



**Is Macquarie’s unrelenting growth going to pause?**

<b>Company/ASX Code</b>	Macquarie Group/MQG
<b>AGM date</b>	Thursday 25 July 2019
<b>Time and location</b>	Grand Ballroom, Sheraton Grand Sydney Hyde Park
<b>Registry</b>	Boardroom
<b>Webcast</b>	Yes
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Allan Goldin assisted by Richard Williams and Chandra Agnihotri
<b>Pre AGM Meeting?</b>	Yes, with Peter Warne, Macquarie Group Chair, Lynnette Sarno, Global Head of HR and Sam Dobson, Head of Investor Relations

<b>Item 1</b>	<b>Consideration of accounts and reports</b>
<b>ASA Vote</b>	No vote required

**Summary of ASA Position**

Another big year with net profit after tax and all other financial indicators well up. This increase is particularly driven by the two market facing businesses, Commodities and Global Markets and Macquarie Capital, which were aided by the fall in the effective tax rate from 25.7% to 22.8%, mainly due to the USA lowering its tax rate.

Although the USA should continue to be a major profit generator for the group, overall the guidance is that it is currently expected that the results for 31 March 2020 will be slightly down on the financial year ended 31 March 2019. However, as MQG is such a multifaceted operation, management finds it difficult to accurately forecast their results because of the many factors that can affect profits in any one year.

It is very pleasing to note that Macquarie is forging ahead with its involvement in the renewable energy sector. There are 90 different renewable energy projects that in 2019, the Group invested or arranged, \$8 billion of investment.

In order to ensure that IT systems are up-to-date, secure, compatible and operate to the highest efficiency while providing all the necessary safe-guards the group spends \$750 million a year on their systems. Although high, is needed in this environment.

Despite Macquarie paying compensation, in particular to a few wealth clients in the past, they were not called before the Banking Royal Commission. However they are ensuring that in addition to following the Commission’s recommendations, they spend a considerable amount of effort as

evidenced by the space in the Annual Report detailing the actions they have undertaken or are undertaking in the ESG (Environmental, Social and Governance) area to ensure compliance. In the same vein the work undertaken by the Macquarie Foundation must be applauded.

Macquarie lost a number of wealth advisors when commissions were phased out and replaced by fixed remuneration and profit share. The Wealth Management Division which is now part of the Banking and Financial Services Group is focussing on efforts to increase fund flows into wrap accounts and to cater to High Net Worth clients' requirements in private banking including lending, investment advice and funds management.

After re-entering the mortgage lending market a few years ago, despite insisting on tighter loan to valuations than others, and not lending in certain postal codes, the business has grown very strongly. Macquarie currently has lower defaults than the rest of the industry.

As has been reported, Macquarie is a party to a German investigation into a widespread alleged tax fraud. The Company has supplied all the information requested and has made provision to cover any possible fallout from the investigation.

The major executive change during the year was the planned resignation of CEO Nicholas Moore and the appointment of long-time Macquarie executive and former head of Macquarie Asset Management, Shemara Wikramanayake as his successor. According to all reports this has been a seamless transition.

Macquarie Group is a very complex financial institution so it is understandable that it would take auditors time to get a good understanding of its business, but having the same firm for 15 years raises a number of governance questions. Obviously PwC and its network firms would be loath to lose the \$38.3 million that they receive for both audit and non-audit work.

### **Summary**

(As at FYE)	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
NPAT (\$m)	2,982	2,557	2,217	2,063	1,604
Share price (\$)	129.4	102.9	90.2	66.1	76.7
Dividend (cents)	575	525	470	400	330
TSR (%)	32.8	21.3	46.0	-9.2	40
EPS (cents)	883.3	758.2	657.6	619.2	502.3
CEO total remuneration, actual (\$m)	19.76	23.34	24.88	26.78	16.90

For 2019, the CEO's total actual remuneration was **228 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2018 data from the Australian Bureau of Statistics).

Note - For November 2018, the Full-time adult average weekly total earnings (annualised) was \$86,642 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings").

<b>Item 2a</b>	<b>Re-election of Mr M.J. Hawker as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Mr Hawker has been a Director of Macquarie Group since March 2010 and currently chairs both the Remuneration and Risk Committees. He brings to the board expertise in the financial services industry as well as deep risk management experience.

Mr Hawker is a Non-Executive Director of the BUPA Global Board UK and the BUPA ANZ Group, the Lead Independent Director of Washington H. Soul Pattinson and Company Limited, and a Non-Executive Director of Rugby World Cup Limited. He is also a board member of the Museum of Contemporary Art Australia.

Mr Hawker demonstrates his alignment with shareholders' interests by his holding 11,415 shares valued at \$1,491,027 as at 31 March 2019. This represents 3.3 times the value of his annual Directors fees. ASA will vote its undirected proxies in favour of his election.

<b>Item 2b</b>	<b>Re-election of Mr MJ Coleman as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Mr Coleman has been a Director of Macquarie Group since 2012 and is currently Chair of the Audit Committee. He brings to the board comprehensive experience in financial regulatory reporting in Australia and overseas, combined with expertise in audit and assurance.

Mr Coleman is Chair of Bingo Industries Limited, an Adjunct Professor at the Australian School of Business at the University of New South Wales and Chair of Planet Ark Environmental Foundation

Mr Coleman demonstrates his alignment with shareholders' interests by his holding 8,436 shares valued at \$1,101,910 as at 31 March 2019 which represents 2.7 times the value his annual director fees. ASA will vote its undirected proxies in his favour.

<b>Item 2c</b>	<b>Election of Mr PM Coffey as a Director</b>
<b>ASA Vote</b>	<b>Undecided</b>

### Summary of ASA Position

Mr Coffey was appointed to the board shortly after the last AGM, so has sat for almost a full year without being elected by shareholders.

Mr Coffey was in senior executive roles with Westpac for a number of years, culminating in being deputy CEO for 3 years. It is thought his extensive experience in financial markets, funds management, balance sheet management and risk management will assist the board.

His shareholding of 8,239 shares valued at \$1,076,178 as at 31 March 2019 represents 3.55 times the value of his annual director fees aligns him with shareholders' interests. However, we are unsure what extra expertise he brings to the board and will be most interested in hearing him speak at the AGM. Additionally ASA will want to hear what lessons he has learned from ASIC's criticism of Westpac when he was deputy CEO and the other problems with the advice wealth customers received when he was in this senior role.

<b>Item 2d</b>	<b>Election of Ms JR Broadbent as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Ms Broadbent was appointed to the board in November 2018. She has extensive investment banking industry knowledge and markets expertise, including a deep knowledge of risk management and regulation in these areas. She also has considerable executive management and listed company board experience. Ms Broadbent spent 22 years at Bankers Trust Australia until 1998, Ms Broadbent was also a Member of the Reserve Bank of Australia Board between 1998 and 2013 and has previously served as Chair of the Board of Clean Energy Finance Corporation (CEFC), and as a director of ASX Limited, SBS, Coca Cola Amatil, Woodside Petroleum, Qantas and Westfield Management Ltd.

Ms. Broadbent is currently a director of Woolworths Group Limited, Chairman of Swiss Re Life & Health Australia and Chancellor of the University of Wollongong.

Ms Broadbent's alignment with shareholders is demonstrated by the 4,000 shares she has already purchased. This holding was valued at \$522,480 as at 31 March 2019, representing 1.7 times her annual Directors fees. ASA will vote undirected proxies in her favour.

<b>Item 3</b>	<b>Adoption of Remuneration Report</b>
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

Macquarie has a unique profit share system that seem to work well but could be more transparent.

Macquarie follows a remuneration system different from virtually all other ASX-listed companies. Compared to other similar sized companies there is comparatively low fixed annual remuneration (FAR) (eg CEO \$722,632) and for all but a small handful of senior executives the remainder totally comes from a bottom-up annual profit share which all employees participate in. A portion of this profit share is paid immediately in cash and depending on your position the remainder - up to 80% in the case of the CEO - is paid in equity over 3 to 7 years. The Company provides specific information as to the key factors that contributed to the profit share for the 13 most senior employees.

The awarded profit share for all the executive key management personal (KMP) was \$A134 million but what was the available total company wide profit share?

There is a good general description of how the profit share is calculated, but we know that not all the profit share was allocated, why?

It could be speculated that it is because a sizeable portion of Macquarie's business has become an annuity style which doesn't deserve the same hefty bonuses. Is this the only reason?

Then there is the Profit Share Units (PSUs) allocation which because of the strong share price have become a more substantial part of the remuneration package. The PSUs "provide an additional incentive to Executive Committee members to drive company-wide performance over the long term." The PSUs have two seemingly good hurdles i.e. earnings-per-share compound average growth rate (EPS CAGR) and comparative return on equity (ROE). However, because these hurdles are met year after year isn't it past time that they should be re-examined?

Then there is the outmoded "Fair Value" measurement of PSUs which virtually every other ASX 200 company has discarded as meaningless. Macquarie, at the request of ASA and others, now shows the "Fair Value" and Face or Actual value of all PSU'S, so you see that the CEO will be awarded PSUs based on a "Fair Value" of \$2,550,000 or \$4,133,804 at face value. The ASA asks why bother with the continued usage of "Fair Value, make it simple and clear just base the value on \$4m actual?

Macquarie spends a great deal of time quite rightly explaining in the Annual Report how their remuneration is fair and proper and relates to the company's performance. So why not go the full transparency route and tell shareholders how much the CEO actually takes home. Simply print the actual take-home amount and explain the reason people may think it is high but it is because of Macquarie's good financial performance and resulting strong share price.

Up until last year the ASA voted for Macquarie's remuneration report, but advised that unless it became more transparent we would cease doing so - hence last year we voted against it.

For many reasons we would like to vote for this remuneration report as Macquarie is a very successful company, but the reasons we voted against it last year are all still in place, i.e. the continued reluctance to report actual remuneration; the use of fair value to calculate allocation of PSUs; and the lack of more disclosure on an uncommon remuneration structure.

<b>Item 4</b>	<b>Approval of Managing Director's participation in the Macquarie Group Employee Retained Equity Plan (MEREP)</b>
<b>ASA Vote</b>	<b>Against</b>

#### **Summary of ASA Position**

This resolution is for the issue of \$7.96 million of retained profit share as restricted share units vesting over 7 years and \$4,133,875 million (Fair Value \$2.25 million) worth of PSUs vesting in 3 and 4 years provided the EPS CAGR and comparative ROE hurdles are achieved.

Although we are in favour of the CEO being able to participate in both the restricted Share Units and Performance Share Units, because the group persists in using a Fair Value calculation and the other non-transparent factors that caused us to vote against the remuneration report we must cast our undirected proxies against this resolution.

<b>Item 5</b>	<b>To increase the maximum aggregate annual Non-Executive Director remuneration</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Macquarie is taking welcome but unusual step of temporarily increasing the board by two people as they are aware that two current directors will step down in the next year thus allowing an opportunity for an orderly transition.

Although Macquarie is currently spending about \$4 million on director entitlements, and the shareholder-approved fee pool is \$4.6 million, the increase to \$5 million gives them the needed headroom for the additional directors.

ASA has been assured that this already large board will not be increased permanently and over the next couple of years will reduce back to its current number of members. In addition, although there will be a small increase in individual director remuneration in the current year this enlarged cap will not be used for a substantial increase next year.

<b>Item 6</b>	<b>Approval of the issue of Macquarie Group Capital Notes 4</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

The issuing of Macquarie Group Capital Notes 4 can be made without breaching the 15% limit on placement capacity without shareholder approval. However, seeking this approval will refresh that 15% capacity.

An individual (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

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