

Soul Patts adapts to changing investment climate and delivers for shareholders

Company/ASX Code	Washington H Soul Pattinson and Company Limited / SOL
AGM time and date	12 noon, Friday, 8 December 2023
Location	The Establishment Ballroom, The Establishment, 252 George Street, Sydney
Registry	Computershare
Type of meeting	In person and webcast (see below)
Monitor	Peter Gregory and Norman Windell
Pre-AGM Meeting	Yes, with Chair Robert Millner, Chief Operating Officer Jaki Virtue, Company Secretary Pamela Longstaff, Head of Corporate Affairs Courtney Howe

Monitor Shareholding: An individual involved in the preparation of this voting intention has a shareholding in this company.

The AGM will be an in-person meeting. It will be webcast for shareholders who register [here](#) . Note the webcast will be for viewing and submitting written questions only. There will be no online voting facility during the meeting. Shareholders who wish to vote and are unable to attend the meeting will need to appoint a proxy prior to midday (Sydney time) Wednesday 6 December 2023. [This link describes how to appoint ASA as your proxy.](#)

1. How we intend to vote

No.	Resolution description	
2a	Elect David Baxby as a Director	For
2b	Re-elect Tiffany Fuller as a Director	For
2c	Re-elect Josephine Sukkar as a Director	For
3	Remuneration Report	For
4	Grant of Performance Rights to the CEO & Managing Director	For
5	Increase Non-Executive Director fee pool	For

2. Summary of Issues and Voting Intentions for AGM

- Washington H Soul Pattinson (WHSP) dividends. Since mid-2021 Australia has seen a dramatic increase in inflation that has caused the Reserve Bank to respond with a series of adjustments in the cash rate. The impact on home mortgages and cost of living increases has been well publicised. But with the banks now offering depositors interest rates in the vicinity of 4%, we believe that some investors, especially those who look for income, are changing their view of what makes an attractive investment and are adjusting their portfolios. This is in fact what WHSP has done in reducing their exposure to Large Caps and

growing its Structured Yield portfolio. Given that the current WHSP dividend yield is about 2.8% or 3.8% when grossed up for franking, we will ask the board at the AGM to consider deploying a greater amount of its Regular NPAT to shareholders through increased dividends. With FY23 Regular NPAT at 237c per share the payout ratio was 37%. WHSP has franking credits to support this.

- **Board Skills Matrix.** At every AGM, shareholders have to vote for the people they will entrust the leadership of their company to. The brief CV in the WHSP Notice of Meeting provides limited information and does not convey a picture of the specific skill set of each director, and how each contributes to the whole. The board skills matrix that WHSP has (p 37 of their Annual Report) meets the requirements of the ASX Corporate Governance Principles and Recommendations. However, by individually listing the skills and experience of each director, there is an opportunity for WHSP to better inform its shareholders thus enabling them to make a more confident decision when they vote for directors, and more readily identify any skill gaps. For each of the directors standing for election at the WHSP AGM we will ask them to describe their skills and experiences against the board skills matrix and the most significant contribution they expect to make to WHSP.
- **Doubling of company headcount.** WHSP now has a headcount of 51 people having recruited 23 professionals since 1 July 2022. This includes Jaki Virtue, Chief Operating Officer who has joined the WHSP executive team with responsibility for operational risk, governance and people & culture. The additional people reflect WHSP's increasing scale and diversity of investments requiring new skill sets to manage investment risk, assess new opportunities and to sustain WHSP competitive strengths. WHSP, in recruiting and retention, is focused on people who have a close alignment with it. Nevertheless, WHSP is like no other, and an organisation change of this scale will take careful integration for a synergistic outcome. At the AGM we will ask for a description of how this is happening.

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

3. Matters Considered

Accounts and reports

Financial performance

(As at FYE)	2023	2022	2021	2020	2019
NPAT (\$m)	690.7	-12.9	273.2	953	248
Regular profit after tax (\$m)	759.7	834.6	328.1	169.8	307.2
Share price (\$)	31.78	23.54	33.73	19.53	21.99
Dividend (cents)	87	87*	62	60	58
Simple TSR (%)	39%	-28%	76%	-8%	3%
EPS (cents)	215	-4	114	398	104
CEO total remuneration, actual (\$m)	6.0	3.7	2.9		

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. * included 15c special dividend

WHSP has a very diverse investment portfolio and, with the various ownership structures of their investments, they use three performance measures to monitor business performance and to best align the operation of the business with shareholder outcomes. These are:

- **Group Regular NPAT** - This measure excludes non-regular items of income and expense which by nature are outside the ordinary course of business or are part of ordinary activities but are unusual due to their size. For FY23 at \$759 million it was down 9% on the prior year largely due to lower profit from Brickworks and Aeris and the loss of income from Round Oak. These were partly offset by higher contributions from New Hope, TPG, Emerging Companies and Structured Yield. (Note FY23 Statutory NPAT increased largely due to a significant non-cash impairment in FY22 following the Milton merger (\$984m), and the gain from deconsolidation of New Hope (\$173m)– these non-recurring amounts are not included in Regular NPAT.)
- **Pre-tax Net Asset Value** – This measure reflects the underlying value of WHSP to investors. This increased by 8.8% vs pcp. When adding back dividends, the total portfolio returned 12.3% which outperformed the All Ordinaries Index by 1.2% for the year. See below for changes in Net Asset Value by portfolio component.
- **Net Cash Flow from Investments** is a measure that excludes non regular cash inflows and outflows to demonstrate the underlying cash flow generated by the investment portfolio. Cash flow increased 22% vs pcp. Despite a more defensive positioning in equities, growth in cash flow came from stronger dividends in the Strategic Portfolio and income growth from Structured Yield.

In adapting to changing investment environment and responding to opportunities FY23 was marked by significant transaction activity and a rebalancing of the Group Portfolio. The following chart gives a high-level view of changes in WHSP investment strategy with the most significant adjustments being a 26% reduction in Large Cap and an 83% increase in Private Equity and a 161% increase in Structure Yield. And with a \$470 million increase in Net Working Capital WHSP is entering FY24 with more than \$500 million of commitments across private market investments.

Portfolio Net Asset Value						
	FY23		FY22 to FY23 change		FY22	
	\$ million	Allocation	\$ million	% age	\$ million	Allocation
Strategic	5192	48%	355	7%	4837	48.6%
Large Caps	2305	21%	-798	-26%	3103	31.2%
Private Equity	1199	11%	545	83%	654	6.6%
Structured Yield	652	6%	402	161%	250	2.5%
Emerging Companies	629	6%	17	3%	612	6.1%
Property	113	1%	-113	-50%	226	2.3%
Net Working Capital	744	7%	470	172%	274	2.8%
NAV (pre tax)	10834	100%	878	9%	9956	100.0%

A fuller Portfolio Review, description of this rebalancing and outlook commentary is provided in pages 11 – 22 of the Annual Report.

Key events

For WHSP FY23 was a busy year for acquisitions:

- Ampcontrol is targeting accretive merger & acquisition strategies to accelerate access to decarbonisation solutions for its customers. During the second half, Ampcontrol acquired Androck Engineering, a supply, manufacturing and engineering and re-engineering business that resolves problem issues in the underground mining sector.
- Aquatic Achievers, an Australian swim school operator acquired by WHSP Group in 2018, has continued to expand its national presence through the acquisition of Carlile Swimming (NSW market leader) and Kirby Swim (WA-based operator). With a combined 26 sites in operation, Aquatic Achievers averages 50,000 swimming lessons per week and is well positioned for growth.
- WHSP are adding to their agricultural holdings by expanding in citrus and table grape verticals and purchasing a significant stake in G2 Netting Systems which provides crop protection.

Key board or senior management changes

As noted above Jaki Virtue has joined WHSP as Chief Operating Officer bringing over 20 years of executive experience in transformation, people, and governance.

Pamela Longstaff has been appointed as Company Secretary. Pamela, as well as Governance and Company Secretary experience has had legal, company leadership and sustainability responsibilities.

David Baxby joined the board following the resignation of Warwick Negus in December 2022.

Sustainability/ESG

WHSP, in their Annual Report, described (p66-79) their progress and plans for ESG and Sustainability. Here are some highlights:

- Engagement with investee companies on managing climate related risk and opportunities,
- Incorporation of ESG factors into investment decisions,
- Expansion of the company incentive program throughout WHSP to achieves closer alignment with shareholders,
- The board remuneration committee now has people and culture as part of its charter to give focus on the people of WHSP,
- During the year WHSP surveyed shareholders and the broader investment community to gain a better understanding of what is most important to them,
- A comprehensive discussion of success with sustainability in their direct operations (WHSP Sydney, head office with 51 employees,

- Acknowledgement WHSP’s reach is far more extensive so a presentation of WHSP ESG approach with their controlled investments is provided – Ampcontrol, Aquatic Achievers and Agriculture & Water Investments,
- With WHSP substantial investments (Strategic Investments), as active investors, WHSP provides counsel on strategy and monitors performance. ESG initiatives for these companies are described,
- As an overall position WHSP states “As a responsible investor, owner and operator, WHSP continues to focus on Environment, Social, and Governance initiatives across our portfolio. Our principles-based approach to ESG is one of continuous improvement across those operations under our direct control and to engage, influence and monitor performance across our broader investment portfolio”,
- WHSP is “adopting the TCFD framework across our direct operations, and we are working on an emissions and sustainability measurement and reporting framework.” Evidence of good progress provided but still a work in progress with a FY25 target for full completion.

4. Rationale for Voting Intentions

Resolution 2a Elect David Baxby as a Director of the Company **For**

Following the retirement of Warwick Negus the board has appointed David Baxby as a NED. He has broad experience with executive roles in software, industrial, airline industries as well as having co-founded an investment firm.

Resolution 2b Re-elect Tiffany Fuller as a Director of the Company **For**

Tiffany Fuller has been a WHSP directors since 2017 and has a strong background in the investment industry. She has contributed to the board with her accounting, corporate advisory transaction experience, risk management and governance skills.

Resolution 2c Re-elect Josephine Sukkar as a Director of the Company **For**

Josephine Sukkar has wide experience in the building industry as a principal of a construction company and served on a number of industry bodies. She has also been involved, including as a director, in charitable bodies, sporting associations and government bodies.

Resolution 3 Remuneration Report of the Company for the year ended 31 July 2023 **For**

The Remuneration Report is readable, transparent, and understandable with a logical relationship between rewards and financial performance.

The following concerns were raised last year:-

- Given the size of WHSP, the use of ASX 200 and All Ordinaries Accumulation indices as performance benchmarks no longer seem appropriate, and we’ve requested consideration of other benchmarks that are better aligned to WHSP.
- With relative TSR it is more common practice to compare to a set basket of companies and to match against a particular percentile point.

but WHSP, while open to discussion on alternatives, believes that due to the lack of a valid comparator group their approach is appropriate.

The Rem Report largely meets all the other ASA criteria.

Overall, this is satisfactory alignment with performance, peer performance, market relativity and Shareholder benefits.

Resolution 4 Grant of Performance Rights to the CEO & Managing Director For

The performance rights are in line with the remuneration plan and their award, if vested, are consistent with shareholder interests.

The CEO will be granted 109,567 Performance Rights. This number of PRs has been determined by the *\$ value of the maximum award / (Volume Weighted Average of the company's share price over the 14 days prior to the announcement of the FY23 financial results minus (the annual dividend X Measurement period in years))*.

Resolution 5 Increase in aggregate maximum Non-Executive Director fee pool For

Maximum remuneration of NEDs was set at \$2.0 million in 2016. The company is seeking an increase to \$2.75 million to enable WHSP to set fees according to market conditions and responsibilities of a WHSP director, bearing in mind that the market capitalisation of the company has tripled since 2016. Also, with the increasing complexity of the business the board is reviewing the skills, competencies, qualifications and experiences needed by directors to enable effective oversight of the company – the outcome of this may be that it is appropriate to appoint up to two additional NEDs. In addition, as part of succession planning this increase will provide for an overlap of new and retiring directors. It is important that the board have the capability to implement these strategies and achieve the best outcome for shareholders.

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Appendix 1

Remuneration framework detail

WHSP Remuneration Plan							FY23 Actual	
CEO rem. Framework for FY23	Threshold \$m	% of Total	Target \$m	% of Total	Max. Opportunity \$m	% of Total	\$m	% of Total
Fixed Remuneration	1.60	43%	1.60	33%	1.60	22%	1.60	27%
STI - Cash	1.28		1.60		2.40		2.00	
STI - Equity								
Total STI	1.28	35%	1.60	33%	2.40	33%	2.00	34%
LTI	0.80	22%	1.60	33%	3.20	44%	2.30	39%
Total	3.68	100%	4.80	100%	7.20	100%	5.90	100%

STI achievement

% of target	% of maximum
125%	83%

The Remuneration Report is comprehensive and has well balanced STI's and LTI's linked to financial and non-financial performance and to creating long-term shareholder value.

A large portion of the CEO remuneration (72%) is at risk and subject to meeting performance hurdles.

For the CEO the Short-term incentive (**STI**) threshold is 80% of Fixed Remuneration FR with a target of 100% and a maximum of 150%. It is awarded on a combination of 50% Net Cash Flow from Investments per share and 50% Adjusted Net Asset Value (post tax) per share. For FY 2023 the CEO achieved an STI of 124% of FR compared to 151% for FY2022. This establishes the STI pool which can then be adjusted to reflect an assessment of individual performance based on KPIs that are set at the commencement of the year. STI is paid in cash following the release of the year-end results.

The MD's Fixed Remuneration (**FR**) in FY23 was \$1,603,907 (Cash plus Superannuation) increasing from \$1,555,615 in FY22. +3.1%

Long-term incentive (**LTI**) equal to target is 100% of **FR and** is granted as cash or shares with performance measured over three years. The **LTI** grant is divided into 2 tranches with 50% of the **PSRs** subject to a Total Shareholder Return (**TSR**) hurdle ranked against the All Ordinaries Accumulation Index and 50% against the CAGR in Net Assets Per Share. These can be paid as shares or cash but are subject to vesting.

During the year the CEO was granted 129,765 additional LTI Rights in lieu of a cash performance fee from his role as MD of Pitt Capital. These vest from 2025 to 2027 and have a 12 year sale restriction post vesting.

The MD's total actual remuneration in FY 2023 including STI earned in and the value of shares which vested was \$6.0M compared to \$3.7 in FY22.

The company's auditors, EY, are of the opinion that the remuneration report complies with section 300A of the Corporations Act 2001.