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Challenging times continue

Company/ASX Code	Vicinity Centres/VCX
AGM date	Thursday 14 November 2019
Time and location	11am Crown Towers, 8 Whiteman Street, Southbank Victoria
Registry	Link Market Services
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	John Virgona assisted by Rod Mckenzie
Pre AGM Meeting?	Yes, with Chair Peter Hay and Head of Investor Relations Penny Berger

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

Financial performance

Vicinity is an owner, manager and developer of shopping centres within Australia with one of its flagship assets being 50% ownership of Chadstone. Vicinity Centres reported a statutory net profit after tax (NPAT) of $346.1million (m), down substantially from $1,218.7m for the previous year mainly due to reduction in property valuation of $237.1m compared to an increase of $634.7m in financial year 2018.

FFO (funds from operations or basically net profit adjusted for a number of non-cash amounts principally revaluations, equity accounting adjustments etc) were slightly down to $689.3m compared to $708.7m previously and on a per security basis down to 18.0 cents from 18.20 cents in the previous financial year.

Distributions per security were 15.9 cents compared to 16.3 cents per security previously. Unfortunately, this is the fourth consecutive year where distributions have declined.

Vicinity's Annual Report is generally well laid out and ASA is pleased that it now includes a 5-year table of key performance metrics.

Key events

Last year Vicinity announced the proposed divestment in financial year 2019 (FY19) of up to $2 billion of non-core assets of which approximately $1 billion was earmarked to seed a wholesale fund in partnership with Keppel Capital of Singapore.

Although $683m worth of assets was divested during FY19, Vicinity has decided not to proceed with the wholesale fund or any further material divestments in the current environment. They believe that this is in the best interests of securityholders given the current soft demand for retail assets and the crowded divestment market.

An on-market security buy-back resulted in $255m of securities (2.6% of issued capital) being bought back at an average 12.3% discount to June 2019 net tangible assets

Key Board or senior management changes

Current Non-Executive Director Mr Trevor Gerber will succeed Mr Peter Hay as Chairman at the conclusion of the 2019 AGM. We were told at the pre-AGM that there is no plan to recruit another director so that board will reduce to 9.

Summary

(As at FYE)	**2019**	**2018**	**2017**	**2016**	**2015**
NPAT ($m)	346.1	1,218.7	1,583.6	960.9	671.5
FFO ($m)	689.3	708.7	712.9	739.5	679.3
Share price ($)	2.45	2.59	2.57	3.32	2.92
FFO per security (cents)	18.0	18.20	18.01	18.68	17.16
Dividend (cents)	15.9	16.3	17.3	17.7	16.9
TSR (%)	0.6	7.0	(17.7)	20.4	24.4
EPS (cents)	9.0	31.3	40.0	24.3	25.6
CEO total remuneration, actual ($m)	2.0	1.5	3.2	2.9	n/a

For 2019, the CEO's total actual remuneration was **23 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Note - For May 2019, the Full-time adult average weekly total earnings (annualised) was $88,145 (http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0, "Full-time adult average weekly total earnings", Trend(a)).

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

Summary of ASA Position

Vicinity Centre's remuneration plan is largely unchanged on the FY18 plan and is broadly consistent with ASA guidelines, although there are some differences. Despite these differences we consider the remuneration plan is designed to align with securityholder interests by incentivising management to deliver long-term returns. It is pleasing to note however, that changes have been foreshadowed for FY20 that will bring the remuneration framework into closer alignment with ASA guidelines

The Long-Term Incentive (LTI) performance period is currently three years with a further one-year deferral before vesting. ASA's preference is for LTI performance periods to be a minimum of four years. Vicinity has announced that for FY20 the LTI performance period will be extended to four years.

There are two performance measures to test for vesting of LTIs – 50% subject to a Total Return measure and 50% subject to a relative Total Shareholder Return (TSR).

The Total Return hurdle is a minimum of 9% with 50% vesting, rising to 100% vesting at 9.5%. This seems a challenging target for Australian Real Estate Investment Trusts (A-REITS) where long-term returns above inflation (CPI) are hard to sustain, but recognises that there should be some uplift from the redevelopment pipeline.

Vesting of the TSR awards starts at the 51st percentile with 51% vesting and full vesting at the 75th percentile. ASA prefers 30% vesting at 50.1 percentile with full vesting at the 85th percentile

Currently Vicinity Centres LTI awards can still vest even if TSR is negative. However, in a move that brings Vicinity closer to ASA guidelines, from FY20 the TSR award will only be made if TSR is positive.

The FY17 LTI grant was tested at 30 June 2019 and the overall vesting level achieved was 50%. 100% was achieved against the Total Return hurdle and nil vesting was achieved against the relative TSR hurdle. Neither CEO nor COO participated in the FY 2017 both having joined Vicinity after that year.

Under the STI plan, for Key Management Personnel (KMP), payment is a 50/50 mix of cash and equity. For the CEO, the equity component is deferred for 24 months and 18 months for other KMPs.

The Short-Term Incentive (STI) performance measures are clearly set out in the remuneration report, although for some measures the precise hurdle is not included. While some objectives are difficult to measure, such as people, leadership and operational excellence, a majority of the objectives have clearly measurable financial outcomes. For the CEO Grant Kelley, target STI is 75% of fixed remuneration with a maximum opportunity of 100%. For the other KMP, (currently only COO Peter Huddle), the target STI is 87% with maximum opportunities of 174%.

In FY19, CEO Grant Kelley was awarded 75% of the target STI opportunity with COO Peter Huddle receiving 100%.

Vicinity Centres calculate the number of performance rights grants using 'face value'. This is in accordance with ASA guidelines.

Disappointingly, despite raising the issue with Vicinity Centres over a number of years, the remuneration report does not contain a table with actual remuneration.

We believe this is a simple and transparent view of what executive key management personnel (KMP) actually 'take home'. The statutory disclosures include 'opportunity' to earn performance base pay on achievement of hurdles. A 'take home' pay table details total pay including actual vesting outcomes. It is true that a 'take home' table includes some pay that was earned over previous years but not paid until the current year, however we maintain that such a table provides a summary of meaningful information of interest to securityholders.

We hope that Vicinity will join the increasing list of companies that now include this information in their Remuneration Report.

CEO rem. framework	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.522	67%	1.500	31%
STI - Cash	0.422	19%	0.750	15%
STI - Equity	0.322	14%	0.750	15%
LTI	0	0%	1.875	38%
Total	2.266	100.0%	4.875	100%

The amounts in the table above are the statutory 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.

Item 3(a)	**Re-election of Mr Trevor Gerber as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Gerber has been an independent non-executive director of Vicinity since 2015. He has extensive experience in property, funds management, hotels and tourism, infrastructure and aquaculture.

Mr Gerber also Chairs the board of Sydney Airport, and is a director of CIMIC Group and of Tassal Group.

Mr Gerber will take up the role of Chair of Vicinity at the end of the 2019 AGM. We understand he will retire from the board of CIMIC on assuming this new role. This brings him within ASA guidelines for non-executive director workload of a maximum of five board positions with chair roles counting as two.

Mr Gerber holds 100,000 securities in Vicinity.

Item 3(b)	**Re-election of Dr David Thurin as a Director**
ASA Vote	**For**

Summary of ASA Position

Dr Thurin joined the Vicinity board in 2015. He brings extensive property industry experience to the board including a number of senior roles with the Gandel Group. He is not considered independent given his association with the Gandel Group. The Vicinity board has a majority of independent non-executive directors consistent with ASA guidelines

Mr Turin holds 13.9m securities in Vicinity Centres. He does not have any other listed company directorships but has three directorships of unlisted entities. We do not believe there are any issues in relation to his workload.

Item 4	**Approval of equity grant to CEO/Managing Director Mr Grant Kelley**
ASA Vote	**For**

Summary of ASA Position

Security holders are being asked to approve the award of $2.025M in performance rights to CEO/Managing Director Grant Kelley as part of his long term remuneration. The number of rights allocated will be determined using a volume weighted average price (VWAP), consistent with ASA guidelines. The terms of the performance rights are consistent with the company's LTI arrangements.

With the move to a 4-year performance period for LTIs and the positive TSR gateway, ASA will support this resolution.

The individual involved in the preparation of this voting intention has a shareholding in this company.