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SIMS RECOVERS WITH THE GENERAL MARKET COMING OUT OF COVID AS GLOBAL DEMAND PICKS UP FOR THE METALS RECYCLING MARKET

Company/ASX Code	Sims Limited/SGM
AGM date	Wednesday 10 November 2021
Time and location	9:00 AM (Sydney time) AGMLIVE.LINK/SGM/21
Registry	Link Market Services
Webcast	Yes / No
Poll or show of hands	Poll on all items
Monitor	Nick Bury and Mrs Elizabeth Fish
Pre AGM Meeting?	Yes with Chairman Geoff Brunsdon and Remuneration Chair Mrs Heather Ridout on 28 October, 2021. And later conversations with Mrs Heather Ridout on 1 November 2021.

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.

Summary of issues for meeting

A much-improved year on Fy. 2020, looking for further improvement in this year.

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

Summary of ASA Position

The worldwide ferrous scrap metal market has really picked up due to demand recovering from the Covid downturn, as evidenced by the 20.3% increase in SGM's sales revenue from $4,908.5B to $5,916.3B between 2020-21. Underlying EBIT (a more useful financial measure in this given instance when opposed to NPAT, given that SGM made a predictable loss last year) also improved from a $57.9M loss to a $386.6M profit.

The signs are that SGM's sales revenue and profit will increase again this year, as demand in its main US and Australian markets continues to gather pace, and long suffering shareholders at least received a 42c dividend during the 2021 year. The final 30c dividend was understandably only 50% franked, given that the company derives its majority of earnings from offshore.

SGM, like BHP and other entities, whose fortunes are likewise tied to their commodities cycles, will always fluctuate up and down with bull and bear commodity markets. That said, at least SGM has stuck to its strategic plan, made hitherto successful efforts to reduce both its cost base and waste, and tried to maximise its returns so that it can make the best possible fist of whatever circumstances present, regarding fluctuating scrap metal prices.

SGM's furthered its aim to grow its core metals business by buying the assets of leading US based aluminium processor Alumisource Corporation in February, 2021 for USD22.5M, with future payments to be made over the next 3-5 years predicated on a pre-determined earnout fee.

Generally purchases made in bear markets present better value for shareholders, and this acquisition equates to a 33,000 ton increase in non ferrous retail sales volumes for SGM. The bottom line of this acquisition remains to play out, but is expected to be EPS accretive.

The arrangement enables SGM to supply aluminium scrap direct to the processor, bypasses the middleman, and is planned to be the harbinger of future like transactions.

The company bought a purpose built recycling facility outside S-W Sydney, also received planning permission for a pilot plant at Rocklea, Queensland to recycle waste, and plans to produce mainly blue hydrogen for industrial use at a proposed facility at Campbellfield in Victoria. Blue hydrogen is currently much more viable to produce than green hydrogen, which remains in a developmental phase.

One of the above ASA SGM Monitors then wrote in 2019 that SGM's strong balance sheet together with its disciplined approach to capital expenditure and cost management should see it navigate through the current downturn, and be well positioned for recovery. Happily, that prediction has come to pass, though forecasting is often a fool's business.

Entities are generally writing more about sustainability, diversity and culture, and reducing their carbon emissions and footprints, in their annual reports. SGM does ditto, but also retains its focus on accompanying future plans to increase shareholders' profits. Its recycling activities are mainly environmentally friendly, affording it commercial advantages when complying with the increasing burden of environmental type legislation.

SGM as a recycler should consequently slot well into the new renewables type paradigm. It has retained its focus on shareholder returns, and has not spent monies on any 'feel good' type enterprises that might not afford compensatory upside for monies spent, so the apparent influence of its 'hands on' Chairman's profit aware merchant banker type background has so far served it well in these regards

SGM has lifted its efficiency performance, and attempted to meet its objectives and plans set, so has made a much better fist of the different economic settings that played out for it during the past 9 years. Its immediate future seems bright, but that said the perennial adage 'you're only as good as your last game' should be borne in mind.

Holding this stock has not been a happy experience for investors over the past 15 years, most of whom would have lost capital value and not seen their dividends increase, but many commodity-based businesses do struggle to provide longer term attractive returns.

SGM's hunt for accretive bargains during the Covid downturn was stymied by its KMP's then inability to be able to travel to be able to 'kick the tyres' of then presenting opportunities around the world.

The 3-year table shown immediately below shows SGM's performance during the past 2 years.

(As at FYE)	**2021**	**2020**	**2019**	**2018**	**2017**
NPAT ($m)	284.1	(58.1)	72.3	191.2	120.1
EBIT ($m)	386.6	(57.9)	230	279	182.4
Share price ($)	14.39	10.58	11.04	16.39	13.79
Dividend (cents)	72c	6c	53c	53c	50c
TSR (%)	42.01%	-10.81%	-31.6%	16.24%	75.3%
Statutory EPS (cents)	112.8c	(131.2c)	74.2c	101.1	102
CEO total remuneration, actual ($m)	$4.733	$6.460	$5.135	$5.74	$4.92

For 2021, the CEO's total actual remuneration was 25.7 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2021 data from the Australian Bureau of Statistics). A significant portion of the difference between the CEO's FY20 and FY21 actual remuneration is due to share price movement in vesting shares: from $11.9 to $7.79. in addition there was no Fy.20 STI awarded payment to be paid in FY21.

Item 1	**Re-election of Geoffrey Brunsdon as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Brunsdon assumed SGM's chairmanship in 2012, having been an SGM NED since 2009. His qualifications for his role are listed in SGM's 2021 annual report and 2021 Notice of Meeting, so are not repeated here, other than to say that he is an experienced NED, Investment Banker, and Chartered Accountant. To date he has served the SGM shareholder better than the norm of Chairs of ASX listed companies, which is not a negative observation made of the latter's average performance.

He has been a strong hands-on Chairman, who has recognised arising problems in their earlier stages (2 having been serious), dealt expeditiously with the same, and moved to terminate 2 former CEO's whose respective performances were lacking. He has recognised risks and opportunities, and steered SGM into a better space than it previously occupied, he is energetic, and at 63 years of age he is still relatively young.

Although he has now been either an SGM NED or Chairman for 12 years, clearly the shareholder interest is best served by his continued tenure, based on past performance. One criticism made of him by this writer is that he has sometimes seemed to roll over too easily to quite 'rich' demands made by SGM's US based staff for excessive remuneration, though there have been occasions when he has drawn his line in the sand in these regards.

When SGM earlier expanded into and then derived the greater part of its revenue from North America, it became obliged to hire, remunerate and incentivise US based staff. The latter were demanding all sorts of largesse and different benefits for indifferent performance, which Australians had never heard of, and US executives from listed companies there had long since used become used to receiving the same.

Australian Shareholders generally don't mind rewarding KMP's for performance that increases profits and rewards them, but otherwise resent paying big dollars for bad outcomes. SGM has to tread the fine line between incentivising good staff but not overpaying them, yet retaining talent when the economy turns, and when their competitors are prepared to pay more to poach their best talent.

Much of the past angst between SGM and the ASA in these regards has risen during downturns when SGM's US based staff were lucky to retain their jobs, much less be demanding to be paid ridiculous largesse.

Item 2	**Re-election of Ms Georgia Nelson as a Director**
ASA Vote	**For**

Ms Nelson at aged 71 has served as a board director of 10 corporations during the past 25 years. She was the former founding president of Midwest Generation LLC, an Edison International company, and senior vice president of world wide operations for Edison Mission energy.

She is a director of three publicly traded US corporations, being Cummins Inc, a global engine and equipment manufacturer, Ball Corporation Global Metals Container Manufacturing Company, and Custom Truck One source, a leading provider or specialised truck and heavy equipment solutions to the utility, rail, infrastructure, and telecommunications sectors.

Her resume infers that she has had hands on experience in running business enterprises, as opposed to seemingly less useful qualifications, so her candidacy is supported on the premise of what is currently known about her, and she has also reached a stage in life where she is likely to have acquired wisdom. SGM should seek the services of NED's who can advance its cause, and in these regards Ms Nelson presents as a suitable candidate.

Item 3	Re-election of Ms Victoria (Vicki) Binns as a Non-Executive Director
ASA Vote	For

Summary of ASA Position

Ms Binns is a new SGM director. Her CV states that she has over 35 years of experience in the global resources and financial service sectors, including as an executive at BHP Asia, 15 years spent in financial services with Merrill Lynch Australia and Macquarie Equities, and in leadership roles in the metals and coal marketing business. She is also a NED of 2 ASX listed companies, being Cooper Energy and Evolution Mining.

She should at least understand the commodities business and marketing, given her above stated previous work experience, but she will be asked to speak both for her election at SGM's AGM, and about what she might specifically contribute to the company's board

Item 4	Adoption of Remuneration Report
ASA Vote	Against

Summary of ASA Position

SGM's previous stated intention to increase the time span of its LTI plan from 3 years to 4 years has not materialised. They did terminate the practice of awarding options to KMP, but then introduced an alternate Strategic Share Incentives (SSI's) scheme, when they can already reward staff utilising STI's and LTI's, as do other ASX listed companies, without placing further imposts upon shareholders.

For STI 80% relates to one Financial Measure underlying EBIT – 50% of STI is awarded at threshold and 100% at budget, and where underlying EBIT is above budget an additional 100% was payable in the first half year and an additional 200% in the second half of the year. Neither budgets or targets or threshold for vesting are disclosed.

The remaining 20% relate to individual performance goals (IPGs) are set in a number of key areas that focus on safety and business initiatives critical to the overall success of the Company and execution of its strategic initiatives and operating objectives. The Board assesses the IPG achievement and Executives can earn a maximum of 120% achievement for the IPG component of the STI. Details of executives achievements against goals are at section 3.6 (page 52). The section does not show how well each of the executives or the CEO met their respective goals. The goals that are shown in the Remuneration Report are very much what any investor would be expecting an executive to do as part of their job. The measures do not offer quantifiable performance metrics to support the award decisions. The STI is paid in cash in the month of September following release of audited results.

ASA does not support all STI being paid in cash and believes there should be an equity component. The ASA put this view to the Chair of the Rem Committee and she said Sims would retained the cash payments due to the volatility of earnings for Sims.

LTI

22% TSR Rights incentivise achievement of higher shareholder returns relative to peer companies in the ASX 200 materials and energy sectors, over the three-year performance period of 1 July 2020 through 30 June 2023. Rights vest after three years, with the quantum subject to attainment of the performance conditions. That is performance against the peer group. The comparator group used to measure TSR performance is the constituent companies as of 1 July 2020 in the ASX 200 materials and energy sectors. TSR must be 50% or higher than that of the comparison group to vest. 50% of Rights vest at the 50% then at 100% vest at the 75%.

45% Strategic Rights incentivise achievement of the Company's strategic goals over the three-year performance period of 1 July 2020 through 30 June 2023. Rights vest after three years, with the quantum subject to attainment of the performance conditions, and potentially further modified for the Company's return on capital (ROC) performance. Uses underlying EBIT in the ROC calculation instead of statutory EBIT. 70% of Rights vest when a ROC of 7% is reached, then 100% when 10% is reached.

33% SSI Rights incentivise achievement of the Company's strategic goals over a one-year performance period of 1 July 2020 through 30 June 2021, and the subsequent share price performance over the next three to four years after vesting.

Earned SSI Rights vest (subject to escrow requirements) after one year, with the quantum subject to attainment of the performance conditions, in the form of a cash award. The SSI cash award is used to purchase deferred shares at on-market price (after withholding of any required taxes). 50% of the resulting deferred shares are subject to holding periods of three and four years, 50% for each. SSI rights goals seems to be in line with expectations, however some of the criteria is also be covered in the STI criteria, for example the ERP project. There is a mandatory three to four year holding period based on expansion of sales, recycling, installation of ERP, 7 strategies in all. We still do not see quantifiable performance metrics. The Remuneration Chair said these rights avoid the tax event, allowing executives to build up skin in the game, through not having to dispose of shares in order to meet taxation obligations.

The number of TSR Rights granted is determined based on the fair value of the rights at the time of approval by the Board. Calculated using the Monti Carlo simulation option pricing model. The Chair of the remuneration committee said that the use of Fair Value was historical and that presently it would be difficult to change the practice.

ASA does not support the use of fair value in calculating the number of rights/shares issued, or cash awards for LTI measures, three years is insufficient time for LTI projects to be effective. The single year period for measuring SSI, is not long term. Underlying EBIT should not be used to calculate awards. The STI measures do not offer quantifiable performance metrics to support the award decisions.

On the whole the salaries look high for this segment of the ASX. When compared with the Godfrey Remuneration Group, all industries remuneration guide, Cap 1.5 – 3.5, Industrial and services category; the average CEO' salary was $2.294m and for the Sims Limited Board the Chairman's

$520k and Board members fee of $223k was significantly above fees quoted of $284k and $164k respectively.

In view of the issues detailed earlier the ASA cannot support this resolution.

Item 5	**Approval of LTI grant to CEO Mr Field**
ASA Vote	**Against**

Summary of ASA Position

A grant of 88,667 performance rights with vesting based on the TSR of the company relative to the performance of the comparator group of companies the ASX 200 materials and energy sectors.

A grant of 103,428 Strategic Performance Rights, with vesting based on achievement of the Company's strategic goals over the three-year performance period of 1 July 2020 through 30 June 2023 and further subject to meeting returns on capital threshold that can reduce but not increase the amount earned.

A grant of 11,332 SSI Rights, with vesting based on achievement against a scorecard of one year goals tied to the company's strategic plan.

The ASA will not be voting in favour of this item, our objections to the LTI plan has been detailed in item 4.

Item 6	**Spill motion (contingent resolution)**
ASA Vote	**Against**

Summary of ASA Position

This is the usual approach the ASA takes.

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Appendix 1
Remuneration framework detail

CEO rem. Framework for FYXX	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	2.237	25%	2.237	N/a
STI - Cash	2.237	25%	3.318	N/a
STI - Equity	0	0	0	0
LTI	4.474	50%	N/a	N/a
Total	8.947	100.0%	N/a	N/a

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

Although Page 42 of the AR. The STI is determined by reference to a range of threshold, target and maximum levels of performance hurdles. For FY21, the Remuneration Committee established goals for the first half and second half of the fiscal year with the range of financial achievement and potential STI payout opportunity. Achieved 100% for the first half year and 200% for the second half.