

Vector Ltd

Non-executive directors' fees benchmarking Summary report

2 August 2022

Strictly private and confidential





Remuneration Service provider Independence declaration

PwC's Reward Services team has been engaged by Vector Limited's (Vector) Board of Directors (the Board) to provide independent remuneration benchmarking services in relation to Vector's Directors' fees (the Services).

As lead engagement Partner for the provision of the Services to the Board, I declare that no influence has been brought to bear upon me or, to the best of my knowledge and belief, any member of the PwC Reward Services team, by any Board member, employee or executive of Vector or any other party regarding the Services or outcomes of the Services.

Dated: 2 August 2022

A handwritten signature in black ink, appearing to read 'Chris Place', written in a cursive style.

Chris Place

Partner
PricewaterhouseCoopers

Summary

The table below summarises remuneration policy data for Directors' fees from a comparator group of 14 NZX-listed companies agreed with the Chairman of the Vector Board on behalf of the Board for the purposes of this exercise, as compared to Vector's data.

The comparator peer group, detailed in Appendix 1, was primarily selected on the basis of market capitalisation comparable to that of Vector as at April 2022. Companies from less relevant industries, such as financial services, were then excluded from the group. Median market capitalisation across the 14 companies is \$3.7 billion, compared to Vector's \$4.0 billion (as at April 2022 when the benchmarking was undertaken). We consider this to be a reasonable and balanced peer group of companies for the purposes of this benchmarking exercise given the size limitations of the New Zealand market.

With the exception of the last row, the table shows market median fee policy for the Chair, non-executive directors (NEDs), and additional fees for committee Chair and Member roles and compares Vector's current directors' fee policy against the median of each data set. The last row shows actual fees paid to the entire Board in the last financial year. To be noted is that the median data point excludes zero values i.e. for Committee roles, it reflects data only from those comparator companies that have a policy of paying an additional fee for the role. None of the comparator companies have a Deputy Chair role nor a Risk Committee separate to the Audit Committee. Data is current as at 1 May 2022 and has been sourced from publicly available information, including annual reports and NZX disclosures.

Where the Board chooses to position its fees against this market data will depend on the Board's view of the overall relevance of the comparator group and specifically Vector's perceived relative complexity of operations, scale, ranking (by scale) and risk profile as compared with those of the comparator companies. We however consider it would be reasonable and appropriate for the Vector Board to reference the median of the market data for the purposes of setting its own fees including committee chair and committee member fees.

In summary, Vector's directors' fees are currently positioned below the median for all data points. Whereas the Board Chair and NED base fee are 6% and 5% below the median of the market data respectively, the absence of Committee Chair fees and Committee Member fees for Vector directors is a notable difference to most of the comparators. Vector's fee spend for the 2021 financial year was 27% below the median of the market data.

Position	Sample size	Market median	Vector policy fee	Vector fee relative to market median fee
Board Chair ¹	14	214,300	201,300	94%
NED base fee ²	14	106,500	100,650	95%
Chair of Audit Committee additional fee ³	14	27,000	Nil	0%
Member of Audit Committee additional fee ³	11	15,700	Nil	0%
Chair of Remuneration Committee additional fee ⁴	12	20,200	Nil	0%
Member of Remuneration Committee additional fee ⁴	10	10,900	Nil	0%
Chair of "Other" Committee additional fee ⁵	8	18,400	Nil	0%
Member of "Other" Committee additional fee ⁵	9	8,900	Nil	0%
Total approved fee pool ⁶	12	1,249,200	N/A	N/A
Actual fees paid ⁷	14	1,001,200	729,713	73%

Summary (continued)

Notes:

1. Analysis of Chair fee policy for all 14 comparator companies. Most Chair roles are ineligible for additional committee fees, with the base fee recompensing all Board contribution / roles held. One company in the sample paid committee fees on top of base Chair fees and these are included in the Board Chair data. Subsidiary company fees paid by those companies to the Chair are not included.
2. Analysis of base NED fee policy for all 14 comparator companies.
3. Data from all 14 comparator companies, whose policy is to pay additional fees to the Chair of the Audit committee. Aggregate analysis i.e. NED fee + committee fee, is shown on page 11 of this report. Of the 14 comparators, 11 paid a committee member fee for members of the Audit Committee.
4. Data from the 12 companies with a policy of paying additional fees to the Chair of the Remuneration Committee. Some companies combine this committee portfolio e.g. *People & Remuneration Committee, Remuneration & Nomination Committee* etc. Aggregate analysis i.e. NED fee + committee fee, is shown on page 12. Of the 14 comparators, 10 paid a committee fee for members of the remuneration committee or equivalent.
5. Analysis of additional fees for Chairs of various other Board committees, combined. These include both committees that reflect the industry in which a company operates (e.g. development, health, safety and environment) and two payments to Nomination Committee Chairs. The latter are infrequent as the Board Chair may hold the role and/or zero fees are specified. Page 13 provides more detail. Nine of the comparators paid additional fees to members of "other" committees.
6. Analysis of each of the 12 companies disclosing a shareholder-approved fee pool. Two companies do not operate with this structure. Vector does not have an approved fee pool.
7. Actual fees paid across all 14 comparator companies. Temporary reductions due to COVID-19 may affect this figure, but have no impact on the policy fees in the table.

We have been asked to comment on how the market data might be interpreted for the purposes of setting fees for the Chair and Members of a Risk Committee where this committee is separate to the Audit Committee, and for fees paid to a Deputy Chair role. As noted none of the comparators have either role and in the New Zealand listed company market there is very little prevalence of either role generally.

We note that the fees paid to Committee Chair and Member roles are in our experience directly correlated with the relative additional responsibilities and workload attaching to the roles. If the workload of two committees is equivalent, then generally the two committees would be paid an equivalent fee. While there is no uniformity in relation to committee workloads and their resulting fees in the market, generally (but not always) the committee with the highest workload is the Audit or Audit and Risk Committee, with other committees paid a lower fee to reflect lower relative workloads (e.g. Remuneration, Health and Safety, ESG etc). That said however a limited number of companies' "other" Committees, in industries with industry specific issues and risks, are paid an equivalent fee to the Audit or Audit and Risk Committee.

Insofar as Deputy Chair roles are concerned, there is no current comparable listed company data to be drawn on, however anecdotally we are aware that an approach which has been taken for this role where it has existed is to pay the Deputy Chair a premium to either the base NED fee or the highest paid Committee Chair fee, again based on the workload of this role relative to the role which has been used as the basis for comparison. In the absence of market data, setting a Deputy Chair role's fees based on the workload of the role relative to other Board roles appears a reasonable approach.

Appendix 1 – Comparator Group

Table 8:

Organisation name	Market capitalisation (\$ millions)	Annual revenue (\$ millions)	Total assets (\$ millions)
Spark NZ Limited	8,880	3,593	4,113
Mercury NZ Limited	8,415	2,045	7,978
Contact Energy Limited	6,245	2,573	5,028
Infratil Limited	5,929	1,059	9,537
Fletcher Building Limited	5,007	8,120	8,010
Ryman Healthcare Limited	4,520	456	9,170
Port of Tauranga Limited	4,184	338	2,081
Goodman Property Trust	3,290	182	4,378
Chorus Limited	3,257	947	5,860
Genesis Energy Limited	3,003	3,221	5,242
Summerset Group Holdings Limited	2,703	205	4,923
Precinct Properties NZ Limited	2,441	200	3,456
Trustpower Limited	2,219	953	2,342
SkyCity Entertainment Group Limited	2,197	715	2,806
Vector Limited	4,010	1,279	6,520
Median of comparator group	3,737	950	4,976

Source: Market capitalisation data sourced from NZX data in April 2022 and annual revenue and total assets from CapIQ December 2021