MITCHELL NOTLEY & ASSOCIATES LIMITED

Report on Directors' Remuneration

prepared for

BEEF + LAMB NZ LTD.

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MITCHELL NOTLEY
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Contents

1.0 Assignment Brief

1.1 We have been asked by Beef + Lamb NZ Ltd 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 Director' 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 Beef + Lamb NZ Ltd. 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.
- IOD Best Practice Statement 'Guidelines for Non-Executive Director Remuneration'
- Information with respect to the Company dimensions

Turnover	+/- $42m
Total Assets	+/- $28m
Equity	+/- $23m
FTE's	+/- 100

3.0 Issues for Consideration

3.1 Present Workloads

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

- Eight monthly meetings, averaging seven hours duration, plus two or three ad-hoc/educational meetings, each approximately four hours.
- Monthly meeting papers comprising +/-150 pages on average

- Committee meetings Audit & Risk (4X2hrs) and People & Culture (3X2hrs)
- Attendance at the Annual General Meeting of the Company.

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 170 hours per annum. These annual hours are at the higher end of the scale for a company of these dimensions, and probably reflect a Board with a strong electoral base requiring significant time, on wider industry matters.

3.1.3 In common with other company 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)

3.2 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 $136 (lower quartile), to $219 (median) with an upper quartile at $343 for NZ owned companies.

3.2.3 Extrapolating the number of hours (Para 3.1.2 above) by the hourly rate data suggests a potential base director fee of $37,230, based on median hourly rates.

3.2.4 Other benchmark market data available from the surveys (such as turnover, employee numbers, and total assets) suggest that a range of $27,000 to $40,000 per annum might be appropriate for a company of these dimensions.

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

Benchmark		**Median**
Revenues	+/- $42m	$35,000
Total Assets	+/- $28m	$27,000
FTE's	+/- 100	$40,000
NZ Owned		$46,700

Source IOD Survey 2019

3.3 Attendance / Committee Fees

3.3.1 The most common practice for remunerating directors 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 We are however supportive, of the additional pool ($20,000) provided to reward excessive and identified additional time commitments and responsibilities, by board members.

3.3.6 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 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 increasingly litigious world.

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

3.4.8 We understand that the Board has already made some provision for 'additional' time by setting aside a bulk amount ($20,000) to be distributed as it sees fit, to compensate for this responsibility.

3.4.9 This may be the easiest avenue to compensate farmer directors (only) for their extra time, if the members (AGM) agree with this approach, as a means of underpinning additional time in meetings, communication, networking etc.

3.4.10 Finally, if directors are appointed to other (subsidiary or associated) boards by virtue of their role with B+LNZ, then any additional fees paid by those organisations, should remain with the member, unless there is good reason not to.

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 In our view however, the nature of the organisation, and the requirement for the Chair to be a farmer director, with all the attendant networking and communication responsibilities that go with it, justifies a premium of at least 100%

3.5.4 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 Beef + Lamb NZ

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 Beef + Lamb NZ does not have a Deputy Chair position.**

3.7 Industry Comparisons

3.7.1 We have also reviewed a number of 'producer board' and industry comparators.

3.7.2 In general terms, current levels of payment to Beef + Lamb NZ directors are not significantly out of kilter with these other organisations.

3.7.3 We note that Dairy NZ have also recently proposed that a discretionary pool be established to remunerate directors for work undertaken over and above their normal director's duties.

4.0 Commentary

4.1 The company's constitution (Cl 61.1) states the Board may authorise:

(a) the payment of remuneration or the provision of other benefits by the Company to a Director for services as a Director or in any other capacity;
(b) the entering into of a contract to do any of the things set out in this clause 61, only if the relevant action has been approved by a Farmers' Ordinary Resolution in accordance with clause 10.4. Each such resolution must express the Director's remuneration as either:
(c) an annual monetary sum payable among all Directors (other than an executive Director); or
(d) an annual monetary sum payable to any person holding office as a Director.

4.2 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 company 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

4.3 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.

4.4 It is almost universal practice in the marketplace not to pay directors' fees to executive directors.

4.5 **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 $37,000 per annum, compared to the current level of $34,000 per annum.

5.2 In the circumstances, our recommendations are:

Base director' fees 8 x $37,000	**$296,000 per annum**
Chair (a 100% premium)	**$74,000 per annum**
Discretionary Pool	**$20,000 per annum**
TOTAL	**$390,000 per annum**

We consider this recommendation to be at the market median, and is reflective of the actual governance related time commitment of the Board.

We are however, supportive of the additional pool ($20,000) that might also be available to reward excessive and identified additional time commitments and responsibilities by (farmer) board members, noting that typically this 'industry or community good' time is traditionally not recognised in fee calculations.
It might even be that the electorate could be convinced to extend this pool beyond $20,000, if they saw merit in rewarding farmer directors beyond their

standard governance fees, for the additional meeting, communication and networking time that is typically involved. Any supplementary payments, if made, may well have the additional benefit of encouraging younger farmers to put their names forward for the board.

6.0 Other Matters

6.1 Individual Skills

In reviewing the Director' Fees for Beef + Lamb NZ, 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 directors.

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.

7.0 Conclusion

This report provides independent advice upon remuneration levels to Beef + Lamb NZ, 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