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# Resilient results in uncertain times

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| **Company/ASX Code** | Stockland/SGP |
| **AGM date** | Tuesday 20 October 2020 |
| **Time and location** | 2:30pm AEDT Virtual AGM<br>https://web.lumiagm.com/?fromUrl=317619874 |
| **Registry** | Computershare |
| **Webcast** | Yes |
| **Poll or show of hands** | Poll on all items |
| **Monitors** | Julieanne Mills and Allan Goldin |
| **Pre AGM Meeting** | Yes, with Chair - Tom Pockett, Company Secretary -Katherine Grace and Melinda Conrad- NED and Chair of People and Remuneration committee |

## Note: ASA will be voting proxies and asking questions at the virtual AGM the same as they would at a face to face meeting.

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

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

**Summary of ASA Position**

Like the majority of ASX companies Stockland's (SGP) financial year 2020 is a story of pre and post COVID with Q4 showing a significant impact but also significant resilience across its $15bn of real estate assets.

Stockland's Annual Report clearly details the impact and response to COVID. Management acted promptly in March, establishing pandemic safety measures and community services across its portfolio, working from home and encouraging early leave entitlements. With a freeze on remuneration, recruitment and training, and a 20% board and executive pay cut for the two months to June, they managed to reduce costs and maintain liquidity.

The Commercial Code of Conduct (CODE) was implemented by government in April 2020 to provide rent relief to SME (with income up to $50m and a fall in turn-over of more than 30%). This saw a significant impact on the Retail portfolio and 52% of retail rental agreements impacted, $29m in rental abatements, and a $38m expected credit loss (ECL) against net receivables of $73m.The situation has improved with agreement now been reached with 85% of the retailers by a combination of rent relief, extended leases and staggered payments.

SGPs diversification across Residential, Commercial- Retail, Workplace and Logistics, and Retirement living along with its geographic diversification has helped reduce the overall impact of COVID.

Commercial property has been a mixed bag. Retail continues to be significantly impacted by COVID and the CODE, however there have been benefits from SGPs strategy of a remix away from discretionary retail towards essential services, a renewed focus on shopping locally and the sub regional and non-metro retail exposure.

The $5.5bn development pipeline in logistics and workplace, which includes the $1.5bn M-Park, allows some flexibility in development timetables and capital management going forward. Along with acquisitions of $450 m of Sydney and Brisbane logistics assets this provides a higher weighting of workplace and logistics and reduces retail exposure. While development applications will continue there is no urgency to have existing tenancy vacate and redevelopment work commence, until the financial climate, including pre-lease commitments are more favourable.

Demand for housing has continued, and Stockland, as the largest home builder, with 13% market share, stands to benefit from, low interest rates, positive credit availability, affordability, a buyer preference for community living and especially Home Builder grants which they are hopeful will be extended. In 2020 SGP saw a land bank restocking of $535m for a future pipeline of 3,600 lots.

Retirement communities are in the process of a realignment towards land lease communities (LLC) and Aspire. SGP continues to look for potential capital partnerships to improve its use of funds currently invested in this division.

SGP has later than some others recognised the need for a structural change in retail with a rebase rents, to this end they have disposed of $923 million of non-core retail in the past 24 months, $418 million of it post balance date. Stockland has found there is a good market for these assets based on the revalued valuations. They continue to focus on developing capital partnerships across all sectors of the portfolio and moving to higher quality assets.

**Governance and culture**

Stockland has set out environmental, social and governance (ESG) results in the annual report, that are measured and remunerated. There is recognition that climate change is a long-term threat to the company and priority is given to the safety and well-being of its "communities".

Sustainability is embedded within governance, with all board directors sitting on the Sustainability committee. SGP is in its third year of Task Force on Climate-related Disclosure, there is a 2030 net zero carbon emissions target, they have exceeded the 2025 target of commercial property emissions reductions of 65%, they are implementing green star (zero net carbon energy) in residential and retirement communities.

SGP has $75m in funding from Clean Energy Financial Corporation to install energy efficiencies within SGP portfolio including solar installations in logistics that will allow energy to be traded across other assets.

It is also reflected in the stakeholder metrics with employee engagement at 82%, and customer satisfaction of 80% across retail and communities. It has a well-being CARE program which it is implementing across its communities.

SGP has a good gender balance across board and key management with 43% female non-executive directors, 46% women in management and 99% pay equity. An external review of the board was done in 2019, there is a good skills matrix, (although it could benefit from a reference to individual director's skills), and a reasonable range of board tenures with only one director with more than 10 years on the board.

SGP did not apply for Job keeper funding however they have benefited indirectly from the housing stimulus package and a small amount of land tax relief in Queensland.

**Financial performance**

Pre Tax profit of $33m was down 91% from 2019 due to $496m in write downs on commercial property, and a $138m write down in retirement living, and produced a statutory loss of ($14m).

Total funds from operations (FFO), the preferred profit measure, was down 8% to $825m due largely to COVID and the impact of write downs against retail and retirement property.

The full year distribution per security of 24.1c was 12.7% lower due to a COVID prudent reduction in 2H distribution to 10.6c, this represented a payout ratio of 70% and was covered by operating cash flow. Net operating Cash flow was $1.1bn.

Net tangible assets per security (NTA) of $3.77 was down 6.7% due to property devaluation ($4.02 2019).

Funds from Operation (FFO) This measure, a standard measure for Real Estate Investment Trusts (REITs) is calculated by adding amortisation and depreciation to net income, and subtracting any gains made on the sale of assets.

**Key events**

Progress with reweighting of capital allocation saw logistics and workplace increase to 29% from 23%.

Capital management has been further improved. Liquidity has been boosted to $2bn with a $790m capital raising in the 2H FY20. The A-/A3 Credit rating has been maintained. There are $1.2b in joint ventures and $3bn in capital partnerships.

SGP have managed to improve gearing to 25.4% (within the 20-30% guidelines), despite devaluations in commercial property and retirement. SGP has $260m of maturing debt in June 2021. Weighted average cost to debt is 4% with an average debt maturity of 5.7 years.

Deferral of development expenditure allows flexibility with its capital management.

**Key board or senior management changes**

The mutually agreed resignation, of the CEO Mr Steinert, is a little unexpected, he has achieved significant change during his seven year tenure and has positioned the company well for this pandemic. A search, including externally, is currently underway and Mr Steinert has committed to stay to see through the transition to the new CEO.

Carol Schwartz AO resigned in October 2019 after 9 years and has been replaced with the appointment of Kate McKenzie. This maintains the gender balance of 3 female to 4 male NEDs on the board.

The board and executive team took a 20% voluntary pay cut for last 2 months of the financial year.

**ASA focus issue**

COVID continues to have some impact especially in retail and in specific areas such as Victoria during the lockdown and Weatherill Park during a recent outbreak, however, most retail is largely now open and trading slightly down on last year. Rent relief deferrals and capacity to pay are ongoing problems. The residential sector is going well with strong demand due largely to significant government support and limited supply. Withdrawal of jobseeker is also yet to play out. SGP is tracking fortnightly deferrals and remains cautious. It has the capacity to scale up or down with its development pipeline and tight control of expenses.

**Summary**

| (As at FYE) | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| NPAT ($m) | (14) | 311 | 1025 | 1195 | 889 |
| NPAT($m) -FFO | 825 | 897 | 863 | 802 | 740 |
| UPAT ($m) | 661 | 757 | 731 | 696 | 660 |
| Share price 30 June ($) | 3.31 | 4.17 | 3.97 | 4.38 | 4.71 |
| Dividend (cents) | 24.1 | 27.6 | 26.5 | 25.5 | 24.5 |
| TSR (%) | (15.8) | 13.9 | (7.0) | 7.1 | 16.4 |
| EPS (cents) | (0.6) | 13 | 42.3 | 49.8 | 37.4 |
| EPS (cents)- based on FFO | 34.7 | 37.4 | 35.6 | 33.4 | 31.1 |
| CEO total remuneration, actual ($m) | 2.451 | 4.2 | 4.5 | 5.2 | 4.5 |

For 2020, the CEO's total actual remuneration was **26.6 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Note - For May 2020, the Full-time adult average weekly total earnings (annualised) was $91,982.80

| **Item 2** | **Election: Kate McKenzie as a Director** |
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| **ASA Vote** | **For** |

**Summary of ASA Position**

Ms McKenzie was appointed to the board on 2 December 2019. She has a background in telecommunications and Government sectors in Australia, New Zealand and Hong Kong. Most recently she was CEO of Chorus, New Zealand's largest Telecommunications infrastructure provider. Prior to this she had senior roles at Telstra including COO. She is currently a director of NBN Co.

She is a member of the Audit and Sustainability committees.

Kate has 20,000 shares

| Item 3 | Re-Election: Tom Pockett as a Director |
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| ASA Vote | For |

**Summary of ASA Position**

Tom Pockett was appointed to the board on 1 September 2014. He became non-executive Chairman on 26 October 2016.

Toms experience in property and financial roles includes CFO and Executive Director of Woolworths, deputy CFO CBA, and senior finance roles at Lend Lease. He is chair of Autos Sports Group Ltd and director of IAG.

Tom is chair of the Sustainability Committee and a member of People and Culture Committee. Mr Pockett is also chair of Stockland CARE Foundation Board.

Mr Pockett has 50,000 shares. The ASA feels this is light on given the base fee for the chair is $500k. He has increased his shareholding this year by 10,000 above the minimum 40,000 shareholding requirement. Given he has been on the board for more than 6 years the ASA would like to see more skin in the game.

| Item 4 | Re-election: Andrew Stevens as a Director |
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| ASA Vote | For |

**Summary of ASA Position**

Andrew Stevens was appointed to the board on 1 July 2017.

Mr Stevens executive career at Pricewaterhouse Coopers and IBM includes experience in change management, information and communications technology, program design and risk evaluation, governance and delivery, business transformation and regional and global expansion.

Andrew is a member of Risk Committee, People and Culture Committee and Sustainablity Committee.

He is currently chair of the Board of Innovation and Science Australia, and chair of the Data Standards Body for the Consumer Data Right Aust.

Andrew is a member of male champions of change and a director of Western Sydney Football

Mr Stevens has the required 40,000 shares.

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| **Item 5** | **Adoption of Remuneration Report** |
| **ASA Vote** | **For** |

**CEO Possible pay in 2021**

| CEO rem. framework | Target* $m | % of Total | Max. Opportunity $m | % of Total |
|---|---|---|---|---|
| Fixed Remuneration | 1.5 | 25 | 1.5 | 22 |
| STI - Cash | .750 | 12.5 | 1.125 | 17 |
| STI - Equity | .750 | 12.5 | 1.125 | 17 |
| LTI face value | 3 | 50 | 3 | 44 |
| Total | 6 | 100.0% | 6.75 | 100% |

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.

Remuneration review 2020

FY 2020 saw a review of the remuneration framework. Potential changes have been delayed until FY 2021 due to COVID.

The remuneration report is clearly defined and transparent, with a significant proportion of remuneration at risk and in line with shareholders. COVID nevertheless has significantly impacted the remuneration metrics and there is potential adjustment to come.

Total remuneration for KMP is down on 2019 due to a 20% voluntary pay cut for the last 2 months of FY20 from the board and KMP and a reduction in short term incentives pool of 18% on FY19. Long term incentives (LTIs), have not vested due to the negative TSR and CAGR.

The CEO has seen a reduction in his overall incentive outcome to 22% of opportunity significantly down compared to the previous 4 years primarily because the LTI hurdles were not achieved. Mr Steinert is retiring, and as such, is ineligible to receive an LTI for 2021 and his STIs (worth $1.149m at the time of award) remain on foot until 30 June 2021 and 30 June 2022

Short term incentives (STIs) are measured against a balanced scorecard, financial (60%), and non-financial (40%) which includes: customer and stakeholder, people and leadership, operational excellence and sustainability. The awards are usually split between cash and equity, with equity vesting over one and two years. However, this year due to COVID and to preserve cash, the board has decided the 2020 STIs will be paid fully in equity. Face value (VWAP 10 days after 30 June 2020) is used to calculate the number of performance rights. Shares for KMP will be issued rather than purchased on market to save cash.

LTIs are measured over 3 years, 50% CAGR of EPS growth and 50% TSR greater than 50% of a peer benchmark. ASA still has difficulty understanding why being average gains 50% of the bonus. It vests 50% over 3 and 50% over 4 years. Clawback and malus apply on all STIs and LTIs at the discretion of the board.

The CEO has to maintain a shareholding requirement of 200% of fixed remuneration (FR) and there is a requirement of 100% of FR for KMP.

A director shareholding policy requiring 40,000 shares within 3 years is in place. The ASA prefers a policy that reflects base fees over 3 years.

**Summary of ASA Position**

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| **Item 6** | **Renewal of termination benefits framework** |
| **ASA Vote** | **For** |

**Summary of ASA Position**

There is simply a need to renew this framework due to the nature of share payments within contractual termination.

ASA generally opposes pre-approval of termination benefits which exceed 12 months fixed pay except where payment of vested STI or LTI awards are likely to push a termination payment in excess of the 12 month limit. As this meets this exception we vote in favour.