



MACQUARIE GROUP NOTICE OF 2020 ANNUAL GENERAL MEETING

10:30 am on Thursday, 30 July 2020

Macquarie Group Limited
ABN 94 122 169 279

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Sydney NSW 2000
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Sydney NSW 1164
AUSTRALIA

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12 June 2020



Dear Shareholder

Please find enclosed notice of the 2020 Annual General Meeting (AGM) of Macquarie Group Limited (Macquarie) which will take place on Thursday, 30 July 2020 at 10:30 am (AEST).

Macquarie has been monitoring the advice of government health authorities regarding the ongoing risks from the COVID-19 disease outbreak. In light of the social distancing requirements of the Australian and New South Wales governments currently in place and the temporary changes in legislation allowing the convening of online, rather than face-to-face, meetings, the Board has decided in the interests of the health and safety of shareholders, staff and other stakeholders to hold this year's meeting virtually. Unfortunately, shareholders will not be able to physically attend the meeting.

We are providing shareholders with various alternatives to participate in the AGM, including by watching the AGM live online through a facility which will also allow shareholders to vote and to ask questions or make comments online. A dial-in teleconference will also be available. Information on how to participate is provided on the following page and at the following web address: <http://macq.co/agm2020>. The AGM will also be webcast live on Macquarie's website at macquarie.com and the webcast will be recorded for later viewing on Macquarie's website.

The Managing Director and Chief Executive Officer, Shemara Wikramanayake, and I will comment briefly on the performance of the Macquarie Group during the year to 31 March 2020 at the meeting. You are also referred to the comments in Macquarie's 2020 Annual Report, which is available on Macquarie's website, for further information. The meeting will cover the items of business transacted annually and an approval relating to the Macquarie Bank Capital Notes 2 which have just been issued. Each of the Directors standing for re-election will also address the meeting. In addition to the items of business put forward by the Board, an external candidate has put himself forward for election as a Voting Director. Having considered the candidate's nomination against the criteria adopted by the Board for the appointment of Voting Directors, the Board is recommending that shareholders vote against this election.

Gary Banks will retire as a Director of Macquarie at the conclusion of this year's AGM. On behalf of the Board I would like to thank Gary for his sterling contribution to Macquarie since joining the Board in August 2013. Gordon Cairns has also advised that he will retire from the Board by the end of 2020. Gordon has served on the Board since November 2014 and we also thank him for his valuable input and service.

Yours faithfully

Peter Warne
Chairman

How to participate in the AGM

The Macquarie Group Limited (Macquarie) Annual General Meeting (AGM) will be held at 10:30 am (AEST) on Thursday, 30 July 2020 as a virtual meeting. There are a number of ways to participate in the AGM:

- **online:** shareholders and proxyholders are encouraged to participate in the AGM online, which will allow them to view a live webcast, ask questions in writing and vote
- **teleconference:** for shareholders and proxyholders who are unable or do not wish to access the meeting online, this will allow them to listen to the meeting live and ask questions on the telephone, but not vote
- **webcast:** for viewing the meeting live however it does not provide for asking questions or voting.

Live online participation (including voting)

Shareholders and proxyholders will be able to participate in the meeting online by:

- visiting web.lumiagm.com on a smartphone, tablet or computer (using the latest version of Chrome, Safari, Internet Explorer 11, Edge or Firefox); or
- downloading the Lumi AGM app from the Apple App or Google Play Stores by searching for Lumi AGM.

Online registration will open at 9:30 am (AEST) on Thursday, 30 July 2020 (one hour before the meeting). Information on how to log on, ask questions and vote online are set out below.



For further detail, please refer to the user guide on our website at <http://macq.co/agm2020>

Proxy voting and proxyholder participation

Macquarie encourages all shareholders to submit a proxy vote online ahead of the meeting. Proxy votes can be lodged at www.votingonline.com.au/mqgagm2020

Further information on lodging a proxy vote ahead of the meeting is available on page 8 of this Notice of Meeting booklet.

Proxyholders will need to contact Macquarie's share registry, Boardroom Pty Limited (Boardroom), on 1300 554 096 or +61 2 8023 5470 to obtain their login details to participate live online.

Webcast

The meeting will be webcast live on the Macquarie website. Non-shareholders may view the webcast by registering online as a guest.

The meeting will be recorded and will be available on the Macquarie website shortly after the event.

The webcast is 'view only', those viewing the webcast through the Macquarie website will not be able to vote or ask questions.



Access the live webcast and subsequent recording at macquarie.com

Questions

Please note, only shareholders may ask questions online and on the telephone once they have been verified. It may not be possible to respond to all questions. Shareholders may also lodge questions prior to the meeting by emailing their question to Macquarie2020AGM@boardroomlimited.com.au by 10:30 am (AEST) on Tuesday, 28 July 2020.

How to participate live online



Login

Shareholders and proxyholders are encouraged to watch and participate in the AGM virtually via the online platform by using:

computer:

enter the following URL in your browser: <https://web.lumiagm.com> or

mobile device:

use the Lumi AGM app

The meeting ID for Macquarie's AGM is: 362826298

You will then need to enter your username and password.

Your username is your Investor ID which is printed on your Proxy Form

Your password is your postcode registered on your holding if you are an Australian shareholder. For overseas shareholders your password will be your "country code" which can be found in the online User Guide available at <http://macq.co/agm2020>

Proxyholders will need to contact Macquarie's share registry, Boardroom, on 1300 554 096 or +61 2 8023 5470 to obtain their login details to participate live online

Non-shareholders may login using the guest portal on the Lumi AGM platform



Voting online

Once polls are open, shareholders and proxyholders can vote by clicking on the bar chart icon



Ask a question online

Click this icon for the submission of written questions. Questions may be moderated or amalgamated if there are multiple questions on the same topic

How to participate by teleconference



Dial in details

Shareholders and appointed proxies who are unable or do not wish to access the meeting online can dial into the teleconference and will be able to listen to the meeting live and ask questions on the telephone. Participants cannot vote using the teleconference facility.

Shareholders will need to contact Boardroom on 1300 554 096 or +61 2 8023 5470 or by emailing Macquarie2020AGM@boardroomlimited.com.au to pre-register and receive details for the teleconference line, by 10:30 am (AEST) on Tuesday, 28 July 2020.



Asking a question on the teleconference

Once you have dialed into the teleconference using your pre-registration information, please follow the prompts to ask a question.





Notice of Meeting

East Anglia ONE offshore wind farm, UK

In August 2019, Macquarie's Green Investment Group entered into an agreement to acquire a 40% stake in Iberdrola's ScottishPower Renewables' 714 MW East Anglia ONE offshore wind farm.

Notice of Meeting

The 2020 Annual General Meeting (AGM) of Macquarie Group Limited (ACN 122 169 279) (Macquarie, MGL, the Company) will take place on Thursday, 30 July 2020, at 10:30 am (AEST) as a virtual meeting online at <https://web.lumiagm.com>. Online registration will commence at 9:30 am (AEST). Macquarie Board members and senior management will attend the meeting from Macquarie's Sydney Offices on Level 10, 50 Martin Place, Sydney, NSW 2000.

Items of business

1. Financial statements

To consider and receive the Financial Report, the Directors' Report and the Auditor's Report of Macquarie for the financial year ended 31 March 2020.

2. Re-election of Board endorsed Voting Directors

2a. Re-election of Ms DJ Grady as a Voting Director retiring by rotation

To consider and, if thought fit, pass the following as an ordinary resolution:

That Ms DJ Grady be re-elected as a Voting Director of Macquarie.

2b. Re-election of Ms NM Wakefield Evans as a Voting Director retiring by rotation

To consider and, if thought fit, pass the following as an ordinary resolution:

That Ms NM Wakefield Evans be re-elected as a Voting Director of Macquarie.

3. Election of non-Board endorsed external nominee as a Voting Director

Subject to article 9.7 of the Company's Constitution, to consider and, if thought fit, pass the following as an ordinary resolution:

That Mr SD Mayne, having offered himself for election, be elected as a Voting Director of Macquarie.

4. Adoption of the Remuneration Report

To consider and, if thought fit, pass the following as an ordinary resolution:

To adopt the Remuneration Report of Macquarie for the year ended 31 March 2020.

5. Approval of Managing Director's participation in the Macquarie Group Employee Retained Equity Plan (MEREP)

To consider and, if thought fit, pass the following as an ordinary resolution:

That the following be approved for all purposes:

- (a) *participation in the Macquarie Group Employee Retained Equity Plan (MEREP) by Ms S Wikramanayake, Managing Director and Chief Executive Officer; and*
- (b) *acquisition by Ms S Wikramanayake of Restricted Share Units and Performance Share Units and the acquisition of shares in the Company in respect of those Restricted Share Units and Performance Share Units, all in accordance with the terms of the MEREP and on the basis described in the Explanatory Notes to the Notice of Meeting convening this meeting.*

6. Approval of agreement to issue MGL ordinary shares on exchange of Macquarie Bank Capital Notes 2

To consider and, if thought fit, pass the following as an ordinary resolution:

That the agreement to issue Macquarie Group Limited ordinary shares on exchange of Macquarie Bank Capital Notes 2, on the terms and conditions as summarised in the Explanatory Notes to the Notice of Meeting convening this meeting and set out in the replacement prospectus issued by Macquarie Bank Limited and dated 19 May 2020, is ratified for all purposes, including for the purposes of ASX Listing Rule 7.4.

Chairman's voting intention

The Chairman of the Meeting intends to vote undirected proxies **in favour of Items 2a, 2b, 4, 5 and 6**. The Chairman of the Meeting intends to vote undirected proxies **against Item 3**. There will be no formal motion regarding Item 1.

Voting exclusions

Item 4 – Adoption of the Remuneration Report

A vote on Item 4 must not be cast (in any capacity) by, or on behalf of:

- (a) a member or a former member of the key management personnel (KMP) whose remuneration details are disclosed in Macquarie's 2020 Remuneration Report, or
- (b) a closely related party of such a KMP, unless the vote is cast by a person as proxy for a person entitled to vote in accordance with a direction on the proxy form. A closely related party includes close family members and companies the KMP controls.

This restriction on voting undirected proxies does not apply to the Chairman of the Meeting acting as proxy for a person entitled to vote on Item 4 because Macquarie's proxy appointment expressly authorises the Chairman of the Meeting to exercise undirected proxies.

Item 5 – Approval of Managing Director's participation in the Macquarie Group Employee Retained Equity Plan (MEREP)

Macquarie will disregard any votes cast in favour of Item 5 by or on behalf of the Managing Director and Chief Executive Officer (Managing Director) or any of her associates. However, this does not apply to a vote cast in favour of Item 5 by:

- (a) the Managing Director or any associate of the Managing Director as proxy or attorney for a person who is entitled to vote on Item 5, in accordance with the directions given to the proxy or attorney to vote on Item 5 in that way; or
- (b) the Chairman of the Meeting, as proxy or attorney for a person who is entitled to vote on Item 5, in accordance with a direction given to the Chairman to vote on Item 5 as the Chairman decides; or
- (c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on Item 5; and
 - (ii) the holder votes on Item 5 in accordance with directions given by the beneficiary to the holder to vote in that way.

In addition, a vote must not be cast on Item 5 by a member of the KMP of Macquarie, or a closely related party of a KMP, acting as proxy for a person entitled to vote, if their appointment does not specify the way the proxy is to vote on Item 5. This restriction on voting undirected proxies does not apply to the Chairman of the Meeting acting as proxy for a person entitled to vote on Item 5 because Macquarie's proxy appointment expressly authorises the Chairman of the Meeting to exercise undirected proxies.

Item 6 – Approval of agreement to issue MGL ordinary shares on exchange of Macquarie Bank Capital Notes 2

Macquarie will disregard any votes cast in favour of Item 6 by or on behalf of any person who participated in the issue of Macquarie Bank Capital Notes 2 (BCN2) or any associate of those persons. However, this does not apply to a vote cast in favour of Item 6 by:

- (a) a person as proxy or attorney for a person who is entitled to vote on Item 6, in accordance with the directions given to the proxy or attorney on Item 6 in that way; or
- (b) the Chairman of the Meeting, as proxy or attorney for a person who is entitled to vote on Item 6, in accordance with a direction given to the Chairman to vote on Item 6 as the Chairman decides; or
- (c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on Item 6; and
 - (ii) the holder votes on Item 6 in accordance with directions given by the beneficiary to the holder to vote in that way.

By order of the Board



Dennis Leong
Company Secretary

Sydney
12 June 2020

Notice of Meeting

Continued

NOTES

1. Proxies

Macquarie encourages all shareholders to submit a proxy vote online ahead of the meeting. Shareholders who do so may either attend the meeting themselves or appoint a proxy to attend for them. A proxy need not be a shareholder of Macquarie. If you are entitled to cast two or more votes, you may nominate two persons to vote on your behalf at the meeting. If two proxies are appointed, each proxy may be appointed to represent a specified number or proportion of your votes. Fractions of votes will be disregarded. If no such number or proportion is specified, each proxy may exercise half your votes.

Votes may be cast 'For' or 'Against' or you may 'Abstain' from voting on a resolution. To direct a proxy how to vote on any resolution, place a mark (e.g. a cross) in the appropriate box on the proxy form or insert the number of shares or percentage of shares that you wish to vote in the appropriate box. A valid voting direction must not exceed the total number of shares held or 100 percent. If you 'Abstain' from voting, your votes will not be counted in computing the required majority on a poll.

For shareholders receiving the Notice of Meeting by post, a proxy form and a reply-paid envelope have been included with this Notice of Meeting. Proxy voting instructions are provided on the proxy form.

2. Online proxy facility

You may also submit your proxy appointment online at www.votingonline.com.au/mqgagm2020

Login to the Boardroom website using the holding details as shown on your Proxy Form. To use the online lodgement facility, shareholders will need their Voting Access Code as shown on your Proxy Form.

You will be taken to have signed the proxy appointment if you lodge it in accordance with the instructions on the website. If you wish to use this facility, you must submit your proxy appointment through the facility by **no later than 10:30 am (AEST) on Tuesday, 28 July 2020**. A proxy cannot be appointed online if they are appointed under a power of attorney or similar authority.

If you wish to appoint a second proxy contact Macquarie's share registry, Boardroom, online at investorserve.com.au or on 1300 554 096 (within Australia) or +61 2 8023 5470 (internationally). Please read the instructions for the online proxy facility carefully before you submit your proxy appointment using this facility.

If you receive shareholder communications by email, your Notice of Meeting email will include a link to the online proxy appointment site and your Voting Access Code.

3. Proxy delivery

Completed proxies must be received by Macquarie's share registry, Boardroom, online or at Boardroom Pty Limited, GPO Box 3993, Sydney NSW 2001 (facsimile number +61 2 9290 9655), by **no later than 10:30 am (AEST) on Tuesday, 28 July 2020**.

Any revocations of proxies (including online proxy appointments) must be received at one of these places before the commencement of the meeting.

4. Power of Attorney

If a shareholder has appointed an attorney to attend and vote at the meeting, or if the proxy is signed by an attorney, the power of attorney (or a certified copy of the power of attorney) must be received by Macquarie's share registry, Boardroom, at the post office box or facsimile number in Note 3 above, or at Macquarie's registered office in Sydney, by **no later than 10:30 am (AEST) on Tuesday, 28 July 2020**, unless the power of attorney has been previously lodged with Macquarie's share registry.

5. Corporate representatives

If a corporate shareholder wishes to appoint a person to act as its representative at the meeting, that person should be provided with a letter or certificate authorising him or her as the company's representative (executed in accordance with the company's constitution) or with a copy of the resolution appointing the representative, certified by a secretary or director of the company. A form of appointment of corporate representative may be obtained from Macquarie's share registry, Boardroom, online at investorserve.com.au or on 1300 554 096 (within Australia) or +61 2 8023 5470 (internationally).

The form attaching the letter, certificate or certified resolution referred to above must be received by Boardroom at GPO Box 3993, Sydney NSW 2001 (facsimile number +61 2 9290 9655), by **no later than the commencement of the meeting**, unless it has previously been lodged with Macquarie's share registry.

6. Shareholders eligible to vote

Pursuant to regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), the holders of Macquarie's ordinary shares for the purposes of the meeting, will be those registered holders of Macquarie's ordinary shares at **7:00 pm (AEST) on Tuesday, 28 July 2020**.

7. Voting at the meeting

Voting on each of the proposed resolutions at this meeting will be conducted by poll.

8. Conduct of the meeting

Macquarie is committed to ensuring that its shareholder meetings are conducted in a manner which provides those shareholders (or their proxy holders) who attend the meeting with the opportunity to participate in the business of the meeting in an orderly fashion and to ask questions about and comment on matters relevant to the business of the meeting or about Macquarie generally. Macquarie will not allow conduct at any shareholder meeting which is discourteous to those who are present at the meeting, or which in any way disrupts or interferes with the proper conduct of the meeting. The Chairman of the Meeting will exercise his powers as the Chairman to ensure that the meeting is conducted in an orderly and timely fashion, in the interests of all attending shareholders.

As this meeting is a virtual meeting technical issues may arise. In that event, Macquarie will have regard to the impact of the technical issue on shareholders and the Chairman of the Meeting may, in exercising his powers as the Chairman, issue any instructions for resolving the issue and may continue the meeting if it is appropriate to do so.

9. Questions and comments by shareholders

At the meeting, shareholders will be provided with a reasonable opportunity to ask questions about or make comments on the business of the meeting, the management of the Company or about the Macquarie Group generally.

PricewaterhouseCoopers, Macquarie's external auditor, will attend the meeting and there will be an opportunity for shareholders to ask questions relevant to the audit.

Shareholders may also submit questions ahead of the meeting either through the 'Ask the Board' facility within the online proxy voting site, or by emailing your question to Macquarie2020AGM@boardroomlimited.com.au by 10:30 am (AEST) Tuesday, 28 July 2020.

10. Definitions

The terms 'Voting Director' and 'Executive Voting Director' used here and in the Explanatory Notes accompanying this Notice of Meeting have the meaning given in Macquarie's Constitution.

The Voting Directors as at the date of the Notice of Meeting are: Peter H Warne, Gary R Banks, Jillian R Broadbent, Gordon M Cairns, Philip M Coffey, Michael J Coleman, Diane J Grady, Michael J Hawker, Glenn R Stevens, Nicola M Wakefield Evans and Shemara Wikramanayake. Ms Wikramanayake is the only Executive Voting Director.





Explanatory Notes

Wearable technology integration

Clients can use Apple Pay on their Apple watch, giving them the freedom to pay without a wallet and make purchases while on the go.

Explanatory Notes

Item 1 – Financial statements

As required by section 317 of the *Corporations Act 2001* (Cth) (the Act), the Financial Report, Directors' Report and Auditor's Report of Macquarie Group Limited for the most recent financial year will be laid before the meeting. There will be no formal resolution put to the meeting.



The reports are available on Macquarie's website at macquarie.com/about/investors/reports

Items 2a and 2b Re-election of Board endorsed Voting Directors

There are separate resolutions proposed for the re-election/ election of three individuals as Voting Directors of the Company. Ms Grady and Ms Wakefield Evans are retiring Directors and endorsed by the Board. The external nominee, Mr Mayne (see Item 3), has not been endorsed by the Board.

Re-election of Voting Directors

This year, Mr Gary Banks retires by rotation at the end of the meeting and is not seeking re-election. Mr Banks has served on the Boards of Macquarie Group and Macquarie Bank since August 2013. The Boards have greatly benefited from his broad experience across economics, public policy and regulation in Australia and internationally. We thank him for his significant contribution and service.

Mr Gordon Cairns has also advised that he will retire from the Board by the end of 2020. Mr Cairns has served on the Boards of Macquarie Group and Macquarie Bank since November 2014. His extensive experience in management and executive roles and as a Non-Executive Director at a number of leading companies has been of considerable benefit to Macquarie. We also thank him for his significant contribution and service.

In accordance with article 9.2 of the Macquarie Constitution and ASX Listing Rule 14.4, in order to continue holding office as Voting Directors, Ms Diane Grady and Ms Nicola Wakefield Evans retire by rotation and offer themselves for re-election. Ms Grady will seek re-election past her nominal term to assist with orderly succession given the impending retirements of Mr Banks and Mr Cairns and she intends to retire during her next term.

A brief summary of their qualifications and experience is provided below. Please refer to the Directors' Report in the Annual Report for further information.

Item 2a – Re-election of Ms DJ Grady as a Voting Director retiring by rotation

Diane J Grady AO

BA (Mills), MA (Hawaii), MBA (Harv.), FAICD

Independent Voting Director since May 2011

Member of the Board Governance and Compliance Committee

Member of the Board Nominating Committee

Member of the Board Remuneration Committee

Member of the Board Risk Committee

Experience

Diane Grady has extensive international experience in a variety of industries having spent 25 years as a full-time independent director of public companies and not-for-profit boards and as a partner with McKinsey & Co where for 15 years she consulted with clients in financial services, insurance, retailing, telecommunications, consumer goods and manufacturing industries.

Ms Grady's previous boards include Woolworths, BlueScope, Lend Lease, MLC, Goodman Group and the Sydney Opera House. She has also served as President of Chief Executive Women and Chair of Ascham School. At McKinsey Ms Grady was a firm-wide leader of the Organisation, Culture and Change Management Practice and in Australia she focused on assisting clients to grow through service improvement, innovation, and marketing strategies. She has a Masters of Chinese Studies and worked for three years as a journalist in Asia.

Other current positions

Ms Grady is Chair of The Hunger Project Australia, a Director of Tennis Australia and a Director on the Grant Thornton Australia Board. She is also a Member of the Heads Over Heels Advisory Board and a Member of the NFP Chairs Forum.

The Board considers that Ms Grady's experience with Macquarie and other major listed Australian companies with international businesses and her background in strategy and organisational issues has been of great benefit to Macquarie.

Prior to submitting herself for re-election, Ms Grady confirmed that she would continue to have sufficient time to properly fulfil her Director duties for Macquarie. In accordance with Macquarie's policy on independence for non-executive directors, the Board (with Ms Grady abstaining) has determined that Ms Grady remains independent.

The Board (with Ms Grady abstaining) unanimously recommends that shareholders vote in favour of Ms Grady's re-election as an Independent Voting Director.

Item 2b – Re-election of Ms NM Wakefield Evans as a Voting Director retiring by rotation

Nicola M Wakefield Evans
BJuris/BLaw (UNSW), FAICD

Independent Voting Director since February 2014
Chairman of the Board Governance and Compliance Committee
Member of the Board Audit Committee
Member of the Board Nominating Committee
Member of the Board Risk Committee

Experience

Nicola Wakefield Evans is an experienced non-executive director and corporate finance lawyer. As a lawyer, Nicola has significant Asia-Pacific experience and was a partner at King & Wood Mallesons (and its predecessor, Mallesons Stephen Jaques) for more than 20 years. Ms Wakefield Evans has particular expertise in the financial services, resources and energy, and infrastructure sectors.

She held several key management positions at King & Wood Mallesons including Managing Partner International in Hong Kong and Managing Partner, Practice in Sydney.

Other current positions

Ms Wakefield Evans is a Director of Lendlease Corporation Limited. She is also Chair of the 30% Club Australia, a Director of MetLife Insurance Limited and MetLife General Insurance Limited, a Director of the Clean Energy Finance Corporation, a Member of the Takeovers Panel, a Director of the UNSW Foundation Limited, a Member of the National Board of the Australian Institute of Company Directors and a Director of the GO Foundation Board.

Ms Wakefield Evans' extensive Asia-Pacific experience as a corporate finance lawyer has added valuable expertise to the Macquarie Board.

Prior to submitting herself for re-election, Ms Wakefield Evans confirmed that she would continue to have sufficient time to properly fulfil her Director duties for Macquarie. In accordance with Macquarie's policy on independence for non-executive directors, the Board (with Ms Wakefield Evans abstaining) has determined that Ms Wakefield Evans remains independent.

The Board (with Ms Wakefield Evans abstaining) unanimously recommends that shareholders vote in favour of Ms Wakefield Evans' re-election as an Independent Voting Director.

Explanatory Notes

Continued

Item 3 – Election of non-Board endorsed external nominee as a Voting Director

In accordance with article 9.6 and subject to article 9.7 of the Macquarie Constitution, an external non-Board endorsed candidate, Mr Stephen Mayne, offers himself for election. The following statement is based on information provided by Mr Mayne with his nomination, which has not been independently verified by Macquarie.

Stephen Mayne BCom (Melb), GAICD (age 50)

Mr Mayne is a Walkley Award-winning business journalist who has worked for a range of newspapers, including The AFR and The Age, where he was banking writer. He is also a retail shareholder advocate and spent three years with the Australian Shareholders' Association from 2011 until 2014, serving as a director and then later as Policy and Engagement Co-ordinator, plus another 3-year term as a volunteer director from 2016-2019.

Mr Mayne founded www.crikey.com.au, an independent ezine, in 2000 before selling it in 2005 and remains a regular contributor to this day. He publishes the corporate governance ezine www.maynereport.com and also writes a weekly column on ESG issues and capital raisings for the Eureka Report investor newsletter.

His governance experience also includes an 18 month period in politics working as a press secretary for Victoria's Kennett Government in the 1990s, 4 years as a City of Manningham councillor in Melbourne's eastern suburbs and a 4 year term (2012-2016) as a City of Melbourne councillor where he chaired the Finance and Governance Committee and was deputy chair of the Planning Committee. Mr Mayne states that he currently has the time and experience to serve constructively as a non-executive director of Macquarie Group and, if elected, would bring age and geographic diversity being the youngest director and the only director not living in Sydney.

Mr Mayne last ran for the board in 2015 and states that, whilst certainly not running as a single-issue candidate, he was partly motivated to nominate again this year after observing the way Macquarie and some of its ASX-listed clients treated retail shareholders in recent capital raisings.

Eligibility for election

Macquarie is regulated by the Australian Prudential Regulation Authority (APRA). APRA's prudential standard, CPS 520 - *Fit and Proper*, requires Macquarie to prudently manage the risks that persons acting as a Director who are not fit and proper pose to its business and financial standing. To this end, the Board has approved a *Fit and Proper Policy*, which adopts the criteria set out in CPS 520 for determining whether a person is fit and proper and specifies that a fit and proper assessment must be conducted.

To support this, article 9.7 of Macquarie's Constitution provides:

9.7 Fit and proper person

A person is only eligible for appointment or election as a Voting Director if:

- (a) *the person provides all information and consents the Board reasonably requests to determine if the person is of appropriate fitness and propriety to be and act as a Voting Director by reference to the Fit and Proper Policy and is not disqualified or prevented by law from being a Voting Director; and*

- (b) *is assessed by the Board as being of appropriate fitness and propriety to be and act as a Voting Director by reference to the Fit and Proper Policy.*

The fit and proper assessment of a potential new Director requires certain background checks (e.g. criminal record and bankruptcy checks and a review of APRA's disqualification register) and relevant criteria to be considered, such as:

- whether the person possesses the competence, character, diligence, experience, honesty, integrity and judgement to perform the duties of a responsible person
- the person is not disqualified under the applicable Prudential Act
- there is no conflict of interest arising from the person fulfilling the duties of the position, or where there is a conflict of interest, it does not create a material risk that the person will fail to perform properly the duties of the position
- whether the person possesses the following core competencies:
 - outstanding in capability with extensive and senior commercial experience, preferably with a listed company
 - cultural fit with existing Board members and empathy to the Macquarie Group's and Bank's culture
 - high level of personal integrity
 - ability to work in a collegial manner
 - independent state of mind, and
 - time available to meet the commitment required.

As at the date of this Notice, the Board has not received all of the information needed to make a determination under article 9.7. If the required information is not received in sufficient time and/or the Board does not assess Mr Mayne to be of appropriate fitness and propriety, Mr Mayne will not be eligible for election at the meeting.

Voting Directors recommend against candidate's election

Under Macquarie's *Policy on Board Renewal, Appointment of Directors and Board Performance Review*, the core competencies listed above have been identified as relevant matters to consider, among others, in the selection of a potential new Board member to enable the Board to fulfil its responsibilities.

The Board is comprised of highly experienced senior business leaders from a variety of professional backgrounds who each meet fundamental requirements and, collectively, possess the skills, experience, tenure and diversity considered necessary to appropriately govern an ASX-listed, global, diversified financial group.

Having regard to the nature and scale of the Group's businesses, the Board unanimously believes that Mr Mayne lacks the experience and skill required of a Voting Director.

Macquarie also considers that Mr Mayne's concerns about Macquarie's and its clients' treatment of retail shareholders are not justified.

The Board unanimously believes that it is not in the best interests of shareholders that Mr Mayne be elected and recommends that shareholders vote against his election.

Item 4 – Adoption of the Remuneration report

As required by section 250R(2) of the *Corporations Act 2001* (Cth) (the Act), a resolution that Macquarie's Remuneration Report be adopted will be put to the vote. Section 250R(3) of the Act provides that the vote on the resolution is advisory. The Remuneration Report is contained within the Directors' Report in Macquarie's 2020 Annual Report on pages 89 to 126. The letter from the Chairman of the Board Remuneration Committee included in the Remuneration Report and an analysis that demonstrates Macquarie's results are aligned to remuneration outcomes for the year are reproduced below.

Letter from the Chairman of the Board Remuneration Committee

On behalf of the Board, I am pleased to present the 2020 Remuneration Report.

As discussed in the Chairman's letter, the final weeks of this financial year were impacted by the extreme health, social and economic consequences of the COVID-19 pandemic. Macquarie's response to the crisis included actions to support our clients and the community, and the welfare of our people. The uncertain situation has also had an impact on our financial performance, with the recognition of additional provisions to reflect the deterioration in current conditions and the uncertainty going forward. Despite these extraordinary circumstances and resulting provisions, Macquarie's sound risk management and business approach has enabled delivery of its second highest level of profit results on record.

This year we have provided additional detail (refer to page 105 of the 2020 *Macquarie Group Limited Annual Report*) to explain what the Board has specifically considered in determining the remuneration outcomes for the Executive Committee members to balance the solid financial results and the impact of COVID-19 with the expectations of APRA, our clients, shareholders and the community.

Performance

Macquarie delivered solid financial results notwithstanding the recent headwinds and the additional provisions taken in FY2020 due to COVID-19, following a comprehensive review of our balance sheet:

- Net profit after tax (NPAT) is down 8% compared to 2019, but up 7% compared to 2018
- Return on equity (ROE) of 14.5% is down from 18% in the prior year
- Earnings per share (EPS) of 791.0 cents per share is down 10% compared to the prior year.

Impact of COVID-19 on shareholders

The 2020 financial year ended amid significant market volatility due to COVID-19. Macquarie's share price has not been immune to the volatility in equity markets, experiencing a significant decline in the final weeks of the financial year, albeit in line with the market. We recognise that shareholders have been impacted by the decline in the value of their shares during this period.

The share price decline also impacted Macquarie staff through their shareholdings in the company (approximately 3,600 staff have retained profit share held in Macquarie equity). For the CEO and Executive Key Management Personnel (KMP), a significant proportion of performance-based remuneration is retained, delivered in Macquarie equity and deferred for up to seven years. This results in senior executives having an ongoing significant exposure to Macquarie equity which has ensured the strong alignment of staff with shareholders. This is a longstanding feature of Macquarie's remuneration approach and we believe this has served, and continues to serve, us well throughout market cycles.

Remuneration outcomes

The Board remains focussed on ensuring there is a robust and rigorous process in place to determine individual and company-wide remuneration outcomes. Significant oversight and judgement are applied to ensure remuneration outcomes are aligned both with individual and company-wide performance and with outcomes delivered to our shareholders, our clients and the communities in which we operate.

In determining Executive KMP remuneration outcomes this year and how these outcomes will be delivered, the Board has considered the needs and expectations of various stakeholders. The following factors were specifically considered this year:

- while Macquarie's overall profitability was down on the prior year, all Operating Groups delivered a profit for the year, with MAM and BFS delivering record profits. Our remuneration approach rewards individuals when they deliver realised outcomes. The Board believes that it is critical that Macquarie maintains its strong entrepreneurial culture that incentivises innovation, motivates further growth and drives sustained success
- the impact to the global economy and our communities from COVID-19 has introduced a higher level of uncertainty into financial markets over the short and medium term. As a result:
 - there is an expectation from governments and regulators that capital will be available to allow the continued provision of credit and support to the economy
 - shareholders have been impacted, as noted above, through a decline in the value of their shares during this period
 - Management and the Board recognise the importance of retaining key people through this period of economic uncertainty.

Explanatory Notes

Continued

After careful consideration of all these factors and competing expectations, we believe the following outcomes for the year are appropriate:

- the Executive Committee has undergone a process of renewal over the past two years making direct comparables of remuneration difficult. However, on a like-for-like basis, awarded profit share for the current Executive Committee members is down 7% on the prior year
- the CEO's profit share has been determined reflecting her first full year as CEO and, the decline in Macquarie's overall profitability. In addition, for FY2020, 100% of her profit share will be retained and delivered 90% in Macquarie equity and 10% in Macquarie-managed fund equity, thus receiving no cash component
- in line with the changes to the delivery of the CEO's profit share, there will be no cash component of profit share for all other Executive KMP for FY2020. An additional proportion of FY2020 profit share allocations will also be retained for other senior staff and delivered in Macquarie equity, limiting the cash component and capital impact of these profit share allocations
- this year, Macquarie equity for retained profit share will be issued and not purchased on market.

Our approach is consistent with the expectations set out by regulators, further aligns the interests of staff and shareholders and ensures we retain key people through this period of economic uncertainty.

In addition, for prudent capital management, the Board has resolved to pay a reduced final dividend and Macquarie Bank will not pay a final dividend to the Macquarie Group for FY2020, consistent with APRA's expectations.

The compensation expense to income ratio is higher than last year, although well below the average of our international peer group. This increase is largely driven by:

- an increase in fixed compensation reflecting increased headcount in Central Service Groups due to business growth, technology projects and ongoing regulatory compliance
- higher share-based payment expense reflecting the accelerated amortisation of prior years' equity awards for recently retired Executive Committee members (\$A83 million in FY2020 compared to \$A32 million in FY2019)
- lower operating revenue primarily driven by higher credit and other impairments due to a deterioration in current and expected macroeconomic conditions as a result of COVID-19.

Culture, accountability and remuneration

Macquarie's principles of Opportunity, Accountability and Integrity remain pivotal to our culture and effectively guide our staff in managing risk-reward and making decisions that realise opportunity for the benefit of our clients, our shareholders, our people and the communities in which we operate.

The Board Remuneration Committee (BRC) and the Board are able to assess Macquarie's culture in many ways including through staff survey results, human capital reporting, risk culture reporting and strategy presentations, as well as through personal observation of management and staff behaviours and actions (including meeting with staff and regional office visits).

The remuneration framework supports our principles by motivating staff to be innovative and build businesses but also be accountable for all their decisions within the business and

their accompanying risk management, customer, economic and reputational consequences.

Strong risk management is a fundamental part of everyone's role at Macquarie. Staff understand that they are rewarded for their performance, including their management of risk. They also understand that there are consequences for non-compliance with Macquarie's behavioural expectations. Staff training and communications emphasise the link between risk, conduct, policy breaches and consequence management outcomes, including, where appropriate, adjustments to performance-based remuneration.

In FY2020, there were 164 (FY2019: 163) matters involving conduct/policy breaches that resulted in formal consequences. Consistent with prior years, we have disclosed further details regarding these matters (refer to page 101 of the 2020 *Macquarie Group Limited Annual Report*).

Regulatory environment

Executive remuneration continues to be an area of focus for governments and regulators as they seek to reinforce the behavioural standards expected by customers, shareholders and the community.

As foreshadowed last year, the Banking Executive Accountability Regime (BEAR) came into effect for Macquarie on 1 July 2019 and the vesting period of PSUs awarded from FY2020 has been extended to four years. In January, consistent with the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Banking Royal Commission) recommendations, Federal Treasury released a proposal paper outlining its plan to extend BEAR to a new regime, the Financial Accountability Regime (FAR), to include all APRA-regulated entities.

In July 2019, also in response to the Banking Royal Commission, APRA released the draft Prudential Standard CPS 511 Remuneration, which requires remuneration arrangements to consider both financial and non-financial risks, sustainable performance and long-term soundness.

Macquarie supports APRA's policy position and we believe our current remuneration practices measure up well, achieving the overall intent of the regulations. Our remuneration approach considers both financial and non-financial risks, including conduct and adverse customer outcomes, in making remuneration decisions.

We have participated in the consultation process for both the FAR and CPS 511 and will continue to engage with APRA and Federal Treasury as appropriate as more developments occur.

I look forward to receiving your views and support at the 2020 Annual General Meeting.



Michael Hawker
Chairman

Board Remuneration Committee
8 May 2020

Comparison of performance measures and executive remuneration measures: FY2019–2020

The analysis below details Macquarie's results and demonstrates how these results are aligned to remuneration outcomes for the year.

	Expressed as	2020	2019	Increase/ (Decrease) %
Performance measures				
NPAT	\$Am	2,731	2,982	(8)
Basic EPS	Cents per share	791.0	883.3	(10)
Ordinary Dividends	Cents per share	430.0	575.0	(25)
Return on equity	Percent	14.5	18.0	
Annual TSR ^{(1),(2)}	Percent	(29.9)	32.8	
Executive remuneration measures				
Total Compensation Expense	\$Am	5,001	4,891	2
Compensation Expense to Income ratio	Percent	40.6	38.3	
Average staff headcount ⁽³⁾		15,762	15,309	3
Actual staff headcount ⁽³⁾		15,849	15,602	2
CEO awarded profit share ⁽⁴⁾	\$Am	17.4	19.2	(10)
Current Executive KMP awarded profit share ⁽⁵⁾	\$Am	99.4	106.6	(7)
CEO Statutory Remuneration	\$Am	14.9	18.0	(17)
Total Executive KMP Statutory Remuneration	\$Am	105.8	162.8	(35)

Performance

Noting that each Voting Director has a personal interest in their own remuneration from Macquarie, as described in the Remuneration Report, the Board unanimously recommends that shareholders vote in favour of adopting the Remuneration Report.

(1) Source: Bloomberg.

(2) TSR data reflects the reinvestment of gross dividends. TSR was up 24.1% for the period to 20 February 2020 before the impact of COVID-19.

(3) Headcount for both 2020 and 2019 includes staff employed in operationally segregated subsidiaries (OSS).

(4) For FY2019, Awarded Profit Share for the CEO equates to the sum of awarded profit share for Mr Moore for the period 1 April 2018 to 30 November 2018 and awarded profit share for Ms Wikramanayake for the period 1 December 2018 to 31 March 2019.

(5) Represents the full year profit share awarded to the current Executive KMP population in both FY2020 and FY2019

Explanatory Notes

Continued

Item 5 – Approval of Managing Director’s participation in the Macquarie Group Employee Retained Equity Plan (MEREP)

The approval of shareholders is sought to permit Shemara Wikramanayake, Macquarie’s Managing Director and Chief Executive Officer (Managing Director), to participate this year, with other executives in the MEREP.

Background

This approval is being sought because ASX Listing Rule 10.14 provides that a listed company may only permit a director of the company to acquire newly issued shares or rights to shares under an employee incentive scheme where that director’s participation has been approved by an ordinary resolution of shareholders.

The Managing Director is eligible to receive certain awards under the MEREP, which is administered by the Board. The MEREP rules provide flexibility to allow the use of newly awarded or existing shares (for example through purchase on-market) to satisfy awards under the MEREP. The Board may also engage third party share managers to assist with the administration of the MEREP. Further details of the MEREP are set out in Note 30 of the Financial Statements in Macquarie’s 2020 Annual Report.

The Managing Director is eligible to receive Restricted Share Units (RSUs) under the MEREP, subject to shareholder approval of this Item 5. The ordinary MGL shares required for this grant are expected to be issued by MGL to the trust established to hold shares for MEREP purposes.

The Managing Director is also eligible to receive Performance Share Units (PSUs) that are exercisable into Macquarie shares subject to performance hurdles. Shareholder approval under ASX Listing Rule 10.14 is being sought so that PSUs may be issued to the Managing Director under the MEREP. Further information on PSUs and the performance hurdles can be found in Appendix A to these Explanatory Notes.

Details of the RSUs and PSUs issued to the Managing Director under the MEREP will be published in the annual report of MGL relating to the period in which they were issued, along with a statement that approval for the issue was obtained under Listing ASX Rule 10.14. Any additional persons covered by ASX Listing Rule 10.14 who become entitled to participate in an issue of securities under the MEREP after shareholder approval of this Item 5 in the Notice of Meeting and who were not named in this Notice of Meeting will not participate until approval is obtained under ASX Listing Rule 10.14

Restricted Share Units

Approval is sought to allocate \$15.62 million of the Managing Director’s profit share under the MEREP, in the form of RSUs.

A RSU is a beneficial interest in a MGL ordinary share held on behalf of a MEREP participant by the plan trustee and is used to deliver the retained portion of the Managing Director’s profit share allocation. Macquarie uses equity awards such as RSUs to strengthen alignment between executives and ordinary shareholders. RSUs provide the executives with the full benefits of share ownership (such as dividend and voting rights).

The RSUs for which approval is sought will vest over seven years. In all other respects, the RSUs will be subject to the same terms and conditions as RSUs awarded to other Macquarie Executive Directors with retained profit share allocated under the MEREP. Macquarie’s 2020 Remuneration Report includes a summary of these terms and conditions, including in relation to forfeiture, malus events and early vesting and release (which are set out on pages 95 to 96 of the Remuneration Report).

The number of RSUs that will be allocated to the Managing Director will be determined by dividing her retained profit share amount to be invested in Macquarie shares (\$15.62 million) (Retained Amount) by the volume weighted average price (VWAP) at which Macquarie shares are issued or bought on market for the allocation of MEREP awards to all staff with retained profit share for the financial year ended 31 March 2020 (Acquisition Price).

For 2020, all of the required Macquarie shares will be issued at the average of the daily volume weighted average price of Macquarie shares traded on the ASX over the period (Pricing Period) from 25 May 2020 to 5 June 2020, being \$112.15 per share. Hence, the proposed allocation to the Managing Director will be 139,266 RSUs.

Performance Share Units

Approval is sought to allocate Ms Wikramanayake \$2.55 million worth of PSUs vesting after four years from the deemed vesting commencement date (1 July 2020).

Executive Committee members, including the Managing Director, are the only group of staff eligible to receive PSUs, which are subject to forward-looking performance hurdles and determined with reference to Macquarie's performance as a whole. As such, they provide an additional incentive to executives to drive company-wide performance over the long-term over and beyond their individual responsibilities. Macquarie uses equity awards such as PSUs to strengthen alignment between executives and ordinary shareholders. PSUs do not provide the executives with the full benefits of share ownership (such as dividend and voting rights) unless and until the PSUs vest and are exercised.

To ensure continued alignment with shareholders post termination, in cases of retirement from Macquarie, PSUs continue to vest in accordance with the vesting schedule and remain subject to the same performance hurdles. The Board or its delegate has the authority to accelerate the vesting of, or to forfeit, PSUs when the Managing Director leaves Macquarie. The Managing Director's PSUs will be structured as Deferred Share Units (DSUs) which are subject to the performance hurdles described in Appendix A to these Explanatory Notes. On exercise of the DSUs the Managing Director has a right to receive a share held in the MEREP Trust (Trust) for no cash payment, subject to the vesting and forfeiture provisions of the MEREP.

As in previous years, the number of PSUs that will be allocated to the Managing Director will be calculated by dividing \$2.55 million by the fair valuation of a PSU at the date of grant. The fair value of PSUs that may be acquired by the Managing Director is \$2.55 million. The determination of the number of PSUs to be allocated will be deferred until after shareholder approval is received. The fair value per PSU is to be calculated at the date of grant and will be determined using a Monte-Carlo option pricing framework. The Monte-Carlo option pricing framework is a valuation technique that, based on input assumptions, generates thousands of possible outcomes and assigns a value to each.

The values are then averaged and discounted to the present to arrive at the fair value of a PSU. This valuation methodology is also designed to take account of trading period restrictions, the fact that PSUs do not attract dividends and the vesting performance hurdles and timeframes described in Appendix A to these Explanatory Notes. As a result, the fair value of a PSU is lower than the market value of a Macquarie share. The following key assumptions will be adopted in estimating the fair value of the proposed PSUs: a risk-free interest rate⁽⁶⁾, share volatility⁽⁷⁾ and a forecast Macquarie share dividend yield. The market price of the Macquarie shares for the purpose of this calculation will be the closing market price preceding the date of grant, which is expected to be on or around 4 August 2020.

The table below provides an estimate of the number of PSUs to be granted at varying prices for ordinary MGL shares (also referred to as 'Macquarie shares'). The following assumptions were used in estimating these values: a risk-free interest rate of 0.52% per annum, share volatility of 29.02% and a forecast dividend yield of 4.77% per annum (paid in two instalments each year).

Macquarie Share Price	Fair Value of PSU Award (\$000s)	PSU Fair Value (per unit)	Estimated number of PSUs to be granted	Estimated Market Value (\$000s)
\$105	\$2,550	\$67.03	38,041	\$3,994
\$110	\$2,550	\$70.22	36,312	\$3,994
\$115	\$2,550	\$73.42	34,733	\$3,994
\$120	\$2,550	\$76.61	33,286	\$3,994
\$125	\$2,550	\$79.80	31,954	\$3,994
\$130	\$2,550	\$82.99	30,725	\$3,994
\$135	\$2,550	\$86.18	29,587	\$3,994

The value of any Macquarie shares that may be received by the Managing Director at a future date as a result of this allocation of PSUs will depend on factors including the extent to which the performance hurdles are achieved and the future price of Macquarie shares when any of these awards become exercisable. Further details regarding PSUs are set out on pages 96 to 99 of the Remuneration Report.

Managing Director's remuneration

Full details of the Managing Director's awarded remuneration in respect of the 2020 financial year are shown in the Remuneration Report (pages 107 and 112). This comprised:

- Fixed remuneration of approximately \$0.80 million
- Profit share of approximately \$17.35 million, of which 90% (\$15.62 million) is being delivered as RSUs under the MEREP
- Performance Share Units of approximately \$2.55 million.

Remuneration for the current financial year ending 31 March 2021 will also consist of fixed remuneration, profit share and Performance Share Units. Fixed remuneration remains unchanged and the allocation of profit share and PSUs will be determined by the Board at the end of the financial year. The amount of profit share that may be awarded to the Managing Director for FY2021 is dependent on a number of factors, as set out on page 105 of the Remuneration Report, including the financial performance of Macquarie, business and people leadership, both financial and non-financial risks, including conduct matters and outcomes for our clients and customers.

Maximum number of RSUs and PSUs

The maximum number of RSUs for which approval is sought will be 139,266. The maximum number of PSUs that may be acquired by the Managing Director for which shareholder approval is sought will be calculated by dividing \$2.55 million by the fair value of a PSU on the date of grant, as described above.

(6) Being the zero-coupon yield curve derived from the inter-bank interest rate swap curve as per industry practice for a Monte-Carlo simulation.

(7) Being the actual three-year historical volatility of the Macquarie share price.

Explanatory Notes

Continued

Price payable on grant of Restricted Share Units

The Managing Director will not make any cash payment for the RSUs for which shareholder approval is sought. However, the aggregate allocation value of the RSUs to be granted to the Managing Director is approximately \$15.62 million, being Ms Wikramanayake's Retained Amount.

Price payable on grant of Performance Share Units

The Managing Director will not make any cash payment for the PSUs for which shareholder approval is sought. However, the fair value of the PSUs will be \$2.55 million, with the PSUs being an incentive mechanism for future performance that can only be exercised subject to satisfaction of the performance hurdles described in Appendix A to these Explanatory Notes.

Previous issues to Managing Director

The Managing Director is the only person referred to in ASX Listing Rule 10.14 entitled to participate in the MEREP. Since being appointed as Managing Director, Ms Wikramanayake has been issued 65,003 RSUs and 34,198 PSUs. RSUs were granted at an allocation price of \$122.37 per RSU and no cash payment was made by Ms Wikramanayake for the RSUs and PSUs previously issued under the MEREP. Further details of the RSUs and PSUs previously issued to Ms Wikramanayake under the MEREP are set out on pages 121 to 124 of the Remuneration Report.

Terms of any loan relating to the acquisition of shares

No loan is being provided to the Managing Director in relation to the acquisition of shares under the MEREP.

Date by which grants will be made

The proposed grants of RSUs and PSUs to the Managing Director are expected to be made on or around 4 August 2020 but not later than 30 September 2020, subject to shareholder approval of this Item 5 in the Notice of Meeting.

Consequences if approval not obtained

If shareholders do not approve the proposed issue of RSUs and PSUs to the Managing Director under Item 5, the proposed grant of RSUs and issue of PSUs to her will not proceed. This may impact Macquarie's ability to incentivise the Managing Director and align her interests with those of shareholders and with the remuneration arrangements of the other Executive Directors. The Board will need to consider alternative remuneration arrangements, which may not be consistent with Macquarie's remuneration principles, including a cash payment.

The Non-Executive Directors of the Board unanimously recommend that shareholders vote in favour of Item 5 in the Notice of Meeting. Ms Wikramanayake, being the Managing Director and Chief Executive Officer, has a material personal interest in the resolution and, therefore, has abstained from providing a recommendation.

Item 6 – Approval of agreement to issue MGL ordinary shares on exchange of Macquarie Bank Capital Notes 2

Background

Macquarie Bank Capital Notes 2 (BCN2)

On 2 June 2020, Macquarie Bank Limited (MBL) completed the issue of 6,410,270 BCN2 at an issue price of \$100 per BCN2. The net proceeds of the BCN2 issuance were used for general corporate purposes. BCN2 qualify as Additional Tier 1 capital for Australian Prudential Regulation Authority (APRA) purposes. BCN2 were issued to institutional investors, clients of the Joint Lead Managers and eligible current and former holders of specified Macquarie securities.

BCN2 are unsecured, subordinated notes issued by MBL. They are non-cumulative and mandatorily convertible into MGL ordinary shares (subject to certain conditions). Under the BCN2 terms, MGL agreed to exchange BCN2 for MGL ordinary shares when required to do so under the BCN2 terms in accordance with those terms. A summary of the terms of the BCN2 and the MGL ordinary shares is provided in Appendix B to these Explanatory Notes. A copy of the replacement prospectus containing the full terms of the BCN2 was lodged with the ASX on 19 May 2020 and is also available on Macquarie's website.

Reason for seeking approval

In general terms, ASX Listing Rule 7.1 imposes a limit on the number of equity securities (including ordinary shares and convertible securities) that a company can issue or agree to issue without shareholder approval (15% placement capacity) where an exemption to the rule does not apply. As BCN2 are convertible into MGL ordinary shares, BCN2 count towards Macquarie's placement capacity. Macquarie determined that MBL was able to issue all of the BCN2 within the 15% limit of Macquarie's placement capacity and accordingly no shareholder approval was required.

ASX Listing Rule 7.4 provides that an agreement to issue equity securities by a company made pursuant to ASX Listing Rule 7.1 is treated as having been made with approval for the purposes of ASX Listing Rule 7.1, if it is subsequently approved by the company's shareholders.

The effect of approving Item 6 will be to refresh Macquarie's 15% placement capacity under ASX Listing Rule 7.1 so that its capacity would be the same as if the agreement to issue MGL ordinary shares on exchange of BCN2 had been made with shareholder approval. If shareholders approve Item 6, Macquarie will have greater flexibility to make future placements of Macquarie shares and other issuances of equity securities to raise funds to meet future needs. Notwithstanding an approval by shareholders of the proposed resolution in Item 6, any future equity raisings will remain subject to the 15% limit set out in ASX Listing Rule 7.1 where an exemption to the limit does not apply.

If Item 6 is not approved, Macquarie's placement capacity will remain reduced by approximately 1.8% of Macquarie's issued capital for a period of 12 months from 11 May 2020, being the date on which Macquarie agreed to the BCN2 terms.

Number of MGL ordinary shares to be issued

The conversion feature of the BCN2 means that BCN2 are treated as "convertible securities" of Macquarie for the purposes of calculating the impact on Macquarie's placement capacity under the ASX Listing Rules. ASX has confirmed that the number of MGL ordinary shares to be taken into account is the number that would result if the BCN2 were exchanged on the trading day before the date of the initial prospectus (8 May 2020). Therefore, using the ordinary share price of \$103.47 as at 8 May 2020, approximately 6.3 million MGL ordinary shares would have been issued if the conversion had occurred at this share price.

The number of MGL ordinary shares that may be issued on an exchange of BCN2 is not fixed. The maximum number of MGL ordinary shares for which BCN2 can be exchanged is 4.7628 per BCN2 (subject to adjustment).

Date on which MGL ordinary shares will be issued

BCN2 are perpetual and do not have a fixed maturity date. BCN2 will exchange into MGL ordinary shares on 21 December 2028, subject to certain exchange conditions being satisfied, unless they are exchanged, redeemed or written-off earlier. BCN2 may exchange into MGL ordinary shares at any time on the occurrence of certain events which are described in Appendix B to these Explanatory Notes.

ASX waiver

ASX has provided a waiver of ASX Listing Rule 7.5.4 which would, in the absence of the waiver, require MGL ordinary shares to be issued within 3 months after the date of the AGM.

The ASX waiver was granted subject to the following conditions:

- that the maximum number of MGL ordinary shares for which BCN2 can be exchanged is 4.7628 per BCN2 (subject to adjustment)
- that the conditions which must be satisfied for BCN2 to be exchanged for MGL ordinary shares are not varied
- whilst BCN2 remain on issue, MGL's annual report, half year report and any quarterly report set out the number of MGL ordinary shares issued on exchange of any BCN2 during that reporting period, the remaining number of MGL ordinary shares that may be issued on exchange of BCN2 and the basis on which those MGL ordinary shares may be issued, and
- this Notice contains, to ASX's satisfaction, a summary of the terms and conditions of BCN2, MGL ordinary shares and the conditions of the ASX waiver.

The Board unanimously recommends that shareholders vote in favour of Item 6 in the Notice of Meeting.

Explanatory Notes

Continued

Appendix A – Performance Share Units

Executive Committee members, including the Chief Executive Officer and Managing Director, are the only group of staff eligible to receive Performance Share Units (PSUs), which are subject to forward-looking performance hurdles and are determined with reference to Macquarie's performance as a whole. As such, they provide an additional incentive to Executive Committee members to drive company-wide performance over the long-term over and beyond their business group responsibilities. PSU awards are a meaningful incentive but are generally not the major element of an Executive Committee member's total remuneration.

Since their introduction, PSUs have been structured as Deferred Share Units⁽⁸⁾ with performance hurdles. Holders have no right to dividend equivalent payments. There is no exercise price for PSUs.

The PSU hurdles are periodically reviewed by the Board Remuneration Committee (BRC) to ensure they continue to align the interests of staff and shareholders and provide a challenging but meaningful incentive to Executive Committee members. The BRC considers historical and forecast market data, the views of corporate governance bodies, shareholders and regulators as well as market practice. No change has been made to the hurdles for FY2020. The vesting of the PSUs awarded from FY2020 has been changed to 100% after four years instead of 50% after three years and 50% after four years.

The following table summarises the key terms of PSUs and the performance hurdles:

	EPS CAGR Hurdle	ROE Hurdle
Application	50% of PSU award	50% of PSU award
Performance measure	Compound annual growth rate (CAGR) in EPS over the vesting period (four years).	Average annual ROE over the vesting period (four years) relative to a reference group of global financial institutions ⁽⁹⁾
Hurdle	Sliding scale applies: <ul style="list-style-type: none">– 50% becoming exercisable at EPS CAGR of 7.5%– 100% at EPS CAGR of 12%. For example, if EPS CAGR was 9.75%, 75% of the relevant awards would become exercisable.	Sliding scale applies: <ul style="list-style-type: none">– 50% becoming exercisable above the 50th percentile– 100% at the 75th percentile. For example, if ROE achievement was at the 60th percentile, 70% of the relevant awards would become exercisable.
Forfeiture	<ul style="list-style-type: none">– Malus provisions apply.– The standard policy is that unvested PSUs will be forfeited upon termination.– To ensure continued alignment with shareholders post termination, in the case of retirement from Macquarie, redundancy, death, serious incapacitation, disability, serious ill-health, or other limited exceptional circumstances, the Board or the BRC has the authority to either accelerate the vesting of PSUs or to permit the PSUs to continue to vest in accordance with the original award schedule and remain subject to the same performance hurdles.– Should a change of control occur⁽¹⁰⁾, the Board or the BRC has discretion to determine how unvested PSUs should be treated having regard to factors such as the length of time elapsed in the performance period, the level of performance to date and the circumstances of the change in control.	

Rationale for hurdles

- ROE and EPS growth drive long-term shareholder value and are appropriate as the Executive Committee can affect outcomes on both measures. In contrast, Total Shareholder Return (TSR) is influenced by many external factors over which executives have limited control
- The approach is consistent with that advocated by APRA in not using TSR as a measure
- Can be substantiated using information that is disclosed in audited financial statements

- A sliding scale diversifies the risk of not achieving the hurdles and provides rewards proportionate to performance for shareholders and is preferable to an all-or-nothing test which some have argued could promote excessive risk-taking
- Designed to reward sustained strong performance and are relatively well-insulated from short-term fluctuations. The time frame used for PSUs should also be considered in light of the three to seven-year deferral of profit share for members of the Executive Committee

(8) A Deferred Share Unit is one of the award types under the Macquarie Group Employee Retained Equity Plan (MEREP). For further details, refer to Note 30 to the financial statements in the Financial Report in Macquarie's 2020 Annual Report.

(9) The reference group for awards made from 2013 is Bank of America Corporation, Barclays PLC, Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., JP Morgan Chase & Co., Lazard Ltd, Morgan Stanley and UBS AG.

(10) Under the MEREP Plan Rules, a change in control occurs where a person acquires or ceases to hold a relevant interest in more than 30% of Macquarie shares or where the Board resolves that a person is in a position to remove one-half or more of the Voting Directors.

Use of an international reference group:

- An international reference group recognises the extent of Macquarie's diversification and internationalisation. At 31 March 2020, total international income represented approximately 67% of Macquarie's total income with approximately 58% of Macquarie's staff located outside Australia. The BRC considers an international reference group to be appropriate on the basis that Macquarie has no comparable Australian peers. These international firms broadly operate in the same markets and compete for the same people as Macquarie.

Macquarie's EPS CAGR Performance

EPS for FY2020 was 791.0 cents per share which is down 10% on the prior year.

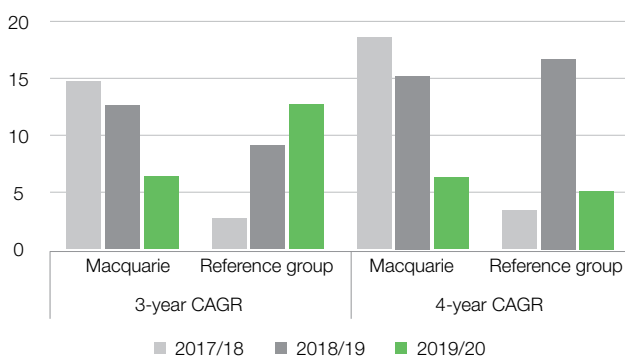
For PSUs (awarded prior to FY2020) to fully vest, Macquarie needs to achieve at least 12% CAGR over the vesting period.

Supporting the rigour of the hurdle, to achieve a full vesting the following cumulative EPS is required:

- over 3 years, a cumulative EPS growth of 40% is required
- over 4 years, a cumulative EPS growth of 57% is required.

The below graph shows EPS CAGR for Macquarie over three and four years. The average EPS CAGR of Macquarie's international reference group is shown for comparison only, noting that the EPS performance of the reference group does not form part of Macquarie's PSU hurdle.

Macquarie's 3- and 4-year EPS CAGR compared to an international reference group (%)



Source: Bloomberg

Macquarie's ROE performance compared to an international reference group

Macquarie's ROE for FY2020 of 14.5% is down from 18.0% in the prior year but remains higher than the majority of the international reference group. In addition, Macquarie's three, five and ten-year average annual ROE exceeds the majority of the reference group.

Reference Group ROE over ten years FY2011-2020

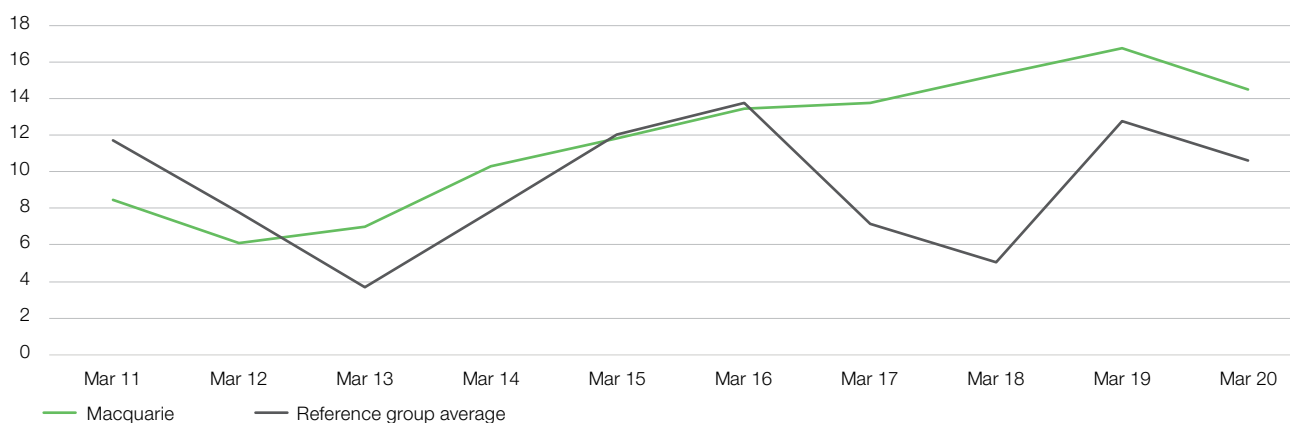
	1-year average % p.a.	3-year average % p.a.	5-year average % p.a.	10-year average % p.a.
Macquarie	14.5	15.5	14.8	11.7
Average of reference group	10.6	9.5	9.9	9.2
Company	10.7	9.5	8.3	4.7
Company	4.6	1.4	1.3	1.9
Company	7.8	3.4	(0.6)	2.7
Company	(9.7)	(3.8)	(5.0)	(0.7)
Company	10.0	9.4	9.0	9.3
Company	14.9	12.7	11.7	10.7
Company	37.5	36.1	47.2	40.5
Company	11.8	10.5	9.6	7.0
Company	8.0	6.2	7.2	7.0

Source: Bloomberg (reference group) and Macquarie as reported

Explanatory Notes

Continued

Macquarie ROE versus the average of Macquarie's international reference group over ten years FY2011-2020 (%)



Source: Bloomberg (reference group) and Macquarie as reported

Testing of hurdles

Under both performance hurdles, the objective is examined once only. Testing occurs annually on 30 June immediately before vesting on 1 July, based on the most recent financial year end results available. PSUs that do not meet performance hurdles expire.

The PSUs that vested in July 2019 comprised the second tranche of those granted in 2015 and the first tranche of those granted in 2016. The performance hurdles under each tranche were fully met and 100% of the awards became exercisable. As a result:

PSU tranche	EPS CAGR HURDLE			ROE HURDLE		
	Macquarie result (for vesting period)	Hurdle	Outcome	Macquarie result (for vesting period)	Hurdle	Outcome
2015 Tranche 2	15.16%	50% at 7.5% CAGR	100% exercisable	14.83%	50% above the 50th percentile ⁽¹¹⁾	100% exercisable
		100% at 12% CAGR			100% at the 75th percentile ⁽¹¹⁾	
2016 Tranche 1	12.57%	50% at 7.5% CAGR	100% exercisable	15.29%	50% above the 50th percentile ⁽¹²⁾	100% exercisable
		100% at 12% CAGR			100% at the 75th percentile ⁽¹²⁾	

(11) Peer group ROE at 50th percentile 7.71% and peer group ROE at 75th percentile 9.12%

(12) Peer group ROE at 50th percentile 8.19% and peer group ROE at 75th percentile 9.31%

Appendix B – Summary of the terms of the Macquarie Bank Capital Notes 2 (BCN2) and the MGL ordinary shares

The following is a summary only of the terms and conditions of the BCN2 and the MGL ordinary shares into which BCN2 may convert. The BCN2 terms are set out in Appendix A of the BCN2 replacement prospectus dated 19 May 2020 (Replacement Prospectus). The terms of the MGL ordinary shares are set out in the MGL Constitution, which is available at macquarie.com. Capitalised terms used in this summary have the meaning given to them in the Replacement Prospectus. A copy of the Replacement Prospectus can be found at macquarie.com or asx.com.au

About BCN2

BCN2 are unsecured, subordinated notes issued by Macquarie Bank Limited (MBL). They are non-cumulative and mandatorily convertible (subject to certain conditions). The Issue Price was \$100 per BCN2. BCN2 constitute Additional Tier 1 Capital of Macquarie Bank Limited.

Agreement to issue MGL ordinary shares

Under the BCN2 Terms, MGL undertakes with each BCN2 Holder to Exchange BCN2 for MGL Ordinary Shares when required to do so under the BCN2 Terms in accordance with the BCN2 Terms, and to comply with the BCN2 Terms. MGL has no other obligations or liabilities in respect of any BCN2 under the BCN2 Terms.

Distributions

BCN2 are scheduled to pay floating rate cash distributions quarterly in arrears until all BCN2 are Exchanged, Redeemed or Written-Off, subject to the Payment Conditions. The Distribution Rate is recalculated quarterly based on the Reference Rate plus a margin of 4.70% pa, adjusted for franking.

Distributions are expected to be franked at the same rate as dividends on Macquarie Group Limited (MGL) Ordinary Shares. The level of franking may vary over time and Distributions may be partially, fully or not franked.

Distributions on BCN2 are discretionary, which means MBL can determine not to pay them and they can only be paid if certain payment conditions are met (including that MBL is able to pay the Distribution without MBL breaching APRA's capital adequacy requirements or becoming insolvent and APRA does not object). Distributions are non-cumulative, which means that if a Distribution has not been paid on a Distribution Payment Date then MBL has no obligation to pay an unpaid Distribution at any later date.

If a Distribution is not paid in full within 10 Business Days of a Distribution Payment Date, in most circumstances MBL is restricted from paying any dividend or returning capital on MBL Ordinary Shares until the next Distribution Payment Date. There is no equivalent restriction on MGL.

Exchange

BCN2 may be Exchanged for a variable number of Ordinary Shares in the following circumstances:

- **Mandatory Exchange:** All BCN2 are scheduled to be Exchanged on 21 December 2028, unless the Exchange Conditions relevant to that date are not met (in which case, Exchange will be deferred until the next quarterly Distribution Payment Date where the Exchange Conditions are met). The Exchange Conditions (where applicable) are intended to ensure that BCN2 Holders will receive approximately \$101 worth of MGL Ordinary Shares per BCN2 on Exchange (based on the VWAP during the 20 ASX Trading Days before the Mandatory Exchange Date) and that the MGL Ordinary Shares are capable of being sold on ASX.
- **Exchange at MBL's option:** MBL may also choose to Exchange all or some BCN2 on 21 December 2025, 21 June 2026 and 21 December 2026 or if there has been a Tax Event or Regulatory Event, provided certain conditions are met.
- **Acquisition Event:** MBL will be required to Exchange all BCN2 for MGL Ordinary Shares if an Acquisition Event occurs (broadly, a change of control of MBL or MGL by takeover bid, scheme of arrangement or otherwise), provided certain conditions are met.
- **Automatic Exchange Event:** MBL will be required to immediately Exchange all or some BCN2 for MGL Ordinary Shares (or, if Exchange has not occurred for any reason within 5 Business Days, Write-Off all or some BCN2) if a Non-Viability Event occurs or a Common Equity Tier 1 Trigger Event occurs. Exchange under these circumstances is not subject to any conditions.

The maximum number of MGL Ordinary Shares that BCN2 can be Exchanged for is 4.7628 per BCN2 (subject to adjustment).

Ranking in a winding up

In a Winding Up of MBL, BCN2 will rank ahead of MBL Ordinary Shares, equally with Equal Ranking Obligations, but behind all Senior Creditors of MBL.

However, any return on BCN2 in a Winding Up may be adversely affected or reduced to zero if a Non-Viability Event or Common Equity Tier 1 Trigger Event occurs. If a Non-Viability Event or Common Equity Tier 1 Trigger Event occurs some or all of the BCN2 are required to be Exchanged, or if that does not occur, Written Off.

Explanatory Notes

Continued

About MGL ordinary shares

This paragraph briefly summarises the key terms attaching to MGL ordinary shares that may be issued to BCN2 holders in the circumstances described above. It is not intended to be an exhaustive summary of the rights and obligations of holders of MGL ordinary shares.

The key rights attaching to MGL ordinary shares are as follows:

- the right to vote at general meetings of MGL on the basis of:
 - on a show of hands – one vote for each member present in person or represented by proxy, attorney or other representative, and
 - on a poll – one vote for each member present in person or represented by proxy, attorney or other representative per fully paid MGL ordinary share (or the number of votes in proportion to the capital paid up on any partly paid MGL ordinary shares held)
- the right to receive dividends declared from time to time in proportion to the capital paid up on the MGL ordinary shares held by each holder (subject to the rights of holders of securities with special rights as to dividend)
- the right to receive information required to be distributed under the Corporations Act and the ASX Listing Rules, and
- the right to participate in a winding up of MGL at the discretion of the liquidator.

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