Report on Directors' Remuneration

prepared for

NZ MEAT BOARD

June 2020

Phone: 03 345 8769
First Floor, 68 Mandeville Street, Riccarton
PO Box 2670, Christchurch, New Zealand
website: www.mitchellnotley.co.nz

Contents

1.0 Assignment Brief 3

2.0 Methodology 3

3.0 Issues for Consideration 4

4.0 Commentary 7

5.0 Recommendation 8

6.0 Other Matters 8

7.0 Conclusion 9

1.0 Assignment Brief

1.1 We have been asked by the NZ Meat Board (NZMB) to provide advice on the level of remuneration payable to the non-executive directors, and on an appropriate allocation of fees amongst those directors.

1.2 The assignment has been undertaken on the assumption that the Directors' fees are to be reviewed in relation to responsibilities, workloads, and market comparators.

1.3 The report presents our advice, drawing on our experience in evaluating director positions in other organisations across a variety of industries.

2.0 Methodology

2.1 We have drawn from a range of information sources and historical remuneration data in evaluating the directorship positions.

Specifically, the following information sources were utilised:

- Information supplied to us by NZMB in respect of the frequency of routine directors' meetings, the average duration of those meetings, and the nature and the amount of the material expected to be digested and dealt with in the meetings.
- Other directors' duties expected outside the formal meetings and the remuneration, if any, paid in respect of those additional duties.
- Information available to us from our remuneration database, previous research and summary material.
- Review of data from the Institute of Director/Ernst Young (IOD) August 2019 Survey of Director' Fees.
- The NZ Government Cabinet Office Circular CO (19)1, "Fees framework for members appointed to bodies in which the Crown has an interest. (Dec2019).
- IOD Best Practice Statement 'Guidelines for Non-Executive Director Remuneration'
- Information with respect to the organisation's dimensions

Turnover	+/- $3.9m
Total Assets	+/- $75.9m
Equity	+/- $77.5m
FTE's	+/- 3 + 6 Service Contracts

3.0 Issues for Consideration

3.1 Present Workloads

3.1.1 We have confirmed information on the directors' time commitments, which include:

- Six meetings per annum, averaging two hours duration, plus two or three ad-hoc/educational meetings, each approximately two hours.
- Meeting papers comprising +/-100 pages on average
- Investment Committee meetings (4X2hrs).
- Attendance at the Annual General Meeting.

3.1.2 On the basis of the information obtained, we estimate the base time commitment for a director (including preparation, other outside meeting time duties, and reasonable travel) to be approximately 80 hours per annum. These annual hours are at the lower end of the scale for an organisation of this asset base, and probably reflects a Board with a strongly prescriptive agenda dictated by statute.

3.1.3 In common with other organisation Chairs, we expect that the time commitment for the Chairman to be significantly greater than that of a director.

3.1.4 We also understand that farmer (elected) directors time commitments are significantly higher given the need to engage both formally and informally with their electoral base.(See para 3.4)

3.1.5 We understand there is one sub-committee of the Board, being the Investment Committee.

3.2 Survey Data

3.2.1 It is common practice to benchmark directors' fees against verifiable dimensional data, particularly revenues, but also assets and employee numbers. Hourly rate data from the surveys are also available as benchmarks.

3.2.2 Recent survey data suggests that non-executive (non-Chair) director' fees (on an hourly rate equivalent) range from $69 (lower quartile), to $102 (median) with an upper quartile at $191 for Statutory boards.

3.2.3 However, extrapolating the (low) hourly/rate data is likely to be misleading in this instance given the significant statutory responsibility and asset base to be protected. Typically, there is a point below which it would be unwise to reduce fees due to low transactional levels, given the significant capital responsibility, and potential liability, that exists irrespective of the level of activity.

3.2.4 Other benchmark market data available from the surveys (such as revenue, total assets, and employee numbers) suggest that a range of $15,000 to $30,000 per annum might be appropriate for a statutory body of these dimensions. Given the low number of hours, however, we believe that Lower Quartile rates are arguably more applicable

3.2.5 The variability in potential benchmarks is displayed in the table below:

Benchmark		Lower Quartile	Median
Revenues	+/- $4m	$ 15k	$ 24k
Total Assets	+/- $76m	$ 24k	$ 30k
FTE's	+/- 9	$ 22k	$ 30k
Statutory Board		$ 21k	$ 25k

Source IOD Survey 2019

3.3 Attendance / Committee Fees

3.3.1 The most common practice for remunerating director is to establish an annual fee to include all attendances at Board and Committee meetings.

3.3.2 However, this should not be interpreted as necessarily meaning that the director' time commitment is ignored in setting fees. Companies should, in our opinion, be taking this factor into account when setting annual fees. In particular, attendances at audit / finance, risk and remuneration committees are often separately remunerated.

3.3.3 Indeed, if there are **significant** differences in the commitments required by individual directors, our preferred position would be for separate payments for attendance at all committee meetings.

3.3.4 Notwithstanding our preferred view, there is an onus on the directorate and management to ensure that there is a fair split between 'normal' fees and any fees paid for additional director' duties and / or attendance at committee meetings. This demarcation would need to stand up to public scrutiny.

3.3.5 It would not be unusual for a board member with committee chair responsibilities to receive an additional payment of $5,000 to $10,000 per annum for a standing committee.

3.4 Farmer director time

3.4.1 In common with many other statutory boards, and organisations with a significant 'representation' factor, there is often a large amount of time required of elected directors, in connecting and communicating with their electoral base.

3.4.2 Much of this time is arguably outside true governance responsibilities and often, and historically, has gone unrewarded from a remunerative perspective. It is often regarded as 'industry good' time and is usually accepted as being 'part of the territory'.

3.4.3 This 'industry or community good' time is not only common to statutory producer boards and industry companies, but also organisations with a similar electoral base, such as large sporting and Maori organisations. These are not traditional governance models in the true (private sector) sense of the word, with time requirements in total, being out of proportion to the norm.

3.4.4 This time can also be highly variable depending upon the nature of the organisation, and the issues confronting the electorate. Further, given these roles are often national, and have a wide geographic spread, there can also be substantial travelling time for some, which might not be consistent across the governance function.

3.4.5 One suggestion, to better define this time requirement, might be for the organisation and Chair in particular, to identify in a 'Position Description' or similar document, exactly what are the organisational requirements and expectations, of a director, some of which may be outside of the true governance role.

3.4.6 Another factor that further exacerbates the remunerative dilution of governance roles in these organisations, is that fees have historically been at a discount to the private sector anyway, because of the 'community good' factor. This issue is slowly disappearing as there becomes greater recognition of risk (eg Health & Safety) and liability, in an increasing litigious world.

3.4.7 It seems, therefore that farmer directors in organisations such as NZMB need to take all this into account when agreeing to put themselves forward for a directorship.

3.5 Premiums for the Board Chair

3.5.1 In the view of the New Zealand Government Cabinet Office Circular, and the IOD, Chair premiums are justified at the 100% level. This reflects our own experience that Chairs have significantly increased responsibilities and time commitments compared to the average Director.

3.5.2 However the survey data do not, as a generalisation, uniformly support this 100% premium view. Actual premiums vary extensively through a range of 50% to 100%

3.5.3 We note that the courts have also recognised this wider responsibility – as opposed to greater workloads – for Chairs, compared to other directors. An Australian supreme court found….

A reasonably arguable case that the Chairman had special responsibilities, which included:

- *The general performance of the Board*
- *The flow of financial information to the Board*
- *The establishment and maintenance of information flow to the Board*
- *The employment of a Finance Director*
- *The public announcement of information*
- *The maintenance of cash reserves and solvency*

- *Making recommendations to the Board as to the prudent management of the Group.*

Whilst these comments must be read in context, we believe that some of the observations are equally applicable to the Chair of NZMB

3.6 Deputy Chair

3.6.1 Data on premiums payable for the position of Deputy Chair are relatively scarce, and relative responsibilities compared to non-executive Director even more difficult to ascertain. We note however, both the Cabinet Office Circular and the IOD best practice statement *Guidelines for Non-Executive Director Remuneration* recommend a 25% premium for a Deputy Chair.

3.6.2 In our view, a lower premium may be appropriate, if the Deputy's extra duties are not onerous or widely different from other Director. **We understand NZMB does not have a Deputy Chair position.**

4.0 Commentary

4.1 The Meat Board Act 2004 Clause 59 (2) states 'The Board may put before any annual general meeting a resolution to approve maximum annual aggregate remuneration and benefits to be paid to industry selected directors (for services as a director) during the next financial year.'

4.2 Clause 59 (3) provides for some retrospectivity in that it states 'Notwithstanding subsection (2) the Board may put before any annual general meeting a resolution to approve maximum annual aggregate remuneration and benefits (being greater than the maximum annual aggregate last approved under that sub-section) to be paid to industry selected directors (for services as a director) during the current financial year.'

4.3 In assessing the contribution of director, we consider such issues as:

- The director time commitment to Board meetings, including preparation and reading
- Director depth and breadth of responsibility, including subsidiary organisation responsibilities
- Representing the organisation at conferences, industry gatherings, etc.
- Membership of Board sub-committees and project teams
- The dimensions of the organisation
- The nature of the business
- Market and industry data

4.4 The common practice of setting an aggregate annual fee ensures shareholders take responsibility for the duties expected, and the consequent level of remuneration. Directors then collectively take responsibility for apportionment of the total fees, for reviewing relevant workloads against expectations, and for making any necessary adjustments.

4.6 **We emphasize that our advice is attempting to assess a fair reward according to available market data. We make no judgement on whether directors in general are under or overpaid.**

5.0 Recommendation

5.1 Our analysis leads us to the conclusion that a fair market rate for the base (independent/non-executive) director's fee is about $20,000 per annum, compared to the current level of $16,300 per annum.

5.2 In the circumstances, our recommendations are:

Base director' fees – 9 x $20,000	**$180,000 per annum**
Investment Committee Chair Premium	**$5,000 per annum**
Chair (a 100% premium)	**$40,000 per annum**
TOTAL	**$225,000 per annum**

We recognise this is a reasonably significant increase on current rates, yet still well within the parameters considered in Para 3.2.5. The recommendation is still at the conservative end of the market, but is reflective of the lower time commitment of the Board.

6.0 Other Matters

6.1 Individual Skills

In reviewing the Director' Fees for NZMB, we have been careful to review the role in relation to workloads and in relation to companies of similar dimensions. As in any such evaluation exercise, no attempt has been made to take account of the individual skills and abilities of director.

6.2 Frequency of Payment

In our experience, the most common payment intervals are monthly and quarterly.

6.3 Review

Some 42% of organisations review directors' fees annually, regardless of whether an increase is granted. The next largest category was 'When market conditions apply' being 36%. The common practice is for shareholders to approve fees for the Board as a whole, with the directors deciding on the allocation thereof.

MNA
MITCHELL NOTLEY
& ASSOCIATES LIMITED

7.0 Conclusion

This report provides independent advice upon remuneration levels to NZMB, to enable it to remunerate its directors at an appropriate level.

Whilst the directors' responsibilities, time commitment and market rates have been central to our thinking on this matter, it is important before reaching a final decision that you also consider stakeholder expectations, your own views as to what is appropriate, including ability to pay, and the level of remuneration required to attract, motivate and retain appropriate candidates.

Thank you for inviting our assistance in this exercise. If you require any further assistance, please do not hesitate to contact us.

Yours faithfully
MITCHELL NOTLEY & ASSOCIATES LIMITED

Stewart Mitchell
DIRECTOR