



Saracen has a year of sustained growth as a “mid-tier” gold producer

Company/ASX Code	Saracen Mineral Holdings (SAR)
AGM date	Tuesday, November 19, 2019 (notice given on 18/10/2019)
Time and location	12.00 pm, Duxton Hotel 1 St Georges Terrace, Perth WA 6000, Australia
Registry	Computershare Investor Services
Webcast	No
Poll or show of hands	Poll on all items
Monitor	David F Brooke
Pre AGM Meeting?	Yes

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

SAR had a successful year benefiting from a rising gold price to around A\$2,200/oz (per ounce) with 355,077ozs production as a well-managed operation throughout the year. All in Sustaining Costs (AISC) have been maintained at a competitive A\$1,030/oz (reducing to A\$993/oz in the last quarter); which was underpinned by increased mill production and higher grade ore (primarily at Carosue Dam). Guidance is that AISC will remain in the range of A\$1,025 to \$1,070/oz range during FY19 (financial year 2019).

Strong performance supports an ambitious A\$50m exploration programme around its two locations (Thunderbox - 2.5mt/yr (million tonnes/year) and Carosue Dam - 2.4mt/yr - increasing to 3.2mt in FY20 ore processing capacity respectively) to improve reserves (including replacement of reserve depletion). During the current year reserves have increased (after discounting FY18 production) by 32% to 3.3moz.

SAR has a rolling debt facility of A\$45m (with an additional A\$105m possible). Cash and equities at end of year (EoY) were A\$154.5m which grew to A\$196.1m by 30 September (A\$16.2m of this growth was growth of equities which were A\$41.7m on 30 September) giving the company flexibility to fund possible acquisitions and/or support planned capex and exploration. During FY19, SAR had an ambitious capital programme of A\$198.8m funded from a Free Cash Flow (FCF) of A\$227m over the period. Net cash flow is now running at A\$25.3m/quarter; however, by the end of this quarter spot gold price has risen by 28% from the SAR FY18 average realized gold price of A\$1,726/oz. Hedging has now much improved to A\$1,874/oz for 377kcozs (kilo ounces) on 30 September 2019 up from A\$1,743/oz for 276kcozs at EoY FY18 due to this recent price increase.

A current Price-Earnings (P/E) ratio of 22.57 indicates that market expectations are high which is supported by the company recently foreshadowing that it will be paying a maiden dividend of between 20% and 40% of net profit after tax (NPAT) during FY20.

Summary

(As at FYE)	2019	2018	2017	2016
NPAT (\$m)	92.5	75.6	28.4	25.9
Share price (\$)	3.68	2.19	1.17	1.44
Dividend (cents)	0	0	0	0
TSR (%)	68	87.2	-18.8	234.8
EPS (cents)	11.1	9.2	3.5	3.2
CEO total remuneration, actual (\$m)	1.9	1.9	9.5	0.8

For FY19, the CEO's total actual paid remuneration was **21.6** times the Australian Full time Adult Average Weekly Total Earnings (based on A\$88,145 May 2019 data from the Australian Bureau of Statistics).

The company and its employees contribute positively to local culture, education, environment and maintain positive engagement with the communities it operates within. One such notable investment is a 1Mw solar plant currently being installed at Carosue Dam accommodation village.

ASA focus issues

a) Board composition/director skills:

SAR has assessed the skills of its board on a skills matrix which is included in its annual report. The annual report and Notice of Meeting outline the skills and experience of each director and key management personnel (KMP). The SAR board has one (16.7%) female director on the board and ASA guidelines prefer gender diversity to extend to at least 30% of the board being represented by women. The mining industry has a historic shortage of appointing female board members and ASA would suggest that the company look at other mining organisations such as South32, Fortescue Metals Group and BHP Billiton as viable examples of setting up diverse and sustainable boards. As of 30 June 2019, SAR's female participation was 18.0% in comparison to the industry average of 16.7%.

b) Remuneration disclosure: The SAR remuneration report contains details of their scheme which received shareholder approval in 2017. LTI's have long term hurdles but are paid over 3 years, and face value is used to calculate the number of rights allocated under the grants.

The remuneration report would be improved by inclusion of actual remuneration for its KMP's.

Skin in the game: SAR has taken "skin in the game" seriously with regard to its staff who it encourages to have shares in the company and "think and act like owners", however SAR does not have mandatory shareholdings for KMP's and directors. In September the CEO sold 1m shares to meet personal taxation obligations arising from the vesting of his FY17 performance rights and other personal commitments. The CEO currently holds 3.2m shares. Three other directors (currently 6 on the board) hold shares (M Read – 35,000) and the chair (Mr Kiernan) who purchased 40,000 shares immediately after assuming the position in September 2018; Ms Tough only owns 1,718 shares. The only KMP who purchased shares is Mr Ball (45,000), however 5,496,000 performance shares remain unvested by the top three KMP's.

The ASA considers that directors could provide an example to its staff by meeting ASA guidelines for skin in the game and building their shareholdings to equivalent or in excess of one year's fees within one term or three years of their being appointed to the board.

c) Shareholder participation: SAR is largely compliant to ASA policies in this area, SAR keeps shareholders well informed, however inclusion of listed assets in announcements without separately identifying them can lead to confusion.

d)

Item 2	Election of JOHN RICHARDS as a Director
ASA Vote	For

Summary of ASA Position

Mr Richards was appointed on 1 May 2019 and is now seeking election as a director. The gold mining industry is experiencing some degree of consolidation and as such a director on the board with direct experience is of value whether SAR is the acquirer or the target. Mr Richards being from the resources sector is a complement to the board's skills matrix. Mr Richards is a member of the Remuneration and Nominations Committee.

Item 3	Re-election of MARTIN REED as a Director
ASA Vote	For

Summary of ASA Position

Mr Reed has been a member of the board since August 2012. As a mining engineer, he provides an independent view to the board on SAR's business. Mr Reed also has overseas experience which is important in providing a pragmatic view of cultural issues inherent in overseas prospects and pragmatic view of sovereign risk should SAR consider overseas prospects. Mr Reed is a member of the Risk Management & Sustainability Committee, Exploration & Growth Committee and Audit Committee.

Mr Reed's shareholdings at this point come to just a little under his annual remuneration as a NED. ASA would advise Mr Reed to build his shareholdings further to fully align himself with shareholder interests.

Item 4	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

The current SAR remuneration scheme was approved by shareholders at the 2017 AGM.

The company's incentive plan is not compliant with ASA guidelines; however the company has adopted a number of ASA suggestions and has indicated a willingness to consider further evolution. Past discussions with SAR assure us that unsatisfactory performance against short-term incentive (STI) personal performance goals do result in reduced (or no) awards. We note that the SAR peer group for long-term incentives (LTIs) appears representative and criteria are all quantifiable measures have a relevance shareholder interests. In the future we would prefer a peer group such as the Van Eck (GDXJ) junior gold miners index was adopted, since this is independent of the company and also representative of the sector.

Disputed remuneration issues from 2017 were:

- a) LTI performance shares still vest over a three-year period rather than our preferred four years, although we note that new incentives to the CEO are now structured in 3 tranches which average out to 4 years;
- b) We consider there should be no out-performance bonuses paid if shareholders experience negative total shareholder return (TSR) in nominal terms over the performance period. We note that awards are subject to the Board's discretion;
- c) Although award grants are based upon market value the annual report presentation of remuneration in terms of "fair value" confuses many retail shareholders – this is a legal requirement but communication could be made more digestible. Whilst we understand that statutory declaration must be observed we also consider that realised pay in terms of market value at the time of vesting should be disclosed. The company indicated a willingness to adopt ASA suggestions in this regard for forthcoming years;

STIs

STI's are all paid in cash; we consider that greater shareholder alignment is obtained by a mixture of shares and cash with vesting in two tranches over a 2-year period with a holding lock on the second year.

LTI's

- a) We note that for the performance period commencing FY19, that the absolute share price has been added to the LTI's but these are still measured over a three year period;
- b) LTI performance shares still vest over a three year period rather than our preferred 4 years, none of these shares appear to be in escrow after vesting (we prefer released from escrow over a further 2 years) but we note that they are subject to the Company's Trading Policy including restriction to employee trading in "blackout" periods;
- c) As stated above that the new tranche of performance shares offered to the CEO average a 4-year period; it is hoped that a similar standard will in the future be adopted for all LTI's.
- d) We would like to see a hurdle in the plan which withheld all performance rights should growth be negative.

ASA policy is that performance shares should be purchased on market and not issued pursuant to ASX listing rule 7.1, however the principles adopted by the company in its employee "think and act like owners" incentive scheme is constructive.

Item 5	ISSUE OF PERFORMANCE RIGHTS TO MR RALEIGH FINLAYSON
ASA Vote	For

Summary of ASA Position

The ASA recognises that Mr Finlayson leadership has been a central element in the transformation of the company and as such he should be appropriately rewarded. The ASA accepts that the current award is in line with industry practice we note that Mr Finlayson's performance rights are awarded in tranches over a 3- to 5-year performance period. Whilst the ASA would prefer that all the allocated performance rights were over a 4-year period we understand that this is uncommon in the gold mining industry. The ASA would like to see a hurdle in the plan which withheld all performance rights should growth be negative.

Item 6	NON-EXECUTIVE DIRECTORS' REMUNERATION CAP
ASA Vote	For

Summary of ASA Position

With a board of six directors including five NED the proposed cap appears reasonable. We note the new fee cap of \$1.2m is in keeping with a number of companies of similar market capitalisation (as measured in FY18). Increasing the remuneration cap also provides the board with the ability to appoint a new board member. ASA would prefer that this opportunity be used to address gender diversity requirements and strengthen board sustainability. ASA would also prefer that some of these director's fees were paid as performance shares to align the board with shareholders and provide credibility to the "thinking and acting like owners" scheme.

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

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