
Review of Non- Executive Director Emoluments

STRIDE.

August 2017



Introduction

The Chairman of the Stride Property Group, Tim Storey, requested on behalf of the Board that Egan Associates undertake a review of Non-Executive Directors' fees for the stapled entity.

Overview

Stride Property Group (SPG), in its current form, represents a recently established listed group on the NZX having emerged from a restructure of the long established listed Stride Property Limited.

The creation of Stride Property Group involved the establishment of two listed stapled entities with common securityholders, one known as Stride Property Limited (Stride) and the other Stride Investment Management Limited (SIML). Investore Property Limited (IPL), previously a subsidiary of Stride, was separated from the group to form an independent listed entity which own large format retail assets. The separation between Stride and SIML in the stapled structure clearly identified SIML's obligation to manage the property assets of Stride while offering a degree of independent stewardship of IPL's property assets and continuing to manage the property assets of Diversified NZ Property Trust (Diversified).

We understand that SIML is a specialised manager of property assets in New Zealand, operating an integrated end-to-end platform incorporating investment management, asset management services, property services, leasing, development, safety, sustainability, capital transactions, research and a comprehensive back office service in support of asset owners, together with the conduct of investment reviews including acquisitions and divestments.

Diversified is an Australian entity in which Stride held a 2% interest at the time it acquired two significant Scentre Group retail assets in New Zealand for NZ\$445 million adding to its then portfolio of approximately NZ\$100 million.

We understand that the property assets of Stride include retail, commercial and industrial assets, that the assets of Investore consist of large format retail assets and that the assets of Diversified consist of retail assets.

In a prior engagement with SPG, Egan Associates gained a comprehensive appreciation of the nature of the stapled entities on which Directors presently serve. Those entities, which form part of Stride Property Group, include:

- Stride Property Limited (Stride)
- Stride Investment Management Limited (SIML)

Board Structure and Membership

The SPG Board, i.e. the Board of each of Stride and SIML, at the time of preparing this report had six Non-Executive Directors including a Non-Executive Chairman.

In meeting its obligations, the Board have established two formal Committees – an Audit & Risk Committee and a Remuneration & Nomination Committee.



At the time of preparing this report, all Non-Executive Directors serve on the Remuneration & Nomination Committee which is also intended to be chaired by an independent Director. This Committee was suspended (with its role performed by the entire Board) while the Stride Property Group sought a new CEO.

We note that the SPG Board have adopted a governance protocol in alignment with the principles and guidance set out in the New Zealand Financial Markets Authority’s Corporate Governance Handbook.

We note the Stride and SIML boards met formally as a board on 9 and 8 occasions respectively in the 2017 financial year. We understand that they met on a number of other occasions as a group to deal with issues arising including the resignation of the previous Chief Executive Officer and his replacement and in addressing both organisational, investment and mandate oversight issues arising as the enterprise settled their new engagement with significantly expanded assets held by Diversified and IPL.

Current Emoluments

We note that the Chairman’s aggregate annual fee has been established at \$140,000 and each Non-Executive Director receives an aggregate fee of \$85,000.

We understand that the Chairman is a member of both formal Committees of the Board.

We note there is no differentiation in the fees payable to Directors chairing the formal Committees of the Board and no differentiation in fees payable to Directors who are not members of the Audit & Risk Committee.

Determining Directors Fees

In taking an NZX frame of reference to assist in the determination of Directors’ fees, we have drawn upon the larger of the NZX REITS given that SPG is an NZX 50 company.

This data appears in the first table below. The second table draws upon a narrow band of NZX listed companies having regard to the relative rank of SPG. The fees portrayed in the relative rank table in our view appropriately reveal the relative standing of SPG where, for the 2016 calendar year, the average NZX Top 50 Chairman’s fee stood at \$182,579 and for a Director \$107,787, with the median fee being \$166,000 and \$98,070 respectively.

SELECTED REITS*

	75 th Percentile	Median	25 th Percentile	Average
Non-Executive Chairman	143,125	141,233	139,715	141,607
Non-Executive Director	88,253	81,295	72,708	79,307

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* Argosy Property Limited, Goodman Property Trust, Kiwi Property Group Limited, Precinct Properties NZ Limited, Vital Healthcare Property Trust.

**NZX – Companies ranked 32 to 42**

	75th Percentile	Median	25th Percentile	Average
Non-Executive Chairman	161,082	141,976	122,154	156,508
Non-Executive Director	109,752	81,617	68,804	88,708

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Given the complexity of the stapled entity and the obligations of Directors in both overseeing the property investments of SPG and management’s effectiveness in meeting their mandated obligations to Stride and their property management and investment management obligations to IPL and Diversified, we believe there was merit in considering a broader market regarding the level and structure of Directors’ fees and accordingly have drawn information on Directors’ fees paid on ASX listed boards among organisations with similar financial metrics to the stapled entity including annual revenues, market capitalisation and assets. Applying the same lens, we have sought data on Directors fees in the Real Estate sector in Australia. This includes organisations which incorporate the ownership and the management of assets and those which outsource the management of their assets to a third party. In both instances, we have reviewed organisations half and twice the scale of SPG.

In the broad market section of Australia, we were able to draw data on over one hundred companies. In the retail sector, we have reviewed twelve organisations.

The tables below set out the outcome of our research.

ALL SECTORS**ASX – Companies with comparable financial attributes**

	75th Percentile	Median	25th Percentile	Average
Non-Executive Chairman	242,000	180,675	125,089	192,211
Non-Executive Director	132,000	100,875	79,335	108,405

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ASX - REIT Companies with comparable financial attributes

	75th Percentile	Median	25th Percentile	Average
Non-Executive Chairman	183,897	173,626	144,129	168,623
Non-Executive Director	105,667	93,759	76,105	94,440

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The remuneration reflecting fees paid to Directors serving on ASX listed companies are in Australian dollars and incorporate obligations associated with their board’s compliance with the Australian superannuation guarantee legislation. Indicatively, this would contribute to around 8% of the aggregate fee.

In the majority of leading Australian REITS, companies separate fees paid for service on board committees. Fees for a member indicatively stand at 10% of a Director’s fee and for a Committee Chairman 15%. While traditionally fees paid to members of Audit and Risk Committees were at a premium to those serving on Remuneration and Nomination Committees, the gap has been significantly narrowed. Some REITS have separated Audit from Risk and Compliance, where Risk and Compliance, on occasions fulfil the role of an Investment Committee in the REIT sector.



Observations and Recommendations

Having regard to both markets, the frequency of meeting and the complexity of the stapled entity, together with an update on the Board's Committee structure and membership and in that context the manner in which the Board will manage its affairs in the near term, it would be our proposal that a Director's retainer fee be set at \$90,000 per annum. The retainer fee should encompass Directors' obligations to serve on Committees of the Board and fulfil their role as Directors of both Stride and SIML in the stapled entity.

On the basis of our understanding of the role of the Chair of the Audit & Risk Committee and the required stewardship of that position in addressing questions of related party matters and conflicts of interest, we would recommend a supplemental fee be payable to the Chair of that Committee of \$10,000 per annum.

In relation to the position of Chairman and our understanding of the obligations of the role, it would be our recommendation that the retainer fee be established at \$155,000.

These recommendations reflect our judgement that the obligations of Directors on the stapled entity are significantly more complex than those serving on a traditional single entity board listed on both the NZX or ASX, particularly given the scale and accountability under the Board's stewardship of SIML and its oversight of the group's external mandates and our understanding of its intent to seek to extend its mandated management services to a wider range of property.

Declaration: This Report is made free from undue influence by the member or members of the key management personnel of the company to whom this Report relates.