

# Review of Current Non-Executive Director Fee Practices

Stride Property Group

April 2019

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# 1. Executive Summary

Stride Property Group (SPG) has engaged Ernst & Young Limited (EY) to prepare a report in relation to Non-Executive Directors' (NED) fees. We confirm that our report has been prepared independently and is not subject to any influence from the management or any board member of SPG New Zealand or any third party. SPG is made up of the following entities:

- ▶ Stride Property Limited (SPL), a property investment vehicle which meets a minimum of 5 times each year
- ▶ Stride Investment Management Limited (SIML) which is real estate investment management business. The SIML Board schedules a minimum of 8 meetings each year.

The SPL Board and the SIML Board are each responsible for the proper direction and control of the legal responsibilities and activities of their respective entity.

Consistent with the notation below in the Notice of Annual Meetings (6<sup>th</sup> September 2017), we have approached the Director fees review for SPG as a combined entity.

*'Directors are collectively paid through a contribution from both SIML and SPG. There is no requirement that Directors' remuneration be authorised by separate resolutions of SPG and SIML, unless each entity intends to have a separate pool from which Directors are separately paid'.*

The findings in this section summarise the market positioning of SPG's Chair, NED and committee fees compared to the market data. Fees are 'at' the relevant market reference point if positioned within 10% of the market data reference point.

The market information pertaining to fee practices within the comparator group has been sourced from EY's Directors' fees database, supplemented with data from the most recent financial year end annual reports. The information from annual reports is publicly available information. The comparator group was discussed and agreed with SPG as the basis from which to perform our analysis.

We acknowledge that there is a time lag in remuneration disclosures from the chosen organisations. Generally, Ernst & Young does not support 'ageing' market data to account for this time lag. Therefore, the data used in this analysis is factual and has not been aged.

## 1.1 Summary of market data - policy fees

In reviewing SPG's policy fees an agreed peer group was used to provide comparative data. This comparator group is primarily made up of organisations in the Funds Management, Financial Services and Real Estate industries, as well as other listed entities that are of a similar size and business operations to SPG but drawn from other industry sectors. The market information pertaining to fee practices within the comparator group has been primarily sourced from EY's Directors' fee database, supplemented with publicly available data from the most recent annual reports where necessary. A full list of the comparator organisations is outlined in the appendix.

The sample was discussed with both the CEO and Board Chair of SPG as the basis from which to derive this analysis. This provided multiple viewpoints, enabling a thorough scan of market practice covering the key determinants of Director fee practices that are pertinent to SPG compared with the comparator groups, namely:

- ▶ Revenue: SPG ranks equal 9th out of the 14 organisations.
- ▶ Market capitalisation: When ranked for market capitalisation, SPG is 9th out of the 14 organisations for whom data was available.
- ▶ Total Assets: SPG ranks 11th out of the 14 organisations for whom data was available.

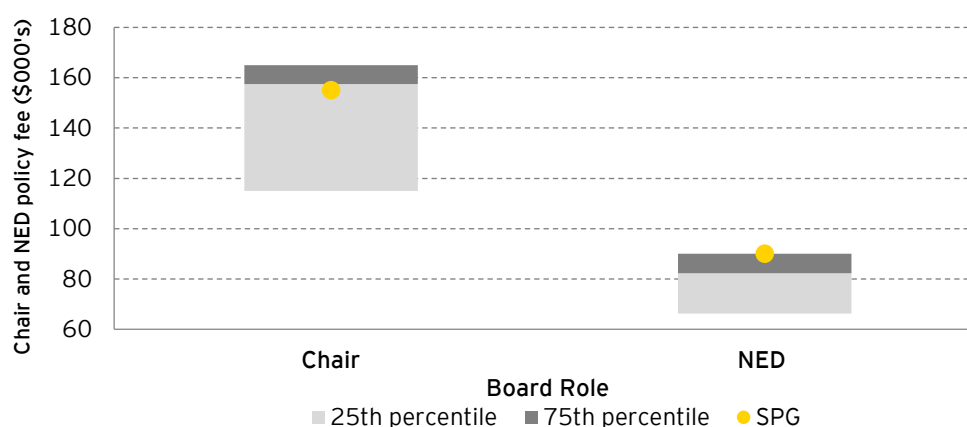
The table on the following page compares the fees paid to SPG's Chair, NEDs, committee fees and fee pool to disclosed market data in the comparator group.

Summary of market data - policy fees				
	SPG	Median	Comparison to median	Sample size
Chair	155,000	157,500	At median and 75 <sup>th</sup> percentile	12
NEDs	90,000	82,250	At the 75 <sup>th</sup> percentile	12
Audit and Finance Committee Chair	10,000	12,000	Between 25th percentile and median	11
Total NED fee pool	760,000	580,000	At the 75 <sup>th</sup> percentile	11

## 1.2 Board Chair and NED policy fee positioning

The diagrams below display the internal relativity of SPG's Chair fees and NED fees as well as the fee pool compared to the agreed comparator group.

Chart 1: SPG's Chair and NED fee positioning to market



- ▶ **Chair:** The Chair fee is at both the median and the 75<sup>th</sup> percentile\*
- ▶ **Other NEDs:** NED fees are at the 75<sup>th</sup> percentile. \*

\* Fees are 'at' the relevant market reference point if positioned within 10% of the market data reference point.

## 1.3 Recommendations

When developing the recommendations below, we have considered the following factors:

- ▶ The number of Board meetings held for SIML (8) and SPL (5), when combined is 13, which is in excess of the upper quartile of the sample of (9)
- ▶ Current market movements and trends for NED fees
- ▶ SPG relative positioning: at the median for revenue, between the 25th percentile and the median for market capitalisation and below the 25th percentile for assets.
- ▶ The nature of SPG's committee practices. SPG operate an Audit and Risk Committee, which four board members are on. While the functions of a Remuneration and Nominations Committee are performed by the full board, there is no separate committee to carry out these duties.
- ▶ The organisation is currently undergoing significant change as the business has broadened from a property management organisation to have an increased emphasis on funds management.

Based on the consideration above, information provided by SPG and the EY Directors' fee database, our recommended SPG fee structure is set out on the following page.

Recommended fee increases			
Role	SPG's Current Practice (\$)	Recommended Fee (\$)	Increase (%)
Chair Base Fee	155,000	167,500	8.1%
NED Base Fee	90,000	96,000	6.7%
<b>Committee Fees</b>			
Audit and Risk Committee - Chair	10,000	13,000	30%
Audit and Risk Committee - Member	-	-	-

The current available fee pool is \$760,000. The remuneration and other benefits, excluding reimbursements, received by the NEDs of SPG during 2017/18 was \$572,914.

We understand the current fee pool has not been increased since 2017. If the above recommendations are adopted, the fees paid to directors would fall within the current \$760,000 fee pool. However, in order to ensure that SPG has sufficient headroom, EY recommends that the fee pools is increased to \$805,000. This will allow SPG to make changes the size or composition of the Board should the need arise.

Increasing the fee pool to \$805,000 will ensure that SPG's headroom equates to approximately 1.5x the proposed NED base fee.

Thank you for the opportunity to assist SPG with this assignment.



Una Diver  
Partner - People Advisory Services  
Ernst & Young Limited

## Appendix - SPG comparator groups company financial comparisons

Organisation	Revenue (\$millions)	Market Capitalisation (\$ millions)	Total Assets (\$millions)
Kiwi Property Group Limited	278	1,937	3,085
Oceania Healthcare Limited	252	661	1,147
Summerset Group Holdings Limited	137	1,551	2,766
Arvida Group Limited	132	529	1,133
Precinct Properties New Zealand Limited	131	1,643	2,562
Metlifecare Limited	115	1,276	3,291
Goodman Property Trust	102	1,861	2,720
Argosy Property Limited	101	890	1,545
Vital Healthcare Property Trust	91	918	1,787
Property for Industry Limited	80	852	1,359
NZX Limited	67	293	181
Kingfish Limited	43	267	279
Augusta Capital	22	95	141
SPG	<b>101</b>	<b>745</b>	<b>1,000</b>
	At the median	Between the 25 <sup>th</sup> percentile and the median	Below the 25 <sup>th</sup> percentile

- ▶ Market remuneration data used in the analysis has been sourced from a combination of annual reports for the most recent financial year and EY's Directors' fees database.
- ▶ Revenue and Total assets data is based on the most recently disclosed full-year result.
- ▶ Data for Market Capitalisation has been sourced from Thomson Reuters, a third-party data provider. This data has been inserted directly into the table without detailed verification. EY will not be responsible for any errors or inconsistencies that arise due to errors in this source data.
- ▶ Please note we are unable to disclose information for privately held organisations, however all company information has been included in our overall analysis, including any ranking.

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Our report may be relied upon by Stride Property Limited for the purpose of understanding Director Fees only pursuant to the terms of our engagement letter dated 8 March 2019. We disclaim all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of our report, the provision of our report to the other party or the reliance upon our report by the other party.

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