

Shopping centres Hit Harder than Most

Company/ASX Code	Vicinity Centres - VCX
AGM date	Thursday 12 November 2020
Time and location	11am - Online AGM
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 Trevor Gerber and Head of Investor Relations Penny Berger

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

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

Summary of ASA Position

Financial performance including dividends and shareholder returns

For the 12 months to 30 June 2020, Vicinity reported a statutory net loss after tax of \$1,801.0 million compared to a \$346.1 million statutory net profit after tax for FY19. This result was comprised primarily of Funds from Operations (FFO) of \$520.3 million, down from \$689.3 million in FY19, offset by a property valuation loss of \$1,717.9 million (FY19: \$237.1 million) and an impairment of goodwill of \$427.0 million.

Distribution per security was 7.7 cents for FY20, compared to 15.9 cents in the prior year. The Board determined that no distribution would be paid for the six months to 30 June 2020 due to the uncertain impacts of COVID-19.

Key events

The overwhelming event during FY20 has been the impact, particularly in the second half, of COVID-19. In a sector that was already under pressure, COVID-19 has significantly increased the challenges faced by Vicinity.

Vicinity, compared to its peers, has a relatively high exposure to Victoria, CBD locations, the tourist market and luxury retail markets. The impacts will be felt for several years. COVID-19 may also hasten the existing trend to online shopping.

In response, Vicinity has taken the following steps:

- equity raising, comprising a \$1.2 billion Placement and \$32.6 million Security Purchase Plan (SPP)
- negotiated \$950 million of new and extended bank debt facilities to increase short-term liquidity
- deferred all non-critical capital expenditure including development projects
- reduced hours for 70% of team members from 21 April to 30 June 2020
- reduced Directors' fees and Executive Committee salaries by 20%, effective 1 April to 30 June 2020
- cancelled the FY20 Short Term Incentive award, and
- reduced or deferred variable and non-critical operating expenses.

Key Board or senior management changes

Mr Peter Hay retired as Chairman after the 2019 AGM. Mr Trevor Gerber, an existing board member took on the role of Chairman.

Mr Gerber is also Chairman of Sydney Airport and a Non-executive director of Tassal Limited. We are pleased to hear that Mr Gerber will be lessening his workload by relinquishing the Tassal Ltd directorship at the conclusion of that company's AGM.

Sadly, an independent director, passed away during the year and with Mr Hay's departure, the size of the board has been reduced from 10 to 8 directors.

Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT (\$m)	(1801.0)	346.1	1218.7	1583.6	960.9
FFO (\$m)	520.3	689.3	708.7	712.9	739.5
Share price (\$)	1.43	2.45	2.59	2.57	3.32
Distribution (cents)	7.7	15.9	16.3	17.3	17.7
TSR (%)	(39.9)	0.6	7.0	(17.7)	20.4
FFO per security	13.7	18.0	18.20	18.01	18.68
EPS (cents)	(47.3)	9.0	31.3	40.0	24.3
CEO total remuneration, actual (\$m)	1.6	2.0	1.5	3.2	2.9

For 2020, the CEO's total actual remuneration was **17.6 times** (FY19 23 times) (the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics)).

Note - For May 2020, the Full-time adult average weekly total earnings (annualised) was \$91,983 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings").

Item 2	Non-binding advisory vote on Remuneration Report
ASA Vote	For

Summary of ASA Position

CEO rem. Framework for FY20	Target* \$m	% of Total	Max. Opportunity \$m	% of Total	Realised \$m
Fixed Remuneration	1.500	32%	1.500	30%	1.408
STI - Cash	0.562	12%	0.750	15%	0
STI - Equity	0.563	12%	0.750	15%	0.135 ^a
LTI	2.025	44%	2.025	40%	0.071 ^b
Total	4.650	100.0%	5.025	100%	1.614

(a) FY18 Deferred STI following the two-year holding lock period which ended on 30 June 2020

(b) Sign-on bonus of 28,503 securities released on 1 January 2020.

**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.*

Vicinity has made several positive changes to their remuneration framework and report for FY20. A number of these changes respond to issues raised by ASA in prior years.

For the Executive Committee members, the maximum Short-Term Incentive (STI) opportunity has been reduced from 200% to 150% of target (the CEO remains unchanged at 133% of target). The LTI performance period has been extended from a three-year to a four-year period and the practice of a 12-month holding lock has been discontinued.

Also, an absolute Total Securityholder Return (TSR) 'gate' has been introduced ensuring benefit will only be derived from the TSR Performance Rights when positive TSR performance is delivered over the four-year term of the plan, regardless of performance relative to competitors.

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 in today's environment.

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

The FY18 LTI grant was tested at 30 June 2020. As neither the Total Return nor the Total Securityholder Return thresholds were met, the FY18 LTI Performance Rights did not vest.

Under the STI plan, for Key Management Personnel (KMP), payment is a 50/50 mix of cash and equity. The Remuneration Report sets out the performance measures that are to be achieved for receiving these awards.

In April 2020 Vicinity made the decision to cancel the FY20 STI awards as part of the measures to preserve liquidity and reduce operating costs in response to COVID-19.

There have been several improvements in the presentation of the 2020 Remuneration Report. The charts showing pay mix are particularly good. Following several years lobbying by ASA, a table of actual remuneration is now included.

Item 3(a)	Re-election of Mr Peter Kahan as a Director
ASA Vote	For

Summary of ASA Position

Mr Peter Kahan is seeking re-election as Independent Non-Executive Director. He has been in that role since 2015. Mr Kahan has wide experience in property funds management with prior roles including CEO and Finance Director of the Gandel Group and as a Director of the Charter Hall Group. He is a Chartered Accountant and is currently Chair of the Remuneration and HR Committee and a member of the Audit and Nomination Committees.

Currently, Vicinity is Mr Kahan's only directorship of a listed entity.

Whilst Mr Kahan technically meets various regulatory definitions of an Independent Director, it is noted that he had a close association with the Gandel Group, a major security holder, being that organisation's board nominee until 2017.

Mr Kahan has 43,417 securities in Vicinity having taken up 10,417 securities in the Security Purchase Plan (maximum available 20,834).

The size of the Vicinity board has been reduced during FY20 from 10 to 8 directors. There is still still a majority of Independent Directors although with only two female directors, the board composition is slightly below ASA gender diversity guidelines.

Item 3(b)	Re-election of Ms Karen Penrose as a Director
ASA Vote	For

Summary of ASA Position

Ms Karen Penrose has been an independent director since 2015. Ms Penrose executive career was in leadership and CFO roles mainly in financial services.

Ms Penrose is Chairman of the Audit Committee and a member of the Risk and Compliance Committee.

Ms Penrose is a Director of Bank of Queensland Limited, Estia Health Limited and Ramsay Health Care.

Ms Penrose has 57,917 securities in Vicinity having taken up 10,417 securities in the Security Purchase Plan (maximum available 20,834).

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

Summary of ASA Position

As a one-off change for FY21 only, it is proposed to grant Mr Kelley the following:

- TSR Performance Rights, consistent with prior years, with a face value of \$1,012,500 (representing 67.5% of Mr Kelley's Total Fixed Remuneration (TFR)); and
- Restricted Rights, in lieu of the Total Return (TR) Performance Rights that he has historically been granted, with a face value of \$506,250 (representing 33.75% of Mr Kelley's TFR), which represents a 50% discount to the actual amount of the Total Return Performance Rights that they replace.

The Restricted Rights are subject to continued employment and effective performance. These vest in three tranches – 25% in each of FY23 and FY24 with the remaining 50% in FY25.

The main rationale for the replacement of the Total Return measure of the LTI with Restricted Rights is to ensure Mr Kelley's remuneration remains competitive in the market and that his services are retained.

On balance ASA supports this grant for the following reasons:

- Mr Kelley's remuneration outcome for FY20 was considerably below his maximum opportunity significantly due to COVID-19 impacts outside of his control
- Performance Rights granted in earlier years are unlikely to vest in current environment
- STI awards were cancelled for FY20
- No increase in fixed remuneration in FY21
- It is a one-off grant pending a review of the remuneration framework

- The maximum opportunity value of the Restricted Rights is 50% lower than the TR rights
- The one-off change appears to be a reasonable response in the COVID-19 environment.

Whilst ASA would prefer more rigorous performance measures than that proposed by the Board deciding that performance has been effective, it is noted that discretion is retained to prevent unreasonable outcomes.

The Restricted Rights will be allocated using 'face value' methodology with a minimum price of \$1.48 being equal to the institutional placement price.

Item 5	Ratification of the issue of institutional placement Stapled Securities
ASA Vote	For

Summary of ASA Position

Securityholder approval is sought for ratification of the issue of 554,328,759 Stapled Securities pursuant to an institutional placement in June 2020.

ASX Listing Rule 7.1 imposes a limit on the number of equity securities that a listed entity, such as Vicinity, can issue or agree to issue in any 12-month period without Securityholder approval (placement capacity).

Ratification of the placement by security holders will refresh Vicinity's placement capacity. In these uncertain times this is a sensible move, and the ASA intends to vote its undirected proxies in favour of this resolution.

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