
Millennium & Copthorne Hotels New Zealand Limited

Directors' Fees Review Report

Prepared by:
Strategic Pay
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Overview

Leslie Preston, Remuneration Committee Director, and Stuart Harrison, Managing Director at Millennium & Copthorne Hotels New Zealand Limited (MCK) on behalf of the Remuneration Committee has commissioned Strategic Pay Limited ('Strategic Pay') to provide a review of its Board of Director fees.

We would like to thank Stuart Harrison, Managing Director for being so generous with his time, the information he provided on MCK operations in the interview – responding to our questions, along with the company documents, annual reports and financial information were all extremely helpful in assisting us with our analysis and arriving at our recommendation.

Directors' Fees were last increased in 1996. At this time a maximum amount based on a fee pool was established of (200k). This was an increase from the previous (70k) approved in 1987. Although fees were reviewed again in 2019, they remained unchanged from the (200k) fee pool.

Our approach involves gaining an understanding of the organisation and Directors' responsibilities by way of review of documentation provided, and interview. We then undertake market analysis of relevant samples from the Strategic Pay 2024 New Zealand Directors' Fee database and Remuneration Report to determine and position appropriate Board fee levels for Millennium and Copthorne Hotels New Zealand Limited.

Our recommendation is based on several factors including the organisation size, ownership, industry, and the market data presented.

It is important to mention that the report provided to the Board by Strategic Pay provides a range that is based on market competitiveness. We have presented the range with options to the Board for their consideration as to how they might meet market expectations. However, how they choose to proceed is ultimately the Board's decision, and it is their prerogative, whether or not they accept Strategic Pay's recommendation, based on both internal and external factors best understood within the organisation. Also considering what may be deemed palatable to stakeholders at this time. Strategic Pay's guiding principle is that it is important not to undervalue the contributions, experience or time committed by Board members.

Background

MCK's Board has responsibility, control and oversight of the business activities, strategic direction, and the governance of MCK and its subsidiary companies. It looks at how the company is operating, how risk and compliance are managed, approving financial and other reports and capital expenditure, and reporting to MCK's shareholders. The Board approves MCK's budgets and business plans as well as significant projects and has statutory obligations for other matters such as the payments of dividends and the issue of shares. The Board is accountable to MCK's shareholders for the company's performance.

BOARD COMPOSITION AND MEETING SCHEDULE

The Board is composed of the Chair, two Independent Directors, two Non-Independent/Non-Executive Directors, and one Non-Independent/Executive Director.

There are four quarterly Board meetings per year of 2-4 hours duration.

There are three Committees:

- The Audit Committee meets 3 times a year for approximately 3 hours and is made up of a Chair, 1 Director and 1 Executive member
- The Remuneration Committee is a new committee, and the details of meetings is currently being worked through. It is made up of a Chair, 1 Director and 1 Non-Executive member.
- The Due Diligence Committee is formed as required and meetings are determined based on project requirements. This committee is made up of 2 Independent Directors. This committee met 11 times last year, and the fees paid to these Independent Directors were limited to the remainder available under the current Directors' Fee pool.

ORGANISATION DEMOGRAPHICS

Organisation Demographics / Dimensions	
Organisation Type	MCK - Private Sector – NZX Listed 65.5% ownership of CDI also NZX Listed with Directors fees for that company being a separated consideration
Ownership	75.78% economic ownership via Millennium & Copthorne Hotels Ltd in the United Kingdom (Ultimate parent is Hong Leong Investment Holdings Pte Ltd in Singapore). Top 20 shareholders own 98.9m shares and 93.7% of the company with the balance of 6.6m shares owning 6.3% of the company via approximately 1,529 shareholders.
Industry	The principal activities of the Group are ownership and operation of hotels in New Zealand, and development and sale of residential units and hotel ownership in Australia. Via ownership in CDI there is also the development and sale of residential land in NZ, investment properties comprising commercial warehousing and retail shops in New Zealand.
Annual Turnover / Budget	FY2023: NZ\$145.7m
Assets	FY2023: NZ\$746.8m (Historic cost basis for assets) FY2023 NZ\$1,232.8b (Market value basis for assets)
Market Cap	NZ\$195.1 as at 11/04/24
Number of Employees	Approximately 1,100

CURRENT DIRECTOR FEE POLICY

All remuneration of Directors is paid in cash and Directors do not receive any performance-based remuneration or retirement benefits. All Directors (excluding the Chair and any executive Directors) are paid a base fee with additional fees payable to the Chairs and members of the Committees, and the Board Chair is paid a Chair's fee, all as determined by the Board (having regard to the recommendation from the Remuneration Committee) and subject to the total fee pool limit for Director remuneration as approved by the Company's shareholders from time to time.

The Remuneration Committee is responsible for a periodic review of Directors' remuneration to determine whether Directors' remuneration is appropriate. This review is required to consider benchmarking data from similar sized listed and unlisted companies. The total approved fee pool in aggregate for all Directors is currently a maximum of \$200,000 per annum. The Remuneration Committee reviews the total Director fee pool on a regular basis and recommends any changes to the Board. The Board then seeks shareholder approval for any increase to the total Director fee pool.

Other than the total approved Directors' fee pool aggregate of \$200k there is no other formal Directors' Fee Policy currently in place.

2. Recommendation

2024 DIRECTORS FEES POLICY

Our recommendation is based on several factors including the organisation size, ownership, and industry of Millennium and Copthorne Hotels New Zealand Limited (MCK) and the market data presented below.

We recommend the following criteria for the 2024 policy for Base Annual Fees:

- Market Data from 2024 Strategic Pays NZ Directors' Fees Report / Customised Analysis
- Market Comparator Revenue – Private Sector
- Market Position Median
- Fees Range A range of \$5,000 up to the Median
- Ratio 2.0:1X ratio applied to the Director fees to determine the Chair Fees

We recommend that a Chair ratio be set at 2.0:1X. New Zealand's current market practice pays base annual Chair fees at about a two to one (2:1x) ratio to base annual Director Fees. This "premium" reflects the additional responsibilities, scope and risk borne by Chairs. Chairs typically receive no separate committee fees, although they often attend these meetings.

2024 COMMITTEE FEES POLICY

We recommend reviewing the Committee Chair and Member fees to ensure they are market competitive and are at an appropriate fee level, reflecting median positioning figures in the NZ market.

We can also support your existing practice of payment of Committee Member fees, if you choose to do so, as we find that over time, more work, and more responsibility are being dealt to committees from full Boards.

We support the 'unbundling' practice of paying separate committee fees as a means of tracking and rewarding actual workload and responsibilities and providing greater accountability and transparency.

We can also support payment of Committee Member fees at half the Chair levels if you choose to do so as this could be a way to offset the substantial increase to Director fees required if you choose to meet the market.

RECOMMENDED FEES RANGES & COMMITTEE FEES

Role	Current Fees per Role	Recommended Fees Range		% Increase
		Min	Max	
Independent Chair	\$42,000	\$130,000	\$140,000	
Independent Director x 3	\$38,000	\$65,000	\$70,000	
Audit Committee Chair	\$9,000	\$9,000	\$11,000	
Audit Committee Member	\$7,000	\$4,500	\$5,500	
Remuneration Committee Chair	\$0	\$9,000	\$11,000	
Remuneration Committee Member x 2	\$0	\$4,500	\$5,500	
Due Diligence Committee Chair	\$14,000	\$9,000	\$11,000	
Due Diligence Committee Member	\$14,000	\$4,500	\$5,500	
	\$0	\$0	\$0	
Total Governance Pool	\$200,000	\$370,000	\$405,000	85% to 102.5%

Current Chair Fees Ratio (<i>Chair Fee: Director Fee</i>)	1.1
Proposed Chair Fees Ratio (<i>Chair Fee: Director Fee</i>)	2.0

In our view, the recommended ranges represent market levels appropriate for your organisation given the context and associated company information provided by Stuart Harrison, Managing Director.

As the market data and associated remuneration ranges illustrate there is a significant difference between the current fees paid to MCK directors and the private sector market medians. This is to be expected given the MCK Director fees have not been increased for 28 years. The decision now, is how do you address the difference between current MCK Director fees and market expectation, achieving a balance between market expectations, enabling you to attract and retain the calibre of directors you need, with what would be considered an affordable and reasonable increase by your shareholders.

Detailed below are potential options for your consideration:

1. Address the difference this year - Approve additional funds to meet the market now. Then commence a good governance process of annual / biannual reviews to ensure you remain in step with the market.
2. Stepped approach to address the difference
 - a. Increase the current Directors' fees by paying 50% of the difference now, and the remaining 50% to be split between year 2, and 3, with the goal of meeting the market over the next 3 years. Then commence a good governance process of annual / biannual reviews to ensure you remain in step with the market.

Or

- b. Initially utilise the lower quartile market figures and move Director fees to the lower quartile (approx. \$60k), then increase fees by \$5k annually for the next 2 years until reaching the median market fee level.

Timing	Now	Year 1	Year 2	Year 3
Director Fee increase	Increase to LQ of Private Sector Revenue sample	Increase by \$5k	Increase by \$5k	Formal Review
Increase to	\$60k	\$65k	\$70k	Benchmark against market
Increase %	58%	8%	8%	

The increase to \$60k (meeting the lower quartile of the Private Sector market) is \$22k based on current Director Fees – this equates to \$785 per year for 28 years since the last increase.

3. Do nothing - continue as you are and fall further behind the market, thereby running the risk of not being able to attract and retain the calibre of Directors MCK needs to progress its strategy and objectives and ensuring competitiveness in your chosen markets. Strategic Pay does not recommend this.

An additional consideration to assist with offsetting the increase in Directors fees could be to refine the fees you are paying for committees by adopting a similar policy of paying the Chairs of these committees 2X that of member fees and benchmark against market practice for the Chairs. By doing this you could potentially reduce committee fees to align with market practice. This would result in additional funds for the pool to assign to either addressing the catchup and/or funding any future additional committees you require going forward.

When determining the fees pool aggregate including futureproofing it will be important to consider the mix of committees you expect to have going forward. By factoring this into your current fee pool calculations it will assist with ensuring you have the required funds available for these extra committees.

3. Market Data

MARKET DATA SUMMARY

The above recommendations are based on the data below.

It has been consistently demonstrated, that in the New Zealand market, company turnover / revenue is most strongly correlated with Director fee levels. Consequently, results of the revenue samples are a key consideration when we develop board fee recommendations.

We have conducted the analysis of private sector organisations and have excluded Not for Profit and Public Sector organisations.

TABLE A: SUMMARY RESULTS – PRIVATE SECTOR DIRECTOR FEE SAMPLES FOR MCK:

Director Market Comparators	Positioning	Base Annual Fee (\$)
Revenue	Median	70,000
Assets	Median	75,000
Private Sector Org – Listed NZX	Median	85,000
Market Cap	Median	65,000
Private Sector – Total Sample	Median	66,000

TABLE B: SUMMARY RESULTS – PRIVATE SECTOR CHAIR FEE SAMPLES FOR MCK:

Chair Market Comparators	Positioning	Base Annual Fee (\$)
Revenue	Median	133,750
Assets	Median	146,500
Private Sector Org – Listed NZX	Median	142,500
Market Cap	Median	100,000
Private Sector – Total Sample	Median	120,126

The market data for the Leisure, Travel and Tourism industry was not provided as the organisations represented in the industry sample, in our professional opinion, would not provide MCK with a comparable benchmark to MCK's operations considering scale, scope, and complexity.