Australian Shareholders' Association

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Nothing new but nothing bad

Company/ASX Code	Stockland/SGP/
AGM date	Monday 21 October 2019
Time and location	2.30pm Heritage Ballroom The Westin Sydney 1 Martin Place Sydney
Registry	Computershare
Webcast	Yes, www.stockland.com.au
Poll or show of hands	Poll on all items
Monitor	Roger Ashley, assisted by Allan Goldin
Pre AGM Meeting?	Yes, with Chair Tom Pockett and Company Secretary Katherine Grace

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

Summary of ASA Position

Governance and Culture

The Annual Report is a readable and comprehensive document which, uniquely, includes inserts headed “Keeping it Simple” that provide concise explanations for detail, technical terms or metrics.

We note and applaud that the company is to the forefront in policies regarding sustainability, gender diversity (both in numbers and remuneration) and other measures of good governance. It is the second year of compliance with the Task Force on Climate-related Financial Disclosures (TCFD).

Financial Performance

The preferred profit measure of FFO (funds from operations) (see below) showed a continuing upward trend although statutory profits declined significantly due to non-cash declines in asset valuations of a net $401m year on year and negative impacts of losses on financial instruments and tax respectively of $133m and $106m. In the business segments, Residential performed strongly with a profit growth of 8% despite a contraction of credit adversely affecting availability of finance to potential real estate purchasers. Operating profit margin also increased from 18.3% to 19.9%. Return on Assets was a solid 18.7%.

The Retirement business segment delivered an increase in profit of 5.7% but (cash) Return on Assets stagnated at 4.5%. Optimisation of the Retirement portfolio continues although there is some way still to go. The Group recently signed up to a venture with a Capital partner. This is a model that is increasingly likely to occur as Stockland would not be averse to coming to an arrangement with a Capital partner for the whole division. A major issue with occupants of retirement villages has been onerous and complicated contracts which has been addressed with simplified contracts which provide customers with a known exit value. Footnote 8 to the Financial Accounts in the Annual Report explains the contract options and the advantages of the options on offer.

The Commercial business segment showed a degree of stagnation in retail profits on a comparable basis and an analysis of the footnotes to the Financial Report (together with details provided in the FY19 (Financial Year 2019) Annexures document available online) indicates little movement from last year's Return on Assets measure of around 8% for the segment as a whole. Non-core retail divestments occurred during the year and, together with a remixing within shopping centre outlets (i.e. the current trend towards attracting custom by increasing the mix of food and services offerings rather than more traditional retail goods) are being implemented with a view to improved profitability. To underline the transition to Food and Service from Apparel and Jewellery, the value of rents from the former category have risen from 38% to 43% of income while the latter has fallen from 40% to 35% over the past five years. However this is a costly turnaround. Moving into Food and Services may result in higher or more certain revenue although it initially means both new and renewing leases occurring at a lower amount than what was received previously together with incentive payments.

A growing component of this business segment is the development of logistics and industrial parks which increased by 13.9% to a value of $2.5bn with a further $2bn pipeline.

The difficult trading conditions experienced in the year have been extrapolated into 2019-20 despite some indications of a turnaround in real estate values in the economy as a whole as evidenced by a further reduction in the compound annual growth rate hurdle in the 2019-22 incentive plan (see below).

Key Events

A share buyback for up to $350m of Stockland shares was initiated in September 2018. Shares to the value of $192m were purchased during the year.

Focus Issues

The Annual Report contains a skills matrix encompassing the Board as an entity. We recommended that the skills matrix included in the Annual Report details the skills of individual directors rather than the Board as a whole.

Summary

(As at FYE)	**2019**	**2018**	**2017**	**2016**	**2015**
NPAT ($m)	311	1025	1195	889	903
NPAT ($m) – FFO	897	863	802	740	657
UPAT ($m)	757	731	696	660	608
Share price ($)	4.17	3.97	4.38	4.71	4.10
Dividend (cents)	27.6	26.5	25.5	24.5	24.0
TSR (%)	13.9	(7.0)	7.1	16.4	12.3
EPS (cents)	13.0	42.3	49.8	37.4	38.5
EPS (cents) – based on FFO	37.4	35.6	33.4	31.1	28.0
CEO total remuneration, actual ($m)	4.2	4.5	5.2	4.5	2.8

For 2019, the CEO's total actual remuneration was **47.9 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

<u>FFO (Funds From Operations)</u>

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.

Item 2	**Re-election of Barry Neil as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Neil was appointed to the Board in 2007. His professional experience includes senior real estate positions with Mirvac and Woolworths and is currently Chair of both Keneco Pty Ltd and Bitumen Importers Australia Pty Ltd. He is also a Director of Terrace Tower Group Pty Ltd. He is currently the Chair of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds and a member of the Audit and Sustainability committees.

The Board has no policy regarding quantifying tenure although it says: "it is important to maintain a range of director tenures to facilitate orderly Board renewal while maintaining valuable continuity and corporate knowledge among directors". Mr Neil is the only director with more than ten years' service.

It is our position that companies should voluntarily adhere to tenure limits of no more than twelve years for independent directors and this should be formalised in board protocols and disclosed. We are voting in favour of Mr Neil as all other director's tenures classify them as an independent majority but would expect this to be the last re-election of Mr. Neil to the Stockland Board.

Item 3	**Re-election of Stephen Newton as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Newton was appointed to the Board in 2016. His professional experience includes senior real estate positions with Arcadia Funds Management and Lend Lease and currently serves on the Board of BAI Communications Group and Viva Energy REIT Group. He is currently the Chair of the Audit Committee and a member of the Risk and Sustainability committees.

There is no known reason not to support Newton's re-election.

Item 4	**Approval of Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

CEO Remuneration Structure

	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.500	33%	1.500	22%
STI - Cash	0.750	17%	1.125	17%
STI - Equity	0.750	17%	1.125	17%
LTI	1.500[1]	33%	3.000	44%
Total	4.500	100.0%	6.750	100%

Note 1: The target LTI of $1.5m assumes achievement of both hurdles at the minimum threshold. If only one hurdle was achieved at minimum threshold, the incentive would be $0.750m.

Fixed Remuneration

Somewhat unusually, the CEO's fixed remuneration has remained unchanged for 6 years.

Short-term Incentives (STI)

STIs are based on a "Balanced Scorecard" which contains both financial and non-financial targets. We understand that the financial targets are achievement of budgeted goals. In 2018 we said: "The balanced scorecard for the STI seems fair and your report on the targets is very good but could even be better with precise weightings." This remark was noted but not implemented for 2019.

The CEO was awarded 80% of the Target STI in 2019 (ie. $1.2m) which suggests that not all of the Balanced Scorecard performance targets were met.

Given the less than stellar financial performance of the company it is difficult not to conclude that the STI is effectively a reward for "doing ones job". The opacity of the financial and non-financial hurdles is such that we recommended that the payment of STIs should be subject to a financial gateway.

The Board has discretion to adjust the STI awards and our suggestion that the circumstances under which this could occur be stated was noted.

Long-Term Incentives (LTI)

The LTI award is based on a monetary figure (a maximum opportunity of 200% of fixed remuneration as per the above table of $3m) converted to a number of Stockland securities (performance rights) which is calculated on a 10 day VWAP (volume weighted average price i.e. at face value). Half of any LTI award vests at the end of the three-year performance period and the balance one year later.

The LTI hurdles consist of two measures, each accounting for 50% of the maximum opportunity. One measure is a FFO compound annual growth rate (CAGR) per security over the three year incentive period which, for the period 1 July 2018 to 30 June 2021, is a minimum CAGR of 4.25% to achieve target rising to a maximum opportunity at a CAGR of 6% or greater.

The minimum CAGR has been revised downwards over past years from 4.75% to 4.25% and is to be further reduced to 3.7% for the three year incentive period commencing on 1 July 2019.

The other hurdle is a Total Shareholder Return (TSR) based on Stockland's TSR performance against a weighted index of TSR's of similar companies (i.e. a Relative TSR). Maximum vesting occurs at a TSR 10% above the weighted index of comparator companies. The TSR hurdle did not result in any vesting in 2019 (for the period 2017-2019).

We are disappointed that the LTI performance period is only three years but this, by itself, does not justify a vote against the remuneration report. Nevertheless we must compliment the Company on the excellent manner in which they presented the remuneration of key management personnel (KMPs).

In summary, we have decided to vote in favour of the remuneration report albeit with some misgivings that could translate into a negative vote next year if not addressed. Our concerns are:

- More quantification around the STI award to dispel our concerns that the targets represent no more than the performance expected from the job description.
- A stretched LTI CAGR target. This has been easily achieved in recent years yet continues to be lowered each year. Again, the point is that incentives are there to reward out-performance.
- A longer LTI period than three years.

Item 5	**Grant of Performance Rights to Managing Director (Mark Steinert)**
ASA Vote	**For**

Summary of ASA Position

The LTI scheme for 2019-22 remains unchanged from the prior year. The grant value is a maximum $3million or 670,721 shares at an average price of $4.4728 based on a face value calculation.

An individual (or their associates) involved in the preparation of this voting intention have a shareholding in this company.