

1. Executive summary

Introduction

You have asked the Institute of Directors in NZ Inc. (IoD) to undertake a formal benchmarking review and independent assessment of appropriate fees for the board of Arvida Group Limited.

Arvida is one of the larger operators of retirement village and aged care facilities in New Zealand. The group's villages are spread nationally with an emphasis on providing a continuum of care from independent living through to high quality aged care services.

The board consists of five members, including the chair. Board fees were set when the organisation listed in 2015, with a 2.5% rise in fees made during 2016.

Approach

This document sets out the approach taken, the relevant background information and our independent assessment of appropriate fee range benchmarks for the members of your board.

In carrying out this assignment, the IoD has considered the following:

- Information supplied by Arvida Group Limited
- Data from the latest annual IoD/EY directors' fees survey
- Data, where available, from similar organisations
- Data from organisations of similar size to Arvida Group Limited
- Other data on relevant fees that the IoD holds confidentially
- Comparable remuneration reports and recommendations by the IoD

Director fees - important considerations

New Zealand directors must perform in an increasingly complex and challenging business environment.

Good governance is a key component of successful business practice and growth, and is underpinned by the values of responsibility, accountability, fairness and transparency. A key element of good governance is reviewing and setting board fees.

The subject of director remuneration can drive contentious and often reactive debate in the media. Few other professions face such sensitivity about their fees from stakeholders. In such an environment, at times the director community has been highly reticent to raise the issue of board fees. However, setting fees at the right level is critical to attracting and retaining candidates with the right skills and experience to deliver long term value. That said, we should recognise a degree of scrutiny is justified as directors are critical fiduciaries of the interests of others.

A fee benchmarking exercise is a suitable approach to determining whether your organisation's director fees are fair and appropriate, and it is important to review benchmarks across a wide range of relevant criteria. The IoD commissions an annual survey, which collects fee data from its members and New Zealand organisations, and that survey data forms the basis of the analyses in this report. In addition we refer to our own confidential database of fees, as well as undertake further online research to provide a broad view of the market.

Our recommendations are informed by what organisations of similar characteristics would pay for similar duties. We also take into account the nature of your organisation and its operating complexity.

Fee ranges are set with the assumption that board members have achieved a level of governance competency to undertake the critical director function. To command fees at benchmark level directors should have the appropriate skills, knowledge and training in governance as would reasonably be expected for people in their roles.

This report does not include an evaluation of specific constraints that may affect the organisations' final decision with respect to fee levels, such as available funds or the implication of fee levels on the ability to access appropriately qualified directors.

Summary of approach to setting fees

The remuneration of directors should be transparent, fair and reasonable. In general, the IoD favours fixed fees set at a level that reflect the necessary commitment and give the organisation the appropriate call on directors' time.

Summary of comparator fee data

This table provides a summary of comparator fee data presented in the full report.

| Comparator category | Director fee | Chair fee |
|--|-------------------------|--------------------------|
| IoD Directors' Fees Survey: Listed organisation, median to upper quartile fees | \$80,000 - \$100,825 | \$138,500 - \$166,000 |
| Comparator healthcare orgs (average) | \$86,250 | \$168,750 |
| Other listed healthcare orgs (average) | \$65,820 | \$153,000 |
| Other listed organisations – various industries (average) | \$81,442 - \$82,276 | \$140,735 |
| Arvida - current fee levels | \$65,000 | \$100,000 |

Summary of recommendations

We have considered information provided by Arvida Group, the time commitments of the governance roles, current remuneration levels and the nature and risk profile of your organisation.

We deem the following to be appropriate benchmark fee ranges for the duties and responsibilities of the governance roles in Arvida Group Limited. These fee ranges are considered representative of the wider market.

| Role | Fee Range |
|---------------------|-----------------------|
| Base director fee | \$80,000 - \$90,000 |
| Base chair fee | \$150,000 - \$170,000 |
| Deputy chair fee | \$100,000 - \$115,000 |
| Committee chair fee | \$90,000 - \$100,000 |

- For the above chair fee range we have used a loading of between x1.8 to x1.9. This is considered appropriate and reflective of the chair premium data presented in the full report.
- Please note that base fees include committee attendance. We generally only recommend a fee loading for a committee chair.
- We generally recommend a loading of between x1.1 to x1.2 for committee chairs and from x1.25 loading for the deputy chair of the board.
- It would not be normal for the board chair or deputy chair to be paid additional fees for their involvement with committees.