



**An innovative company with excellent returns**

<b>Company/ASX Code</b>	Goodman Group/GMG
<b>AGM date</b>	20 November 2019
<b>Time and location</b>	10.00 am at The Westin Hotel (now the Fullerton Hotel), Sydney
<b>Registry</b>	Computershare
<b>Webcast</b>	Yes
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Richard McDonald assisted by Lewis Gomes
<b>Pre AGM Meeting?</b>	Yes, with Chair Ian Ferrier and Phillip Pryke, Remuneration Chair

<b>Item A</b>	<b>Annual Report of Goodman Group / Consideration of financial performance</b>
<b>ASA Vote</b>	<b>No vote required</b>

**Summary of ASA Position**

Goodman is a well-managed company under a well-performing CEO that has positioned itself as a global integrated property group in the high tech field of logistics and customer service to be a supply chain in various fields. It is truly an international company with 68% of its earnings and 80% of staff work offshore. By working with capital partners in their developments, Goodman has de-risked its business and in areas where pressure on land use is high, it can maximise returns by efficient use of industrial real estate.

**Governance and culture:**

Environmental Social and Governance (ESG) policy and practice at GMG is good with adherence to climate change reductions within the group and a number of social initiatives undertaken by the company and staff.

**Financial performance:**

Goodman made an operating profit of \$942m up 11.4% from the previous year and operating earnings per security (EPS) of 51.6 cents per share (cps) up 10.5%, paying a distribution of 30 cps (up 7%). With plenty of cash available at \$1.6 billion, low gearing of 9.7% as well as \$4.1 billion of projects coming up, the company is in a good position to weather any downturn. Total shareholder return (TSR) for the year was 59.4% and 223% over the last 5 years. Management earnings were \$470m in FY19 (financial year 2019) up 48% and comprised 35% of total operating earnings up from 27% in FY18.

**Key Board or senior management changes:**

Christopher Green was appointed to the Board in April of this year

ASA noted that there are no women listed in the Annual Report as Key Management Personnel and asked how many women were in the senior ranks of GMG. The Chair advised that the most senior women were “several layers down” in the organisation and it would take some time for that situation to change. They noted that the senior ranks of GMG are very stable, partly because the rewards have been so high. Advancement within the organisation could therefore be a challenge.

#### **5 Year Financial Summary:**

(As at FYE)	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
NPAT (\$m)	1627.9	1098.2	778	1275	1208
UPAT (\$m)	942.3	846	776	715	654
Share price (\$)	15.03	9.62	7.87	7.11	6.27
Dividend (cents)	30	28	25.9	24	22.2
TSR (%)	59.4	26	14.2	17	30
EPS (cents)	51.6	46.7	43.1	40.1	37.2
CEO total remuneration, actual (\$m)	14.9	9.2	8.4	6.6	8.2

<b>Item B</b>	<b>General Business</b>
<b>ASA Vote</b>	<b>Votes specified on individual resolutions</b>

<b>Resolution 1</b>	<b>Appointment of auditor for Goodman Logistics (HK) Limited</b>
<b>ASA Vote</b>	<b>For</b>

A requirement under Hong Kong Law. Security holders have been asked to consider the reappointment of KPMG as the auditor of Goodman Logistics HK Limited.

<b>Resolution 2</b>	<b>Re-election of Mr Phillip Pryke as a Director</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Mr Pryke was appointed to the board in October 2010 and is considered an independent director. As per ASA guidelines, after his re-election this term, Mr Pryke will no longer be considered independent. Currently, Mr Pryke chairs the Remuneration and Nomination Committee. He holds a Bachelor of Economics degree and has extensive experience in fishing, energy, financial services and health and technology industries. He is currently a director of North Ridge Partners Pty Ltd

and was formerly Deputy Chair of Contact Energy Ltd (NZ) and a director of Tru-Test Corporation Ltd.

We will vote for Mr Pryke's re-election.

<b>Resolution 3</b>	<b>Re-election of Mr Anthony Rozic as a Director</b>
<b>ASA Vote</b>	<b>For</b>

Mr Rozic is Deputy Chief Executive Officer and Chief Executive Officer North America. He joined Goodman in 2004 as CFO and rose to his present position. He is a chartered accountant with 20 years of experience in the property industry.

Mr Rozic is an executive director along with Mr Danny Peters. While the ASA would not normally support the election of key management personnel (KMPs) to the Board other than the CEO, the Board believes that an international company like Goodman needs international operational expertise on it. Mr Peters oversees the European and Brazilian operations and Mr Rozic oversees North America.

ASA will vote in favour of the resolution.

<b>Resolution 4</b>	<b>Election of Mr Chris Green as a Director</b>
<b>ASA Vote</b>	<b>For</b>

Mr Green is an independent director appointed April 2019 and is a member of the Audit committee. He is Founder and Chief Executive Officer of Greenpoint Partners, a New York headquartered firm investing in real estate innovation, technology and private equity.

Mr Green has 16 years of experience at Macquarie Group as Global Head of Macquarie Capital's real estate business. He resides in the US and brings significant North American property investment experience to the Board.

He has a B Laws (Hons) and B Comm (Sydney)

We will be voting for Mr Green.

<b>Resolution 5</b>	<b>Adoption of Remuneration Report</b>
<b>ASA Vote</b>	<b>Against</b>

### CEO Remuneration Framework

	Maximum Remuneration (\$m)	% of Total
Fixed Remuneration	1.4	11.3
*STI - Cash	0	0
*STI - Equity	0	0
LTI	11.4	88.7
Total	12.8	100

\*KMP only – CEO does not participate in the short-term incentives (STI)

For 2019, the CEO's total actual remuneration was **169** times the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

#### **Changes to remuneration for 2020:**

The LTIP (long term incentive plan) performance remains at a 75% weighting for operating EPS growth and 25% for TSR performance but the testing criteria have changed from cliff vesting to sliding scales. The EPS hurdle will commence at 25% with straight line vesting to 100% over the range of EPS 61.4 cps to 66.8 cps at 2022. These hurdles represent a 3-year cumulative growth of 19% and 30% respectively.

Relative TSR is measured against the S&P/ASX 100 peer group with vesting of 50% at the 51<sup>st</sup> percentile and 100% at the 76<sup>th</sup> percentile.

FY19 EPS growth was 10.5% compared to target of 7%, and TSR was at the 94<sup>th</sup> percentile of the ASX100 company rankings.

Some of our previous concerns with the remuneration have been improved with the changes. The performance outcomes are very good but in this environment are reasonably stable and by setting the hurdles over a 3-year period with quite high hurdles, the rewards will be based on outperformance. The STI is all paid in cash albeit over 2 years. There are two hurdles:

1. meeting Goodman behavioural expectations,
2. achieving operating EPS requirements.

The non-financials are much harder to quantify. Short Term Incentive (STI) is capped at 150% of fixed remuneration (FR) for KMP while the CEO receives no STI award.

It was noted that approximately 40% of recent remuneration arose from the increase in the value of the securities since they were awarded. The increase in security value was also cited as the reason for a 33% drop in the number of securities available under the FY20 grants compared to FY19.

The LTI now vests over 3 to 5 years and is performance based. The share rights are based on face value at the time of award (\$15.03 for 2020) as against 2019 at "Fair Value" and the amount is based on the Board's decision on the number of performance rights, this year being 0.9m and last year 1.6m, a reduction of 44% for the CEO. The STI and LTI awards are available to all permanent employees, which is good.

It is also noted that STI awards are still paid in cash (with 50% deferred for 12 months) rather than the ASA's preferred position of 50% in cash and 50% in deferred equity. However, we also note that FR's are well below comparable companies.

The LTI maximum awards are determined by the Board based on international comparisons and external independent advice rather than as a set multiple of FR. For the CEO and KMP's, the at-risk remuneration is around 90% of total maximum remuneration which strongly aligns with security holder interests.

It is noted that the dilutionary effects of new securities issued under the LTIP are taken into account in determining EPS growth hurdles and outcomes. The issue of new securities is capped at 5% of total issued securities over 5 years (ie 1% per annum average).

All directors have security holdings well in excess of the equivalent of one year of director fees while the Chair has a holding of nearly 5 times his annual fee.

The Board has worked hard at changing the remuneration structure to produce a company that rewards performance while aligning with shareholder concerns through keeping fixed remuneration low and incentives high. However, the LTI award puts the CEO as one of the highest earning CEO's in Australia and although the performance of the company is excellent, ASA believes the total remuneration at \$14.9m for the CEO and in the order of \$6m for the senior KMP is excessive. It should be noted that for FY20, the CEO is expected to receive about \$26m in total remuneration at current security prices.

We will vote our proxies against the motion.

<b>Item C</b>	<b>Special Business</b>
<b>ASA Vote</b>	<b>Votes specified on individual resolutions</b>

<b>Resolution 6</b>	<b>Issue of Performance Rights under the Long-Term Incentive Plan to Gregory Goodman</b>
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

As explained with respect to the previous resolution, ASA believes that the company is well managed, and the CEO has been instrumental in delivering this performance. That said, ASA still believes that CEO's remuneration is excessive.

<b>Resolution 7 and 8</b>	<b>Approval of Performance Rights to Danny Peters and Anthony Rozic</b>
<b>ASA Vote</b>	<b>Against</b>

ASA believes that the Company's policy for KMP remuneration is excessive and therefore will be voting against these resolutions.

### Contingent Business

<b>Item 9</b>	<b>Spill resolution</b>
<b>ASA Vote</b>	<b>Against</b>

ASA Policy is to vote against a spill resolution.

The individuals or their associates involved in the preparation of this voting intention have a shareholding in this company.

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