

# Directors' Report – Remuneration Report for the financial year ended 31 March 2011 continued

### 3.3 Direct long-term alignment with shareholder interests is emphasised

The remuneration arrangements are also structured to deliver remuneration in a manner which ensures that employees have a direct long-term alignment with shareholder interests through:

- retention arrangements which encourage long-term commitment to Macquarie, and therefore, to shareholders
- the use of equity-based remuneration.

Retained Executive Director profit share is invested in a combination of Macquarie shares, under the Macquarie Group Employee Retained Equity Plan (MEREP) and Macquarie-managed fund equity notionally invested under the DPS Plan (Post-2009 DPS Plan).

A tailored approach is adopted to ensure that retention arrangements and equity-based remuneration are appropriate given the seniority of the individual and their ability to influence results.

Some overarching rules apply to equity-based remuneration:

- the following cannot be hedged:
  - shares held to satisfy the minimum shareholding requirement
  - awards under the MEREP
  - shares held under the Executive Committee Share Acquisition Plan
  - unvested options.
- all shares and options must be dealt with in accordance with Macquarie's *Trading Policy*, which is available on Macquarie's website, including that trading must be conducted within designated trading windows.

All Executive Committee members and Voting Directors are required at least annually to disclose to Macquarie their financing arrangements relating to their Macquarie securities.

More generally, long-term alignment is encouraged through the emphasis on a degree of consistency over time in remuneration arrangements. Whilst the profit share pool is based upon NPAT for the year, these profits may include results from an initiative that has taken many years to come to fruition. Because the remuneration system is outcomes driven, profit share allocations for transactions and business development activities that are 'in progress', are low.

Staff must, therefore, have confidence that when a transaction is completed – potentially some years later – the remuneration system will recognise successful outcomes in the way the staff member anticipated at the outset of the transaction. This requires broad consistency over time.

#### 3.3.1 Profit share arrangements – delivery of profit share

A percentage of each employee's annual gross profit share allocation is retained by Macquarie (retained profit share).

The Board has discretion to change the percentage of profit share allocations retained on an annual basis to meet changing market conditions as well as to comply with regulatory and corporate governance guidance, provided that the retention percentage is at least 30 per cent for Executive Directors. This is because:

- regulatory and remuneration trends continue to evolve and change
- Macquarie must have the ability to meet regulatory requirements
- Macquarie must have the flexibility to remain competitive in the global markets in which it operates. The global remuneration environment is a very important consideration when determining remuneration structures.

During the year, the Board has exercised discretion and increased retention rates. In doing this, the Board and the BRC have considered peer organisations' retention rates, the intense competition for certain talented staff, as well as regulatory guidelines. As a result of these revised retention arrangements, less profit share is delivered as cash and more profit share is deferred and delivered in equity, creating an increased alignment with shareholders and ensuring ongoing staff retention.

The percentage is set for Executive Directors according to their role:

#### Executive Directors

Role	2008 %	2009 %	2010 %	2011 %
Managing Director and Chief Executive Officer <sup>1</sup>	30	55	55	70
Executive Committee Members	30	50	50	50-70
Designated Executive Directors	20	50	50	50-70
Other Executive Directors	20	50	40	40-70

<sup>1</sup> Refers to the percentage retained for Nicholas Moore in 2008 in his role as Group Head of Macquarie Capital.