Australian Shareholders' Association

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Saracen becomes top all WA gold producer

Company/ASX Code	Saracen Mineral Holdings (SAR)
AGM date	Tuesday 6 October 2020 (notice given on 4 September 2020)
Time and location	10.00 am – virtual meeting on https://web.lumiagm.com/387740777
Registry	Computershare Investor Services Pty, Ltd
Webcast	Yes – online only via Lumi AGM App
Poll or show of hands	Poll on all items
Monitor	David F Brooke
Pre AGM Meeting?	Yes

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

Summary of ASA Position

SAR is a well-managed gold producer with all its three mines (Thunderbox, Carosue Dam & Kalgoorlie Superpit) all within 300km in Western Australia. FY19/20 has been another successful year with benefits arising from both rising production and gold price. Gold sales averaged A$2,148/ozs (24% yoy increase) and production was 520,414 ozs (47% yoy increase). Production growth was primarily driven by acquisition (November 2019) of Barrick gold's 50% interest in the Kalgoorlie Superpit (KCGM), however an easily accessed ore seam at their Thunderbox mine (ASIC A$731/ozs) has also made a significant contribution to both production and the group's low All In Sustaining Costs (AISC) of A$1010/ozs despite a KCGM ASIC of A$1,399/oz (Carosue Dam A$1,263/ozs). Guidance[1] shows that AISC will increase to A$1,300 to A$1,400 range during FY21 as easily accessible ore at Thunderbox is exhausted, however increasing ore processing capacity will gradually come on stream to support earnings provided the gold price remains buoyant.

Growing production anticipates capital investment of A$429m[2] gross (A$264m (net)) supported by A$55m exploration with the goal of increasing group annual production to 700,000ozs in FY24 to 800,000ozs by FY27. Most increased production after FY23 is expected to come from KGCM as the East Wall of the mine is remediated and further ore sources exploited, although the refractory nature of KCGM ore implies that ASIC will remain high.

At EoY SAR had cash of A$369m and debt of A$321.5m, resulting from the KGCM acquisition in November 2019 when SAR increased debt to A$500m. The balance for the purchase was raised as equity with a placement (A$369m) and a 1 for 5.75 rights issue (A$427m). The company is to be congratulated for offering 53.6% of the equity to all shareholders as a rights issue, which whilst below ASA's aspirations, is more generous than their peers.

Annual net cash flow is now running at A$478.2m; driven by increased revenue of 93% over the year, producing an NPAT of A$189.7m (105% yoy). Hedging of 377kozs at an average price of A$1,874/ozs on 30 September 2019 increased to 493,200 ozs at an average price of A$2,094/oz at EoY; in line with the company's policy of 1 year's production over a three year period. Traditionally SAR has been a company that has under promised and overachieved; this has now become an investor expectation who could overreact should targets not to be surpassed.

[1] Saracen Corporate Presentation – September 2020 – There's nothing like Australian Gold

[2] FY21 gross capital guidance of A$429m includes A$165m from gold sales (@A$2,500/ozs) relating to pre-commercial activities as per Saracen Quarterly Report 18 August 2020

In 2019 the company foreshadowed a maiden dividend of between 20% and 40% of NPAT; this was postponed due to the KGCM transaction but remains policy for a when the company has a cash balance of A$150m.

Summary

(As at FYE)	**2020**	**2019**	**2018**	**2017**	**2016**
NPAT ($m)	189.7	92.5	75.6	28.4	25.9
Share price ($)	5.42	3.68	2.19	1.17	1.44
Dividend (cents)	0	0	0	0	0
TSR (%)	50.2	68	87.2	-18.8	234.8
EPS (cents)	19.1	11.1	9.2	3.5	3.2
CEO total remuneration ($m)	1.6	0.871	1.9	9.5	0.8

The CEO remuneration include the market value for 185,000 performance rights (at $3.52/share) that vested on 1st July 2019. For FY20, the CEO's total actual paid remuneration was 17.4 times the Australian Full time Adult Average Weekly Total Earnings (based on A$$91,983 May 2020 data from the Australian Bureau of Statistics).

The company and its employees are to be commended for its positive contribution to local culture, education, environment, and social engagement to the communities it operates within.

ASA focus issues

a) **Directors and Board**:

SAR has assessed the skills of its board on a skills matrix which is included in its annual report. The annual report and NoM outline the skills and experience of each director and KMP. With the addition of Ms Langer, SAR's board now has two (33.3%) female directors; the mining industry has a historic shortage of suitably qualified females. As of July 2020, SAR's female participation was 18.3% in comparison to the industry average of 17%

b) **Remuneration, Culture and Performance**: The SAR NoM (schedule 1) contains a summary of their LTI scheme which received shareholder approval in 2017; only minor adjustments have been made since. LTI's have long term hurdles but are paid over 3 years, 30 days VWAP at 30 June of the grant year is used to assess the amount.

SAR is not compliant to ASA guidelines regarding publication of remuneration on both a statutory and actual basis for its KMP's, however awards are published from which the vested grant value can be calculated.

Skin in the game: SAR has taken "skin in the game" seriously in regard to its staff who are encouraged to have shares in the company with a company motto of "*thinking and acting like owners*". The board has also implemented a salary sacrifice scheme for directors who now each take up to A$40,000 of their fees in shares (we also understand that directors have elected to leave these shares in escrow for 18 to 48 months); this plan starts in FY21 but we note that four directors have separately elected to purchase shares in the current year.

The SAR annual report outlines the considerable community support it provides to local charities, education, and the current pandemic.

The company sets out in its 2020 sustainability report the contribution it is making to sustainability issues, including a solar farm to supply power to its Carosue Dam mine.

c) **Risk management**:

The company has a prudent gold hedging policy of one third of production over a 3-year period. Other risks have been managed by dealing with reputable banks and suppliers. The company has prudently managed the current pandemic with 95.6% of its workforce and all its mines being in WA and "contingency" ore stockpiles however the company has been fortunate in that WA has not had community transmission since April 2020.

d) **Shareholder participation**: SAR is largely compliant to ASA policies is this area, SAR keeps shareholders well informed.

Preliminary Item	To receive and consider 2020 Annual Report

No vote required

Resolution 1	Election of Director – Ms Sally Langer
ASA Vote	For

Summary of ASA Position

Ms Langer's was appointed in May 2020; her experience in recruitment and human resources should be valuable in steering the company through the restrictions now imposed by COVID-19 and thereafter. She will also be a useful adviser to the company, which is now of a size where ESG matter are becoming increasingly important and engagement with local cultural interests is necessary. She also offers additional gender balance to the board and will no doubt attempt to advance gender diversity in an industry where females have been underrepresented. The board skills matrix shows that additional board presence on culture, human resources and ESG issues is desirable. We understand (resolution 7) that Ms Langer has elected to partake in the board salary sacrifice scheme.

Resolution 2	Re-Election of Director – Dr Roric Smith
ASA Vote	For

Summary of ASA Position

Dr Smith was elected in 2017 and is also a director of Sandfire Resources. He has previously been a director of several private companies and been employed in senior roles in Evolution mining and Anglo Gold Ashanti. As a geologist he can assess and provide independent advice to the board on the value and potential of the company's resources and reserves. Since the company regards as a selling point the value of assets in tier 1 jurisdictions, he can also advise the board on the relative merits of expanding existing sites, M&A activity both interstate and in overseas jurisdictions. Dr Smith is chair of the Exploration and Growth Committee and a member of the Risk and Sustainability Committee. We note that Mr Smith has not only elected to be in the company's share sacrifice scheme but has also acquired 12,972 shares during FY20.

Resolution 3	Re-Election of Director – Ms Samantha Tough
ASA Vote	For

Summary of ASA Position

Ms Tough was appointed by the board as a non-executive director in October 2013. She is chair of the People and Culture committee and a member of the risk and sustainability committee. She is a useful presence on the board regarding ESG matters which have become increasingly important as the company grows and investors become increasingly concerned about ethical and cultural issues and the company's social licence to operate. She also has over 20 years' experience at board level in the resources and energy sectors and has a legal education. We note that Ms Tough has not only elected to be in the company's share sacrifice scheme but has also added 1,000 shares to her holding during FY20. Ms Tough also provides gender balance to the board.

Resolution 4	Consideration of Remuneration Report
ASA Vote	**For**

Summary of ASA Position

CEO rem. Framework	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	0.657	26%	0.657	25.5%
STI – Cash	0.276	11%	0.328	32.8%
STI – Equity	0	0%	0	0%
LTI	1.586	63%	1.586	61.7%
Total	2.519		2.571	

The amounts in the table above are the statutory amounts from the remuneration scheme.

NED fees have been increased by 17% (12% for Chairman) from those set in 2016; the new levels are comparable to other gold miners.

The STI is all paid in cash; at target, 50% of Fixed Annual Remuneration (FAR). From FY21 an additional 50% stretch target is introduced for KMP making the CEO's maximum STI as 100% of FAR and 75% for other KMP.

Corporate KPI's are the typical hurdles of: safety (20%), financial (ASIC – 25%, cash balance 10%), operational (production -25%, plan achievement -10%) and sustainability performance (10%). FY20 STI awards did not include KGCM operations which were acquired during FY20 and that the board considered there was room for improvement in safety, environment, and plan delivery.

An improvement introduced during FY20 was that thresholds need to be achieved for any STI's to be paid; ASA also prefers that STI's are payed with at least half issued as deferred equity in the subsequent year; this would challenge a frequent perception that STI's are part of FAR.

LTI is awarded as Performance Rights, with awards based equally (25% each) on relative total shareholder return (RTSR), compared to a selected peer group some of whom have overseas and start-up operations (the group has been changed for FY21 but the new group still has the same characteristics), reserve replacement, share price and earning per share (EPS). Awards are only made if employment is continuous from grant to vesting, although the board has discretion on partial awards.

The RTSR component is only paid if at least 50% of the peer group at which 50% of this element of the award vests. Vesting is then proportionally thereafter to the 75th percentile at which threshold 100% vests. These hurdles are not challenging for a successful company, as when 25% of peers outperform the company, the LTI award is paid at 100%. In ASA's view the 100% award threshold should be higher. The reserves replacement component is paid at 50% when depletion is replaced and 100% when reserves increase by 20%. For a successful company to stay in business, reserves must be successively replaced, or the mine consumes all reserves then shuts down. Reserves are replaced by exploration and by acquisition; both methods have been used by SAR in FY20; the KCGM acquisition added enormously to gold reserves. The number of potential Performance Rights are correctly calculated based on the share price, but still with only a three-year performance period. While the total quantum of remuneration is comparable to peers, with STI all in cash, which with stretch double for FY21 and LTI thresholds insufficiently challenging we consider hurdles should be increase in future.

Resolution 5	Approval of the Company’s Long-Term Incentive Plan
ASA Vote	**Against**

Summary of ASA Position

The current SAR remuneration scheme was approved by shareholders at the 2017 AGM and is not compliant with ASA guidelines. Comment is made in resolution 4 above which reflect our views on the future need to increase LTI hurdles and measures proposed for awarding of the doubling of the STI award with a stretch component.

Last year we felt that we were making progress in consultations with the company who indicated that they may be revising their scheme and, in this context, may consider some of our proposals. We note that the company has engaged a consultant to comment on the 2017 incentive scheme, however the structure is largely unchanged, the main changes are to performance measures and a minimum threshold which appear appropriate. We see as an improvement that performance rights may not vest on a change of control and that employment must be continuous from grant to vesting.

We note that in view of the fatality of July 2020 the board has decided to allocate a 0% TRIFR (which has a 20% weight in the STI) for FY21; we consider this appropriate for FY21.

We note that the FY20 and FY21 peer groups contain companies who are untypical of SAR (one delisted in May 2020), some have extensive or are exclusively overseas operations, we would prefer the third-party peer group was a weighted combination of the GDX and GDXJ ETF’s who undergo independent quarterly rebalance.

Share price represents 25% of the LTI; in view of the company’s postponement of a dividend (which we feel was justified) and capital raisings we would prefer a measure such as absolute Total Shareholder Return (TSR); we also consider that a positive TSR should be hurdle for any LTI’s.

After last year’s consultations we had hoped that the company would provide a table which included the market value of performance shares that had vested during the year for the CEO and KMP as well as fulfil statutory requirements; we still hope that such a table can be provided in the interests of transparency for future years.

ASA’s guideline is that all shares for incentive plans should be purchased on market and not dilute shareholders. This motion allows 10m performance rights over 3 years to be additional to the 15% discretionary allocation imposed by ASX rule 7.1 thus further diluting existing shareholders.

We note that the escrow policy for NED’s performance rights has not been adopted for KMP’s. ASA would like to see a hurdle in the plan which withheld all performance rights should growth be negative.

Resolution 6	Issue of Performance Rights to Mr Raleigh Finlayson
ASA Vote	**For**

Summary of ASA Position

This resolution provides Mr Finlayson with an LTI award of 181,100 performance rights which vest over 3 years and are weighted evenly over four parameters (Relative TSR, share price, ROCE and growth (50% ore reserves and 50% production)); there is no holding lock.

The ASA recognises the leadership role of Mr Finlayson which has been a central element in the transformation of the company and as such he should be appropriately rewarded. However, a previous award was in increments over 3 years with a 3-year vesting period, thus encouraging long term performance. Whilst the ASA would prefer that all the allocated performance rights were over a 4-year period with a 2-year lock, however we understand that this is uncommon in the gold mining industry.

Resolution 7	Issue of Share Right to Ms Sally Langer
ASA Vote	For

Summary of ASA Position

This is simply extending the current directors share sacrifice scheme to a new director

Resolution 8	Approval of Termination Benefits
ASA Vote	For

Summary of ASA Position

As stated in the NoM ASX rule 10.19 requires that termination payments cannot exceed 5% which currently places a cap of approximately A$78m on such payments; we understand that the company does not expect to exceed the 5% cap.

However, the Corporations Act s200B & 200E and the exemptions in s200F are more applicable, being retirement benefit doesn't exceed 12 months base pay. Saracen has presented a valuation of the potential retirement benefit prepared by an independent actuary of $848,000, which exceeds Fixed Remuneration of $657,000.

We will support this resolution and commend the company for providing more detailed information than is often the case.