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Dividends and more buybacks for AMP

Company/ASX Code	AMP Limited/AMP
AGM date	Friday, 12 April 2024
Time and location	10am Wesley Theatre, Wesley Convention Centre, 220 Pitt St, Sydney
Registry	Computershare
Type of meeting	Hybrid
Monitors	Julieanne Mills, Chad Moffiet, Miles Wu
Pre AGM Meeting?	Yes with Chair- Debra Hazelton, Michael Sammells – NED, Chair of Remuneration Committee Rebecca Nash – Head of People & Culture Richard Nelson - Head of Investor Relations

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

Proposed Voting Summary

No.	Resolution Description	
2a	Election of Kathleen Bailey-Lord as a Director	For
2b	Election of Anna Leibel as a Director	For
3	Adoption of Remuneration Report	For
4	Approval of the CEO's long-term incentive for 2024	For
5	Approval to exceed 10/12 buyback limit	For
6	Conditional Spill Resolution	Against

Summary of issues for meeting

Last year AMP received a 46.1% first strike against the remuneration report. If shareholders vote for a second strike at this AGM, which is an against vote of 25% or more, the shareholders will have to vote on a board spill. At our pre-AGM meeting, we questioned the directors as to how the board had addressed our concerns around remuneration. In particular, we asked how the downsizing of remuneration is in line with the new scale of the business. Many of the remuneration changes are in line with the Australian Prudential Regulator Authority (APRA) cross-industry prudential standard on remuneration requirements (CPS 511). These changes have seen more transparent reporting from the board; however, the CEO's potential remuneration quantum has not changed.

AMP's share price has continued to decline while more capital is put into on-market buybacks. The sharemarket responded to the end-of-year results was a 10.3% increase in price from 97 cents to

$1.07. Earnings beat expectations. However, the share price is still down around 19% from the same time last year.

Summary of pre-AGM discussion

Our pre-AGM discussion with AMP opened with a look at their sharpened strategy, highlighting a rejuvenated leadership team under Alexis George, who commenced as CEO in August 2021. They've chosen to spin off the funds management division, shifting focus towards bolstering wealth and retail banking across Australia and New Zealand. The plan is to enrich these services by bringing in fresh technological know-how and enhancing the board's strength.

Key to their growth is digital banking and tech investments, aimed at streamlining operations and improving customer service. The importance of selecting strategic partners for growth, particularly in Australia, was underscored. This is seen as essential for broadening the business scope and melding tech solutions seamlessly. The partnership strategy is pivotal for launching new offerings efficiently, ensuring both the company and its clients reap the benefits.

The discussion touched on the addition of new directors with finance and technology expertise and the appointment of Mike Hirst as chair, whose extensive experience in financial services boosts AMP's confidence in its ability to adapt and grow.

Attention was given to cost management and the necessity for wise financial practices, underscoring the push to cut operational costs and enhance efficiency. The competitive challenges faced by smaller banks, especially in dealing with regulatory demands and attracting customers, were acknowledged.

A detailed conversation on share buybacks as a strategy to reward shareholders and improve the company's financial structure ensued. The chair advocated for share buybacks, citing them as an effective method to boost shareholder value, thanks to AMP's excess cash and the stock price's undervaluation. She stressed a balanced strategy that boosts immediate earnings per share while considering long-term growth opportunities. However, concerns about the buyback timing and size were raised, highlighting the need to keep financial flexibility for future plans.

The meeting wrapped up with insights on the critical role of transparent metrics and an equal focus on short-term results and long-term growth. It underscored the difficulty in satisfying shareholder expectations while making strategic moves required in a competitive banking environment. The final note was on the importance of organisational cultural shifts to drive change and meet objectives.

Summary of ASA Position

It is good to see the legacy issues addressed despite a one-off cost for the Buyer of Last Resort (BOLR) of a $99m settlement, plus a cost to AMP of $36m for the shareholder class action.

Alexis George has now been CEO for over two years. The business has been simplified, costs have been reduced somewhat, and capital is being returned to shareholders in the form of dividends and on-market share buybacks.

The conversations with Michael Sammells, Chair of the Remuneration Committee, revolved around the difficulties of reducing the CEO's contracted remuneration when she was employed at a time when the company was much larger. Alexis has achieved significant change and is transforming the company, and we understand the need for CEO stability however we still see the quantum and the focus on short-term incentives as problematic in the long-term.

AMP has focused on reducing overall KMP remuneration.

We were disappointed to not meet the incoming chair or new directors at our pre-AGM meeting. We hope to hear from them at the AGM.

Financial performance

(As at FYE)	2023	2022	2021	2020	2019
NPAT ($m) underlying	196	184	280	233	439
NPAT($m) statutory	265	387	(252)	177	(2467)
Share price ($) on 31 Dec	0.93	1.31	1.01	1.56	1.91
Dividend (cents)	4.5	2.5	0	10	0
Simple TSR (%)	(33.5)	32	(35)	(7.2)	(28)
EPS (cents) underlying	6.8	5.7	8.4	8.6	14
CEO total remuneration, actual ($m)	2.984	2.792	2.936	4.69*	3.53

*Includes prior CEO, De Ferrari, sign on payments. His remuneration was reported as $2.2m.

Underlying earnings per share was up 19.3% compared to FY22 and the underlying NPAT of $196m was up 6.5% on FY22.

NPAT statutory was down to $265m reflecting a net gain $245m from the sale of AMP Capital and Super Concepts, offset by litigation and remediation costs and transformation cost out.

Advice reduced losses, from $68m, down to $47m.

Bank profits fell 9.7% to $93m. A deliberate slowing in mortgage book as AMP faces margin compression and competition and with the net interest margin (NIM) guidance of a fall to 1.1%-1.15% in FY24, from 1.27% in FY23. AMP is focused on new sources of revenue with an $60m investment in Engine, the subsidiary of leading UK digital Bank Starling, to provide a digital small business banking app for first quarter (1Q) FY25. This should lessen funding risk and build deposits to grow assets under management (AUM) business.

Net debt was reduced by $337m. $416m debt from cheap term funding facility (TFF) from RBA is to be paid back by June 2024.

$295m is to be returned to shareholders via an on-market buyback and $55m as a final dividend of 2 cents per share, 20% franked, bringing the annual dividend to 4.5 cents.

Wealth has improved 38.5% to $90m with AUM up 2.6% to $68.1bn

Master trust outflows reflected the loss of $4bn Woolworths super mandate.

Capital Management has seen $750M returned to shareholders since Aug 2022

China Life saw a fall in profit drop from $49m to $39m due to an inability to sell private wealth products to onshore Chinese retail clients and the US business, PCCP, saw falls in profit from $40 to $19m due to slump in real estate valuations.

Governance and culture

Debra Hazelton retires at the AGM after 3 years as Chair and 5 years on the board, having seen a significant improvement to culture, simplification of the business, a new CEO and a $750m return of capital via on market buybacks and dividend payments. The incoming chair, Mike Hirst, was appointed to the board in 2021 and will take over as Chair after the AGM.

Two new board members, Anna Leibel and Kathleen Bailey-Lord joined the board in January 2024 with further digital transformation, technology, and financial services skills to add to the skills mix. (Details in election item below.) Kate Mackenzie stepped down, after 3 years on the board, at the end of 2023. The board represents a 50:50 gender mix.

Reptrak is an independent external evaluation of reputation and has been engaged to track progress on reputation, and is linked to short and long-term remuneration outcomes, providing a greater focus on rebuilding the brand.

Employee Engagement improved markedly in 2022 with Alexis's appointment and has remained steady at 73 in 2023.

A minimum shareholder requirement is in place, with some directors not meeting this requirement. The reason given was limited opportunities to buy shares, so the restricted periods for trading have been adjusted. It's hoped this will motivate directors to buy more shares and align with shareholder interests.

The CEO currently owns 1,705,467 shares, more than the required minimum but less than the 2026 target of twice her fixed remuneration.

ESG

AMP has a 40:40:20 gender balance across all levels of the organisation. WGEA pay gap scores are slightly worse than the Australian average but good in comparison to other financial services and is largely due to more women in lower paid jobs. They have an inclusion diversity program in place.

An AMP Stretch reconciliation Action Plan (RAP) was launched in 2023, with the AMP foundation making a $2m donation to First Australians Capital and Global Sisters.

Advisor and broker satisfaction scores have risen significantly to 81% and 84% respectively. Resolved legacy issues should see continued improvements.

AMP is Carbon neutral for the 11th year in a row and has seen a 53% reduction in scope 1 & 2 emissions from 2022.

They have 75 responsible investment options in the MyNorth Platform.

Key events

Completion of AMP Capital sale and Super Concepts.

At the end of October 2023, AMP confirmed that final completion had occurred for the sale of AMP Capital real estate and domestic infrastructure equity business to Dexus.

In November 2023, AMP announced it is launching a digital bank division built specifically for sole traders and small business through a $60m partnership with Engine by Starling, a software as a service (SaaS) business.

Following the sale of AMP Capital, close to $2.5b was raised from asset sales with $1.1bn planned as a return of capital. To date, $750m has been returned via on-market buybacks and dividends, the last tranche of $350m capital return will be returned via further dividends and buybacks.

Key board and senior management changes

The executive structure has been flattened and simplified with one less KMP with the sale of AMP Capital. Scott Harley, CEO AWM, left in July 2023 and has not been replaced.

There have been several CFO changes in FY23. James Georgeson left in January and was replaced by Peter Fredricson. He was replaced by combining Blair Vernon's role of Group Executive

Transformation and CFO in July 2023. His background in wealth management seems in line with the new focus of AMP.

AGM Resolution Items

Item 2a. Kathleen Bailey-Lord was appointed to the board in January 2024. She sits on the Nominations and Remuneration committee and AMP Bank board.

Her experience includes board and executive leadership roles in financial services, technology, utilities and education, including Bank of Queensland, ANZ, and IBM

She is the Chair of Janison Education Group, non-executive director (NED) of Alinta Energy, Datacom Group, St Vincents Health, and the Australian Institute Company Directors (AICD) Victorian councillor and president.

Kathleen currently holds 0 shares.

The ASA will vote **FOR** her election.

Item 2b. Anna Leibel was appointed to the board in January 2024. She is a member of the Nomination and Risk committees and AMP Bank. Her experience encompasses financial services, telecommunications, infrastructure and healthcare. Anna was Chief Delivery and Information Officer at Uni Super (2017-2021) and has held senior executive roles at PWC and Telstra.

She has no other ASX listed board roles.

Anna currently holds 0 shares.

The ASA will vote **FOR** her election.

Item 3. Adoption of Remuneration Report

The remuneration report is clear and relatively simple with well-defined targets. It now includes more details about the years short-term incentive (STI) goals and results, making the process more transparent. The portion of STI based on financial metrics has increased from 40% to 60%, with new factors like return on capital, net cash flow from platforms, and total controlled costs being considered, marking tasks for the new CFO and transformation executive.

Although overall executive pay has been reduced by restructuring the executive team, there's concern over the high potential for STI, which can be up to 200% of fixed pay and exceeds the long-term incentives (LTI). The cash part of STI being 60% significantly raises the short-term appeal of the incentive.

The CEO’s fixed pay and total potential incentives remain at a high $1.72m and $6.86 million, respectively, despite the business shrinking. While there's been a reduction in total pay for key management personnel and the board, further cuts are desired to mirror the company's streamlining.

No LTI, transformation incentive, or sign-on award for the CEO were awarded this year due to performance metrics not being met. The CEO’s actual pay in 2023 was awarded with 75% of her STI at target, (37% of the maximum) and less than half of her total potential remuneration.

Despite improvements, CEO compensation still leans heavily towards short-term incentives, with a three-year vesting period making it somewhat more acceptable. The CEO’s fixed remuneration has not increased.

Australian Shareholders' Association (ASA) has deliberated carefully on our vote on the remuneration report for our undirected proxies. We have weighed up whether the board has adequately listened to shareholders' feedback and whether it should reduce the size of CEO potential pay. ASA considers the board has attempted to navigate the varied concerns of different shareholders, who may have diverging interests, while also working on the reconstruction of AMP. Remarks from the chair regarding the distribution of dividends suggest that the board is striving to balance these competing issues. Nonetheless, for shareholders who have endured challenges for an extended period, maintaining patience remains a significant challenge.

We can see arguments for voting for and against the remuneration but see no point in sitting on the fence.

When all factors are taken into consideration, we see the efforts the refreshed board are making towards reducing costs, improving the transparency around the remuneration, and the bind that they are in with needing to honour the current CEO's contract, justify the course of action and the remuneration outcomes. There has been no application of upward discretion in this year's outcome.

It is important to have an appropriately skilled CEO for the transition of AMP. Alexis is only 2-3 years into this transformation and there is still much to do. We have seen reasonable progress and feel that maintaining stability and leadership is important at this point so we will support the board's decision in this instance.

We would encourage shareholders to consider these points when directing their vote for or against the remuneration report, they may have an alternate view.

In this case we will vote FOR adopting the remuneration report but will be vigilant in continuing to monitor AMP going forward.

Item 4. Approval of CEOs Long Term Incentives for 2024

Approval is sought for a grant of up to 1,844,087 performance rights with a face value $1.715m, to CEO, Alexis George. Face value is based on the volume weighted average price (VWAP) of $0.93.

Performance hurdles: 35% compound average growth rate (CAGR) of relative TSR of ASX 200 financial companies with vesting above the 50 percentile, 35% CAGR of adjusted EPS, vesting above 4% pa and 30% reputation. The performance period is 3 years plus a restriction period of 1-, 2- and 3-years, pro-rata.

Financial and non-financial measures are included and while the ASA prefer to see more than 3-year performance period we acknowledge that the extra years of restriction provide reasonable alignment with shareholders. On balance the LTI is reasonable. Our concerns are mainly confined to the STI and quantum of fixed remuneration.

The ASA will vote **FOR** the CEO's LTI for 2024.

Item 5. Approval to exceed 10/12 buyback limit.

The company is seeking approval from shareholders to buy back up to 350 million shares, which would increase the share buyback to more than 12.8% of its total shares in the next 12 months. The board discussed this as part of a strategy to effectively use the $1.1 billion allocated for returning capital to shareholders. This plan includes the option to buy back more shares if no other alternatives are available. Purchased shares will be immediately cancelled, reducing the total number of company shares. The purchase price will follow specific stock market rules, not exceeding an average price limit.

This buyback is seen as beneficial because it can help maintain or increase the stock price, reduce available shares (potentially boosting long-term returns for shareholders), protect against takeovers, and doesn't rely on additional tax credits. More details can be found in the notice of meeting on page 18.

Shareholders might view the value of the buyback differently, depending on their investment goals and tax situations, and are encouraged to give a directed vote in a way that reflects their interests.

The ASA will vote **FOR** approval to exceed 10/12 buyback limit.

Item 6. Conditional Spill Motion

Item 6 involves a possible spill motion, which will only be considered if 25% or more of the votes are against the Remuneration Report discussed in Item 3. ASA views a spill motion as a major action that could be expensive in terms of causing significant disruption to the company. ASA would only back such a motion if the board ignored shareholders' concerns and changes were necessary. However, we consider the board has made some efforts to address these concerns. Although the response might not be as comprehensive as desired, it doesn't justify the upheaval a spill motion would cause.

The ASA will vote **AGAINST** a spill motion.

See ASA Voting guidelines and Investment Glossary for definitions.

Appendix 1
Remuneration framework detail

Refer to pp 40-76 Annual Report

CEO rem. Framework for FY23	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.715	33.3	1.715	25
STI – Cash 60%	1.029	20	2.058	30
STI – Equity 40% year 2, 3, 4.	.686	13.3	1.372	20
LTI vesting over 6 years (measured over 3 years in FY23)	1.715	33.3	1.715	25
Total	5.145	100.0%	6.86	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.

FY23

- STI was paid 60% in cash and 40% in equity The equity vests pro-rata in year 2, 3 & 4 for the CEO and over 3 years for the KMP. ASA prefers a 50:50 split of cash and equity.
- The CEO received 75% of her STI target for FY23.
- The LTI had a 3 year performance period and a 3 year restriction on top for CEO and 2 years for KMP allowing for clawback and malus if necessary.
- LTI is now measured against CAGR of RTSR (35%), CAGR of EPS (35%) and Reptrak (30%). No vesting occurs unless it goes above 50th percentile RTSR and 4% EPS CAGR.
- There was no LTI awarded in FY23.
- The APRA CPS511 requirements came into effect from January 2023. Which include the extension of LTI restriction period and increase time frame out to 6 years, and additional financial and non-financial measures that have improved alignment with long term shareholders.
- The chair receives $561k base fee and the board members base fee is $204k, committee fees range from $21,590 to $46,750 for the chair. The board fees were capped at $4.62m in 2015 when AMP's market cap was around $12bn. In 2023 a total $2.157m was spent on board fees, they have been reduced by 46% from 2019 highs.
- There is a Minimum Shareholder Requirement (MSR) of base fees within 4 years, with 25%/year expected. Not all directors comply, depending on how it is calculated?
- Board discretion was not used to adjust the STI scorecard and outcomes in FY23.
- Actual CEO remuneration is disclosed in a table on p49.

There has been no increase or decrease in CEO FR, however the number of key executives has been reduced, reducing the overall executive pay. AMP has changed their benchmarking group and have committed to align remuneration to the median of the benchmark over time in recognition in the change in scale of the business.

They have increased the financial measures from 40-60%, now including: ROC, Platform net cash, and total controllable costs to NPAT statutory and underlying performance. CPS511 requires non-financial measures to be included.

Reptrak has been used in STI and LTI to measure both long- and short-term reputation reflecting continual improvement vs relative improvement.