Australian Shareholders' Association

Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, Level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235
t (02) 9252 4244 | f (02) 9071 9877
e share@asa.asn.au

Stepping up the pace with partnerships and preparing for uncertainty ahead.

Company/ASX Code	Stockland Corporation/SGP
AGM date	Monday 17 October 2022
Time and location	2:30pm AEDT Lyceum Room, Wesley Conference Centre, Sydney and online: www.lumiagm.com/325448753
Registry	Computershare
Type of meeting	Hybrid with webcast
Poll or show of hands	Poll on all items
Monitor	Julieanne Mills assisted by John Lin
Pre AGM Meeting?	Yes with Chair Tom Pockett, NED and Chair People & - Melinda Conrad, Chief Legal Officer- Katherine Grace, GM Performance and Reward- Greg Kiddle, GM Investor Relations- Ian Randall

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

Summary of issues for meeting.

In general Stockland is a well-run company and we don't have too many concerns with its board and management, but we challenged them on the following issues.

<u>Increase in potential maximum the CEO and long term incentive (LTI) remuneration</u>.

This is seen as a necessary incentive to achieve out performance but also to protect Stockland (SGP) from losing key personnel as the company becomes more successful. It is aligned with shareholders in that it is delivered in equity and will be measured against relative and absolute total shareholder return (TSR). SGP's fixed remuneration has not changed in a number of years and is seen as a median of its peers.

<u>New Sustainability committee changes</u>

The new Sustainability Committee will provide the board with the ability to do deep dives into more detail around Environmental, Social and Governance issues (ESG). Andrew Stevens as chair of the committee is enthusiastic about sustainability and innovation being Chair of the Industry Innovation and Science board for the Australian Govt and. Innovation is seen as the key to their approach to ESG.

<u>Climate change impact on portfolio of properties</u>

Stockland does monitor climate change impact on its properties and indeed has declined investing due to the potential impact of climate change. This was a large topic to cover in our short meeting we felt that the board were aware and active in their management of the double materiality of climate change, and it was well described in their Annual Report.

Economic changes and interest rate impact on Stockland and its different sectors

The board felt that SGP has a portfolio of good quality assets including a residential land bank that provides plenty of opportunity for development, an under geared balance sheet and opportunities to expand their portfolio are likely to arise in this market. They expect residential sales to slow over the year and interest rates to level out in 2023, when sales should recover, as there is still a significant undersupply of housing.

Construction is mostly done by third parties except for the Land Lease communities. Supply chain issues are moderating.

Office developments in Sydney and North Sydney now have approval for redevelopment but a tenant/capital partner will be in place before development goes ahead.

Demand for ESG

A grade commercial tenants want sustainability, but it varies in residential, first home buyers it is not a priority, master planned communities are going electric. SGP has created its first Green 6 Star home in Waterlea, Victoria, to test the market, innovate and then get the costs down.

Proposed Voting Summary

No.	Resolution description	
2	Re-election of Stephen Newton as a Director	For
3	Adoption of Remuneration Report	For
4	Approval of equity grant to CEO/Managing Director Tarun Gupta	For

Summary of ASA Position

Stockland (SGP) manages and develops Australian real estate across a diversified portfolio that covers Residential, Master Planned communities, Land Lease communities (affordable housing for over 50's) and Commercial spaces: Logistics (warehouse), Workplace (office) and Town Centres (retail). It is currently rebalancing its portfolio to provide more consistent earnings and better margins while also partnering with capital to increase its pipeline of development opportunities.

The first year for the new CEO, Tarun Gupta saw a reset of strategic priorities with the focus on: leadership in master-planned residential communities, an up scaling of Land Lease communities, an increase in capital allocation to logistics and workplace, accelerating the development pipeline and an increase in capital partnerships.

Key forward looking trends include population growth in urban centres, aging population, institutional capital looking to invest in Australia real estate, rising ESG awareness, digitisation and technological innovation, and an apartment business for the future.

In FY22, COVID-19 and weather continued to impact 60% of town centres and 40% of workdays in Queensland. While COVID-19 impacts are now subsiding, headwinds remain with interest rate increases, and inflationary pressures impacting residential demand. There is plenty of uncertainty in the market and this is also reflected in the share price, with share price well below net tangible assets (NTA) per security.

Governance and culture

The Stockland board has a majority of independent directors with one executive director the CEO. They have diverse skills and expertise across property, governance, board and climate risk. A group skills matrix and details about board composition are included in the Annual Report and the corporate governance pages on its website have further details. ASA would prefer a skills matrix that reflects individual director's skills however we note that the details for directors are reasonably comprehensive. The new CEO has added some broader diversity to the board and that is welcome.

Three of the nine directors are women, this could be improved in line with their 40:40:20 gender policy. They have however seen their senior leadership team increase to 62% women and a new female CFO was added to the executive team, which reflects well on the company.

SGP has progressive social policies with a hybrid working policy, good equal parental leave, a diverse and inclusive workforce, training and graduate support programs, and a focus on physical and mental health for their workforce and communities. This is reinforced by their Employee Engagement scores of 82%, parental leave return rate 88%, and gender pay equity at 98.8%. They are taking on 44 into the graduate program this year, another increase on last year.

The director's minimum shareholding policy of 40,000 shares is "outdated" and the chairman continues to sit on a shareholding well below his base fee of $500,000. It is currently at only 36% after 6 years as chair. While most directors comply with the 40,000 shares it is currently below their base fee. Directors Ms Conrad and Ms O'Reilly hold shares in excess of a year's fees. While Mr Brindle, Ms Mckenzie and Mr Tindle are on track, the other directors have been there for 6 and 7 years and are still sitting on a 40,000 shareholding. We have once again encouraged some leadership from the top, to change this policy in line with the requirements for the executive team.

Thank you, to Marcia Moseley (an ASA member) for your letter to Stockland also advocating for more "skin in the game" at Stockland.

Financial performance

Statutory profit of $1.4bn was up 25% on FY21 which included a $725m revaluation of commercial property to $10.7bn up 8.5%.

NTA increased 8.3% along with an increase in NTA/security of $4.31**.**

A strong financial result with funds from operations (FFO) rising 8% to $851m or 35.7c/security.

The security distribution increased 8% to 26.6c per security, reflecting the sale of SGP Retirement Living portfolio, more industrial property and the Land Lease expansion. The payout ratio was 75% of FFO.

SGP is in a strong capital position with a balance sheet of $1.9bn in liquidity, and gearing reduced to approximately 18% after the recent sale of its retirement living.

Weighted average cost of debt from FY22 was 3.4% this is expected to rise to 4.4% for FY23. SGP maintained A-/A3 credit rating.

The default rate for FY22 is 1.2%, it is expected to rise to 10% in FY23 in response to rising interest rates.

Logistics FFO is up 37.2% to $155m. $300m of logistics development were completed in FY22 and another $600m is to be completed by 2023. There is a new target of $400m to be spent per annum over the next 5 years in development. Logistics is seen as a high growth (average rental growth 8.5%), fast turnaround (12-18months) area of improvement.

Workplace FFO of $110m with average rental growth of 2.3% and a $5.8bn pipeline of works including M-Park with its 6-star green build and has included indigenous engagement with Dharug leaders.

Town Centres FFO of $340m with 99.1% occupancy and remix to 75% essentials. There is an intention to dispose of non-core assets.

Land Lease FFO of $15m had some settlement delays due to wet weather and COVID construction constraints. New Land Lease communities launching in 2 years' time. Land Lease has grown from 4000 sites in July 21 and now reflects 9000 potential home sites and 33 communities.

Residential lead indicators are soft with 289 sales in July FY22 compared to 670 in FY21. Expanded operating margin to 18.3% with 15% increase in civil construction costs

Retirement FFO was $97m in FY22, it has now been sold.

Good occupancy overall, workplace has had one loss of a large tenant and that has impacted occupancy.

Key events

The sale of SGP's retirement living to EQT infrastructure for $987m unlocked capital and allows for higher returns and margins. 300 employees moved with this sale. SGP is no longer locked into retirement contracts.

Capital partnerships with Mitsubishi Estate Asia (MSE) $294m investment in the new Stockland Residential Rental Partnership (SRRP) in the Land Lease portfolio, and Ivanhoe Cambridge $33m investment in 49.9% of M-Park Capital Partnership. Providing further liquidity, potential growth, more management fees.

Divestment of $310m in non-core assets and $388 in non-core retail town centres. The $627m settlement of Halcyon was partially offset by the sale of retirement.

Key Board or senior management changes

First full year of the new CEO, Tarun Gupta, has seen changes to the executive leadership team with a new Chief Financial Officer Alison Harrop, and Justin Louis as Chief investment Officer.

ASA focus issues

Sustainability/ESG

Stockland has a Net Zero 2028 goal for energy efficiency and design. It is committed to sustainable and affordable housing and has a good reputation in this area. The increased focus on sustainability and biodiversity in the community and government however may mean this needs to be ramped up more quickly.

It reports against Task Force on Climate-Related Financial Disclosures, Global Reporting Initiative, Sustainability Accounting Standards Board, Global Real Estate Sustainability Benchmark Green Star, National Australian Built Environment Ratings System (NabHERS) and is benchmarked against the World Dow Jones Sustainability Benchmark. It's MSCI ESG rating is in the top quartile.

Stockland has engaged external consultants in FY22 to model emissions footprints and develop a strategy with targets for scope 1, 2 & scope 3 for FY23. This is ongoing. Climate resilience assessments have been done on 7 Master Planned Communities, 1 Land Lease, 70% Workplace and 74% Town Centres.

The Waterlea model home has an impressive 8.2 star NabHERS rating. It will be interesting to see the outcome of this. Solar has been installed for free at Halcyon new communities and batteries are an optional extra with a 40% take up rate. Scope 3 emissions of construction contractors are no longer included in SGP emissions.

Community contribution spend was $5.7m. There is 5% social housing in the three Queensland communities. They have a Reconciliation Action plan in place, with a $13m indigenous supply spend, but have not achieved their employment target of 3%. Circular economy strategies are in place and being developed eg. Stockhub. They have 4 new solar installations on commercial properties in FY22 producing 15Mw.

More ESG details are available in their ESG Data Pack, on the SGP website and in the Annual Report.

Summary

(As at FYE)	**2022**	**2021**	**2020**	**2019**	**2018**
NPAT ($m) Statutory	1381	1105	-21	311	1025
FFO ($m)	851	788	825	897	863
Security price ($) 30/6	3.61	4.66	3.31	4.17	3.97
Distribution per security (cents)	26.6	24.6	24.1	27.6	26.5
Simple TSR (%)	(16.8)	48.2	(14.8)	12	(7.0)
EPS (cents)	57.9	46.4	(0.9)	13	42.3
FFO/security (cents)	35.7	33.1	34.7	37.4	35.6
CEO total remuneration, actual ($m)	3.294*	5.39**	2.45	4.2	4.5

*reflects first full year of Mr Gupta's CEO remuneration and includes sign on payments of $650,000 no LTI or STI Equity is included.

**2021 CEO remuneration includes termination payments for Mr Steinert.

Item 2 Re-election of director Stephen Newton

Mr Stephen Newton was appointed in June 2018. He is a Chartered Accountant, with broad real estate industry and fund management experience. He had 23 years with Lend Lease, with his last role as CEO Asia /Pacific real estate investment arm.

Stephen is a principle and joint managing director of Arcadia Funds Management, he is also a non-executive director of BAI communications, Waypoint REIT and Sydney Catholic Schools Ltd, and Chairman of the Finance Council of the Catholic Archdiocese of Sydney.

He is chair of the Stockland Audit Committee and a member of the Risk Committee.

ASA had some concerns about Mr Newton's workload given his MD role at Arcadia along with his other NED and chair roles. We would like him to speak to this at the AGM. We are also interested in how he manages any potential conflicts of interest with Arcadia and the Waypoint REIT.

The board feels that Mr Newton makes a significant contribution to the board especially as chair of the Audit Committee, and any potential conflict is managed with appropriate measures.

Mr Newton has 40,000 shares

ASA will vote FOR the re-election of Mr Newton. We would like to see him increase his shareholding.

Item 3 Adoption of Remuneration Report

The remuneration report is clear and transparent. Remuneration has been relatively consistent with no change to fixed remuneration (FR) or incentives for the CEO for several years. However, in FY21 with the transition to a new CEO, retention payments for key management personnel (KMP) and sign on payments for the current CEO were introduced, they are ongoing. There are no conditions other than continuous employment on those payments. This was seen to be reasonable considering the competitive market for talent and the change in leadership, however, the increases are continuing.

This year we have seen two KMP increase their fixed remuneration (FR) from $800,000 to $850,000 apparently due to increased responsibilities. Their actual FY22 remuneration was $2.2m and $2.3m. We are concerned that overall remuneration is increasing relatively quickly. The board's view is that with the increasing success of the company, they don't want to lose talent to higher offers, and they feel that their fixed remuneration for this industry is relatively low. That is hard to know without specific comparisons.

This year the CEO received 96.7% of his maximum short term incentive (STI) with the KMP receiving between 84.7%-96.7% of maximum STI. The 2019 long term incentive (LTI) vested at 48.25%.

Tarun Gupta's 2022 Long term incentive (LTI) grant is valued at a maximum of $3m or 801,518 performance rights. The number of rights were determined at face value using the volume weighted average price (VWAP) for the 10 days post 30 June 2022 of $4.58.

The 2022 remuneration framework has not changed from 2021. There was only one measure for LTI of relative total shareholder return (rTSR).

The target benchmark for the 2019 LTI rTSR in F22 was (8.47%) as measured against 14 ASX A-REITS. SGP's result was 0.9% receiving 48.25% vesting. It is hard to see how this aligns with shareholders when the share price has gone backwards.

There was a 5.5% increase to non-executive director (NED) fees due to the additional Sustainability Committee and a small committee chair increase. As this is the first increase since 2015, it is seen as reasonable.

On balance while the remuneration framework seems fair and reasonable and in line with shareholders' interests, we do have concerns about the increased quantum in FY23. It will depend on how the board sets its targets and how it applies discretion as to whether this ends up being reasonable for shareholders.

We will vote FOR the approval of the remuneration report this year but will continue to monitor the outcomes.

More details of the remuneration are listed below in the appendix.

Item 4 Approval for Managing Director/CEO participation in the performance rights plan as part of his 2023 financial year remuneration

A review of remuneration in FY22 highlighted a need for simplification of the STI scorecard to align it to the "refreshed strategy" and to produce a competitive fixed pay and total reward for key talent. Recurring, and development return on invested funds (ROIC) have now been added to the STI scorecard.

Alignment of the LTI to the new strategy and transformative growth has seen the LTI add another measure. There is now a relative TSR weighting of 60% of the award and a second measure absolute TSR is 40%, to drive security growth and stronger alignment with shareholders.

The board is increasing the maximum potential LTI from 200% of FR ($3m) to 300% of FR ($4.5m). The target is still 200% of FR. The VWAP 10 days post 30 June $3.7429 was used to calculate the number of shares. The maximum value of LTI is now $4.5m his STI maximum remains at $1.5m.

This will increase the maximum potential payment to the CEO from $6.75m in FY22, to $8.25m in FY23. The board feels the stretch targets for achieving this additional maximum are seen as ambitious and not easy to be met, and should they meet these targets shareholders will be aligned.

The LTI is measured over July 2022-June 2025.

TSR is averaged over 3 months at the start and end of the period. Relative TSR is based on a selection of 15 ASX 200 A-REIT with some exemptions.

Maximum rTSR is achieved at 15% or more above the average peer TSR and at 13% or more above the absolute TSR.

While we have some concerns about the 18% increase in maximum potential LTI, it has been improved with the second measure of absolute TSR. Board discretion can be used to adjust downwards if necessary and we trust that the board will make appropriate adjustments if required.
On balance while the remuneration framework seems fair and reasonable and in line with shareholders' interests, we do have concerns about the increased quantum in FY23. It will depend on how the board sets its targets and applies discretion as to whether this ends up being reasonable for shareholders.
As we have voted for the remuneration report, we will vote FOR approval of the performance rights to the CEO this year.

ASA Disclaimer

This document has been prepared by the Australian Shareholders Association Limited ABN 40 000 625 669 ("ASA"). It is not a disclosure document, it does not constitute investment or legal advice and it does not take into account any person's particular investment objectives. The statements and information contained in this document are not intended to represent recommendations of a particular course of action to any particular person. Readers should obtain their own independent investment and legal advice in relation to the matters contemplated by this document. To the fullest extent permitted by law, neither ASA nor any of its officers, directors, employees, contractors, agents or related bodies corporate:

- *makes any representations, warranties or guarantees (express or implied) as to the accuracy, reliability, completeness or fitness for purpose of any statements or information contained in this document; or*
- *shall have any liability (whether in contract, by reason of negligence or negligent misstatement or otherwise) for any statements or information contained in, or omissions from this document; nor for any person's acts or omissions undertaken or made in reliance of any such statements, information or omissions.*

This document may contain forward looking statements. Such statements are predictions only and are subject to uncertainties. Given these uncertainties, readers are cautioned not to place reliance on any such statements. Any such statements speak only to the date of issue of this document and ASA disclaims any obligation to disseminate any updates or revisions to any such statements to reflect changed expectations or circumstances.

Appendix 1
Remuneration framework detail

Proposed 2023 Remuneration

CEO rem. Framework for FY23	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.5	25%	1.5	18.2
STI - Cash	750	12.5	1.125	13.6
STI - Equity deferred over 1 & 2 years	750	12.5	1.125	13.6
LTI- deferred over 3 & 4 years	3	50	4.5	54.6
Total	6	100.0%	8.25	100%

Maximum remuneration for the CEO will increase by $1.5m or 17% from FY22 due to the increased LTI maximum.

Items to be aware of:

- FY22 STI is measured against financial performance (60%) as reflected in FFO, FFO/security and return on equity all measures were above guidance and against non-financial drivers (40%) which include delivering strategic objectives, the customer and stakeholder, and people and leadership.
- Sustainability/ESG is measured as a discretionary overlay. 127% target of STI pool was allocated in FY22.
- CEO STI is delivered 50% in cash in year 1, 50% in equity deferred over years 2 and 3.
- FY22 LTI is measured against rTSR of 14 ASX A-REITs over a three year period. (FFO removed in 2020.)
- Face value is used to calculate number of performance rights VWAP 10 days from 30 June.
- Potential CEO maximum remuneration for 2023 has increased by 17% from FY22 Consolidated remuneration (total statutory remuneration for KMP) has jumped from $8.3m to $13.8m.
- The CEO has skin in the game.
- Performance scorecard is well described in AR.
- An actual remuneration table was included along with vesting tables.

- The proposed change to FY23 remuneration will see a new measure to LTI with 60% subject to relative TSR and an additional 40% weighting to absolute TSR. For FY23 The board is also increasing the maximum potential LTI from 200% of FR ($3m) to 300% of FR ($4.5m). This will increase the maximum potential payment to the CEO from $6.75min FY22 to $8.25m in FY23. The board feels the stretch targets for achieving this additional maximum are seen as very ambitious and not easy to be met, and should they meet these targets shareholders will be aligned.