Australian Shareholders' Association
STANDING UP FOR SHAREHOLDERS

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| **Company** | Macquarie Group |
| **Code** | MQG |
| **Meeting** | AGM |
| **Date** | Thursday, July 25, 2013 |
| **Time** | 10.30am |
| **Venue** | Grand Hyatt, Melbourne |
| **Monitor** | Stephen Mayne |

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| **Item 1** | Approval of accounts |
| **ASA Vote** | Not applicable |

**Summary of ASA Position**

After a few wobbles through the GFC, Macquarie Group has performed better in recent times and its share price rose strongly from about $26 to more than $44 over the past year.

NPAT was up 17% to $851 million and the 2013 financial results featured an unfranked 75c interim dividend and then an unexpected jump in the final dividend to $1.25, which was 40% franked.

The funds management division performed best and Macquarie remains the world's biggest owner and manager of infrastructure assets, amidst a wide range of other increasingly international businesses.

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| **Item 2** | Re-election of Michael Hawker |
| **ASA Vote** | Against |

**Summary of ASA Position**

ASA has two concerns about Mr Hawker's re-election. Firstly, his record as CEO of Insurance Australia Group (2001-2008) was marred by a disastrous foray into the UK market. All up, IAG shareholders have lost more than $1.3 billion on its UK business, starting with a $350 million write-down shortly after Mr Hawker resigned in 2007-08 and finishing with a $240 million net loss from the UK division in 2012-13 after it was finally sold. After 6 years of hell in the UK for IAG, the 2013 Macquarie AGM does give Australian shareholders more generally a chance to reflect on one of those who was clearly responsible for the move.

ASA's other concern relates to Mr Hawker's excessive workload, especially given the complexity of the always evolving Macquarie Group. At Macquarie he serves on three committees – audit, risk and governance – and was paid $322,917 last year. He owns a modest 4,500 shares which are currently worth about $200,000.

ASA has long had a policy of voting against overloaded directors if they hold more than 5 directorships, and we equate a chairmanship to 2 directorships.

Whilst the London-based Mr Hawker only sits on 3 public company boards, two of them (Macquarie and UK-based insurance giant Aviva), are complex global organisations requiring a substantial contribution from directors. The third, Washington H Soul Pattinson, has a governance structure featuring undemocratic cross-shareholdings which should have been unwound years ago. He serves on the audit committee of all three listed companies.

In addition, Mr Hawker has a suite of commitments in the world of rugby union, including being chairman of both the Australian Rugby Union and the larger SANZAR (South African, New Zealand and Australian Rugby). He also sits on the Dublin-based International Rugby Board Council and its Executive Committee, which meets regularly. Throw in his chairmanship of the Sydney-based George Institute for Global Health, a directorship of the Boston-based Giant Steps Foundation and his position on the advisory board of Hong Kong-based private equity firm GEMS and you clearly have one of the most over-committed professional directors in the Australian market.

Despite living in London, ASA acknowledges that Mr Hawker's attendance record at Macquarie in the latest year was exemplary. And whilst he has considerable banking experience from past roles at Westpac and Citi, on balance ASA is opposed to his re-election and calls on Mr Hawker to relinquish some of his commitments to free up sufficient time to devote to his important role as a senior independent director at Macquarie Group as it moves through a critical period of board succession.

| **Item 3** | Election of Michael Coleman |
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| **ASA Vote** | For |
| **Summary of ASA Position** | |

Mr Coleman was appointed to the Macquarie board in November 2012 and will replace long-time audit committee chair Catherine Livingstone after the 2013 AGM. Mr Coleman is well qualified for the role having been a senior national audit partner at KPMG for 30 years. PwC has been the long-time auditor of Macquarie and most of its listed satellites so there are no conflict issues.

Mr Coleman has no other roles with listed companies although he does sit on the Reserve Bank audit committee and is deputy chairman of the Financial Reporting Council amongst other roles.

Given that Macquarie chairman Kevin McCann and remuneration committee chair Helen Nugent are both expected to retire at the 2014 AGM, the directors clearly have some careful succession planning to manage over the next year.

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| **Item 4** | Approval of Remuneration report |
| **ASA Vote** | For |
| **Summary of ASA Position** | |

Whilst the author of this report coined the phrase "Millionaire Factory" for Macquarie Bank back in 1997, after many years of debate at AGMs we have come to accept the contribution made by the bank's unique remuneration arrangements to its success.

There is no other Australian listed company with a greater element of profit-based or at risk remuneration.

And after the excessive focus on short term cash bonuses was phased out with the retirement of former CEO Allan Moss in 2008, Macquarie's remuneration arrangements have continued to positively evolve in recent years.

The record high 21.44% vote against the 2007 remuneration report was a catalyst for change and last year's 98.43% vote in favour was the highest on record.

ASA commends Macquarie for abandoning any vesting of executive long term incentive schemes at less than 3 years and maintaining a market-leading hold back of equity bonuses for as much as 7 years. This includes the unprecedented situation of CEO Nicholas Moore having 77% of his declared 2012-13 incentive payments withheld for 3-7 years.

There is clear alignment with shareholders with meaningful equity holdings at both board and management level. Indeed, Mr Moore currently owns 1.436 million ordinary shares worth approximately $63 million, more than any other non-founder CEO in the Australia market.

His 2012-13 total pay was reported at $8.82 million, marginally up from $7.79 million previously, but this followed strong performance, the vesting of past benefits and remains well below some of the excessive pay packets that featured at Macquarie in years gone by.

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| **Item 5** | Approval of termination benefits |

| **ASA Vote** | For |
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| **Summary of ASA Position** | |
| Amendments to the Corporations Act have defined approximately 500 Macquarie staff as being those in "managerial or executive office" and therefore subject to shareholder approval for certain termination benefits.<br><br>Whilst ASA often opposes pre-approval of termination benefits for senior executives, Macquarie's unique deferred equity-based retention arrangements for senior staff over a multi-year time frame, means that its entire remuneration structure is in conflict with the new provisions and would trigger numerous requests for shareholder approval.<br><br>Shareholders gave a general approval for payments to departing staff in December 2009 with 96.3% in favour in a poll and Macquarie is to be commended for seeking a renewal of this general mandate in 2013.<br><br>There is an element of "blank cheque" in this approval and Macquarie has detailed numerous scenarios and variables in the arrangements over 14 pages in the notice of meeting.<br><br>In light of the broad confidence that ASA has in the independent non-executive directors overseeing Macquarie's remuneration arrangements, we will be voting undirected proxies in favour of this item. | |

| **Item 6** | Approval of Nicholas Moore's LTI scheme participation |
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| **ASA Vote** | For |
| **Summary of ASA Position** | |
| As the owner of 1.43 million ordinary shares in Macquarie, CEO Nicholas Moore has a strong incentive to continue driving shareholder returns. Nonetheless, the ongoing LTI scheme continues to be added to each year and the proposal this year is for $4.48 million of the CEO's 2013 retained profit share to be allocated to so-called Restricted Share Units (RSU) under the Macquarie Group Employee Retained Equity Plan (MEREP).<br><br>On June 25, Macquarie announced that it had purchased $216 million worth of MQG shares at an average price of $43.56 for the company wide MEREP. Therefore, Mr Moore will be issued 97,531 RSUs which will be withheld for 3-to-7 years with 20% released each year.<br><br>The rolling nature of the scheme is demonstrated as this resolution also proposes the allocation of $2.2 million worth of new Performance Share Units to Mr Moore in two equal tranches over 3 and 4 years respectively. ASA prefers a performance period of at least 4 years for LTIs but acknowledges the overall long-term nature of the Macquarie remuneration scheme, particularly the withholding of granted RSUs for up to 7 years.<br><br>The PSUs are subject to two equal hurdles which combine to make them sufficiently challenging. The first requires compounding EPS growth of at least 7.5% over the performance | |

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| period and the second requires a Return on Equity (ROE) measure of at least 50% against a newly formulated basket of international investment banking peers. The super profits of Australia's Big Four banks are hard to beat and Macquarie has now banished them from the peer group.<br><br>ASA has previously been troubled by the discounting methodology adopted by some companies when determining the number of free securities to be issued in LTI schemes and Macquarie discloses that a share price of $45 would generate 81,447 new PSUs based on a valuation of $27.01 each. Assuming Mr Moore "shot the lights out" and achieved all the hurdles, this $2.2 million contractual benefit would actually deliver free shares worth $4.89 million in 2017 assuming the share price had reached $60 courtesy of good performance.<br><br>An equivalent item at last year's AGM was supported by 98.23% of voted shares and ASA anticipates a similar outcome this year. |

| **Item 7** | Approval of $600m worth of unsecured notes |
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| **ASA Vote** | For |
| **Summary of ASA Position** | |
| Macquarie is seeking shareholder approval for its recent offer of 6 million $100 unsecured notes in order to refresh its 15% placement capacity. The notice of meeting contains an estimate that any conversion at the current share price would equate to 4% of Macquarie's issued capital. The directors wish to seek shareholder approval to maximise flexibility for future placements. ASA prefers renounceable pro-rata capital raisings to preserve the property rights of all shareholders and will enunciate this point at the AGM whilst still supporting this resolution. | |

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