Remuneration remarks

AGM | Tuesday 29 October 2013

We now turn to the resolution to approve Stockland's FY13 Remuneration Report.
An important responsibility of the Board is to ensure that Stockland's executive remuneration policies are fair, responsible and competitive. We communicate our remuneration arrangements with full transparency in our Remuneration Report which we today put before investors for their approval. Our remuneration policies are scrutinised by the Human Resources Committee of the Board and key decisions, such as the Managing Director's arrangements, are approved by the full board.

There were no material changes to our remuneration policies during the past year following the significant review which we carried out last year, and which was well supported by investors, as evidenced by the strong vote in favour at last year's AGM.

With the appointment of a new Managing Director and other senior executive changes, however, we have taken the opportunity to reduce the fixed pay packages for several executive roles, and we continue to require a significant proportion (a minimum of 50 per cent in the case of the Managing Director) of all annual bonuses up to target to be awarded in the form of Stockland securities with vesting deferred over two years. Any bonuses above target are 100 per cent awarded in securities with deferred vesting.

The total of short-term incentives paid to employees across the whole Group were significantly down on the previous year, an outcome which reflects the Board's assessment of the performance measures that we set at the start of the financial year. The relevant measures are outlined in our Corporate Scorecard which is set out in the Remuneration Report, together with the Board's assessment of whether management achieved above target, at target or below target ratings on these measures. No scores above target were achieved this past year.

I should also add that base fees for our non-executive directors were not increased in FY13, and will not increase in FY14. Total fees paid to non-executive directors reduced by three per cent in FY13, and as a percentage of the fee pool last approved by securityholders in 2007 were 71 per cent compared to 73 per cent in FY12.

With regard to our long-term incentive plans for our senior executives, rights to acquire Stockland securities vest only if our two targets are met: an earnings per share growth target (50 per cent) and a relative total shareholder return target (50 per cent). There was zero vesting of long-term incentives in FY13 because neither of these targets were met. This is the fifth year in which no vesting has occurred in respect of the EPS portion of our long-term incentive plan and the second year in which no vesting has occurred in respect of the Total Shareholder Return portion.

These outcomes reflect the fact that Stockland's remuneration incentives are closely aligned with securityholder experience and with the overall performance of the Company. If we don't perform, our executives do not earn their incentives.

As part of the remuneration policies review we undertook in FY12, the Board sets each year a three-year target for compound annual growth rate of our earnings per security as one of the two hurdles required for vesting to occur under our long-term incentive plans. Last year, in view of the headwinds which we faced in the Residential business, we set this three-year target at 3.5 per cent per year for the years from 1 July 2012 to 30 June 2015. Due to our decline in earnings per security growth in FY13, our executives are well behind on this measure.

After careful consideration of the Company's growth prospects over the next three years, and the continuing challenges faced by our Residential business, the Board has set for LTI awards granted in FY14 a minimum compound annual growth target for earnings per security for the three years from 1 July 2013 to 30 June 2016 of 5.0 per cent, an increase of around 40 per cent in the target growth rate set last year. Our market guidance of EPS growth for FY14 is a range of 4-6 per cent, assuming no material market deterioration, but we are conscious that our economy still faces headwinds.

I would point out that, in order to earn 100 per cent of the long-term incentive based on the EPS hurdle, our EPS growth will need to be 6.5 per cent compounded over the three years from 1 July this year, a growth rate ahead of our “through-the-cycle expectation of 5-6 per cent. In the current circumstances, the Board believes that this uplift in our three-year EPS hurdle is appropriate.

Before moving to the resolution, are there any questions or comments on our Remuneration Report?

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