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Weathering the storm

Company/ASX Code	Growthpoint Properties Australia / GOZ
AGM date	Thursday 19 November 2020
Time and location	4:30pm, virtual at https://web.lumiagm.com/381681848
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	John Whittington assisted by Chris Lobb
Pre AGM Meeting?	Yes, with Chair Geoff Tomlinson and Investor Relations Manager Virginia Spring

The individuals (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

Item 1	**Financial Reports**
ASA Vote	No vote required

Summary of ASA Position

Financial performance

In FY20, Growthpoint total revenue was up 4% to $292.7m, of which 63% was from offices and 35% from their industrial properties (eg warehouses). Office revenue was up 6% and industrial revenue up 7% from last year. Expenses were up 1.6% to $117.4m and net valuation gains (eg from revaluation of properties) were down 48% to $104.2m.

Reported net profit after tax (NPAT) for the year was $272.1m, down 27% from last year however Growthpoint prefer to refer to funds from operations (FFO) as its primary earning measure. FFO excludes a number of non-cash items such as the change in value of both investment properties and derivatives, depreciation, amortisation, etc. FFO was $197.2m, up 11% on last year.

Growthpoint's property portfolio is valued at $4.223bn, up 6% from last year and is 68% office and 32% industrial. Debt was up only 1% to $1.446bn following a capital raising in June/July 2019.

Distributions to shareholders were down 5% to 21.8 cents due to the board taking a conservative stance for the second half distribution due to Covid, and total shareholder return for the year was -17% (-22.3% from the decrease in the share price and 5.3% from distributions). Earnings per security were also down due to the issuance of further capital during the period.

Key events

Other than the Covid-19 pandemic and associated lockdowns there were no significant events during the year. As a result of Covid, in March the Melbourne head office was closed, and all employees were transitioned to working remotely. This remains the current position. Growthpoint have offered rent abatements to help small retail business tenants (eg cafes) and granted rent relief requests for larger tenants on a case by case basis. Rent collected remains above 90% of the committed lease amount.

Key Board or senior management changes

Jacquee Jovanovski was appointed as Chief Operating Officer (which also includes the roles of General Counsel and Company Secretary) in August 2019 and, subsequent to year end, director Maxine Brenner has announced that she will resign from the board on 30 November 2020 as she is to be appointed a director of Woolworths (the largest Growthpoint tenant).

ASA focus issues

The board seems well structured with a good cross section of appropriate skills however the forthcoming departure of Maxine Brenner means that there will be only one female on a board of seven (14%). The 62% owner of Growthpoint Properties Australia (Growthpoint Properties Limited – a South African domiciled entity) has three representatives on the board which is appropriate given their shareholding.

See below for our comments on remuneration.

The company seems to have solid risk management protocols in place and seems to have responded well to the Covid “black swan” event.

Communication with shareholders is satisfactory and the last equity raisings, both in 2019, were a non-renounceable rights/entitlement offer followed by institutional placement plus share purchase plan (SPP). Neither is our preferred option, but at least they did not dilute retail shareholders as a class. Our preferred option are renounceable rights/entitlement issues such (eg PAITREO) as these are fairest to all shareholders.

Summary

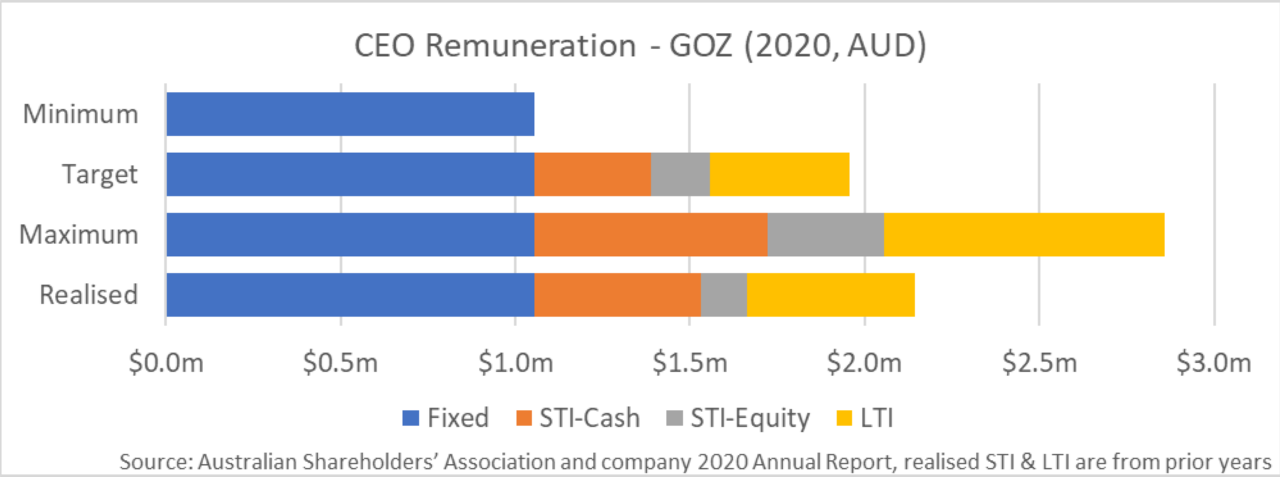
(As at FYE)	**2020**	**2019**	**2018**	**2017**	**2016**
NPAT ($m)	272.1	375.3	357.7	278.1	219.4
Share price ($)	3.20	4.12	3.61	3.14	3.15
Dividend (cents)	21.8	23.0	22.2	21.5	20.5
TSR	-17.0%	21.0%	22.3%	6.3%	7.4%
EPS (cents)	35.3	52.9	53.5	42.7	38.1
CEO total remuneration, actual ($m)	2.113	2.175*	2.436*	2.141*	2.350*

* Statutory remuneration figures as actual remuneration figures not provided prior to 2020.

For FY20, the CEO’s total actual remuneration was **23 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Item 2	**Remuneration Report**
ASA Vote	**For**

Summary of ASA Position



The amounts in the table above are the statutory amounts that are envisaged in the design of the remuneration plan. Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

The remuneration report is one of the clearer ones around – it is easy to get a sense for the structure and alignment of the remuneration scheme – and has generally good disclosure. We also note that this year Growthpoint have included a table of actual (also known as realised or take home) remuneration which is one the better ones this monitor has seen. The only downside in the presentation is that it doesn't clearly articulate key specific figures such as total fixed remuneration (TFR), and maximum size of incentives as a percentage of TFR. These are articulated in the AGM Notice of Meeting but not here.

Remuneration at Growthpoint is part fixed and part variable where the variable component should be considered as variable pay rather than a bonus. Performance under target/expectations will result in lower pay, performance above target/expectations will result in higher pay.

Short Term Incentives (STI) are 66.7% paid in cash with the remainder deferred and awarded as Short-term Performance Rights to receive Growthpoint securities. Half of these Short-term Performance Rights will vest after one year and half after two years following the date of issue. If the Executive KMP resigns before a vesting period ends, the relevant Short-term Performance Rights do not vest and are forfeited. The Short-term Performance Rights will receive distributions paid by the Group equivalent to the distribution that would have been received if holding a security.

The value of STI awarded is based 70% on one financial measure – funds from operations per security – and 30% on a number of disclosed non-financial measures.

Long Term Incentives (LTI) are described below under item 5 and will not be repeated here.

Whilst there are some aspects that are not in line with ASA guidelines (eg long term performance period of only three years, only 1/3 STI deferred) we believe that the remuneration is not excessive, has appropriate performance targets, and is well disclosed. Therefore, we will support this item.

Item 3a	Re-election of Mr Norbert Sasse as a Director
ASA Vote	**Undecided**

Summary of ASA Position

Mr Sasse, who is Group CEO of Growthpoint Properties (the company that owns 62% of Growthpoint Properties Australia) and has a considerable background in property and corporate finance, was appointed to the board in August 2009. He has a shareholding worth over forty times his annual remuneration and is not independent due to his executive role with Growthpoint.

The board composition is currently four non-independent directors and four independent directors with one of the independent directors due to leave in the near future. This means the board does not comply with our guideline that it has a majority of independent directors. We must however acknowledge that Growthpoint owns 62% of the company so, in many eyes, has a right to have a majority of appointee directors on the board.

Mr Sasse is director of three other companies associated with Growthpoint and we consider his workload acceptable.

We believe that Mr Sasse is well qualified to contribute to the board and has sufficient "skin in the game". If the company commits to maintaining at least 50% of the board as independent, we will support his election.

Item 3b	Re-election of Mr Grant Jackson as a Director
ASA Vote	**For**

Summary of ASA Position

Mr Jackson, who is a qualified valuer with a long career in the property industry, was appointed to the board in August 2009. He has a shareholding worth about five times his annual remuneration and is independent.

We note however that in one year he will have served over twelve years on the board and therefore we would no longer consider him independent. As we would continue to expect that at least 50% of the board would be independent, this has implications for board structure at that time.

Mr Jackson has no other listed company directorships, is Chairman of a property valuation and advisory company (m2property), and we consider his workload acceptable.

We believe that Mr Jackson is well qualified to contribute to the board, has sufficient "skin in the game" and we support his re-election.

Item 3c	Re-election of Ms Josephine Sukkar as a Director
ASA Vote	Undecided

Summary of ASA Position

Ms Sukkar, the co-founder and Principal of Buildcorp, a construction company, was appointed to the board in October 2017. She has a shareholding equivalent to approximately 37% of her annual remuneration and is independent.

Ms Sukkar is also a non-executive director of one listed company (Washington H Soul Pattinson) as well as five unlisted entities (the Property Council of Australia, Opera Australia, the Australian Museum, the Centenary Institute, the Sydney University Football Club Foundation). She is also Chair of the Buildcorp Foundation. We consider this workload significant.

We believe that Ms Sukkar is well qualified to contribute to the board however have concerns about her Growthpoint shareholding (ie "skin in the game") and her workload. If she satisfies us she has adequate time to act as a truly independent director of Growthpoint and commits to increase her shareholding in the company we will support her election.

Item 4	Grant of FY20 transitional LTI Performance Rights to Managing Director Timothy Collyer
ASA Vote	For

Summary of ASA Position

Growthpoint have historically had a "backward looking" LTI structure where the award is based on performance over the past three years however they are now in the process of moving to a "forward looking" structure where a target is set for three years' time and the award vests in three years based on performance against future targets. This is more consistent with other companies.

Moving to this approach (which we prefer) however necessitates a transition scheme so that the key executives are not financially disadvantaged (which may lead them to seek alternative employment) in the short term. So, whilst we do not like the "backward looking" nature of this plan we see it as a necessary step to an approach which we prefer.

This part of the plan is for the issue of 49,732 performance rights, equivalent to 83.8% of the opportunity, worth $167,600 which is the outcome, following testing against performance conditions, of Total Shareholder Return (TSR) and Return on Equity (RoE) performance over the three years to 30 June 2020. The calculation of rights to be issued was done at face value and the rights will vest shortly should this item be approved by securityholders.

Performance on both measures was calculated relative to the S&P/ASX A-REIT 200 Accumulation index with 50% vesting at average TSR and RoE performance relative to the benchmark and maximum vesting at 75th percentile TSR performance and 2% or more above the mean benchmark RoE.

For the reasons mentioned above we intend to support this item.

Item 5	Grant of FY21 forward-looking LTI Performance Rights to Managing Director Timothy Collyer
ASA Vote	**For**

Summary of ASA Position

This is for the issue of a maximum of 243,161 performance rights worth $800,000. This is equivalent to 80% of base salary and has been calculated at face value (the volume weighted average price of securities in the ten trading days after 30 June 2020).

The award is subject to equally weighted TSR (50%) and RoE (50%) Performance Conditions. TSR and ROE will be benchmarked to the S&P/ASX A-REIT 200 Accumulation Index over the period from 1 July 2020 to 30 June 2023.

Similar to the "backward looking" plan described above, performance on both measures is calculated with 50% vesting at average TSR and RoE performance relative to the benchmark and maximum vesting at 75^{th} percentile TSR performance and 2% or more above the mean benchmark RoE.

Whilst we believe that a long-term incentive should be tested over a longer period of at least four, preferably five or more, years, this plan meets many ASA guidelines, so we intend to support it.

Item 6	Grant of FY20 STI Performance Rights to Managing Director Timothy Collyer
ASA Vote	**For**

Summary of ASA Position

One third of Mr Collyer's FY20 STI award (discussed above in item 2) is to be paid as performance rights, half of which vest on 30 June 2021 and the other half on 30 June 2022. This means that he will be provided with 43,414 performance rights worth $187,548 (calculated at face value – the volume weighted average price of securities in the ten trading days after 30 June 2019).

Whilst we would prefer at least half of the STI to be deferred as performance rights, we intend to support it.

Item 7	Grant of FY21 STI Performance Rights to Managing Director Timothy Collyer
ASA Vote	**For**

Summary of ASA Position

Similarly to that discussed above in item 6, one third of Mr Collyer's FY21 STI award is to be paid as performance rights, half of which vest on 30 June 2022 and the other half on 30 June 2023. This means that he will be provided with a maximum (depending upon performance against defined conditions) 101,306 performance rights worth $333,300 (calculated at face value – the volume weighted average price of securities in the first ten trading days after 30 June 2020).

Whilst we would prefer half of this STI to be deferred as performance rights, we intend to support it.