
Property for Industry Limited

Directors' Fees Summary Report

April 2019

Private and Confidential

Strategic Pay Limited is independent of Property for Industry Limited. In this context, independence means that Strategic Pay Limited has not been subjected to any undue influence from management of Property for Industry Limited, any board member of Property for Industry Limited, or any other party in relation to the services provided by Strategic Pay Limited or the outcomes of those services.

Overview

Property for Industry Limited (“PFI” hereafter), has commissioned Strategic Pay Limited to provide a review of its Board of Director fees. Craig Peirce, Chief Finance and Operating Officer, supplied our background information, and we personally interviewed him as well as Anthony Beverley, Chair, and Susan Peterson, Director. Board fees were last adjusted in 2016.

Our approach involves constructing relevant, customised market samples from our February 2019 **New Zealand Directors’ Fees Survey** database to determine and position appropriate Board fee levels for PFI. We then “cross-check” our data results using our proprietary Director Evaluation Methodology which considers nine factors, the majority of which are qualitative and address issues of complexity, risk and stakeholder management.

Background

Listed on the NZSX in 1994, PFI is a property vehicle focussed on the industrial sector. 25 years on, PFI has grown to over 5,000 shareholders and a portfolio of approximately 93 properties leased to 147 tenants, valued at \$1.32 billion. PFI strives for consistent delivery of attractive shareholder returns through focus, discipline and a conservative approach.

As of financial year-end 31 December 2018, PFI reported \$1.32 billion in total assets, generating total revenue of income of \$158 million including property re-valuations. Market capitalisation stands at \$970 million at 29 March 2019.

Importantly, the Company internalised its external management contract in 2017, resulting in significant additional governance responsibilities and greater director involvement.

The Board of Directors consists of an independent Chair plus four Directors, three of whom are independent and one who is an executive Director. This executive Director role will transition to non-executive Director status on 1 July 2019, and begin receiving director fees from that date. The Chair currently receives base annual fees of **\$120,000**, and each independent Director receives base annual fees of **\$70,000**.

The Audit & Risk Committee Chair receives a **\$10,000** Committee fee. No Committee member fees are paid.

PFI has a \$20,000 Special Purpose Pool for payment to the Board in case of significant transactions or projects that fall outside typical Board work or time commitment. PFI chooses to disestablish this pool and instead adopt a policy of paying professional consulting fees should such situations arise.

You advise that the Board’s policy in setting Board fees is “to pay market level remuneration which is fair and reasonable and attracts and retains high quality directors who can bring a valuable and diverse set of skills and experience to the Company.” The “right” Directors are essential to realising PFI’s aspirations of best practice discipline, focus and professionalism.

DIRECTORS FEE MARKET DATA – CUSTOMISED INDUSTRY PEER GROUP

Table 1 below provides details of directors' remuneration for nine NZ listed companies operating in the property and property development sectors. We have identified and agreed with you on these companies as relevant comparators.

We have researched websites and reviewed most recent published annual reports in order to present the most current base annual fee and financial data possible:

- Arvida Group
- Argosy Property
- Goodman Property Trust
- Kiwi Income Property
- Metlifecare
- Oceania Healthcare
- Precinct Properties
- Stride Properties
- Summerset Group Holdings

TABLE 1: BASE ANNUAL DIRECTORS' FEES IN 9 LISTED NZ PEER GROUP COMPANIES:

Sample - 9	Lower Quartile (\$)	Median (\$)	Upper Quartile (\$)	Average (\$)
Chair	155,000	160,000	165,000	162,777
Directors	82,500	88,000	90,000	86,741

Importantly, we note that all sample companies pay separate committee Chair and committee member fees.

This sample yields median annual base fee levels for Chairs of **\$160,000** and median base annual fees of **\$88,000** for Directors.

Latest available financial data for this peer group appears below:

	Lower Quartile (\$)	Median (\$)	Upper Quartile (\$)	PFI (\$)
Total Assets	1.1 B	1.7 B	2.5 B	1.32 B
Market Cap	705 M	1.13 B	1.8 B	970 M

Based on this analysis, placement between lower quartile and median levels of the peer group sample is most appropriate for PFI.

DIRECTORS FEES

Our analysis is based on several factors including the financial size, ownership, and industry of PFI, your own guidance, and the market data presented above.

We recommend increasing base annual Director fees from the existing **\$70,000** into a range from **\$80,000 to \$85,000** on the basis of the data below:

TABLE 2: SUMMARY RESULTS – DIRECTOR FEE SAMPLES FOR PROPERTY FOR INDUSTRY:

Sample	Positioning	Base Annual Fee (\$)
Total Assets Listed companies \$800 M to \$1.8 B (sample = 14)	Median	85,000
Market Cap Listed companies \$600 M to \$1.25 B (sample = 16)	Median	82,500
Industry Peer Group	Lower Quartile	82,500
Industry Peer Group	Median	88,000
Director Evaluation	Upper Quartile	75,018

As you can see, while there is variation in sample results, the consensus falls between **\$80,000 and \$85,000**.

CHAIR FEES

Similarly, we recommend an increase in base annual Chair fees from **\$120,000** into a range from **\$155,000 to \$165,000** on the basis of the data results below:

TABLE 3: SUMMARY RESULTS – CHAIR FEE SAMPLES FOR PROPERTY FOR INDUSTRY:

Sample	Positioning	Base Annual Fee (\$)
Total Assets Listed companies \$800 M to \$1.8 B (sample = 14)	Median	166,000
Market Cap Listed companies \$600 M to \$1.25 B (sample = 16)	Median	155,000
Industry Peer Group	Lower Quartile	155,000
Industry Peer Group	Median	160,000

Sample results are largely consistent, indicating a consensus range from **\$155,000 to \$165,000**.

RECOMMENDATION SUMMARY

Based on market sample results, PFI's ownership and industry as well as PFI's own guidance, we present the following recommendation. In doing so, we have also considered the considerable governance impact of internalising the Management contract on the scope and responsibilities carried by the Board of Directors.

We recommend that base annual Director fees increase from **\$70,000** into a range from **\$80,000 to \$85,000**. This range reflects pay levels at comparably-sized and peer group NZ listed companies.

We further recommend that base annual fees for the Chair rise from **\$120,000** into a range from **\$155,000 to \$165,000**. Doing so sets the Chair fee at levels paid at comparably sized, peer group NZ listed companies.

This recommendation enables the PFI Board to achieve the **2.0:1X** Chair to Director fee premium consistently seen across the NZ market, reflecting a Chair's greater responsibilities, liabilities and work load.

TABLE 4: RECOMMENDATION SUMMARY

Fees	Current (\$)	Number	Proposed (\$)	Number	Proposed Total (\$)
Chair	120,000	1	155,000 to 165,000	1	155,000 to 165,000
Independent Directors	70,000	3	80,000 to 85,000	3	240,000 to 255,000
Non-Executive Director	-	1	80,000 to 85,000	1	80,000 to 85,000
Audit & Risk Committee Chair	10,000	1	15,000	1	15,000
Audit & Risk Committee member	-	2	-	2	-
Nomination & Rem Committee Chair	-	1	10,000	1	10,000
Nomination & Rem Committee member	-	-	-	1	-
Vacant Director position	70,000	1	-	-	-
Special Purpose Pool	20,000	Unpaid	-	-	-
Total	Up to 430,000				500,000 to 530,000

We recommend raising the Audit & Risk Committee Chair fee from **\$10,000 to \$15,000** - a more appropriate level at a listed company. And, as the Nomination & Remuneration Committee is formalised, we suggest a Committee Chair fee of **\$10,000**. Per your advice, Committee Member fees are not considered at this time.

PFI has decided to eliminate the **\$20,000 Special Purpose Pool** and replace it by payment of professional daily/hourly consulting rates at appropriate rates – as warranted. Such consulting fees are to be paid for unusual or significant projects or transactions outside the scope of typical Board work.

Depending on your final decisions, PFI's annual governance cost rises from **\$430,000** into a range from **\$500,000 to \$530,000**. Thus, the recommendation calculates to increases from **16.3% to 23.2%**.

Strategic Pay's guiding principle is that it is important not to undervalue the contributions, experience or time committed by Board members.

APPENDIX 1: ABOUT STRATEGIC PAY LTD

At Strategic Pay we provide innovative solutions to help organisations meet their strategic remuneration, performance development and performance improvement goals. We help improve your overall performance by ensuring employee effort, remuneration and rewards are closely aligned with business objectives.

Deliver Strategic Rewards

We work alongside you to provide a compelling proposition that attracts retains and motivates the best people.

Our adaptable solutions include:

- Remuneration and reward strategy development
- Executive remuneration and performance advice (including incentives)
- Salary options using job evaluation, grades, bands or benchmarks
- Salary review management, including processes, tools and training
- Performance development systems, including customised design and implementation

Access New Zealand's Largest Remuneration Data Services

Strategic Pay offers an unrivalled suite of nation-wide and specialist industry and sector remuneration survey reports, based on a database of more than 180,000 employees from nearly 1,100 organisations.

Our key nation-wide surveys and reports include:

- NZ Remuneration Report (published 6 monthly)
- CEO and Top Executive Remuneration Report
- NZ Benchmark Report
- Corporate Services and Executive Management
- Directors' Fees Report
- HR Metrics Survey

Use Smart Technology

We understand busy HR practitioners' needs and offer a range of smart tools to manage remuneration and survey submissions:

- RemWise®: a remuneration tool to manage all aspects of your salary review, market data and survey submissions
- Rem On-Demand®: online access to remuneration reports, resources and insights
- PayCalculator: survey data at your fingertips

Drive Organisation Performance

Superior organisational performance is critical to delivering strategic business objectives. Speak to us today about using PLUS+ to develop a future proof strategy, an organisational model and structure that supports the strategy and matching the right people to accountabilities best designed to deliver the strategy in your organisation.

Build Capability

Through a range of workshops and the Strategic Pay Academy we provide clients with comprehensive short courses in Remuneration, Performance Management and Organisational Performance. We also offer training programmes that can be tailored to meet your specific requirements.

Consult Nationwide

Strategic Pay is nationwide, servicing clients across all parts of New Zealand from our various locations. Our consultants regularly travel to visit clients around the country and are happy to meet wherever you are. Find out more at www.strategicpay.co.nz