

Shopping centres and their future

Company/ASX Code	Scentre Group Limited (SCG)
AGM date	Wednesday 8 April 2020
Time and location	10.00am AEST online
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	David Jackson assisted by John Cowling
Pre AGM Meeting?	With Chairman Brian Schwartz, Andrew Harnos and others via teleconference

Please note any potential conflict as follows: The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

In light of the Covid-19 pandemic meeting restrictions, the Company will be permitting securityholders to participate in the AGM online either from their computer or mobile device. Attending the meeting online will enable securityholders to participate in the AGM and to ask questions and cast their vote at the appropriate times while the meeting is in progress.

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

Summary of ASA Position

Given the COVID 19 epidemic the historical analysis of the Scentre Group (previously a major part of Westfield international group) is of limited value. Nevertheless it is useful to review its performance as there are some noteworthy trends and observations that can be made.

As can be seen from the table of financial indicators below 2019 was, based upon the Funds from Operations (FFO) that excludes many items including property valuations, a flat year. The NPAT, however, shows quite a different story, a massive 48.6% decline in the year. The major contributor was property revaluations in 2018. This saw a write up of property by \$1,148m in 2018 and in 2019 a write down of \$152m (over the five years the revaluations amounted to an uplift of \$7.3bn). Executives are rewarded on underlying profit (funds from operations (FFO) in this case) not statutory net profit after tax (NPAT). Given the poor results of many retailers over the years the independent revaluation upwards of Westfield properties over the years are of concern. It is clear to many customers that retail shopping centres, particularly those with large consumer/discretionary outlets are declining in popularity and have been for a number of years. Australia is following the trend well

established in USA and UK. The poor results of David Jones and Myers, major tenants of Scentre, plus the closure of many clothing stores and brands confirms the downward trend. This suggests that a downward revaluation of Scentre properties is the likely future outcome, and then there is the impact of COVID 19.

Other key matters of interest was the sale of the Sydney Office Towers and 50% interest in Westfield Burwood for \$1877m. This covered the dividend distribution of \$1,187m and share buyback \$304m with the balance enabling the net cash flow to remain positive.

Share price at YE continues to decline and the dividend slightly increased.

On positive note the TSR ratio has improved this year to a positive 4% from the negatives of the previous two years, however this is not a measure used by the company for executive remuneration purposes and is heavily influenced by any revaluation.

The 2019 Results Overview is sparse on p.2 of the Annual Report and needs to be enhanced.

Skin in the game: Some directors need to top up their holdings to meet the one year's fees criterion.

Gender diversity of the Board with two out of the eight, female from this year with retirement of Aliza Knox and expected appointment of Michael Wilkins, has declined.

In terms of Boards skills there is a grave shortage of retail experience with only one NED, with accounting skills, with experience of a retail business (Coca Cola) and that is not closely related to the Westfield business.

Below under Item Remuneration Report there is a more detailed analysis but suffice it to say the bonus' paid in cash and equity grants are hard to justify given the company's results.

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	1180	2296	4231	3022	2730
Funds from Ops (FFO)\$m	1345	1340	1290	1238	1199
Share price (\$)	3.83	3.90	4.19	4.64	4.19
Dividend (cents)	22.60	22.16	21.73	21.30	20.90
TSR (%)	4.0	(1.6)	(4.2)	15.8	25.7
FFO per share (cents)	25.42	25.24	24.29	23.30	22.58
CEO total remuneration, actual (\$m)	7.5	9.2	8.9	7.1	18.2

For 2019, the CEO's total actual remuneration was 87 **times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Note - For November 2019, the Full-time adult average weekly total earnings (annualised) was \$86,252.40 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings", Trend(a)).

Item 2	Adoption of the Remuneration report
ASA Vote	Against

Summary of ASA Position

CEO Rem. framework	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.0	22.5%
STI - Cash	2.1	23.6%
STI - Equity	0.9	10.1%
LTI	3.9	43.8%
Total	8.9	100%

*This company does not appear to have a Target remuneration

Share grants -calculation of allocation is based upon Face Value

The CEO's total remuneration opportunity is \$8.9m (including the 25% uplift of the grant).

Extracting this information was not easy and it is suggested that the Remuneration Report be reviewed by the Board and simplified.

Given the outcomes the ASA will continue to press for significant changes to the executive remuneration structure as follows:-

LTAR - Long term incentive - The 155% plus 25% uplift of FR to be reduced and the measurement period to be extended from the current 3 years for 50% and 4 years for 50% to 4 & 5 years respectively. Also the hurdles to be more challenging as 90% appear to vest when the company results are flat and share price declining.

STAR - Short term incentive - The 150% of FR is too high and the split between Cash 70% and Equity 30% should be 50/50.

Item 3 & 4	Election of Directors
ASA Vote	For - Andrew Harmos and Michael Wilkins

Summary of ASA Position

Andrew Harmos first appointed 2014, he is Chairman of the Group's Human Resources committee and member of the Nominations committee. He holds a Bachelor of Commerce and Bachelor of Laws degree. He is also a director of AMP. He has experience in the insurance industry and is a specialist in an Auckland based legal advisory, structuring and takeover advice firm. Although we will be recommending a vote for his reappointment a case can be made for someone with retail/marketing experience and ideally female. The independent directors are lawyers and accountants with no working experience in retail.

Michael Wilkins -Standing for election to fill a vacancy to replace Aliza Knox . Although highly regarded in the finance, and particularly the insurance industry, an opportunity has been missed to appoint a female NED to replace Aliza, with retail/marketing skills and experience.

Item 5	Approval of grant of performance rights to CEO - Peter Allen
ASA Vote	Against

Summary of ASA Position

As the ASA is recommending a voting against the remuneration report it is also recommending an against vote for grant of performance rights.

Item 6	Approval to change terms of the grant of 2019 performance rights to CEO/Managing Director Peter Allen
ASA Vote	For

Summary of ASA Position

The ASA is reluctantly recommending a For vote as there was no Development in the year leaving just the one LTAR hurdle ROCE.

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