

30 June 2018

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McGrath Limited (**Company**) is an integrated real estate services business which was admitted to the Official List of the ASX in December 2015.

The Company and its related entities (**McGrath**) focus on the provision of five key service offerings to clients including residential property sales, property management, mortgage broking, auction services and, for real estate agents and property professionals, career training.

McGrath have an extensive network throughout the east coast of Australia with an established market presence in New South Wales, Queensland, the Australian Capital Territory and Victoria.

The Board is responsible for the overall corporate governance of McGrath, including the formulation and adoption of policies and procedures designed to ensure that McGrath is well managed and works to protect and enhance Shareholder interests. These policies also ensure that McGrath, its Directors, officers and employees operate under an appropriate corporate governance framework.

The Board monitors the operational and financial position and performance of McGrath. It oversees its business strategy, including approving McGrath's strategic objectives and considers and approves its business plan and annual budget. The Board is committed to maximising business performance and Shareholder value, generating appropriate financial returns, and creating sustainable growth and long term success for McGrath.

In conducting business with these objectives, the Board has created a framework for managing McGrath, including adopting relevant internal controls, risk management processes and corporate governance policies and practices. The Board believes these are appropriate for McGrath's business and have been designed to promote the responsible management and conduct of McGrath.

The Board has from time to time considered and reviewed its corporate governance practices to ensure they remain relevant to the current operations of McGrath.

Details of McGrath's key corporate governance policies and the charters for the Board and each of its Committees are available on McGrath's website under 'About Us' / Investor Centre' at [www.mcgrath.com.au/about/investorcentre](http://www.mcgrath.com.au/about/investorcentre).

This Corporate Governance Statement:

- reports against the 3rd edition of the *ASX Corporate Governance Council's Principles and Recommendations (ASX Principles)* during the reporting period between 1 July 2017 and 30 June 2018. The practices detailed in this Corporate Governance Statement are current as at 20 August 2018; and
- this Statement has been approved by the Board and is available on McGrath's website under 'About Us' / 'Investor Centre' at [www.mcgrath.com.au/about/investorcentre](http://www.mcgrath.com.au/about/investorcentre).

## Principle 1: The Board lays solid foundations for management and oversight

### ***Role and responsibilities of the Board and Management***

The Board is responsible for the overall direction of McGrath with oversight and review of the management, administration and governance of McGrath.

The *Board Charter* provides a framework for the effective operation of the Board, which sets out the:

- Board's composition and process;

- Board's role and responsibilities;
- relationship and interaction between the Board and Management; and
- authority delegated by the Board to Management and its Committees.

The Board's role is to, among other things:

- represent and serve the interests of Shareholders by overseeing and appraising McGrath's strategies, policies and performance;
- ensure that an appropriate corporate governance framework is established and is operating to enhance McGrath's performance, create Shareholder value and engender the confidence of the investment market. To accomplish this, the Board has oversight of critical areas including:
  - Strategic Direction:
    - considers and approves the strategy of McGrath and monitors its implementation; and
    - approves major investments and monitors returns achieved.
  - Financial Oversight
    - reviews and adopts an annual budget;
    - monitors financial performance; and
    - approves the annual and half year financial statements and reports on the recommendations of the Audit and Risk Committee.
  - Risk Management and Internal Controls
    - approves McGrath's risk appetite and risk management approach;
    - reviews and monitors significant business risks and oversees how they are managed on the recommendation of the Audit and Risk Committee; and
    - monitors the adequacy, appropriateness and operation of internal controls including reviewing and approving the Company's compliance systems and adherence to key regulations.
  - Managerial Oversight
    - appoints the Chief Executive Officer (**CEO**);
    - regularly reviews succession plans;
    - evaluates the performance of the CEO and senior management;
    - provides oversight of the remuneration framework; and
    - approves annual remuneration recommendations for the CEO and senior management on the advice of the Remuneration and Nomination Committee.
  - Delegations
    - determines delegations to Committees, subsidiary boards and individual Directors;
    - determines delegations to Management; and
    - approves transactions in excess of delegated levels.
  - Corporate Governance
    - approves McGrath's corporate governance framework and monitors compliance;
    - considers, approves and endorses major policies of the organisation including a *Code of Conduct* which includes ethical behaviour and social responsibility;
    - provides continuous disclosure of information to the investment community;
    - ensures information is available to assist Shareholders in making informed assessments of McGrath's prospects;

- assesses its own performance and that of individual Directors;
- selects, appoints and recommends to Shareholders the appointment of new Directors;
- oversees the implementation of appropriate work health and safety systems; and
- protects and oversees the enhancement of the reputation of McGrath.

Matters that are specifically reserved for the Board (or its Committees) include the:

- appointment of the Chair;
- appointment and removal of the CEO;
- appointment of Directors to fill a vacancy or as an additional Director;
- establishment of Board Committees, their membership and delegated authorities;
- approval of dividends;
- approval of major capital expenditure, acquisitions and divestitures in excess of authority levels delegated to Management;
- approval of the Company's remuneration policies and determining the remuneration and conditions of service for Senior Executives;
- succession planning for Executives;
- calling of Shareholder meetings; and
- any other specific matters nominated by the Board from time to time.

The management function is conducted by, or under the supervision of, the CEO as directed by the Board (and by other officers to whom the management function is properly delegated by the CEO).

The Board has established the following Committees to assist it in appropriately discharging its functions:

- Audit and Risk Committee (**ARC**); and
- Remuneration and Nomination Committee (**RNC**);

During the reporting period, the Board also held Strategy, Innovation, Technology and Execution Committee (**SITE**) meetings. The SITE Committee has now been dissolved.

The Board's responsibilities are set out within the *Board Charter*, which is available on McGrath's website under 'About Us' / 'Investor Centre' at [www.mcgrath.com.au/about/investorcentre](http://www.mcgrath.com.au/about/investorcentre).

### **Chief Executive Officer**

Geoff Lucas was appointed as the CEO of the Company on 23 February 2018 and commenced this role on 27 February 2018.

During the reporting period, Cameron Judson was the Chief Executive Officer until 16 February 2018.

The CEO is responsible for the day-to-day management of McGrath with the authority to exercise all necessary powers, discretions and delegations authorised from time to time by the Board.

The CEO is supported by the senior management team ("**Management**") who are listed on McGrath's website under 'About Us' / 'Board & Management' at [www.mcgrath.com.au/about/management-team](http://www.mcgrath.com.au/about/management-team).

## ***Access to information and independent professional advice***

Management must supply the Board with information in a form, timeframe and quality that will enable the Board to discharge its duties effectively. Directors are entitled to request additional information at any time they consider it appropriate.

The Board collectively, and each Director individually, has the right to seek independent professional advice, subject to the approval of the Chair, or the Board as a whole. If appropriate, this advice will be shared with the Board as a whole.

## ***Board meetings***

The Board holds regular meetings and is expected to meet at least six times per calendar year or as frequently as may otherwise be required to deal with urgent matters, which might arise between the scheduled meetings.

For details of the current Directors, their qualifications, skills and experience, refer to “Board of Directors”, contained within the Annual Report. For details of Directors’ attendance at Board and Committee Meetings for the year ended 30 June 2018, refer to “Board of Directors – Attendance at meetings” contained within the Annual Report.

## ***Appointment and re-election of Directors***

The Board, with the assistance of the RNC, determines its size and composition, subject to the terms of the Company’s Constitution.

During the reporting period, the Board announced a number of changes to its composition which included:

- the resignation of Non-Executive Directors Cass O’Connor, Elizabeth Crouch, Nigel Dews and Cath Rogers;
- the appointment of independent Non-Executive Directors Peter Lewis and Andrew Robinson; and
- the appointment of Non-Executive Director Wayne Mo.

John McGrath is not considered independent as he is an Executive Director and Wayne Mo is not considered independent as he is the CEO of AL Capital, a substantial holder of the Company.

When appointing new Directors, the Board, with the assistance of the RNC, will review the skills represented by Directors on the Board and determine whether the composition and mix of those skills remain appropriate to carry out and promote McGrath’s strategy, subject to limits imposed by the Company’s Constitution and the terms served by existing Non-Executive Directors.

At the commencement of the Director selection process, McGrath aims to undertake appropriate checks on potential candidates to consider their suitability to fill a casual vacancy on the Board or for election as a Director.

Prior to appointment, candidates are required to provide the Chair with details of other commitments, an indication of time involved, and to acknowledge that they will have adequate time to fulfil their responsibilities as a Non-Executive Director of McGrath.

Directors available for re-election at the Annual General Meeting (**AGM**) are also reviewed by the RNC and a recommendation is made to the Board. Directors are re-elected in accordance with the Company’s Constitution and ASX Listing Rules.

Shareholders will be provided with details about each Director for re-election including the relevant Director’s skills, experience, and independence in the notice of meeting for the AGM to enable Shareholders to make a decision about a Director’s election.

On appointment, McGrath enters into a written agreement with each Director and Senior Executive setting out the key terms, conditions and responsibilities of their position. This includes

a confirmation from the Director that he or she has the necessary time to devote to the Board position.

### **Company Secretary**

All Directors have direct access to the Company Secretary who is responsible to the Board, via the Chair, on all matters relating to the conduct and function of the Board and the Board Committees. The Company Secretary is responsible for Board business, including monitoring despatch of board papers, minutes, communication with regulatory bodies and ASX, and all statutory and other filings which is set out in the *Board Charter*, and available on the McGrath website under 'About Us' / 'Investor Centre' at [www.mcgrath.com.au/about/investorcentre](http://www.mcgrath.com.au/about/investorcentre).

Melissa Jones was appointed as Company Secretary on 15 February 2018. The role of Company Secretary was held by Morgan Sloper until 16 February 2018.

### **Diversity**

McGrath values a strong and diverse workforce and is committed to promoting a corporate culture that embraces diversity.

The Board has adopted a *Diversity Policy* in order to facilitate an appropriate level of diversity within the Company across a range of factors including gender, ethnicity and cultural background, disability, age and educational experience. The *Diversity Policy* is available on McGrath's website under 'About Us' / 'Investor Centre' at [www.mcgrath.com.au/about/investorcentre](http://www.mcgrath.com.au/about/investorcentre).

The Diversity Policy is required to be reviewed annually by the RNC.

Given the changes to the composition of the Board, the RNC was temporarily dissolved in an effort for the new Board to consider its governance structure going forward and all responsibilities of the committee were reassumed by the Board.

This includes:

- reviewing the effectiveness of the *Diversity Policy* by assessing McGrath's progress towards the achievement of the measurable objectives (if available) as set by the Board each year, and any strategies aimed at achieving those objectives;
- reviewing the relative proportion of women and men on the Board, in Management positions and in the workforce at all levels of McGrath;
- reviewing the division of responsibilities and accountability for developing and implementing diversity initiatives across the organisation; and
- reporting to the Board on its findings, including any recommendations for changes to any measurable objectives and strategies or the way in which they are implemented.

As disclosed previously, the Board had committed to reviewing the Company's diversity objectives and this will be an action for the committee during FY19.

The Company continues to make progress where possible in addressing impediments to gender diversity within its workplace including at board level. This includes provisions for parental leave, job sharing, working from home, and part-time and flexible working arrangements.

The Company also hosts an annual McGrath women's leadership forum, which provides a specific opportunity for professional and leadership development and networking for McGrath's female real estate agents. McGrath believes that these measures assist in the promotion of gender diversity throughout its business.

McGrath's workforce diversity as at 30 June 2018 is as follows:

Role	Female		Male	
	Number	Percentage	Number	Percentage
Board <sup>1</sup>	0 (2017: 3)	0%	4 (2017: 2)	100%
Management Team <sup>2</sup>	1 (2017: 2)	12.5%	7 (2017: 7)	87.5%
Other Roles	227 (2017: 279)	62%	140 (2017: 174)	38%
Overall for McGrath	228 (2017: 284)	60%	151 (2017: 183)	40%

### **Performance review of the Board**

The RNC is responsible for establishing the processes for reviewing the performance of the Board, the Board's Committees and individual Directors.

The Board and its Committees periodically self-assess their performance against a range of criteria developed annually by the RNC.

A performance review of the Board, the ARC, RNC and each of the individual Directors was undertaken during the reporting period. A performance review of the SITE Committee was not considered necessary during the reporting period and the SITE Committee has now been dissolved.

The assessments were conducted by way of a questionnaire completed by all the Directors and a report detailing the results was prepared (on a de-personalised basis) and discussed by the Board.

### **Performance review of Executives and Management**

The RNC is responsible for reviewing and recommending remuneration arrangements for the CEO and the Management reporting to the CEO, including contract terms, annual remuneration and participation in McGrath's short and long term incentive plans.

At least annually, the RNC will conduct a performance evaluation of the CEO to assess whether the CEO has met his key performance indicators.

Management team key performance indicators are set annually in collaboration with the CEO and each individual. At least annually, the CEO conducts one-on-one performance evaluations with the individual Management team member reporting directly to him to assess whether each person has met their performance targets.

Performance evaluations for each member of the Management team were completed during the financial year ended 30 June 2018. Details of the remuneration of Management who are considered by the Company to be Key Management Personnel is set out in the *Remuneration Report*.

<sup>1</sup> As at the date of this Corporate Governance Statement, the Board currently comprises Peter Lewis, John McGrath, Andrew Robinson and Wayne Mo.

<sup>2</sup> Management team includes Geoff Lucas, Glynn Wright, Kon Stathopoulos, Christopher Mourd, Alan Hemmings, Michael Conolly, Rob Fearnley and Nichola Byrne.

## Principle 2: The Board is structured to add value

### **Board Committees**

Each Board Committee has been delegated certain powers by the Board to assist it in discharging its functions which are set out in the relevant Committee charter. Each of the Committees may obtain information from, and consult with, Management and external advisers, as considered appropriate.

For details of the number of Committee meetings and the attendance at those meetings during the year ended 30 June 2018, refer to “Board of Directors – Attendance at meetings” contained within the Annual Report.

Non-Executive Directors are required to inform the Board Chair and the chair of the RNC before accepting any new appointment as a director of another listed entity, another material directorship or other position with a significant time commitment attached to ensure that it doesn't impede upon the Director's obligations to McGrath.

### ***Remuneration and Nomination Committee***

The RNC has a minimum three members, a majority of whom are independent Non-Executive Directors. Members of the RNC during the reporting period are tabled below.

The current RNC is Andrew Robinson (Chair), Peter Lewis and Wayne Mo. The RNC between 30 June 2017 and 19 February 2018 was Cass O'Connor (RNC chair), Elizabeth Crouch and Cath Rogers.

For part of the year, the RNC was chaired by non-independent Non-Executive Director, Cass O'Connor. While Ms O'Connor was a Non-Executive Director she was not considered to be independent, solely because she has been a Director of McGrath for over 15 years. However, the Board at the time believed that Ms O'Connor was the best candidate for the role given her experience and time commitment available.

The RNC:

- has a Charter, which is available on the McGrath website under 'About Us' / 'Investor Centre' at [www.mcgrath.com.au/about/investorcentre](http://www.mcgrath.com.au/about/investorcentre);
- meets as often as the RNC deems necessary in order to fulfil their role, however it is intended that the RNC will meet at least three times a year; and
- in its function as a nomination committee, the Committee is to review and consider the structure and balance of the Board and make recommendations regarding Director appointments and re-elections. In particular, the Committee is to:
  - identify and recommend to the Board, candidates for the Board after considering the necessary and desirable competencies of potential new Board members, the range and depth of skills, the diversity of the Board and consideration of the time required;
  - review induction procedures to assist new Board members to fully discharge their responsibilities;
  - review succession plans for the Board with a view to maintaining an appropriate balance of skills and experience on the Board.

Further detail in relation to the RNC's function as a remuneration committee is available under Principle 8 of this Corporate Governance Statement.

For details regarding the number of RNC meetings and the attendance at those meetings, refer to “Board of Directors – Attendance at meetings” contained within the Annual Report.

## **Audit and Risk Committee**

Details of the ARC are contained in the disclosure within this Corporate Governance Statement under Principles 4 and 7.

## **Strategy, Innovation, Technology and Execution Committee**

The SITE Committee was previously established to assist the Board and Management with the overall strategic planning and innovation initiatives of McGrath, as well as to provide specific assistance to Management with respect to technology implementation. The SITE Committee is now dissolved.

The SITE Committee previously comprised two independent Non-Executive Directors, being Elizabeth Crouch and Cath Rogers, as well Cass O'Connor, who was a Non-Executive Director but was not considered to be independent solely because she had been a Director of McGrath for over 15 years. The SITE committee also included certain members of Management and was chaired by the previous CEO, Cameron Judson.

## **Board Skills Matrix**

The composition of the Board is reviewed on an annual basis by the RNC to ensure that the Board has the appropriate mix of skills, knowledge and experience to guide McGrath and assist Management to achieve the strategic objectives set by the Board.

The annual review is facilitated by considering a Board skills matrix developed by the RNC which looks at the current skills and diversity of the Board and its needs going forward.

At the commencement of the reporting period, the Board recognised the need to review and consider the composition of the Board to align it with ASX best practice and ensure that it comprised the necessary skills to establish and deliver upon the Company's short, medium and long term strategic objectives.

Following these changes, the Board, with the assistance of the RNC has updated its current Board skill matrix which is provided below. The Board considers that it currently is the right size and that there is an appropriate mix of skills, diversity and experience on the Board, taking into account the scale and nature of McGrath's operations and its strategic objectives going forward.

The mix of skills and experience in the current Board, and that the Board would look to maintain, and build on are as follows:

<b>Financial acumen</b>	<b>Strategy</b>
Experience in accounting and finance to analyse statements, assess financial viability, contribute to financial planning, oversee budgets and oversee funding arrangements.	Strategy development and an ability to identify and critically assess strategic opportunities and potential threats to the organisation.
<b>Remuneration</b>	<b>Risk Management</b>
Ability to review and make recommendations regarding remuneration structures, including equity incentives.	Identify and monitor key risks to the organisation related to each key area of operations.
<b>Legal &amp; Governance</b>	<b>Industry Experience</b>

Ability to review legal, regulatory and governance developments and compliance and assess the impact on the Company.	Understanding of the real estate sector, property and other sectors in which the company operates.
<b>Information Technology &amp; Innovation</b>	<b>Senior Executive Experience</b>
IT strategies and infrastructure, networks; latest innovations in data security and storage.	Experience in evaluating performance of Management, and oversee strategic human capital planning.
<b>Mergers and Acquisitions</b>	<b>Leadership</b>
Experience in identifying and managing the process for mergers and acquisitions, including integration.	Make decisions and take necessary actions in the best interest of the company, and represent the company favourably.
<b>Ethics and Integrity</b>	<b>Contribution</b>
Understand role as Director and a commitment to continuing professional development, maintenance of Board confidentiality and any declarations of potential conflicts.	Ability to constructively contribute to Board discussions and communicate effectively with Management and other Directors.
<b>Diversity</b>	<b>Previous Board Experience</b>
Adequate diversity to bring different perspectives to Board discussions (e.g. age, gender, background, nationality).	Experience as a director in other companies.
<b>Marketing and Communications</b>	
Experience in marketing strategies (including social media and emerging digital channels), customer segmentation, stakeholder management, internal and external communications, public and media relations.	

The Board will continue to monitor and update the skills matrix at least annually to ensure that as McGrath develops, the Board comprises the appropriate mix of skills and experience.

### **Composition of the Board and details of Directors**

The Directors of McGrath bring to the Board relevant skills and experience, including (during the relevant period) in the areas of the Australian real estate sector, building, construction and property, international retail and fast-moving consumer goods, entrepreneurial and technology based businesses, investment banking and financial services, strategic media and telecommunications advisory, government relations, operational excellence, corporate strategy and corporate governance.

The Board currently has three Non-Executive Directors, two who are considered independent, and one non-independent Executive Director.

The majority of the Board is not currently considered to be independent.

Between 1 July 2017 and 27 June 2018, the majority of the Board were independent directors.

During the relevant period:

- the Board accepted the following resignations:
  - Cass O'Connor, who served as a Non-Executive Director and Chair of the Board as well as Chair of the RNC;
  - Elizabeth Crouch, who served as an Independent Non-Executive Director and Chair of the ARC and a member of the RNC;
  - Cath Rogers, who served as an Independent Non-Executive Director and a member of the ARC and RNC; and
  - Nigel Dews, who served as Independent Non-Executive Director.
- the Board made the following appointments:
  - Peter Lewis, Independent Non-Executive Director and Chair of the Board and a member of the ARC and RNC;
  - Andrew Robinson, Independent Non-Executive Director and Chair of the ARC and RNC; and
  - Wayne Mo, Non-Executive Director and a member of the ARC.

Between 25 August 2016 and 19 February 2018, the Board was chaired by non Independent, Non-Executive Director, Cass O'Connor. The Board at the time considered this appropriate given Ms O'Connor's skills and extensive experience, and given the clear division of responsibility between the Chair and the CEO.

The criteria by which the Board determines the independence of a Director is set out in the *Board Charter* which is available on McGrath's website under 'About Us' / 'Investor Centre' at [www.mcgrath.com.au/about/investorcentre](http://www.mcgrath.com.au/about/investorcentre).

Director	Independent status	Appointment date <sup>3</sup>
Peter Lewis (Chair)	Independent Non-Executive Director	19 February 2018
John McGrath	Non independent Executive Director	10 September 2015
Andrew Robinson	Independent Non-Executive Director	19 February 2018

<sup>3</sup> Prior to McGrath's listing on ASX, an internal restructure of the Group took place. A newly established company, McGrath Holding Company Limited was established and acquired 100% of the shares of McGrath Limited. The holding company was renamed McGrath Limited post acquisition and the existing McGrath Limited was renamed McGrath Operations Limited. Accordingly, the below appointment dates are the dates of appointment for the new holding entity of the Group, McGrath Limited. It does not reflect the fact that John McGrath and Cass O'Connor were both directors of the McGrath Group for a significant period of time prior to McGrath listing on ASX.

Director	Independent status	Appointment date <sup>3</sup>
Wayne Mo	Non independent, Non-Executive Director	27 June 2018
Cass O'Connor <sup>4</sup>	Non independent, Non-Executive Director	10 September 2015 (resignation effective 19 February 2018)
Elizabeth Crouch	Independent Non-Executive Director	25 August 2016 (resignation effective 19 February 2018)
Nigel Dews	Independent Non-Executive Director	23 November 2016 (resignation effective 22 January 2018)
Cath Rogers	Independent Non-Executive Director	23 November 2016 (resignation effective 19 February 2018)

Each Director is required to immediately disclose to the Board if a Director is, or becomes aware of, any information, facts or circumstances that will or may affect the Director's independence.

For details of the current Directors, their qualifications, skills and experience refer to "Board of Directors", contained within the Annual Report.

### **Induction and education**

The RNC is responsible for the effective training and continuous education program for all new and existing Directors, ensuring that McGrath provides appropriate professional development opportunities for Directors.

The RNC is required to regularly review the effectiveness of the program to ensure Directors maintain the skills and knowledge required to perform their role effectively.

Any new Directors will be provided a full briefing on McGrath, its operations and the industry in which it operates. Where possible, this will include meetings with Management, tours of premises, provision of a due diligence package and presentations from Management. Furthermore, to achieve continuing improvement in Board performance, all Directors are encouraged to undergo regular professional development.

### **Principle 3: The Board promotes ethical and responsible decision-making**

#### **Code of Conduct**

The Board recognises the need to observe the highest standards of corporate practice and business conduct. Accordingly, the Board has adopted a *Code of Conduct*, which outlines how McGrath expects its representatives to behave and conduct business in the workplace that covers compliance with applicable laws and guidelines on appropriate ethical standards.

<sup>4</sup> Cass O'Connor was not considered to be independent, solely because she was been a director of McGrath (being the former holding company) for a period of over 15 years.

The *Code of Conduct* sets out how the code operates alongside other Company policies, the appropriate reporting procedures should a breach of the policy occur, protection for whistleblowers, dealing with conflicts of interest, privacy, public communications and disclosure, employment practices including anti-discrimination and workplace health and safety, as well as the proper use of Company property and information.

All employees of McGrath (including McGrath's Directors, temporary employees, sales agents and franchisees) must comply with the *Code of Conduct*.

The key values underpinning the *Code of Conduct* includes:

- *Integrity* – drives how employees, contractors, consultants, associates and Directors conduct themselves in their treatment of others, encourages open and honest communication with colleagues and clients, taking responsibility for themselves and their actions, and displaying ethical behaviours that encourage others to do the same.
- *Passion* - approaches every situation with intense enthusiasm and excitement.
- *Excellence* - provides "Six Star Service"; to meet and exceed the expectations of McGrath colleagues, managers and external clients, maintains quality despite pressure and time restraints.
- *Simplicity* - remain uncomplicated and easy to understand 'The quality of being simple'.
- *Community* - collaborates with other McGrath team members to achieve the most desirable outcome for all stakeholders, involved in the local community, gives 100% with little expectation of reward in return.

A copy of the *Code of Conduct* is available on the McGrath website under 'About Us' / 'Investor Centre' at [www.mcgrath.com.au/about/investorcentre](http://www.mcgrath.com.au/about/investorcentre).

### **Securities Trading Policy**

McGrath has adopted a *Securities Trading Policy* that is intended to:

- explain the types of conduct in relation to dealings in securities that are prohibited under the Corporations Act; and
- establish a best practice procedure for the buying and selling of securities that protects McGrath, Directors and employees against the misuse of unpublished information that could materially affect the value of securities.

The *Securities Trading Policy* applies to:

- all Directors and officers of McGrath (including the CEO);
- all direct reports to the CEO and his direct reports;
- any other Personnel designated by the Board (collectively, **Personnel**);
- closely related parties (as the term is defined in the Corporations Act) of all Directors and officers of McGrath, the CEO, all direct reports to them and all other Personnel of the Company; and
- all franchisees of the Company,

collectively, **Relevant Persons**.

The *Securities Trading Policy* prohibits all Relevant Persons and all employees from dealing in the Company's securities where:

- they are in possession of price sensitive or 'inside' information; or

- the Company is in possession of price sensitive or 'inside' information and has notified Relevant Persons that they must not deal in securities (either for a specified period, or until the Company gives further notice).

The *Securities Trading Policy* sets out restrictions that apply to dealing with securities, including "blackout periods" (**Blackout Periods**), during which Relevant Persons are not permitted to deal in securities (except in exceptional circumstances) and a procedure under which Directors and Senior Executives (and their closely related parties) may deal in any other period subject to approval.

Relevant Persons are prohibited from dealing in McGrath's securities (subject to exceptional circumstances) during the following mandated Blackout Periods:

- from the close of the ASX trading day on 31 May each year, until 10:00am AEST on the next ASX trading day following the day on which the Company's full year results are released to the ASX;
- from the close of the ASX trading day on 30 November each year, until 10:00am AEDT on the next ASX trading day following the day on which the Company's half-yearly results are released to the ASX; and
- any other period that the Board specifies from time to time.

In addition, during any period other than a Blackout Period, and before any dealing in shares is undertaken, a Relevant Person seeking to trade must provide notification to and seek approval for any proposed dealing in the Company's securities from the person/s approving the trade as set out in the table below:

Relevant Person seeking to trade	Person/s approving the trade
Directors and officers of the Group (including the CEO)	Chair of the Board
Chair of the Board	Chair of the ARC, and the CEO
The CEO's direct reports, their direct reports and any person designated by the Board under clause 2 of the <i>Securities Trading Policy</i>	CEO

A copy of the *Securities Trading Policy* is available on the McGrath website under 'About Us' / 'Investor Centre' at [www.mcgrath.com.au/about/investorcentre](http://www.mcgrath.com.au/about/investorcentre).

## Principle 4: The Board safeguards integrity in corporate reporting

### **Audit and Risk Committee**

The current ARC is comprised of two Independent Non-Executive Directors, Andrew Robinson (Chair) and Peter Lewis, as well as Wayne Mo who is a non Independent Non-Executive Director.

The ARC between 30 June 2017 and 19 February 2018 was Elizabeth Crouch (ARC Chair), Cass O'Connor and Cath Rogers.

The ARC:

- was chaired by an independent Non-Executive Director for the entire reporting period;
- has a Charter that is available on the McGrath website under 'About Us' / 'Investor Centre' at [www.mcgrath.com.au/about/investorcentre](http://www.mcgrath.com.au/about/investorcentre);

- meets as often as the ARC considers is necessary, however it is intended that the Committee will meet at least four times a year; and
- meets in-camera with the external auditor as appropriate.

In accordance with its Charter, it is intended that all members of the ARC should be financially literate and the Committee chair should have significant and relevant financial experience.

The primary role of the ARC includes:

- overseeing the process of financial reporting (including to assist the CEO and CFO to provide their declaration under section 295A of the Corporations Act), internal control, continuous disclosure, financial and non-financial risk management and compliance and external audit;
- monitoring McGrath's compliance with laws and regulations and McGrath's own policies;
- encouraging effective relationships with, and communication between, the Board, management and McGrath's external auditor; and
- evaluating and making recommendations in relation to the adequacy and effectiveness of McGrath's risk management and internal control processes established to identify and manage areas of potential risk and to seek to safeguard the assets of McGrath, noting that McGrath does not have a formal internal audit function.

The ARC's role in relation to external audit includes reviewing and making recommendations to the Board in relation to:

- reporting of financial information;
- the appropriate application and amendment of accounting policies; and
- the appointment, independence and remuneration of the external auditor.

Under the *Audit and Risk Committee Charter*, it is required that McGrath's external audit firm must be independent. The ARC reviews and assesses the independence of the external auditor on an annual basis.

The ARC may obtain information from, and consult with, management, the external auditor and external advisers, as it considers appropriate. The ARC also has access to the external auditor to discuss matters without Management being present.

For details of the qualifications and experience of each ARC member, refer to "Board of Directors", contained within the Annual Report. For details regarding the number of ARC meetings and the attendance at those meetings, refer to "Board of Directors – Attendance at meetings" contained within the Annual Report.

Further detail in relation to the ARC's function as a risk committee is available under Principle 7 of this Corporate Governance Statement.

### **CEO and CFO declaration**

Prior to Board approval of McGrath's half year and annual financial reports, the CEO and CFO must provide the Board with declarations required under section 295A of the Corporations Act and Recommendation 4.2 of the ASX Principles.

The declarations confirm that in the opinion of the CEO and CFO, the financial records of McGrath have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company.

For the financial year ended 30 June 2017, the CEO and CFO made a declaration in accordance with section 295A of the Corporations Act.

The declaration was formed on the basis of a sound system of risk management and internal control which is operating effectively. An equivalent declaration was made for the half year ended 31 December 2017.

### **Auditor at AGM**

McGrath will ensure that its external auditor will be present at each of its Annual General Meetings (**AGM**) and available to answer Shareholder questions on the:

- conduct of the audit;
- preparation and content of the external auditor's report;
- accounting policies adopted by McGrath in relation to the preparation of the financial statements; and
- independence of the auditor in relation to the conduct of the audit.

McGrath held its 2017 AGM on 22 November 2017 at which its external auditor, KPMG, was present and available to answer questions.

Details relating to how Shareholders can ask questions of the external auditor at the AGM are provided in the disclosure under Principle 6 of this Corporate Governance Statement.

### **Principle 5: The Board makes timely and balanced disclosure**

It is the intention of the Board to ensure that Shareholders are kept informed of all major developments affecting the state of affairs of McGrath.

McGrath has adopted a *Continuous Disclosure Policy* to ensure compliance with disclosure obligations under the Corporations Act and ASX Listing Rules.

The Board bears the primary responsibility for McGrath's compliance with its continuous disclosure obligations and is therefore responsible for overseeing and implementing this policy. The Board makes the ultimate decision on whether there is any materially price sensitive information that needs to be disclosed to the ASX. It is a standing agenda item at all Board meetings to consider any information that may be required to be disclosed to the ASX in accordance with the Company's continuous disclosure obligations.

Under the *Continuous Disclosure Policy*, the Board has appointed the Company Secretary with responsibility for compliance with McGrath's continuous disclosure obligations. The Board must approve:

- any release which relates to a matter which is both material and strategically important for McGrath;
- any other release considered under the *Continuous Disclosure Policy* which includes disclosure of a profit projection or forecast; and
- any decision to request a trading halt or voluntary suspension of trading pending an announcement, except where the disclosure or decision is urgent and a meeting of the Board cannot be called at short notice.

Except as described above otherwise, the CEO or (where appropriate) the Chair, must approve and is accountable for the disclosure of material information to the market.

The Company Secretary has primary responsibility for all communication with ASX in relation to ASX Listing Rule matters.

The *Continuous Disclosure Policy* is available on McGrath's website under About Us' / 'Investor Centre' at [www.mcgrath.com.au/about/investorcentre](http://www.mcgrath.com.au/about/investorcentre).

## Principle 6: The Board respects the rights of Shareholders

McGrath respects the rights of its Shareholders and to facilitate the effective exercise of those rights, McGrath's policy is to promote effective two-way communication with Shareholders and other stakeholders so that they are fully informed of McGrath's business, governance, financial performance and prospects, and understand how to assess relevant information about McGrath and its corporate activities.

### **Company website**

McGrath's website is at [www.mcgrath.com.au](http://www.mcgrath.com.au) and is regularly kept up-to-date to maintain effective communication with Shareholders and stakeholders.

The following information is available on McGrath's website:

- a profile of McGrath, its businesses, location of offices, and media stories;
- Director and Management team profiles;
- Corporate governance overview including the Company's Constitution, Board and Board Committee Charters and Board approved policies;
- all ASX announcements made to the market since listing on the ASX, including annual and half year financial results, are posted on McGrath's website under About Us' / 'Investor Centre' at [www.mcgrath.com.au/about/investorcentre](http://www.mcgrath.com.au/about/investorcentre) as soon as they have been released by the ASX;
- copies of all investor presentations made to analyst and media briefings. If the Company creates webcasts, these will also be made available on the McGrath website;
- half year and full year financial statements and McGrath Group's Annual Reports as well as notices of Shareholder meetings;
- investor services including a link to McGrath's share registry, managed by Link Market Services; and
- share price and tools and investor contact details.

Alternatively, McGrath ASX announcements can be accessed from the 'Announcements' section of the ASX website (ASX code: MEA) at [www.asx.com.au/asx/statistics/announcements](http://www.asx.com.au/asx/statistics/announcements).

### **Investor relations program**

It is the Company's intention to hold its AGM in November 2018 and the Chair, CEO and Chief Financial Officer will engage with Shareholders in advance of the AGM, as appropriate.

McGrath has appointed the CEO (or in his absence, his delegate), as authorised spokespersons. Further details are contained in the *Continuous Disclosure Policy*.

Further, McGrath recognises the importance of its relationships with investors and analysts. Following the Company's release of its half year and annual financial statements, McGrath conducts investor briefings (via teleconference calls) and investor roadshows with institutional groups and analysts. Copies of these presentations are made available to all Shareholders on McGrath's website at <https://investor.mcgrath.com.au/Investor-Centre/?page=presentations-webcasts>.

### **Shareholder engagement and participation**

The contact details of McGrath and its share registry (see below under 'electronic communications') are available to Shareholders to address and facilitate any Shareholder-related enquiries.

To encourage Shareholder engagement and participation at the AGM, Shareholders have the opportunity to attend the AGM, ask questions from the floor, participate in voting and meet the Board and the Management team in person.

Shareholders who are unable to attend the AGM are encouraged to vote on the proposed motions by appointing a proxy via the proxy form that accompanies the notice of meeting, or online through the share registry's website.

Shareholders have the opportunity to submit written questions and comments to McGrath and its external auditor.

Presentations and speeches made by the Chair and CEO at the AGM will be made available on the ASX announcements platform, and McGrath's website before the commencement of the meeting. McGrath will also publish the results of the general meeting to the ASX and on its website immediately following the conclusion of the AGM.

### **Electronic communications**

McGrath's contact details are available on the McGrath website under Investor Centre at <https://investor.mcgrath.com.au/Investor-Centre/?page=investor-contacts>. Shareholders can, email McGrath at [investorcentre@mcgrath.com.au](mailto:investorcentre@mcgrath.com.au) or contact its share registry, Link Market Services at [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au).

Shareholders may elect to receive all Shareholder communications (including notification that the annual report is available to view, notices of meeting and any dividend payment statements) by email. Electronic communications have the added advantage of being more timely and cost effective, which benefits all Shareholders. Shareholders should contact Link Market Services if they wish to elect to receive electronic communications.

## **Principle 7: The Board recognises and manages risk**

### **Audit and Risk Committee (ARC)**

In its function as a risk committee, the ARC assists the Board in fulfilling its corporate governance responsibilities with regard to providing oversight and ensuring the soundness of McGrath's risk management framework and internal control systems.

McGrath considers risk management to be integral to the Company achieving and maintaining its operational and strategic objectives. The Board is responsible for approving the Company's risk management approach and reviewing and monitoring significant business risks and overseeing risk mitigation strategies. The Board has delegated to the ARC the responsibility of reviewing and making recommendations to the Board on the Company's overall risk profile and risk appetite.

McGrath's *Audit and Risk Committee Charter* sets out the requirements, roles and responsibilities for managing risks across the McGrath Group. The *Audit and Risk Committee Charter* is available on the McGrath website under 'About Us' / 'Investor Centre' at [www.mcgrath.com.au/about/investorcentre](http://www.mcgrath.com.au/about/investorcentre).

The ARC's primary role with respect to risk management is to:

- review and endorse McGrath's risk management framework and significant variations to it, including overseeing its effectiveness, enabling timely and effective identification of material risks to McGrath;
- receive and review reports concerning the appropriateness of the risk management framework and risk mitigation strategies and approve or vary as necessary;
- review and make recommendations to the board on the Company's overall risk profile and risk appetite as well as the Company's risk profile in each risk area of market, liquidity, equity, credit, regulatory, and operational. There should also be a review of:

- developments in technologies and markets in which McGrath operates;
- the appropriate level of insurance cover that McGrath should maintain, including the terms and conditions of any such insurances; and
- experience in each risk category, providing confidence that McGrath's policies reflect and are consistent with experience;
- review and make recommendations to the board on McGrath's capital management plan including information on McGrath's capital adequacy and economic capital model;
- review and approve risk matters requiring Board approval including significant variations to policies, limits and delegations of authority where these have not been reviewed by the Board;
- review any matters that may involve breaches of delegated authority limitations or other policy breaches, in particular where there are implications for the risk management framework; and
- assess the risk management framework against the expectations of corporate regulators.

Management of risk is embedded in the culture of the leadership team with risk management practices in place across the business.

McGrath's risk management system explicitly identifies business risks and has measures and risk mitigation strategies in place to minimise those risks.

McGrath risk management framework accounts for key enterprise risks to be identified and categorised according to whether they are regulatory risk, strategic risk, operational risk, people risk or financial risk and identifies an owner of each risk.

Management has reported to the Board (through the ARC) on the effectiveness of the management of the material risks faced by McGrath during the financial year ended 30 June 2018.

During the reporting period, the Board with the assistance of the ARC, has commenced a review of McGrath's risk management framework, its material risks and the relevant controls as identified on the risk register to ensure its currency and effectiveness. The review, and any subsequent updates identified as part of the review, is expected to be completed during the 2018/18 financial year.

Details of the ARC are contained in the disclosure under Principle 4. For details regarding the number of ARC meetings and the attendance at those meetings, refer to "Board of Directors – Attendance at meetings" contained within the Annual Report.

### ***Internal audit***

Given the size and scale of McGrath's current operations, McGrath has not established an internal audit function. Oversight of the effectiveness of McGrath's risk management and internal control processes currently form part of the responsibilities of Management. As McGrath's business operations continue to develop, the ARC may consider establishing an independent internal audit function.

### ***Economic, environmental and social sustainability risks***

As set out above, McGrath has a risk management framework which accounts for key enterprise risks to be identified and categorised according to whether they are regulatory risk, strategic risk, operational risk, people risk or financial risk.

McGrath's Prospectus dated 12 November 2015 outlines McGrath's exposure to a number of risks. The Board continues to monitor these risks and does not believe the risks outlined in the prospectus have significantly changed. This includes the following economic risks as recognised by the Company:

- **Australian residential real estate market** – McGrath generates the majority of its income from the Australian residential real estate market through commission revenue generated by agents on the sale of properties, property management commissions and commissions on the arranging of mortgages.

The risk of a reduction in sales transaction volumes or prices is a material risk for McGrath and could be impacted by general economic conditions and factors beyond the Company's control such as housing affordability, employment, interest rates, domestic investor growth and demand, foreign investment and consumer confidence.

- **increased competition and disintermediation** – McGrath operates in a highly competitive environment and constantly monitors the market and the competitive environment. McGrath is also potentially exposed to disintermediation whereby buyers and sellers are able to transact directly in private sale without using the services of an agent.

McGrath prides itself on delivering exceptional client service and providing a market-leading experience.

- **digital disruption** – McGrath focuses on five key service offerings including residential property sales, property management, mortgage broking, auction services and career training. As technological advancements occur there is a risk that new entrants into the market or larger established corporates that may offer alternative services and products to that of the traditional real estate service offerings. These may impact on McGrath's market share. McGrath continues to monitor the emergence of these disruptor technologies, and as part of its longer term strategy is placing additional emphasis on innovation and technology throughout the Group to add value to its existing service offerings.

- **loss of key agents** – McGrath relies significantly on its agents to deliver its services to its clients and promote the reputation of the Company through their dealings with clients and there is a risk that McGrath may lose agents to competitors and/or other industries. McGrath recently launched the McGrath Future Program, a commission and incentive program designed to assist in attracting and retaining high performing residential sales agents. McGrath currently has in place an Equity Incentive Plan that provides McGrath with the ability to offer equity, subject to specific performance and vesting criteria, in the Company as an incentive and retention tool to continue to attract and retain professional, experienced and highly qualified agents.

- **regulatory risks** – McGrath currently has business operations in four states within Australia, with regulations and legislation varying in each state. McGrath relies on licences and approvals issued by various regulatory bodies to carry out its services. Non-compliance may result in penalties and a negative impact to McGrath's operations and reputation. Additionally, changes and developments in legislation and/or regulation and policy in different jurisdictions may impact McGrath's operations. McGrath mitigates regulatory risks through monitoring the regulatory and legislative environment, providing appropriate staff training, and maintaining relationships with regulatory bodies or industry organisations. McGrath also participates in various industry events.

These risks are carefully managed by the Company, including by:

- the CEO and Management regularly reviewing and monitoring the market and sales and any potential risks to McGrath's operations;
- expanding McGrath's footprint and increasing the geographic diversity of the Company to protect against losses suffered in particular regions as a result of adverse change in those particular regions;
- focussing on the performance and retention of high performing agents;

- focussing on continuing to deliver market leading service and exceptional customer experiences;
- continually testing and considering ways to diversify the business model; and
- continually assessing the Company's remuneration policy to ensure that it is market competitive and attracts and retains quality, experienced real estate agent professionals.

McGrath does not have material exposures to environmental and social sustainability risks, although McGrath's approach to managing these risks is outlined below.

McGrath has clearly defined values that include integrity, passion, excellence, simplicity and community.

All personnel are expected to uphold the Company's commitment to pursue good corporate citizenship while engaging in its corporate activity and the McGrath supports its team to actively contribute to the needs of the community.

McGrath is committed to doing business in an environmentally responsible manner and to identifying environmental risks that may arise out of its operations.

## **Principle 8: The Board remunerates fairly and responsibly**

### ***Remuneration and Nomination Committee (RNC)***

The RNC assists the Board in fulfilling its corporate governance responsibilities in regard to:

- assessing the remuneration policy and compliance with legal and regulatory requirements;
- reviewing material changes to the remuneration policy, including remuneration structure, retention and termination policies for all staff;
- reviewing material changes to the recruitment policies, procedures and remuneration approach for the Company's Management team (including the CEO);
- recommending performance-based (at-risk) components of remuneration and targets for the Company's financial performance as they relate to incentive plans, including equity-based payments; and
- assessing overall remuneration outcomes, including by gender.

Details of the RNC are contained in the disclosure under Principle 2. For details regarding of the number of RNC meetings and the attendance at those meetings, refer to "Board of Directors – Attendance at meetings" contained within the Annual Report.

### ***Remuneration Report and remuneration policies***

With the assistance of the RNC, the Board has established a remuneration philosophy to ensure that it remunerates its people fairly and responsibly. The remuneration philosophy is designed to ensure a competitive structure that is reasonable and appropriate for the results delivered, and which is aimed at attracting and retaining talented and motivated Directors and employees, who the Board recognises are essential to delivering the long term success of the Group.

Details about McGrath's remuneration philosophy, policies and practices are provided within the *Remuneration Report*, which is part of the *Directors' Report* within the Annual Report. As detailed in the *Remuneration Report*, the structure of Non-Executive Directors' remuneration and that of Executives is clearly distinguished.

Non-Executive Directors receive fees, including superannuation, that does not include any incentive payments that are linked to the performance of McGrath. This is to ensure that independence of thought on the Board is protected and maintained. The level of remuneration of Directors fees are set by the Board with the assistance of the RNC and within the remuneration

pool as approved by Shareholders in general meeting. Non-Executive Directors' fees are considered appropriate compensation for the time commitment each Director spends in relation to their membership on the Board and any Board Committees. McGrath will reimburse Directors for reasonable out-of-pocket expenses incurred in connection with performance of their duties as a member of the Board. There are no retirement schemes for Non-Executive Directors.

McGrath's Executive Director and Management remuneration contains a mix of base fees plus short term and long term incentives which include participation in incentive plans to align their interests with that of Shareholders, the details of which are provided in the *Remuneration Report*.

### ***Equity-based remuneration scheme***

McGrath has established the:

1. *McGrath Equity Incentive Plan*, that was approved by Shareholders at the Company's 2016 AGM, where Eligible Participants may receive:
  - **Options:** an entitlement to receive shares on satisfaction of specified conditions and payment of a specified exercise price;
  - **Performance Share Rights:** an entitlement to receive shares for no consideration on satisfaction of specified conditions; and
  - **Restricted Shares:** are fully paid ordinary shares subject to a restriction on sale and that may be forfeited if certain performance hurdles are not met.
2. *McGrath Tax Exempt Employee Share Plan*, the purpose of which is to:
  - encourage participation by Eligible Employees in McGrath through Share ownership with an aggregate value of up to \$1,000 for no consideration payable to McGrath;
  - assist in the reward, retention and motivation of Eligible Employees;
  - align the economic interests of Eligible Employees with Shareholders by providing an opportunity to earn rewards via an equity interest in McGrath based on creating Shareholder value; and
  - provide a tax efficient structure for the provision of equity to Eligible Employees.

The Board will consider the use of equity based remuneration to reward, motivate and retain Management.

Under the *McGrath Equity Incentive Plan* and *Securities Trading Policy*, participants in the Equity Incentive Plan are prohibited from entering into any arrangement, including any financial product that operates to limit (**Hedge**) the economic risk of the Options and Performance Share Rights, prior to vesting or becoming exercisable (as relevant), including where a holding lock has been applied.

Participants may be permitted to Hedge where all vesting conditions (if applicable) have been met, the equity instrument is not the subject of a holding lock, and the participant has complied with the provisions of the Securities Trading Policy, including having obtained the required internal approvals. Where a participant has entered into a hedging arrangement, the Company may disclose the fact and nature of the Hedge in its annual report or as an announcement to the ASX.

The terms and conditions of the *McGrath Equity Incentive Plan* are available on the 'Announcements' section of the ASX website for 'MEA' lodged on 7 December 2015, which was approved by Shareholders at the Company's 2016 AGM. Further details on the *Securities Trading Policy* are provided in the disclosure under Principle 3 of this Corporate Governance Statement.