The revised figures are part of changes that align MQG's remuneration with APRA's prudential standard, CPS511, requirements as well as taking into account the difficulty in attracting overseas staff when FR is low. These changes become effective in FY24.

Profit Share

Part of the profit share is paid out in cash, with the rest retained and vested in equity over a number of years.

Role	Retained %	% of retained invested in Equity (MEREP) (balance is invested in Macquarie managed fund)	Vesting
CEO	80	90	One-fifth in each of years 3–7
MBL CEO	60	80-90	One-fifth in each of years 3–7
Executive Committee members	60	50	One-fifth in each of years 3–7
Designated Executive Directors	50	80-100	One-fifth in each of years 3–7
Executive Directors	40	25	One-third in each of years 3–5
Staff other than executive directors	25-60	100	One-third in each of years 2–4

For senior employees retained profit share can be clawed back for Malus, although the company considers this a last resort given the many other levers at its disposal prior to profit share actually vesting.

The Board used their discretion in FY23 to increase the retained % for Nick O'Kane to 70% due to the quantum of the profit share being paid. They did consider reducing the payment, but decided to let the profit share scheme run according to its rules.

The standard policy is that staff who cease employment with Macquarie will forfeit their unvested retained profit share.

There are changes being made to this structure as well, also effective FY24. The Company indicates this is to better align with the requirements of APRA CPS 511. These changes reduce the retention % and vesting period for grants as follows:

<table>
<tr><th></th><th colspan="2">Current</th><th colspan="2">Revised</th></tr>
<tr><td>Role</td><td>Retention %</td><td>Vesting & Release</td><td>Retention %</td><td>Vesting & Release</td></tr>
<tr><td>CEO</td><td>80</td><td rowspan="4">One-fifth in each of years 3–7</td><td>70</td><td rowspan="4">One-third in each of years 3–5</td></tr>
<tr><td>MBL CEO</td><td>60</td><td>60</td></tr>
<tr><td>Executive KMP</td><td>60</td><td>50</td></tr>
<tr><td>Designated Executive Directors</td><td>50</td><td>40</td></tr>
</table>

This will significantly bring forward these benefits. However, this is balanced by other changes being made, to the vesting and release of profit share post-retirement or redundancy.

Currently the Board can use its discretion to allow vesting of retained profit share to continue in these circumstances. This currently occurs over 6 to 24 months for all Executive Directors and above. In FY23 this will change to '12 to 24 months' and in FY24 will further change to '0 to 60 months' for Executive KMP and Designated Executive Directors and '12 to 24 months' for other executive directors.

Malus and clawback provisions have been strengthened.

Performance Share Units (PSU)

Executive Committee members are the only group of staff eligible to receive PSUs, which are subject to forward-looking performance hurdles and determined with reference to Macquarie's performance as a whole. From FY24 the vesting period will be extended by a year to five years for the CEO and the MBL CEO.

Hurdles

<u>EPS CAGR hurdle 50% of PSU award</u>

Performance measure compound annual growth rate (CAGR) in earnings per share (EPS) over the vesting period (four years).

Hurdle Sliding scale applies:

- 50% becoming exercisable at EPS CAGR of 7.5%

- 100% at EPS CAGR of 12%.

For example, if EPS CAGR was 9.75%, 75% of the relevant awards would become exercisable.

<u>ROE hurdle Application 50% of PSU award</u>

Average annual return on equity (ROE) over the vesting period (four years) relative to a reference group of global financial institutions.

Sliding scale applies:

- 50% becoming exercisable above the 50th percentile.
- 100% at the 75th percentile.

For example, if ROE achievement was at the 60th percentile, 70% of the relevant awards would become exercisable.

Malus provisions apply.

The standard policy is that unvested PSUs will be forfeited upon termination.

In the case of retirement from Macquarie, redundancy, death, serious incapacitation, disability, serious ill-health or other limited exceptional circumstances, the Board or the Board Remuneration Committee (BRC) has the authority to either accelerate the vesting of PSUs or to permit the PSUs to continue to vest in accordance with the original award schedule and remain subject to the same performance hurdles. Please refer to page 100 of the annual report for detailed information on Malus and changes.

General comments

While the remuneration report is comprehensive, the structure is complex and it is not easy to get a handle on all the moving parts. The most effective way to comprehend it is with an example.

CEO remuneration

The allocated remuneration for the CEO for FY23 is made up of:

	$A	%
FR	$821,081	2.23%
Cash Profit Share (PS)	$6,400,000	17.38%
Retained PS	$25,600,000	69.53%
PSU award	$4,000,000	10.86%
Total	$36,821,081	100.00%

Statutory remuneration for the CEO is given as $23.72m, as this takes into account the calculation of the present value of the retained portion of the remuneration allocated.

The actual remuneration for the year is as follows:

				Source
FR			$821,081	P124 Rem report
Cash PS			$6,400,000	P134 Rem report
Restricted profit share (2016 – 2020 rem report)	Year			
	16		3,894,996	2016 – 2020 Rem report
	17		4,369,732	2016 – 2020 Rem report P141 Rem report
	18		5,583,009	
	19		4,065,932	
	20		1,733,611	
Earnings on prior year restricted profit share			2,642,127	
Retained profit share vesting	Year	Shares		
	15	8,524	$1,531,422	Page 145 Rem report
	16	10,894	$1,957,216	Page 145 Rem report
	17	9,805	$1,761,566	
	18	9,832	$1,766,417	
	19	13,000	$2,335,580	
PSU				
	18	11,781	$2,107,150	Page 147 Rem report
	19	17,099	$3,058,327	Page 147 Rem report
Total			$28,310,342	

Retained profit share shares valued using average share price of employee share plan allocation of $179.66.

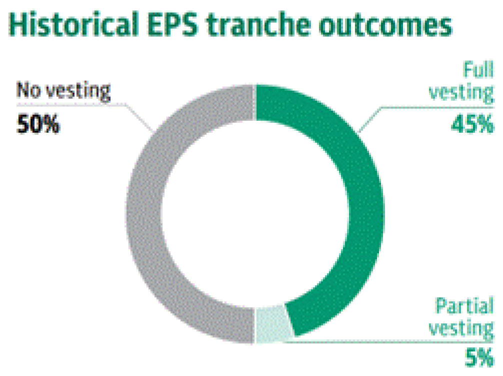
The other main issue with the remuneration report is around how the profit share pool and split amongst staff is determined. While the report indicates the general items taken into account to determine the profit share pool, the actual calculation and the split are quite opaque. This is not ideal given the quantum of profit share in total remuneration and also the serious amounts of money paid to KMP over recent years.

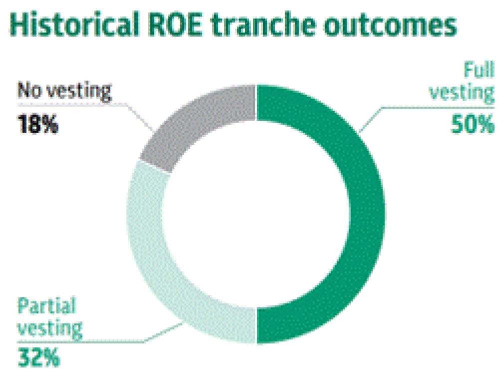
What we can see, however, is the relationship between the profit share pool and the NPAT.

Year	**2023**	**2022**	**2021**	**2020**	**2019**
NPAT	5,182	4,706	3,015	2,731	2,982
Total Executive KMP awarded PS	151.6	123.82	106.9	99.4	106.6
PSP/NPAT %	2.9%	2.6%	3.5%	3.6%	3.6%

This table shows that while the dollar amounts paid as profit share seem enormous, when viewed as a % of NPAT the % is quite reasonable compared to other companies and has in fact reduced over time.

The other dynamic is that PSU units with Macquarie really are at risk, as can be seen by the historic PSU vesting graphic below (page 106 of the annual report).





The bottom line is that when KMP are well rewarded at Macquarie, the shareholders are also rewarded well.