

# Governance reform at Star Entertainment

December 2023

**Company:** The Star Entertainment Group Limited (Star Entertainment)

**Meeting date:** November 9, 2023

**Proposal:** Items 2–5 – Elect directors; Item 6 – Approve remuneration report; Item 7 – Approve one-off retention equity grant of service rights to Robbie Cooke

## How the funds voted

At the annual meeting of Star Entertainment, an Australian-listed integrated resort company and one of Australia's largest casino operators, the Vanguard-advised funds voted in line with the board's recommendations on all resolutions, including the company's remuneration report and the CEO's retention equity grant.<sup>1</sup>

## The funds' proxy voting policies

Boards are elected to carry out important responsibilities on behalf of a company's shareholders. These responsibilities include the oversight of management and material risks to long-term investment returns for shareholders.

As outlined in the funds' proxy voting policy for Australian and New Zealand portfolio companies, when we identify that material governance failures have occurred at a particular company, we endeavor to engage with the company's directors and executives to understand what actions the board and company are taking to address the underlying issues that may present risks to the financial returns of long-term shareholders.<sup>2</sup> Depending on the facts and circumstances, the funds may express concern by withholding support for the election of directors.

- <sup>1</sup> Vanguard's Investment Stewardship program is responsible for proxy voting and engagement on behalf of the quantitative and index equity portfolios advised by Vanguard (together, "Vanguard-advised funds"). Vanguard's externally managed portfolios are managed by unaffiliated third-party investment advisors, and proxy voting and engagement for those portfolios are conducted by their respective advisors. As such, throughout this document, "we" and "the funds" are used to refer to Vanguard's Investment Stewardship program and Vanguard-advised funds, respectively.
- <sup>2</sup> Refer to the Vanguard-advised funds' Australia policy for more details: [Proxy voting policy for Australia and New Zealand companies \(vanguard.com\)](#).

Boards can adjust executive remuneration to avoid rewarding underperformance or to address governance failures that materially impact investment returns for shareholders. When evaluating remuneration reports, we look for performance-linked executive pay policies that incentivize executives to generate long-term shareholder returns. We also look for companies to provide clear disclosure about their compensation practices and how they are linked to performance and the company's stated strategy.

### **Analysis and voting rationale**

In 2023, Star Entertainment has undergone significant governance reforms after regulators found in 2022 that the company had inadequate controls and procedures to prevent money laundering, financial crime, and fraud, allegations of which first surfaced in 2021. As a result of that finding, regulators ruled the company unsuitable to hold a casino operating license, which was the company's primary business, in the Australian states of New South Wales and Queensland, two of its key locations.

Over the last two years, we have held constructive engagements with independent board members at Star Entertainment. Since allegations of wrongdoing emerged in the media in October 2021, Star Entertainment's share price has fallen significantly. We have sought to assess the company's approach to the issues, including reforms it was planning to make and how it was addressing the root causes.

In 2022, we met with the incumbent board chair to discuss board composition and the potential outcomes from ongoing regulatory investigations. We observed that the board had seemingly adopted a thoughtful and transparent approach to refreshing its composition to serve as a catalyst for wider-scale reform. Between that March and May, each of the CEO, CFO, chief casino officer, chief legal and risk officer, and board chair stepped down from their positions. Ahead of the 2022 annual meeting, we did not believe it was necessary to withhold support for board directors given the actions already taken to hold directors accountable for the ongoing issues at the company, the commitment of the board to further refreshment, and the company's cooperation with regulators and stated appetite for reform.

Star Entertainment has since refreshed its entire board, including installing a new chair. Ahead of the 2023 annual meeting, we engaged with the new chair to better understand what skills were prioritized in the recruitment of new board members and how the board was thinking about how its composition may evolve over time. We were encouraged to learn that turnaround, risk and compliance, and regulatory expertise had been prioritized for the initial phase of board refreshment.

The regulators' findings and disclosed internal root-cause analysis highlighted the need for Star Entertainment to reform its corporate culture. During our 2023 engagement, independent directors reported that the board recognized that culture has an important role to play in establishing a robust risk and control and regulatory framework. Crucially, the board recognized that employees need to feel empowered to speak up when they observe that

something is wrong. The board explained its focus on cultural reform, including appointing external consultants to conduct a large-scale review of company culture. We look forward to future engagements on the matter to understand how the board and executive team will measure culture and the impact of the reforms put in place.

In addition to finding Star Entertainment unfit to hold a casino operating license, between October and December 2022 regulators issued the company approximately US\$120 million in fines. This contributed to a deterioration in the company's operating performance, which was met with significant refinancing, layoffs, and salary freezes. Amid this deterioration, at the 2023 annual meeting Star Entertainment asked shareholders to support a one-off retention grant to the new CEO/managing director, subject only to the condition of his continued employment. In our engagement with independent directors ahead of that annual meeting, the chair conveyed a compelling rationale for the grant, which would serve to retain the CEO/managing director amid heightened uncertainty and risk as well as ensure that he had equity in the business to align his interests with those of long-term shareholders.

In addition, the independent directors conveyed that the board was implementing several remuneration changes, seeking to reinforce a strong risk management and compliance culture. In 2024, the board plans to introduce a consequence management framework to ensure accountability for poor outcomes. The long-term incentive will also include 30% stock options, the vesting of which is subject to the company regaining its casino operating license. Considering the significant reform underway, we plan to continue to monitor how the board will further reinforce cultural change through the structure of pay programs and outcomes. We

recognize that achieving suitability status from regulators would likely reduce going concern risk for the business and is, therefore, an appropriate metric to incentivize management on. In the end, the Vanguard-advised funds supported the remuneration report and the CEO's equity retention grant at the 2023 annual meeting.

### **What we look for from companies on this matter**

Directors are elected to represent the interests of all shareholders and have important responsibilities, including oversight of management and material risks. Well-composed, effective boards can enable long-term investment returns for shareholders.

When we discuss risk management with portfolio companies, we assess how well the board of directors understands the company's strategy and how effectively it is involved in identifying and governing material risks. We look for directors to bring a wealth of experience and diverse perspectives to the boardroom and to provide counsel to company leaders. We also look for directors to have appropriate mechanisms in place to oversee management and material risks to long-term shareholder returns. Ultimately, boards should work to prevent risks from becoming governance failures. The funds look for companies to give shareholders a voice by presenting executive pay proposals to shareholders at every annual meeting.

In evaluating pay plans, we look for the compensation committee to consider pay-for-performance alignment, long-term focus, and a structure that promotes rigor and outperformance. We look for boards to include appropriate clawback mechanisms to support accountability of management to shareholders.

Vanguard publishes Investment Stewardship Policy and Voting Insights to promote good corporate governance practices and to provide public companies and investors with our perspectives on important governance topics and key votes. This is part of our growing effort to enhance disclosure of Vanguard's investment stewardship voting and engagement activities. We aim to provide additional clarity on Vanguard's stance on governance matters beyond what a policy document or a single vote can do. Insights should be viewed in conjunction with the most recent region- and country-specific voting policies.

The funds for which Vanguard acts as investment advisor (Vanguard-advised funds) retain the authority to vote proxies that the funds receive. To facilitate the funds' proxy voting, the boards of the Vanguard-advised funds have adopted Proxy Voting Procedures and Policies that reflect the fund boards' instructions governing proxy voting. The boards of the funds that are advised by managers not affiliated with Vanguard (external managers) have delegated the authority to vote proxies related to the funds' portfolio securities to their respective investment advisor(s). Each external manager votes such proxies in accordance with its own proxy voting policies and procedures, which are reviewed and approved by the fund board annually.



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