



Still not ready to call the end to the listed property boom

Company/ASX Code	The GPT Group/GPT
AGM date	Wednesday May 15, 2019
Time and location	10:00AM, Swissotel, Market St. Sydney
Registry	Link Market Services
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Allan Goldin, assisted by David Jackson and Joyce Yong
Pre AGM Meeting?	Yes with Chair Vicki McFadden

	Consideration of accounts and reports
ASA Vote	No vote required

GPT's statutory net profit after tax (NPAT) increased by 14.5%, driven in large part by valuation increases. While it may be argued that for a property company valuations are an important part of the story, GPT like all the real estate investment trusts (REITs) realise that it is a misleading number and as such use Funds from Operations (FFO), which removes the valuation distortion is a much better indicator of how a company is travelling. GPT's FFO increased by 3.7% better than its projection at this time last year, with 2019 estimated to increase a further 4%, and distributions per security also increasing by 4%.

Speciality retail sales has levelled off, with growth in this area very location dependent, leases are being renewed more or less on the same rate as previous. Even with the reported difficulties in the retail area, net income increased, but slower than the other areas which is why, the mix will change with Logistics, increasing substantially, retail if the opportunity presents itself decreasing slightly and office with its low vacancy rate remaining constant.

The CEO had said that the ideal product mix is 40% retail, 40% Office and 20% Logistic. This is a medium term goal but not something that is going to be actively pursued as to do so would cause some disruption as currently Logistics is only 19.1% of total FFO whereas direct retail is 56% and direct office is 46.7%.

After the end of the financial year GPT Group sold the 50% in the MLC Centre in Sydney for a reported \$800 million. The funds from the sale will be used to pay down debt, then as needed for 32 Smith Street Parramatta, the Melbourne Central development, Rouse Hill Town expansion and the development of new logistic assets.

Even with the residential property downturn it still makes economic sense to further utilise the existing assets in both Rouse Hill Town Centre and Melbourne Central, by building residential tower, however this will be done in a managed manner to ensure that it will only be filling market demands

Summary

(As at FYE)	2018	2017	2016	2015
NPAT (\$m)	1,451.7	1,268.0 #	1,152.7	868.1
FFO(\$m)	574.6	554.2	537.0	501.7
Share price (\$)	5.34	5.11	5.03	4.78
Dividend (cents)	25.46	24.6	23.4	22.5
TSR (%)	9.6	6.6	10.1	15.4
FFO per security (cents)	31.84	30.77	29.88	28.28
CEO total remuneration, actual (\$m)	4.68	4.5	2.47	2.8

#Previously reported \$1,269.1m, which was adjusted for the 2018 reported comparable due to a change in accounting standards

For 2018, the CEO's total actual remuneration was **54.0 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2018 data from the Australian Bureau of Statistics).

Note - For November 2018, the Full-time adult average weekly total earnings (annualised) was \$86,642 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings", Trend(a)).

Resolution 1	Re-election of Ms Michelle Somerville as a Director
ASA Vote	For

Summary of ASA Position

Ms Michelle Somerville was appointed to the Board in December 2015. Ms Somerville worked for KPMG for 26 years, with 14 of those as an audit partner of the firm. She has extensive business, finance, risk and governance experience gained in Australia and overseas, working with top tier financial services and industrial clients. Ms Somerville currently sits on the boards of Bank Australia and Challenger Retirement and Investment Services Ltd, she is an independent adviser to the Audit, Risk and Compliance Committee of Uni Super Ltd, as well as a board member of the not for profit organisations Save the Children (Australia) and Down Syndrome Australia.

Ms Somerville holds 36,663 shares and ASA will vote undirected proxies in favour of her re-election.

Resolution 2	Election of Mr Angus McNaughton as a Director
ASA Vote	For

Summary of ASA Position

Mr Angus McNaughton was appointed to the Board as an independent Non-Executive Director (NED) on 1 November 2018. He was previously the CEO and Managing Director of Vicinity Centres from August 2015 until December 2017. Prior to that time, Angus served as the Managing Director of Colonial First State Property from 2011, before becoming the CEO and Managing Director of ASX-listed Novion Property Group in 2014. In addition he was also previously Director, Real Estate of First State Investments in Singapore and Chief Executive Officer of Kiwi Income Property Trust in New Zealand.

Mr McNaughton has yet to purchase any shares, but will shortly in accordance with the GPT NED guideline. ASA will vote its undirected proxies on behalf of Mr McNaughton's election.

Resolution 3	Election of Ms Tracey Horton as a Director
ASA Vote	For

Summary of ASA Position

Ms Tracey Horton will be appointed to the Board as an independent Non-Executive Director from 1 May 2019.

Tracey is currently Chair of Navitas Limited and a member of the Australian Takeovers Panel, the national Board of the Australian Institute of Company Directors and the Bain & Company WA Advisory Board. Ms Horton is also a Commissioner for Tourism Western Australia. Her prior board experience includes a wide range of listed, government and not-for-profit boards. Ms Horton was previously a Winthrop Professor and Dean of the University of Western Australia's Business School. Prior to that she held executive and senior management roles in North America and Australia.

Ms Horton has yet to purchase any shares but will shortly in accordance with the GPT Non-Executive Directors guideline. ASA will vote its undirected proxies on behalf of Ms Horton's election.

Resolution 4	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

The remuneration report is clear and well laid out. We like the fact the actual remuneration received is stated and we commend the company for the wide coverage of staff who are eligible to receive incentive rewards.

The Short Term Incentive Compensation (STIC) is nicely split between cash and equity. Although we like the concept of much of the short term bonuses being based on Equity more than 70% is probably too high in today's environment and we are pleased that next year it will reduce to 50%. The non-financial elements however must be measurable and represent more than just doing the job for which he is paid.

The CEO can, at his election, be required to hold equity for 7 years after it vests, which provides a good alignment with shareholders. Of course would be much better if the requirement was mandatory, as opposed to at his option. But still progress and one we hope many companies will follow. Countering that is the fact that the company thinks three years is long term, when it long-term should be five years or at a minimum four.

Our major criticism is that the Total Return (TR) target is much too low. We have said this every year since 2015 when it was introduced and each year we have been told that the market is tightening but the following year 100% of this bonus is awarded, it has become an almost automatic addition to the CEO's remuneration.

We will vote our undirected proxies in favour of the remuneration plan as we have done so in the last few years. However unless the TR hurdle is raised so it actually presents a challenge and the measurement period is increased for long-term incentive (LTI), from 3- to 5- (even 4-years would be better), this is probably the last year we will be doing so.

Resolution 5	Approval of STIC performance rights to the CEO Robert Johnston.
ASA Vote	For

The CEO's short term performance bonus is paid 50% in cash and 50% in deferred equity, which is a perfect ratio.

We are pleased that this award will now be based 50% on financial, however the non-financial elements should be measurable and represent more than just doing the job for which he is paid.

Resolution 6	Approval of LTI grant to CEO Robert Johnston
ASA Vote	For

This resolution is for awarding 413,551 performance rights which on the date of grant were worth \$2.190m.

As we said in resolution 4 it is only with reluctance that we voted our undirected proxies in favour of this award as we don't see 3 years as being long term and more importantly the Total Return (TR) hurdle is increasing looking like an automatic payment, to be a true bonus the hurdles have to be raised.

An individual (or their associates) involved in the preparation of this voting intention has a shareholding in this company.

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