



MACQUARIE

# Macquarie Group Limited

**General Meeting**

**17 December 2009**





# What are shareholders being asked to approve?

- Item 1 – Approval of Proposed Remuneration Arrangements
  - Implementation and ongoing operation of the new employee equity plan (“MEREP”); and
  - Potential “termination benefits” – approval sought where deferred remuneration is released to terminating staff.
  
- Item 2 – Approval of Managing Director’s Participation in the new employee equity plan



## Why does Macquarie need shareholder approval for some “termination benefits”?

- *In most cases, Macquarie’s deferred remuneration arrangements will result in:*
  - *An executive’s deferred remuneration being released on vesting over the course of their employment with Macquarie; and*
  - *Forfeiture of unvested incentives when the executive leaves Macquarie.*
- However, there are limited and appropriate exceptions to forfeiture of unvested amounts for terminating staff. For example:
  - Death, total and permanent disability
  - Genuine retirement
  - Certain exceptional circumstances, subject to internal governance approvals
- Where these exceptions apply, the release of deferred remuneration to the employee may be considered to be a “termination benefit”, requiring shareholder approval.
- This approval, if granted, would also extend to the release of any accrued superannuation entitlements.



# Proposed Remuneration Changes: Retention

Total Retention levels	2007	2008	2009 Current <sup>1</sup>	2009 Proposed	2010 Proposed
<b>CEO and Managing Director</b>	20%	30%	55%	55%	55%
<b>Other Executive Committee Members</b>	20%	30%	40%	50%	50%
<b>Designated Executive Directors</b>	20%	20%	20%	50%	50%
<b>Other Executive Directors</b>	20%	20%	20%	50%	40%

- Minimum shareholding requirement: Macquarie shares must be held to an aggregate value of 5% of total profit share over ten years (Executive Committee), five years (other Executive Directors). Under the proposed changes minimum shareholding requirements will be satisfied through the new equity retention arrangements.
- Other staff are also subject to profit share retention rules, with retention proposed to be delivered in Macquarie shares under the 2009 proposed changes.

<sup>1</sup> Current refers to the arrangements disclosed as "current" in the 2009 Remuneration Report and includes the changes announced in February 2008. This is effectively the scheme that would have operated for 2009 if the proposed changes had not been announced.



# Proposed Remuneration Changes: Investment of Retained Profit Share

Proposed percentage allocation of retained profit share that is invested in Macquarie shares (New Equity Plan) and Macquarie-managed fund equity (Post-2009 DPS Plan) depending on the staff member's role:

Role	Macquarie-managed funds	Macquarie shares
CEO, Deputy MD, CFO, CRO	20%	80%
Group Head, Macquarie Capital	40%	60%
Group Head, Macquarie Funds Group	50%	50%
Other Executive Committee Members	10%	90%
Other Executive Directors	Minimum of 10% to a maximum of 50% depending on mix of funds management and other functions	Maximum of 90% to a minimum of 50% depending on mix of funds management and other functions
Staff other than Executive Directors	Nil	100%



# Proposed Remuneration Changes: Vesting and Release

The following vesting and release schedule for 2009 and 2010 retained profit share is proposed:

Role	2009 Current <sup>2</sup>	2009 Proposed	2010 Proposed
CEO	DPS Plan –vests between 5 and 10 years of service as an Executive Director. Released after ten years. Macquarie shares released after 3 years	20% in each of years 3-7	20% in each of years 3-7
Executive Committee members and		As above	As above
Designated Executive Directors	DPS Plan –vests between 5 and 10 years of service as an Executive Director. Released ten years.	As above	As above
Other Executive Directors		As above	20% in each of years 3-5
Staff other than Executive Directors	Vesting and release of 1/3 in each of years 2-4	1/3 in each of years 2-4	1/3 in each of years 2-4

<sup>2</sup> Current refers to the arrangements disclosed as “current” in the 2009 Remuneration Report and includes the changes announced in February 2008. This is effectively the scheme that would have operated for 2009 if the proposed changes had not been announced.



# Proposed Remuneration Changes: Early vesting and release

- New Disqualifying event - retained profit share will be forfeited where an individual has acted in a way that damages Macquarie, including where the action leads to a material financial restatement, a significant financial loss or any significant reputational harm to Macquarie.
- Summary of disqualifying events and release of retained profit share for a departing Executive Director:

Retention Released		Disqualifying Events	
Timeframe	Year of allocation	Review Period	Category
6 months	Retained profit share (excluding allocations for last 2 years)	6 months	Existing disqualifying events - including dishonesty, breach of duty, joining a competitor or taking a team to a competitor, plus new event described above
1 year	Retained profit share from 2 <sup>nd</sup> to last profit share allocation	7 months to 1 year	Non-solicitation, dishonesty and breach of duty clause and material financial restatement, significant financial loss or significant reputational harm (new event)
2 years	Retained profit share from last profit share allocation	1 year to 2 years	Dishonesty and breach of duty clause and material financial restatement, significant financial loss or significant reputational harm (new event)



# Performance Share Units (PSUs)

- All Options grants suspended going forward and replaced by hurdled PSUs only for Executive Committee members
- PSUs will vest in three tranches after 2, 3 and 4 years
- PSUs become exercisable upon achieving certain performance hurdles
- 2 performance hurdles:
  - 50% of PSUs based on the relative average annual ROE over the vesting period compared to a reference group of domestic and international financial institutions.
  - 50% of PSUs based on compound average annual growth (CAGR) in EPS over the vesting period.
- Each performance hurdle is to be examined once only at the calendar quarter end immediately before vesting. If the condition is not met when examined, the PSUs due to vest will lapse.



# Transitional Arrangements

- Executive Directors have the choice to leave their pre-2009 retained profit share in the Pre-2009 DPS Plan, or move some or all of these amounts into the new arrangements (“Transitioned Amounts”)
- Transitioned Amounts will be partially invested in the MEREP and partially notionally invested in Macquarie-managed funds
- Transitioned Amounts will vest over 7 years (for Executive Committee members) or over five years (for other Executive Directors) – Disqualifying events will apply
- Any retained profit share not transitioned to the new arrangements will be grandfathered in the Pre-2009 DPS Plan



## New Equity Plan (MEREP) – Initial Size

- New Equity Plan (MEREP) will be used to deliver remuneration in the form of Macquarie shares
- MEREP will initially comprise a portion of the 2009 retained profit share and Transitioned Amounts
- Following the election by Executive Directors as to their participation in the new scheme for pre-retained 2009 retained amounts, on 11 December 09, Macquarie announced that the value applied to the grant of Macquarie shares was \$A350 million.



# New Equity Plan (MEREPA) – Conversion Price

- In accordance with our statement on 1 May 2009, 2009 retained profit share and pre-2009 profit share transitioned from the DPS Plan, will be converted to shares at the VWAP from 4 May 09 to 29 July 09, being \$A36.36
  - This compares to \$A27.00 for the Institutional Placement<sup>3</sup> price and \$A26.60 for the Share Purchase Plan<sup>4</sup> price
- Executive Directors' Transitioned Amounts will be converted to Macquarie shares based on the value of the DPS Plan notional investment portfolio as at 30 June 09
  - This was the quarterly valuation date for the portfolio which occurred within the above VWAP period.

<sup>3</sup> 1 May 2009

<sup>4</sup> Completed 2 June 2009



# Participation of the Managing Director in the MEREP

- Shareholder approval is being sought so that the Managing Director can participate in the MEREP under the proposed new remuneration arrangements.
- Not new remuneration - has been earned and retained over a period of up to 10 years
- Proposed that:
  - Restricted Share Units (RSUs) be issued to the Managing Director:
    - 415,667 RSUs representing \$A15.1 million or 80% of pre-2009 retained profit share<sup>5</sup> transitioned to new arrangements<sup>6</sup>.
    - 57,270 RSUs representing \$A2.1 million or 80% of retained 2009 profit share<sup>5</sup>
  - 38,300 Performance Share Units (“PSUs”) subject to hurdles to be granted to the Managing Director

<sup>5</sup> Exclusive of on-costs.

<sup>6</sup> The maximum number of RSUs for which approval is sought reflects the choice given to all Executive Directors to transition some or all of their pre-2009 retained profit share to the new arrangements. The Managing Director has since elected to transition 100 per cent of his pre-2009 retained profit share to the new arrangements.



# Summary

## Key elements of proposed remuneration changes:

- Proportion of profit share that is retained will increase, and proportion that immediately vests will decrease;
- Proportion of profit share delivered as cash will decrease, and proportion delivered as equity will increase;
- Retained amounts will vest over three to seven years depending on role of individual;
- More onerous claw-back conditions around release of profit share on termination of employees; and
- Options for senior executives will be replaced with share units subject to performance hurdles.



# Glossary

<b>CAGR</b>	Compound Annual Growth Rate
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>CRO</b>	Chief Risk Officer
<b>DPS</b>	Directors Profit Share
<b>EPS</b>	Earnings Per Share
<b>MD</b>	Managing Director
<b>MERP</b>	Macquarie Group Employee Retained Equity Plan
<b>PSU</b>	Performance Share Units
<b>ROE</b>	Return on Equity
<b>RSU</b>	Restricted Share Units
<b>VWAP</b>	Volume Weighted Average Price