

## Steadfast Group Voting Intention Report

<b>Company/ASX Code</b>	<b>Steadfast Group (SDF)</b>
<b>AGM time and date</b>	<b>10.00am (AEDT) Friday, 27 October 2023</b>
<b>Location</b>	Sheraton Grand Sydney, 161 Elizabeth Street, Sydney 2000, also online
<b>Registry</b>	Link Market Services
<b>Type of meeting</b>	Hybrid
<b>Monitor</b>	Elizabeth Fish, Nick Bury assisting
<b>Pre-AGM Meeting</b>	No

Monitor Shareholding: The individual(s) involved in the preparation of this voting intention have no shareholdings in this company.

### 1. How we intend to vote

No.	Resolution description	
2	Remuneration Report	Against
3	Grant of Equity to Mr Robert Kelly AM, MD and CEO	Against
4	Approval of termination benefits generally	For
5	Re-election of Ms Vicki Allen	Undecided
6	Re-election of Ms Gai McGrath	Undecided

See [ASA Voting guidelines](#) and [Investment Glossary](#) for definitions.

### 3. Matters Considered

#### Accounts and reports

It was disappointing that we were unable to meet with the Chairman Mr Frank O'Halloran.

In February SDF upgraded the FY23 guidance from \$400-420m to \$420-430m underlying EBITA.

ASA was unable to establish clarity on the drivers of the increase in revenue, what was the contribution of increased volumes versus increased value of premiums? Steadfast's organic growth is said to be driven by continued price increases by strategic partners and market share gains from underwriting agencies, and solid volume increases from Network brokers. There is also growth driven by acquisitions, from year to year.

## Financial performance

(As at 2023)	2023	2022	2021	2020	2019
NPAT (\$m)	189.20	171.60	143.0	(55.2)	103.8
UPAT (\$m)	207.0	169.0	130.7	111.9	89.2
Share price (\$)	6.00	5.02	4.40	3.36	3.51
Dividend (cents)	15.0	13.0	11.4	9.6	8.5
Simple TSR (%)	22.5%	17.0%	34.3%	-1.5%	27.9%
*EPS (cents)	18.4	17.9	16.51	-6.47	13.12
CEO total remuneration, actual (\$m)	5.391	5.034	3.87	N/a	N/a

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year). EPS is statutory diluted eps.

### Governance and culture

While all non-executive directors are labelled independent in the annual report, tenure is extended for Greg Rynenberg who joined the board in 1998. Nevertheless, the majority of the board is independent with Frank O'Halloran, the Chair, the next longest serving director. He has been on the board for 11 years. The three most recent appointments are female directors, with skills and experience covering finance, strategy, legal and financial services experience, across industries such as retail banking and wealth management, financial services and property sectors and the general insurance and reinsurance industry.

### Key events

#### Total Equity increased by 23.8% to \$2,244.9m

In August 2022 the company announced an institutional placement to raise \$225m. Approximately 43.8m shares were issued under this placement at \$5.14 per share. Proceeds from the issue of shares was \$225.13m, the cost of related transactions was \$3.3m.

The SPP announced in August 2022 raised approximately \$8.4m with 1.8m shares being allotted. The shares were issued at \$4.76 per share. Only one of the Non-Executive Directors participated in the SPP.

ASA understands proceeds from the two capital raisings will be used to fund ongoing Trapped Capital Pipeline (TCP) acquisitions. TCP is a project initiated by the Group to offer network members the ability to sell equity in their business to the Group. Had the ASA been given the opportunity of a pre-AGM meeting we would have asked for more details on the TCP.

The capital raising continues a trend as in FY22 Steadfast issued 56.1m shares to retail and institutional shareholders for \$253.1m, 49.2m shares were issued to vendors for acquisitions valued at \$206.7m and 0.8m shares were issued for the dividend reinvestment plan.

## Acquisitions

10.9m ordinary shares were issued as script consideration for the purchase of IBA, and 3.2m as consideration for 80% of Perryman O'Grady Philpott Pty Limited. The ASA notes from page 106 of the FY23 AR that the \$3.3m expense incurred in respect of the capital raise and the IBA acquisition was capitalised to Share Capital.

Total consideration for the acquisition of IBA was \$311.9m. Of this \$57.7m was paid as equity, calculated as 10.9m shares at \$5.31 per share; cash \$228.7m and deferred consideration \$25.5m. Total identifiable net assets were \$50.1m and \$261.8m was charged to Goodwill.

Consideration for the other FY23 acquisitions including Perryman O'Grady Philpott Pty Ltd consisted of 3.2m ordinary SDF shares as script consideration valued at \$47.9m, cash of \$188.5m, deemed consideration of \$31.5m and deferred consideration of \$39.6m, in total \$307.5m. The total identifiable net assets of this acquisition were valued at \$59.9m; \$253.5m was charged to Goodwill.

Goodwill from FY23 acquisitions was capitalised at \$515.3m, FY22 \$424.5m, and intangible assets increased by \$146.4m. The amortisation of intangible assets for FY23 is \$62.9m of which \$49.9m is related to customer relationships, around 25% of the opening balance in that category. In FY22 the amortisation expense was \$40.0m. Total goodwill is valued at \$1,985.7m, that is 52% of the Groups total assets, a net increase of \$491.6m in the year, mostly due to additions through business combinations or acquisitions. The matter of increasing value in goodwill, intangible assets and investment in associates and joint ventures was identified as a key audit matter covered in the Audit Report.

Note 10, shows an additional \$65.1m in deferred consideration for the FY23 acquisitions, (page 107 AR) bringing the total deferred consideration at June 30 to \$ 112.3m. Some detail on the deferred consideration is shown, but it is not clear as to when, or what the payments are contingent upon, or what is meant by "earn out payment" as it is not a recognisable accounting term. However, as \$86.5m is shown in current liabilities it would appear much of this liability is payable prior to June 2024. Had the ASA been invited to a pre-AGM meeting we would have asked about the certainty of funds being available to cover these payments and to establish what impact the put options over the non-controlling interests have on the business. (P107).

The total gearing ratio excluding premium funding borrowings was 18.9% at 30 June 2023, compared with the maximum gearing ratio determined by the board of 30%(P103).

## Key board or senior management changes.

In May the company announced that Mr Robert Kelly has confirmed his intention to continue as MD and CEO of the Group, and will not tender his 12 months' notice of resignation as required under his existing employment arrangements. Robert co-founded Steadfast in 1996 and has over 52 years' experience in the insurance industry. Succession amongst the executive is an area of focus for the company.

Mr Gordon Ramsay was appointed as an additional company secretary on 15 May. Mr Ramsay has been employed by SDF since June 2014. His new title is Company Secretary and General Council.

Mr Nigel Fitzgerald was appointed COO in April 2023. Mr Fitzgerald's sign on bonus is discussed in the remuneration section.

Ms Anne O’Driscoll resigned from the SDF board in May. She joined the Board in July 2013.

## **Sustainability/ESG**

Regarding environmental issues, the Chairman has commented in the FY23 AR saying the principal function of the group is provision of services to Steadfast Network brokers, the distribution of insurance policies via insurance brokerages and insurance agencies. As such the Group is not exposed to major climate risks to the same extent as insurers that underwrite the risk of an insurance policy. Based on what is currently known it is considered that climate risks will not have a significant impact on the Group’s principal activities, particularly regarding impairment of the Group’s assets. (p91)

### **ASA focus issues**

As the Steadfast Chairman and Executive General Manager Corporate Relations would not engage with the ASA we were not able to obtain responses to the ASA’s focus Issues.

## **4. Rationale for Voting Intentions**

### **Resolution 2 Remuneration Report**

The Steadfast Remuneration Report is well laid out and easy to read. STI is paid as cash and deferred equity award (DEA) The performance is measured over 12 months. There are two measures: return on capital, ROC (Underlying Net profit after tax/ opening equity attributable to owners of the Group excluding assets purchased during the current year,) and non-financial measures for each KMP set by the Board. Rights vest one year from date of award, usually September, on condition the executive is still employed. STI awarded is paid as 60% cash and 40% DEA. (The cash payment is made in August after the performance period). 70% of the STI awarded is calculated based on the ROC hurdle, and the remaining 30% on individual KPIs. The rights accrue notional dividends during the retention period, which are paid as additional shares, the cost being based on the DRP issue price applicable to each dividend. The vesting is conditional on there being no material deterioration in the Fy23 results during the vesting period.

The CEO’s Fy23 STI individual performance measures are shown on p63 of the AR, 90% of the non-financial STI was awarded in FY23. Weightings are shown in section 2.3. Performance measures for the other KMP are not disclosed.

The ROC component is payable at 11.55%, the target appears to be 11.95 %, with outperformance set at 12.45%. The Fy23 ROC was 12.17%.

The LTI is paid as DEA (deferred equity). There are two measures EPS and TSR. 50% for each measure. The EPS calculation uses underlying earnings to calculate diluted EPS, 25% is awarded when 8% is reached and 100% when 11.00% is reached. The EPS growth from Fy20 to 23 is 19.6%p.a. well in excess of target, so the full LTI was awarded (page 66).

TSR is based on comparison with a peer group. In this instance the peer group being the top 200 ASX listed companies excluding mining companies. 25% of the grant vests when 51% of TSR for three years of the peer group is met, moving on a straight line until 75% or greater than the peer group is achieved. At this stage 100% of rights vest (P67AR). The TSR from FY20-23 exceeded the maximum LTI benchmark, so max LTI was awarded. The actual Fy20-23 TSR for SDF was in the top quartile. The basic TSR for the three years ended June 2023 is 90%.

The number of shares issued under the deferred equity award is calculated using VWAP of the 10 days prior to the grant date. LTI Deferred equity rights vest three years from the grant date given continuous employment and the minimum TSR and EPS hurdles are reached. The ASA considers that LTI should cover a period of at least 4 years.

There is a short-term employee incentive plan, STEIP that aims to recognise outstanding financial results and performance objectives for employees other than senior management and executives. Paid as 60% cash and 40% rights the bonus is awarded if ROC targets (at least 11.35%) are met, personal KPIs and Team KPIs are achieved and tenure is continuous. Participation is by invitation and is limited to participants approved by the Group Managing Director and CEO. The ROC targets are aligned with those in the STI plan. Notional dividends will accrue and will be paid as Steadfast shares, on the vesting date. Rights vest in one year. The cash component is normally paid in September following the end of the financial year. The value of the proposed STEIP payments is not disclosed in the Remuneration Report or the Notice of Meeting. STEP was poorly covered in the Annual Report.

We note from (P71AR) that a sign on bonus of 400,000 rights was awarded to Mr Nigel Fitzgerald. The rights will vest in three equal tranches in March 2024, 25, and 26. The only hurdle being continued tenure. Mr Fitzgerald joined in April 2023 when the shares were \$5.94 so would assume his sign-on bonus was in the region of \$2,376,000. We note Mr Fitzgerald's appointment as COO was announced to the ASX on the 16 December 2022. The announcement did not include details of his remuneration or sign on benefit. The ASA considers that an executive's sign-on benefit should be based on meeting three to five year performance hurdles, apart from continued tenure.

Given the remuneration report contains details of a sign-on benefit with no performance hurdles, share rights accruing notional dividends, LTI measured over three years, the use of underlying NPAT to calculate ROC and EPS, no STI performance measures for KMP other than the CEO, a remarkably high level of actual STI outcomes at 100% and limited details on STEIP: the ASA will vote open proxies against this resolution.

### **Resolution 3 Grant of Equity to Mr Robert Kelly AM. Managing Director and CEO.**

Shareholder approval is requested for the Boards proposed grant under the 2023 STI plan of 162,426 STI DEAs (Deferred Equity Awards) equivalent to \$955,421 and under the 2023 LTI plan 211,185 DEAs equivalent to \$1,242,000. The STI DEAs will accrue dividends which will be paid as additional shares when vesting takes place. The ASA does not agree that dividends should be paid on deferred equity awards as they are not shares and have yet to be earned, similarly the use of underlying NPAT should not be utilised as shareholders stand to lose income due to write downs and exclusion of other one-off items. If shareholders lose income then so should the executives. The ASA will vote open proxies against this resolution.

### **Resolution 4 Approval of Termination Benefits Generally**

That an exemption from section 200b of the Corporations Act be given by shareholders regarding payment to managers or executives in the event of death, genuine retirement, redundancy, or total and permanent disability. This exemption allows the Board to exercise its discretion to pay any unvested rights in cash and or in Steadfast shares before those rights would usually vest in the event of the four limited circumstances described above. The ASA will vote open proxies in favour of this resolution.

### **Resolution 5 Re-election of Ms Vicki Allen**

Ms Allen was appointed to the Steadfast Board in March 2021, she is Chair of the Remuneration and Performance committee and serves on the Nomination Committee. Ms Allen is also a non-executive Director of ING Bank (Australia) Limited, Bennelong Funds Management Group Pty Ltd, New Forests Pty Ltd, and is Chair of a number of entities within the BT Financial Group. Ms Allen holds an MBA from the Melbourne Business School as well as Bachelor of Business from the University of Technology Sydney. She is a Fellow of the Australian Institute of Company Directors.

Ms Allen held 45,000 shares at 30/6/23 = \$270,000, but did not participate in the recent SPP.

The collective skills matrix shown in the Corporate Governance Statement is not helpful in determining how well-suited Ms Allen's expertise is to the business. Noting that Ms Allen sits on the boards of three other ASX listed companies and entities within the BT Financial Group, ASA is concerned that she may not have sufficient time to devote to The Steadfast Group. She also sits on the SDF Audit and Risk, Nominations, Remuneration and Performance, People, Culture & Governance committees. ASA would like Ms Allen to assure the meeting that she has the time and resources to fulfil her obligations to Steadfast. ASA will vote open proxies for this resolution after Ms Allen has spoken to the meeting.

### **Resolution 6 Re-election of Ms Gai McGrath**

Ms McGrath was first appointed to the Board in June 2018, she is Chair of the People, Culture and Governance Committee and is also a non-executive director on the Board of Helia Group Limited, Toyota Finance Australia Limited, HBF Health Limited and is Chair of BT Funds Management Limited. Ms McGrath holds a BA, LLB (Hons), LLM (Distinction) and is a graduate of the Australian Institute of Company Directors.

Ms McGrath held 62,143 shares at 30/6/23 = \$372,858. ASA would agree that Ms McGrath has skin in the game and note she participated in the recent SPP.

The collective skills matrix shown in the Corporate Governance Statement is not helpful in determining how well-suited Ms McGrath's expertise is to the business. ASA notes that Ms McGrath is on the boards of three other ASX listed companies as well as being Chairman of BT Funds Management Limited and sits on the SDF People, Culture and Governance Committee. ASA would like Ms McGrath to assure the meeting that she has the time and resources to fulfil her obligations to Steadfast. ASA will vote open proxies for this resolution after Ms McGrath has spoken to the meeting.

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## Appendix 1 Remuneration framework detail

CEO rem. Framework for FY23	Target* \$k	% of Total	Max. Opportunity \$k	% of Total
Fixed Remuneration	1,242	25%	1,242	25%
STI - Cash	1,489	30%	1,489	30%
STI - Equity	993	20%	993	20%
LTI	1,242	25%	1,242	25%
Total	4,966	100.0%	4,966	100%

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 It was disappointing that the Chairman Mr Frank O'Halloran would not meet with the ASA.