Australian Shareholders' Association
Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, Level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235
t (02) 9252 4244 | f (02) 9071 9877
e share@asa.asn.au

Scentre Group adds some sparkle to the retail experience

Company/ASX Code	**Scentre Group Limited (SCG)**
AGM date	**4 April 2019**
Time and location	10.00am Wesley Conference Centre, Lower Ground Floor, 220 Pitt Street, Sydney
Registry	Computershare Investor Services
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	John Nesbitt, assisted by Pamela Murray-Jones
Pre-AGM Meeting	Yes, with Chair Brian Schwartz, COO Greg Miles and Company Secretary Maureen McGrath

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

Financial performance including dividends and shareholder returns

(As at FYE)	**2018**	**2017**	**2016**	**2015**
NPAT ($m)	2,296	4,231	3,022	2,730
Funds from Operations (FFO) ($m)	1,340	1,290	1,238	1,199
Share price ($)	3.90	4.19	4.64	4.19
Dividend (cents)	22.16	21.73	21.30	20.90
TSR (%)	(1.6)	(4.2)	15.8	25.7
FFO per share (cents)	25.24	24.29	23.30	22.58
CEO total remuneration, actual ($m)	9.2	8.9	7.1	18.2

For 2018, CEO's total actual remuneration is 107 times the Australian Full time Adult Average Weekly Total Earnings (based on November 2018 data from the Australian Bureau of Statistics). The size of the actual CEO remuneration was discussed at the pre-AGM meeting in relation to the high level of CEO remuneration. The response was effectively that this is the market.

Summary of Pre-AGM Meeting

Scentre Group has interests in 41 retail shopping centres including 16 of the top 25 in Australia and 4 of the top 5 centres in New Zealand.

With so much negative publicity and pessimism in the media regarding bricks and mortar retailing, it was timely in the pre-AGM meeting that we discussed the ever changing face of retailing and the drive by Westfield to improve the customer experience by providing much more than just a group of retail shops. They now call the centres Living Centres with the objective of drawing visitors in with various types of entertainment activities/events that then develop into a retail sale that otherwise may not have happened. There is strong focus on improving the parking experience which has been seen as a negative by some customers in the past (but less so with ticketless parking.)

While there may be some disagreement, Scentre Group believes bricks and mortar shopping is far from dead and dying. The jury is still out on this and it may be some years till we know for certain.

The Chief operating Officer (COO) informed us that online sales represent less than 10% of total retail sales. The mix is complex as many customers will visit a store to identify product, then buy online from home. Some online sales are subsequently returned with the credit classed as instore thus distorting the sales mix. And some stores are becoming repositories for click and collect shopping and showrooms for products.

Visitor numbers are the key to sustainability and growth, and the company has a sophisticated method of counting visitors through the door, via the car park and via the front door etc. The company disclosed its Net Promoter Score at 28% (that is the difference between satisfied and dissatisfied customers). They consider this a favourable outcome.

As was the situation in recent years, 2018 saw modest but steady increases in important reported data. Funds from operations (FFO), the key measure of net income for Real Estate Investment Trusts (REITs) increased by 3.8% to $1,339.5 million and distribution per security increased by 2.0% to 22.16 cents. In 2019 FFO is forecast to grow by approximately 3% and distribution for 2019 is forecast at 22.6 cents per security.

The only significant adverse change in the Income Statement is the fall in Property Revaluation by $2,096.1 million to $1,147.7 million. This trend had been anticipated this time last year. It is a non-cash item and while it affects Net Profit after Tax it does not affect FFO nor distributions. However, it still impacts net asset value. It has resulted mainly from changes in property valuation capitalisation rates.

Return on contributed equity was 12.72% (12.28 in 2017 and 11.8% in 2016).

Much of the vacancy rate is a result of vacancies during and shortly after development of centres, together with upgrades.

While overall we were happy with transparency of reporting, ASA suggested a 5-year table of key financial and operational outcomes be included very close to the front of the Annual Report, instead of back on page 18 in the Remuneration Report. This would make it easier for retail shareholders who may not read all of the report to glean the latest position for the business. The Chair said he would consider this.

Governance and culture

Scentre Group governance is generally maintained to a high standard. There is a majority of independent directors, with three out of eight directors being women. The number of females at senior executive level (General Manager and above) has increased from 22% to 26.5% in the year.

Key events

There were no restructures, acquisitions or capital account activities during the year. The company is always looking to fine tune its shopping centre portfolio by selling non-core centres and if possible acquiring equity in any centres which become available that fit with the company strategy in terms of size, location and tenant mix. Having been the manager for Westfield Eastgardens for many years, the company has recently acquired 50% of that asset.

Key Board or senior management changes

At the end of the AGM to be held in April 2019, Steven Lowy will stand down as a Director. This will mark the end of Lowy family in the management of Scentre Group.

He is to be replaced by Steven Leigh who will be up for election. His background is covered later in this document.

The CFO, Mark Bloom, a member of the key management personnel (KMP), is retiring this year and is to be replaced by Elliott Rusanow, a former Westfield executive who is returning from the United States.

Cynthia Whelan has recently joined the company as Chief Strategy and Business Development Officer (the first female member of Key management Personnel (KMP) in the company).

Item 2	**Adoption of Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

Scentre Group provides a transparent and detailed Remuneration Report.

There have been no significant changes to remuneration policy this year. The previous year saw several significant steps forward: disclosure of actual remuneration, NED shareholding policy in line with ASA guidelines, use of face value in awarding performance rights.

The only change this year is that, effective 2019, there is a reduction of the potential maximum opportunity on vesting for the Return on Capital Employed measure of the long term at risk remuneration from 150% to 125% of fixed remuneration. This will equate to the maximum vesting potential under the development return hurdle.

Hence, our remuneration issues from last year remain in place this year. At the pre-AGM meeting we raised these and received no indication whatever that a change is forthcoming, nevertheless we have continued to make our point. While addressing the cash versus equity issues we note that the CEO holds a high level of equity, a value in excess of $18 million and has been with the company for many years, as have the other KMPs.

The issues are:

- ASA would like to see long term incentives (LTI) extended to a 5-year measure, from the current 3 years
- Short term incentive (STI) for the CEO and COO should carry at least a 70% weighting of financial incentives, not the current 65%.
- STI is delivered as 70% cash and 30% in performance rights. ASA guidelines call for a 50/50 split. For 2018 the at risk STI payment for the CEO was paid at 80.8% of maximum.
- While the selected LTI measures are good, the company remains opposed to the adoption of Total Shareholder Return (TSR) as a suitable measure. The Board cites vagaries of the sharemarket, however, ASA maintains that this will even out over the long term. Adoption of TSR will also reflect to some extent any adverse impact of property revaluations, such as we have seen this year.

There is an opportunity to convert equity rights to cash. This requires board approval and the Chair advises that this would only be granted in the most exceptional circumstances.

Base Board fees for non-executive directors (NEDs) have increased by 2.5%.

ON balance ASA, this year, will vote for the remuneration report but we urge the Board to revise the hurdles/measures so as to bring them into line with the shareholders' interests.

Item 3	**Re-election of Brian Schwartz as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Schwartz joined the Board of forerunners of Scentre Group in 2009 and was appointed to the Scentre Group board on its establishment in 2014. He was then appointed Chair of Scentre Group upon the retirement of Frank Lowy in 2016. He also chairs the Nomination Committee. He is a Chartered Accountant who rose to the position of Chair of Ernst & Young. He was later CEO of Investec Bank (Australia) for 5 years and also Chair of Insurance Australia Group. He was also Deputy Chair of Westfield and Football Federation of Australia and a Director of Brambles Limited.

He currently sits on other boards but not so many as to exceed ASA guidelines.

He is well qualified the be a director of Scentre Group. His equity holding falls short of ASA guidelines by only $50,000 at current security value.

We consider him to be independent.

Item 4	**Re-election of Michael Ihlein as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Ihlein has been a director of forerunners of Scentre Group since 2010. He is a highly experienced executive with a long career at Coca-Cola Amatil and was with Brambles as CFO and then CEO for 4 years.

He is currently a Director of CSR Limited and Snowy Hydro Limited.

In the few weeks prior to the AGM he has increased his equity to be in accordance with both company policy and ASA guidelines.

We consider him as independent.

Item 5	**Election of Steven Leigh as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Leigh is seeking his election for the first time. SCG has completed the appropriate background checks before recommending his election. He has a very extensive career in real estate with a 25-year career at QIC, holding a number of senior positions. He is a Director of National Storage REIT. He is a member of the Australian Property Institute and The Shopping Centre Council of Australia.

He is highly qualified to be a Director of Scentre Group and brings an appropriate skill set to the Board. We consider him to be independent. Having not yet joined the Board his equity holding is not yet an issue.

Item 6	**Approval of grant of performance rights to CEO/Managing Director Peter Allen**
ASA Vote	**For**

Summary of ASA Position

This resolution was put to shareholders for the first time last year and is now repeated. Due to the securities being acquired on market to satisfy these performance rights, there is no statutory obligation to put this to shareholders although ASA guidelines believes doing so provides greater certainty to shareholders regarding the size and nature of the equity grant being approved. This was an important step forward that took place last year.

It is now proposed that shareholders approve the grant of 1,130,140 performance rights to the Managing Director, with 210,537 attributable to STI and 919,603 attributable to LTI. If approval is not obtained it is intended that Mr Allen's performance rights will be satisfied in cash, subject to performance and service conditions.

The same shortcomings as identified above regarding remuneration policy apply to this resolution. However, on balance ASA considers remuneration policy adequate, for the time being, as discussed above.

One of the individuals involved in the preparation of this voting intention has a shareholding in this company.