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Stockland handover to new CEO

Company/ASX Code	Stockland Group /SGP
AGM date	Tuesday 19 October 2021
Time and location	2:30pm AEDT Virtual AGM- www.lumiagm.com/389671256 Or by phone +61 2 5662 2133 Online registration commences at 1:30pm
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Julieanne Mills assisted by Allan Goldin
Pre AGM Meeting?	Yes with Tom Pockett-Chairman, Katherine Grace-Company Secretary and General Counsel.

The individuals involved in the preparation of this voting intention have no shareholding in this company.

Summary of issues for meeting

ASA discussed remuneration with Stockland (SGP) Chairman, Tom Pockett at our meeting. He explained that with the CEOs resignation the board had been focused on minimising the impact of the transition and providing stability, they also wanted to encourage the leadership team to step up. This has resulted in significant retention payments to key people, adjusted salaries and a small increase to provide incentives to prevent high talent loss.

The chairman also provided a deeper understanding of the investment in land lease communities and how it fits culturally with the residential master planned communities.

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Summary of ASA Position

The 2022 financial year began with a new CEO of Stockland, Tarun Gupta. He is currently undertaking a strategy review of the company the results of which will be presented to investors on the 8 November.

The outgoing CEO Mark Steinert remained focused to the end of his tenure continuing with his diversification strategy.

<u>Financial performance</u>

Funds from Operations (FFO) the companies preferred measure of earnings fell 4.6% to $788m with FFO per security also falling 4.6% even as residential settlements jumped close to 20%. The company's explanation for this was the one-off residential transaction profits from the previous year i.e. the capital partnership in Aura Qld that lifted last year's results, and weaker retirement living settlements. With a 54% jump in residential sales due to strong housing demand the new CEO is predicting 6400 settlements this year and earnings per security (EPS) of between 34.6c and 35.6c.in FY22.

Statutory profit was up to $1.1bn due to positive net valuations of $432m in commercial property and a recovery in income in the 2H. Retail assets stabilised.

Net Tangible Assets increased to $3.98 from $3.78 in the previous year.

A distribution of 24.6c per security was made, reflecting a 75% pay-out ratio, and covered by operating cash flow.

Commercial property saw $587m in FFO up 3.9% with a net valuation increase of $432m driven by logistics. Stockland continued to rebalance the portfolio with Logistics, Life and Technology now at 25% of Portfolio and $9.4bn of development in the pipeline 60% of which has leasing pre-commitments. M-Park construction has commenced. $200m in new logistics sites were added.

Retail continued to be impacted by rent abatements due to COVID however, because of Stocklands retail focus on everyday needs and non-discretional essentials making up 75% of tenancies this has provided resilience in the face of COVID restrictions. There have been retail disposals of $700m to maintain that focus on non-discretional retail, including the sale of Stockland Bundaberg for $140m. Progress was made on a $2.6bn pipeline of workplace development.

Stockland's purchase of Halcyon and the expansion and development of its land lease business is a major shift away from its old retirement properties. The Halcyon purchase brings with it 2 key people under Andrew Whitson. It aligns with its master planned communities and provides for the growing demographic in over 50s living. The model of purchasing houses with a 99 year lease and paying ongoing site fees on the land, fees that can be covered by pension payments, is a new affordable model that has more customer appeal and provides an income stream for potential capital partners. Stockland commenced its land lease with 4000 sites and has added another 3800 sites with the $620m purchase of Halcyon.

In the mean-time they are slowly exiting, (reducing their capital weighting) in the old brownfields model of retirement villages while managing them effectively and looking to aged care providers as partners. Retirement FFO was $54m.

Residential continues to do well with 6,374 settlements and net sales of 7,700 up 54% due to demand for their leading master planned communities, the low interest rates, limited land supply and with the support of home builder. Demand has remained strong even after the roll-off of home builder. Residential profits of $331m fell 10.9% from FY20 due to the $104m profits from sale of assets and partnerships in Aura in FY20, otherwise it was up 20.5%. 12,000 lots were added to the residential land bank.

Stockland's investment in data and technology has led to a greater understanding of the customer, one that is dynamic and responsive to changing needs, and leading to higher customer satisfaction. Its Dreamcatcher program is a personalised design tool that has helped sell its products thru a 100% digital experience during lockdown. Innovation is promoted and at the core of this organisation with Innovation Awards having contributed to 2% of additional income per annum.

Governance and culture

Stockland's values, are reflected in the purpose a "better way to live" and is core to how it has addressed Environment Social and Governance (ESG) for many years and how it attracts and retains talent and customers. ASA asked about the cost to benefit of ESG the chairman stressed that each decision had a business case behind it. Sustainability is embedded in the organisation and is often driven from the bottom up.

Stockland has accelerated its Net Zero carbon to 2028 and has a new 2030 sustainability strategy in place. As an example, in their transition to zero, the company has seen a 69% drop in emissions from 2008 across commercial property resulting in $136m in savings of which 50% has been passed onto customers. Net Zero homes have been delivered in three communities and there are solar, and battery offers for residential customers. They continue to invest in renewable energy on and off site, focus on energy efficient design and innovate to reduce their impact on the environment.

Stockland's employee engagement is at 83%, the management is 47.4% female, and they have pay equity at 99%. This year they will double their graduate program to 43 of which 60% are female, providing a pathway for new talent to be developed.

Sustainability is embedded and continually enhanced with Stockland leadership rankings on global sustainable investment indices and benchmarks. It is also reflected in the 80% customer satisfaction, 93% resident satisfaction, and 75% liveability scores

The board skills matrix is lacking in detail and leaves shareholders guessing as to what each director contributes. In the meeting with the chair the difficulties of finding good directors with property experience was discussed. The addition of Laurie Brindle and Adam Tindall two new directors with deep property experience directors will replace Barry Neil who is retiring at the AGM after being coerced into staying until replacements with property experience could be found. They are now well covered.

The Chairman still only has 50,000 shares, worth less than half of his base fee. While it complies with the current shareholding policy of 40,000 shares within 3 years, the ASA would prefer it to reflect 100% of his base fees ($500,000) as it does the other directors and key management personnel (KMP). There is a minimum shareholding requirement of 200% of fixed remuneration (FR) for the CEO and 100% FR for KMP.

Key events

A capital partnership with JP Morgan Asset management, was announced on December 20, with a $1bn investment in industrial properties to take place over 3 years. Opportunities for more capital partnerships are being sought largely to diversify risk and recycle capital faster.

Liquidity has been boosted to $2.2bn with long and short term debt and gearing at the lower end of target at 21.4%. The A-/A3 credit rating has been maintained.

Stockland has outperformed ASX200 A-REIT index by 39%

Key Board or senior management changes

CEO Mark Steinert retired in May 2021 after nine years at Stockland having overseen the rebalancing of assets and transformation of the business. He was replaced by Mr Tarun Gupta whose 26 years at Lend Lease, including his last role as CFO will provide considerable property expertise and a renewed perspective.

Long term non-executive director (NED) Barry Neil retires from the board after 14 years, at the AGM. Two new directors have been appointed, Adam Tindall and Laurence Brindle, both highly experienced in property and asset management. (See appointments items below).

CFO Tiernan O'Rourke announced his resignation in July and will take up a position at Worley at the end of the year. A search is underway for his replacement

The board is made up of 33% women, there is a broad range of ages and tenures and broad director experience and skills. The appointment of Tarun Gupta reflects the broader cultural diversity within the company.

ASA focus issue

COVID-19

COVID-19 is being actively managed with a focus on safety across Stockland people, communities and businesses. The Commercial Code of Conduct (CODE) expired in March 2021, but the company is committed to working with tenants and the legislation to provide rent relief and abatements where applicable. There are no major supply chain issues as majority of supply is local. No Jobkeeper was applied for, and all employees have been retained. Variable remuneration outcomes for the leadership team have been deferred for 2 years in equity. The extra demands put on staff have been felt, but they have managed it well, largely because the flexible work environment had been established prior to COVID.

While the current lockdowns are likely to impact FY22, the financial impact is still within the provisions announced earlier in the year and are seen as manageable, as long, as lockdowns don't continue beyond October/November.

Summary

(As at FYE)	**2021**	**2020**	**2019**	**2018**	**2017**
NPAT ($m)-statutory	1105	(21)	311	1025	1195
NPAT($m) -FFO	788	825	897	863	802
UPAT ($m)	732	661	757	731	696
Share price ($)	4.66	3.31	4.17	3.97	4.38
Distribution (cents)	24.6	24.1	27.6	26.5	25.5
Simple TSR (%)	48.5	(15.8)	13.9	(7.0)	7.1
EPS (cents)	46.4	(0.9)	13	42.3	49.8
EPS -based on FFO	33.1	34.7	37.4	35.6	33.4
CEO total remuneration, actual ($m)	5.39*	2.45	4.2	4.5	5.2

*Includes contractual termination payment of 6 months fixed pay

For 2021, the CEO's total actual remuneration was **58 times** the Australian Full time Adult Average Weekly Total Earnings of $93,444 (based on May 2021 data from the Australian Bureau of Statistics).

Item 2	**Election of Laurence Brindle as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Brindle was appointed in November 2020. He is a member of Audit Committee, and Sustainability committee.

Mr Brindle had a 21 year career at QIC as Head of Global Real Estate Property with responsibility for acquisition, development and management of a landmark property portfolio of $9bn in assets.

Current Directorships: Chair: National Storage REIT (2013-present), Chair: Waypoint REIT (2016-present)

Former Directorships: Chair: Shopping Centre Council of Australia, Westfield Retail Trust, Scentre Group

Shareholding: Nil

The ASA would like to see some skin in the game.

Item 3	**Election of Adam Tindall as a Director**
ASA Vote	**For**

Appointed in July 2021, Bachelor of Civil Engineering, FAICD. He is a member Audit Committee and Sustainability Committee

Mr Tindall has over 30 years' experience in investment management and real estate. As CEO of AMP Capital from 2015-2020 he oversaw funds across global asset classes including real estate, infrastructure, equities, and fixed income. In a previous role at AMP as CIO of Property, he led a team managing a $19bn portfolio of real estate investments, Prior to 2009 he held senior leadership roles at Macquarie Capital and Lend Lease.

Current Directorships: This will be Mr Tindall's first directorship of a listed entity.

Shareholding: 40,000 shares

Item 4	**Re-election of Melinda Conrad as a Director**
ASA Vote	**For**

Appointed to the board in 2018. Melinda is chair: People and Culture Committee and member of Sustainability committee.

Melinda has 25 years in consumer related industries, as a strategy and marketing executive with Colgate-Palmolive.

Current Directorships: ASX (2018-present), Ampol Ltd (2017-present), Penten (2021-present), The George Institute for Global Health, Centre of independent studies, ASIC Director Advisory Panel and AICD Corporate Governance Committee.

Past Directorships: OFX Group (2013-2018), David Jones Ltd, APN News& Media, Reject Shop (2011-2017).

Shareholding: 60,000 shares.

Item 5	**Re-election of Christine O'Reilly as a Director**
ASA Vote	**For**

Appointed to the board in August 2018. Christine is Chair of the Risk committee and a member of the Audit committee and Sustainability committee

Christine is one of Australia's most experienced directors she has a background in accounting and investment banking. Her 30 years of experience includes executive roles in infrastructure and financial services including CEO of GasNet Australia and Co-Head of Unlisted Infrastructure Investments at Colonial First State Global Asset Management.

Current Directorships: BHP Group (2020-present), Medibank Private (2014-present) and Baker Heart and Diabetes Institute, ANZ (from November 21). This is a reasonably heavy workload, and we will be asking her about this at the AGM? Apart from that the ASA supports her re-election.

Past Directorships: CSL (2011-2020), Transurban (2012-2020), Energy Australia (2012-2018)

Shareholding: 50,000 shares

Item 6	**Adoption of Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

2021 Remuneration Framework

CEO rem. Framework for FY21	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.36	25%	1.36	22%
STI - Cash	.68	12.5%	1.02	17
STI – Equity deferred over 1 & 2 years	.68	12.5%	1.02	17
LTI deferred over 3 & 4 years	2.72	50%	2.72	44

Total	5.4	100%	6.12	100%

The amounts in the table above are the 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.

This table reflects what the outgoing CEO could have received. As he resigned during the year no LTI for 2021 was paid.

As the CEO Mr Steinert retired in FY21 he did not receive an LTI for 2021. He did however receive a 6 month FR termination payment as per his contract and as a good leaver his long term incentives (LTI)s for 2020 and short term incentives (STIs) were paid in cash. His total remuneration of $5.39m was made up of FR of $1.364, FY21 STI $1.361m, FY20 STI of $1.105m and FY20 LTI of $810k and a termination payment of $750k

The new CEO Tarun Gupta was assigned sign on benefits to the value of 62% of his $6m forfeited incentives. $650k was paid in cash and $3.05m made up of 346,414 Stockland securities that vest incrementally over a 5 year period, and 305,244 rights which vest over the next 4 years at 25%pa. They are subject to retention and a rTSR hurdle. Malus and clawback apply.

A strategic review to guide remuneration, considered APRA's CPS-511 emphasis on the management of financial and nonfinancial risk, sustainable performance and long term soundness.

The annual report includes a STI scorecard, it shows 60% is based on financial measures including: FFO, FFO/security, and return on equity (ROE), and 40% on non-financial measures are based on value drivers-business priorities, customer stakeholders, and people leadership. The FFO and the FFO/ security were both the lowest that they have been in 5 years. The third measure ROE was down on last year.
Yet the CEO received 67% of his maximum STI and KMP were awarded between 67-73% of their maximum STI. A third of the STI is paid in deferred securities, the ASA would like to see that amount being 50%.

The STI pool for FY21 was $29.6m from $23.1 in FY20. Board discretion was applied based on the TSR being greater than 15% of ASX A-REIT, the distribution had increased and was payable from cash flow, the strong balance sheet and NTA had risen from$3.78 to $3.98.

The compound annual growth rate of funds from operations (CAGR FFO)was removed from LTI performance measures in FY21 and FY22 due to the impact of COVID and it is now measured only by relative total shareholder return(rTSR). rTSR is measured against a tailored selection of A-REIT ASX companies as recommended by an independent source.

For FY 21 48.4% of LTI vested due to 9.4% out performance of rTSR. The benchmark was set at 28.6% of the tailored ASX A-REITs. The LTIs have a 3 year performance period with vesting over 3 and 4 years subject to continuous employment.

There has been a 6-8% fixed remuneration (FR) increase for some KMP (note 20% pay cut over 2 months in FY20 and FY20 STI was paid in deferred equity only) and no increase in FR for 3 years. Andrew Whitson (CEO Communities) received a $800k retention payment subject to remaining in the job for the next 3 years and Louise Mason (CEO Commercial Property) received a $600k retention payment subject to remaining in the job for the next 2 years.

The ASA is firmly opposed to retention payments as it is not required if there is a strong culture, and it is often ineffective in retaining people. The company argues the case for incentives to maintain stability and look after their people in a very competitive market and during a CEO change over and COVID. The reason that we are voting for the remuneration is that on balance the retention payments are not excessive, they are spread over 3 and 2 years, and it would be to the company's detriment to lose 2 key executives, who have performed well, along with a CEO in the same year. The removal of FFO from LTI is a concern and we would like to see it reinstated along with a less lenient STI assessment of the financial criteria going forward.

Item 7	**Approval of Performance rights to Managing Director Tarun Gupta**
ASA Vote	**For**

Summary of ASA Position

Approval is sought for the acquisition of 654,094 share rights for Mr Gupta to participate in the Performance Rights Plan (PRP)

These represent part of his sign on benefits and is based on $6m in forfeited incentives from his last job, at a 38% discount. Part has been paid in cash and the rest is reflected in these performance rights. Made up of 346,414 securities at a face value of $4.76 to the value of $1.65m that vest between 2022-2026, and 305,244 rights priced at $4.58, to the value of $1.4m that vest between 2022-2025.

While the ASA does not particularly like sign on payments, these have reasonable hurdles and are aligned to incentives lost, we recognise they may be necessary to attract talent, so we are voting proxies FOR this item.

Item 8	**Amendments to the Constitution and the Trust Constitution**
ASA Vote	**For**

Summary of ASA Position

Last updated in 2013 these changes are designed to bring the constitution up to date, they require a 75% vote FOR. There is nothing that concerns the ASA in these changes.

The ASA will be voting proxies FOR these amendments.

Item 9	**Renewal of proportional takeover provisions**
ASA Vote	**For**

Summary of ASA Position

The renewal of proportional takeover provisions requires a 75% vote and will be in effect for 3 years. These approval provisions allow members to decide collectively if a proportional takeover offer is acceptable and avoids a potential partial takeover that may occur without full control or at an inappropriate price. The ASA supports this resolution, preferring full takeovers so that shareholders are not left with a controlling shareholder. The advantages include bargaining power of securityholders is increased, there is more visibility around majority view and less opportunity for a securityholder to be locked in as a minority. The disadvantages include a securityholder may lose an opportunity to sell a partial holding at a premium.

The ASA will be voting all proxies FOR this item.