

Precinct Properties New Zealand Limited

Directors' Fees Summary - September 2018

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

Overview

Precinct Properties New Zealand Limited ("Precinct Properties" hereafter), has commissioned Strategic Pay Ltd to provide a review of its Board of Director fees. The HR Manager supplied our background information, and was interviewed. We also phone interviewed Craig Stobo, Company Chair. Strategic Pay Ltd last reviewed Board fees at Precinct Properties in 2014.

This is a summary of our full report for the use of Precinct Properties' Shareholders and includes our background of Precinct Properties, the methodology we undertook, our recommendations and our independent attestation above.

Our approach involves constructing relevant, customised market samples from our February 2018 **New Zealand Director Fees Survey** database to determine and position appropriate Board fee levels for Precinct Properties Limited. 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, Precinct Properties owns, manages and develops a commercial property portfolio valued at \$2.5 billion. Precinct Properties is a city centre specialist in the Auckland and Wellington CBDs.

At financial year-end 30 June 2018, Precinct Properties reported \$2.5 billion in total assets, generating annual rental income of \$131 million. Market capitalisation on the NZSX stands at \$1.75 billion at 17/09/2018.

The Board of Directors is composed of an independent Chair plus six Directors, three of whom are independent. Only the independents receive base annual Board fees. In financial year 2018, the Chair received base annual fees of **\$162,080**, the Audit and Risk Committee Chair received a **\$101,300** fee (effectively incorporating a **\$10,000** Committee Chair's fee) and the two other independent Directors each received **\$91,170**.

Since the last formal Board fee review in 2014, Precinct Properties has made modest, annual fee increases based on CPI movements as a means of tracking the market. The Chair now advises that henceforth the Company intends to eliminate a formal governance pool concept, and independent Director fee reviews may be conducted annually with any increase requiring approval of shareholders at the AGM.

DIRECTORS FEE MARKET DATA – CUSTOMISED INDUSTRY PEER GROUP

Table 1 below provides details of directors' remuneration for nine NZ listed companies operating in the broader property and property development sectors. 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:

- Argosy Property
- Auckland International Airport
- Goodman Property Trust
- Kiwi Property Trust
- Metlifecare
- Property for Industry
- Ryman Healthcare (announced increase to Board fees at AGM)
- Stride Property Group
- Summerset Group

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

Sample - 9	Lower Quartile (\$)	Median (\$)	Upper Quartile (\$)	Average (\$)
Chair (9)	155,000	165,000	165,000	170,639
Directors (45)	82,500	87,916	103,000	92,176

Importantly, we note that all of these sample companies pay a range of separate committee Chair and committee member fees on top of the above base annual fees (unlike Precinct Properties.)

This sample yields median annual base fee levels for Directors of **\$87,916** and median base annual fees of **\$165,000** for Chairs.

Latest available financial data for this peer group appears below:

	Lower Quartile (\$)	Median (\$)	Upper Quartile (\$)	Precinct Properties (\$)
Total Assets	1.54 B	2.72 B	3.3 B	2.5 B
Market Cap (September 2018)	892 M	1.53 B	1.95 B	1.72 B

Based on this quartile analysis, median placement is appropriate for Precinct Properties.

The average Chair: Director base fee ratio amongst these 9 sample businesses averages **1.88:1X**. Four of the nine companies pay Chair to Director base fee ratios of **2.0:1X** or above.

DIRECTORS FEES

We present below the data results for our several customised market sample comparators for Directors:

TABLE 2: SUMMARY RESULTS – DIRECTOR FEE SAMPLES FOR PRECINCT PROPERTIES:

Sample	Positioning	Base Annual Fee (\$)
Assets: \$1B to \$3B	Median	90,000
Assets (plus 10% for committee fees)	Median	99,000
Market Cap: \$1B to \$2.5B	Median	88,000
Market Cap (plus 10% for committee fees)	Median	96,800
Revenues: \$100 M to \$160 M	Upper Quartile	80,000
Industry Peer Group (base fees only)	Median	87,916
Industry Peer Group (plus 10% for committee fees)	Median	96,708
Director Evaluation	Upper Quartile	93,824

As you can see, while there is variation in sample results, the consensus falls between **\$88,000 and \$97,000**.

CHAIR FEES

We present below the data results for our several customised market sample comparators for Chairs:

TABLE 3: SUMMARY RESULTS – CHAIR FEE SAMPLES FOR PRECINCT PROPERTIES:

Sample	Positioning	Base Annual Fee (\$)
Assets	Median	165,500
Market Cap	Median	155,000
Revenues	Upper Quartile	126,500
Industry Peer Group	Median	165,000

Given the variation in sample results, we choose to apply the market typical **2.0:1X ratio** premium to the selected Director fees stated above under both our options.

Recommendation Summary

Our analysis is based on several factors including the financial size, ownership, and industry of Precinct Properties, you own guidance and the market presented above.

Our full report presented two options to Precinct Properties.

The first option adjusted director base annual fees using the existing “all-inclusive” annual fee approach to include payments paid by comparative industry peers, who all pay separate and additional committee fees.

Our second option proposed adding separate and appropriate committee fees to Precinct Properties’ committee chairs and committee members.

We note that total annual governance costs increase between 8.8% and 12.4% between the two options, and thus there is minimal cost difference between them.

Precinct Properties have elected to select the second option presented in this summary report on the basis of the analyses presented above and the findings below.

We reiterate the Company’s plan to eliminate an approved fee pool and instead conduct annual independent reviews and present any increases at the AGM as a matter of transparency and shareholder communication.

DIRECTOR FEES

Based on market data sample results on page 3, current base annual fees paid by Precinct Properties are appropriate and competitive. No adjustments to base fees are immediately required.

However, there is scope for fee structure review and potential increase in order to achieve key objectives:

- Remain competitive to attract and retain high quality Directors; that is, benchmarking against market comparators including review and measurement of fee structure and quantum regarding Chair, Director and Committee remuneration.
- Consider retention of an “all inclusive” base fee approach. This requires an estimation of total Director pay at peer companies which invariably includes both base fees and a range of committee fees.
- Ensure Director fees and remuneration structure are clear and transparent for ease of understanding by Shareholders.

We estimate that separate committee fees generally add 10% to 20% on top of base annual Director fees. Such fees are common at large listed companies. Since our data samples generally present base annual fees alone, our report adjusts base annual fee data on a pro forma “loaded” basis to compensate for the lack of committee fees at Precinct Properties.

Such a separation of fees would entail:

- Addition of separate, appropriate committee fees to independent Committee Chairs and Committee members;
- Adoption of the typical market ratio of 2.0:1X between Chair and Director base fees to reflect the appropriate premium for the Chair’s additional responsibilities, liabilities and workload.

Accordingly, base annual fees for independent Directors remain appropriate at **\$91,170**.

Applying the 2.0:1X market ratio to the recommended Director fee above raises the base annual fee for the independent Chair from **\$162,080** to **\$182,340**.

Addition of separate committee fees for independent Directors at levels typical for publicly listed companies.

OPTION 2 SUMMARY – SEPARATE COMMITTEE FEES

Fees	Current (\$)	Number	Proposed (\$)	Number	Proposed Total (\$)
Chair	162,080	1	182,340	1	182,340
Independent Directors	91,170	3	91,170	3	273,510
Directors	-	3	-	3	-
Audit & Risk Committee Chair	10,000	1	15,000	1	15,000
Audit & Risk Committee member		2	7,500	2	15,000
Remuneration & Nomination Committee Chair	-	1	10,000	1	10,000
Remuneration & Nomination Committee member	-	1	5,000	1	5,000
Total	445,890				500,850
Various DD committee fees	15,300	4	\$300 - \$400/hour	4	

COMMITTEE FEES – OPTION TWO

We recommend increasing the **\$10,000** Committee Chair fee for the Audit and Risk Committee Chair to **\$15,000**. This is a more appropriate level for a large, publicly listed company.

Likewise, we recommend adding **\$7,500** Committee fees for the Audit and Risk Committee members.

At the Remuneration and Nominations Committee, we recommend **\$10,000** Committee Chair fees and **\$5,000** committee member fees respectively.

SUMMARY

Depending on your final decisions, the annual governance cost rises from **\$445,890** (excluding ad hoc Due Diligence committee fees which cannot be forecast) to **\$500,850**. This option represents an increase of **12.4%**.

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