

DirectorFees



Director Fees Benchmarking Review Executive Summary

PREPARED FOR:
ARVIDA GROUP LIMITED

APRIL/2021



Governance services

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This report has been prepared as guidance for the board of Arvida Group Limited, and is not intended to be prescriptive or exhaustive or used or relied upon by any other organisation. It contains our benchmarking analysis using remuneration data provided by members in our annual survey on director remuneration, information supplied by Arvida Group Limited and other publicly-available sources of information. The report is an independent assessment of appropriate fees for board members of Arvida Group Limited and has been prepared free from any influence from organisation management, any board member or any other party in relation to the services provided or outcomes of those services.

The Institute of Directors (IoD) believes the information it provides about comparable entities is accurate at the time it is provided. The IoD provides no warranty (either expressed or implied) in relation to the completeness, accuracy or currency of any information provided about any comparator or third party organisation, and cannot be held liable for the consequences of any actions taken or not taken on the basis of such information.

The IoD encourages an open and transparent process in setting director fees. To meet the requirements and guidance contained in the NZX Corporate Governance Code 2017, Recommendation 5.2, Arvida Group Limited may decide to share part or all of this report publicly.

Executive summary

Introduction

Now more than ever New Zealand needs empowered directors to govern organisations for the benefit of our country's wellbeing and prosperity.

In the COVID-19 global pandemic, organisations have had to step up, adapt and operate in new ways amidst very uncertain times. The pandemic has required many directors to devote more time to their duties, sometimes with no change, or a reduction, in their fees during the year.

Given the increased complexities, regulatory compliance and personal risk New Zealand directors face in their roles, setting fees at the right level is essential. Organisations need to attract progressive and effective directors who go beyond compliance, who aspire to meet the highest standards and are rewarded appropriately for their expertise and commitment.

Organisations should support and justify their board fee decisions with good disclosure, governance and accountability practices. This means demonstrating that fees have been set using robust processes and data.

Purpose and scope

Arvida Group Limited (Arvida) has commissioned the Institute of Directors in NZ Inc. (IoD) to undertake a formal review of board fees to present to shareholders for approval at the 2021 Annual Meeting.

This is the executive summary of the full report. It summarises the approach taken, the relevant background information and our independent assessment of appropriate fee range benchmarks for your directors.

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

- Information supplied by Arvida
- Data from the latest available annual IoD Directors' Fees survey
- Data, where available, on fees in organisations of a similar type or size
- Other confidential sources of fee data that the IoD holds

Our recommendations are formed from our considered judgement, and are provided as guidance. The final decision on fees is the ultimate responsibility of the organisation.

Summary of approach

Directors' fees are a 'fee for service' rather than a salary. In line with the principle of collective responsibility, base fees should be shared equally as a rule, except in the case of additional responsibility of workload such as the chair.

The IoD encourages an open and transparent process to setting director fees. 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 provides a recommended range of fees for your board roles based on:

- Data from our latest directors' fees survey, giving a broad picture of fees in the market relevant to your organisation type, industry and size
- Additional research of fees in comparative organisations (where available)
- Information provided by you on the scope and time commitments of the roles; and
- The nature and complexity of your organisations' industry or operating environment.

Before reaching a final decision, Arvida also needs to consider shareholder/stakeholder expectations, its own view on appropriate fee levels, as well the level of remuneration required to attract, motivate and retain appropriate candidates.

Relevant organisation background

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 risk profile is mid to high, due to the nature of caring for the elderly. The operating environment is of medium complexity, with issues including resident welfare, funding dependency on central Government, anticipating demand for care beds and retirement living and construction and property ownership/maintenance.

The organisation listed on the NZX in 2014. It has grown quickly and the growth agenda continues.

The board consists of six members, including the chair. The current board fee pool of \$500,000 was set in 2016 on the basis of five directors. In 2017 the current allocations per director were set, with fee levels totalling \$498,000.

Fee ranges

We have taken into account information provided to us regarding the duties, nature, complexity and risk of the board roles in Arvida.

When viewed against similar organisations and the broader market, we perceive current fees to be at a relatively fair level, with room for an increase as provided by the fee ranges below.

To increase fees within this range would require the total approved fee pool to be increased as follows*:

- At the lower of the range – an increase of \$19,000
- At the mid-point of the range – an increase of \$41,500
- At the upper of the range – an increase of \$64,000

(*Assuming both committee chairs receive the same fee)

We consider the following fee ranges reflect fair remuneration for the governance commitments of the roles, and to be representative of the wider market.

FEE CATEGORY	RECOMMENDED FEE RANGE
Base Directors' fee	\$86,000 - \$91,000
Chair fee	\$155,000 - \$170,000
Committee chair fee	\$10,000 - \$15,000

- *We have used a chair premium of between x1.8 and x1.9*
- *Base fees include committee attendance. We generally only recommend an additional fee for a committee chair*
- *We do not recommend additional loadings for the chair or deputy chair of the board for any committee responsibilities*

Summary of fee research

THIS TABLE PROVIDES A SUMMARY OF THE FEE RESEARCH WE HAVE UNDERTAKEN TO INFORM OUR RECOMMENDATIONS

FEE COMPARATOR CATEGORY	DIRECTOR FEE OR RANGE	CHAIR FEE OR RANGE
IoD Directors' Fees Survey – overall comparator dataset: median to upper quartile	\$69,631 - \$90,486	\$128,800 - \$165,625
IoD Directors' Fees Survey- listed company dataset: median to upper quartile	\$85,500 - \$100,650	\$162,000- \$200,000
IoD Directors' Fees Survey – deeper segmentation: Listed healthcare and property industry, revenue from \$100.1 - \$500m – average fee	\$84,032	\$169,667
Annual reports – listed aged care/retirement organisations – average fee	\$93,250	\$186,750
Annual reports – listed healthcare organisations – average fee	\$78,266	\$165,937
Annual reports – listed property organisations – average fee	\$89,534	\$165,968
CURRENT FEES	\$82,000	\$150,000
PROPOSED FEES	\$86,000 - \$91,000	\$155,000 - \$170,000

List of organisations included in annual reports research*

Listed aged care/retirement organisations - Ryman Healthcare, Summerset, Metlifecare and Oceania

Other listed healthcare organisations - Abano Healthcare, Fisher & Paykel Healthcare, Green Cross Health

Listed property organisations - Argosy Property, Goodman Property Trust, Kiwi Property Group, Precinct Property Group, Property for Industry

(*NOTE: WE CANNOT NAME ORGANISATIONS INCLUDED IN OUR DIRECTORS' FEES SURVEY BENCHMARKING ANALYSIS, AS ALL DIRECTORS AND ORGANISATIONS SUBMIT THEIR RESPONSES CONFIDENTIALLY).

Appendix – Understanding the data measures

LOWER QUARTILE

This represents the point at which, when ranked from the lowest value to the highest value, 25% of the sample is lower and 75% of the sample is higher. The Lower Quartile is also known as the 25th percentile.

MEDIAN

When data is ranked from the lowest value to the highest value, the median represents the middle point of the data. At the median, 50% of the sample is lower and 50% of the sample is higher. The median is also known as the 50th percentile.

UPPER QUARTILE

This represents the point at which, when ranked from the lowest value to the highest value, 75% of the sample is lower and 25% of the sample is higher. The Upper Quartile is also known as the 75th percentile.

AVERAGE

Indicates the average value of remuneration or benefit in any given sample. The average is calculated by adding the numbers in a sample and then dividing by the count of the sample.

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