



New Board Settling-in After a Turbulent 2020

Company/ASX Code	Cromwell Property Group/CMW
AGM date	Wednesday 17 November 2021
Time and location	1:30pm AEST, Cromwell Property Group, Level 19, 200 Mary Street, Brisbane
Registry	Link Market Services
Webcast	Yes – hybrid meeting
Poll or show of hands	Poll on all items
Monitor	Kelly Buchanan and Mike Stalley
Pre AGM Meeting?	Yes with Chair Gary Weiss, Deputy Chair Eng Peng Ooi, Remuneration Committee Chair Tanya Cox, and Company Secretary Lucy Laakso

The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

Summary of issues for meeting

Extensive commitments of new NED Ms Tang.

Improvements to Remuneration including a longer testing period for LTI, better disclosure of STI hurdles and the inclusion of a table of actual take-home pay in the Remuneration Report. Happily, at our pre-AGM meeting the company promised to improve some of these.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

Cromwell Property Group (CMW) is an investor and manager of commercial real estate with significant investments in Australia and Europe. The COVID-19 pandemic is a substantial issue, however, CMW's risk is somewhat mitigated by the predominately asset-based business with a broad geographic spread. Good governance and positive financial progress are dependant upon stability of the Board which we eagerly anticipate.

The Company faces two main issues. The refreshed Board will need to convince the market that there is value to be added to Cromwell. And the share price will need to stabilise from its recent gyrations between \$0.90 (2016), \$1.33 (October 2019), \$1.20 (February 2020), \$0.74 (May 2020), and most recently in the \$0.80 - \$0.90 range, and falling 4.9% in the last week of October 2021.

The correlation of the recent share price history with the uncertainty (turmoil) surrounding the Board exhibits an element of cause and effect. However, Cromwell is in good financial order, and there is no reason for it not to be very successful in the future.

Governance and culture

A Corporate governance statement lists the recommendations about each principle of the Statement, which are comprehensive and relevant to the operation of the Company. In addition, the statement includes several cultural objectives for the Company that are consistent with the Values Statement. Finally, the Group Foundation Report provides a commentary about the support provided to three beneficiaries for a total of \$100,000 in 2021.

Financial performance

Cromwell has continued its stable growth path from previous years.

The cash balance at the FY21 year-end has decreased from \$194.1m (FY20) to \$147.3m (FY21). The Company increased its liquidity due to the uncertainty surrounding the COVID-19 situation; however, Cromwell has not faced the negative issues many other companies have experienced. With the geographic spread of assets and stable rent arrangements, the Company has benefited from these natural risk management measures.

The statutory profit increase from \$177.6m (FY20) to \$308.2m (FY21) was primarily driven by valuation increases.

As assessed by the Directors, operating profit (underlying), which is not audited or compliant with accounting standards, for FY21 was \$192.2m, a decrease of 13% compared to \$221.2m in FY20.

Statutory profit per stapled security is 11.78 cents compared to 6.83 in FY20. A dividend of 7 cents was paid in FY21 compared to 7.5 cents in FY20.

Now that a stable and refreshed Board is in place, Cromwell is well placed to manage any future issues, continue to grow the core business and provide increased value for its shareholder investors.

Key events

There are no material events to report.

Key Board or senior management changes

September 2020	Dr Gary Weiss AM and Mr Joseph Gersh elected to the Board
December 2020	CEO Paul Weightman retired from Cromwell and CFO Michael Wilde appointed as Acting CEO
March 2021	Mr Rob Blain and Mr Eng Peng Ooi join the Board Ms Jane Tongs retires and Dr Gary Weiss AM is elected Chair in her place Mr Eng Peng Ooi is elected Deputy Chair as a non-independent director
July 2021	Ms Jialei Tang appointed as non-independent Non-executive Director
The Board at this stage is substantively refreshed with the new Board having significant commercial, real estate and capital markets experience.	
October 2021	Mr Jonathan Callaghan commenced as CEO and Managing Director Mr Michael Wilde, who successfully steered the Company since January 2021, returned to his role as CFO.

Summary

(As at FYE)	2021	2020 Restated	2020	2019	2018	2017
NPAT (\$m)	\$308.2m	\$177.6m	\$181.1m	\$159.9m	\$204.2m	\$277.5m
UPAT (\$m)	\$192.2m		\$221.2m	\$174.2m	\$156.8m	\$152m
Share price (\$)	\$0.88		\$0.90	\$1.555	\$1.1128	\$0.9439
Dividend (cents)	\$0.07		\$0.075	\$0.0725	\$0.0834	\$0.083
TSR (%)	5.6%		-15.6%	11.31%	29.8%	-9.2%
EPS (cents)	\$0.118	\$0.068	\$0.069	\$0.075	\$0.1085	\$0.1574
CEO total remuneration, actual (\$m)	See Remuneration Framework Detail below		\$3.67m	\$3.127m	\$3.553m	\$3.792m

Because of this transitional year for the CEO position, we are unable to compare it to the Australian Full Time Adult Average Weekly Total Earnings from the Australian Bureau of Statistics. See Appendix 1 for more Remuneration details.

Item 2	Re-election of Ms Tanya Cox as a Director
ASA Vote	For

Summary of ASA Position

Ms Cox, was appointed to the board only two years ago but is one of two 'longest term' members. She is a member of the Audit and Risk Committee and chair of the Nomination and Remuneration Committee.

Ms Cox began her finance career at Bank of New Zealand and continued with executive positions at Rothschild & Co and Dexus. She has held and continues to hold several board positions in the building and environment fields which provide synergies to Cromwell. She is well qualified and we believe her tenure is a very valuable asset to the company.

Since joining the board Ms Cox has acquired shares in Cromwell to the value of 69% of her director's fees. However, given the company's policy on NED ownership we expect she will continue to accumulate more shares over the coming year.

Item 3	Election of Mr Eng Peng Ooi as a Director
ASA Vote	For

Summary of ASA Position

Mr Ooi was appointed to the board six months ago. He is Deputy Chairman and acts as lead independent director when the non-independent chairman, Gary Weiss, has to step away for conflict-of-interest issues. Mr Ooi holds a Bachelor of Commerce degree from UNSW and began his executive career at Lend Lease in Sydney, thereafter moving to the Singapore office and rising through the ranks to become Asia CEO for the company. One year after his appointment as CEO he retired and began his board career with ESR Funds Management and he remains as non-independent deputy chair of Singapore listed ESR-REIT. At Cromwell he is chair of the Audit and Risk Committee and a member of the Investment Committee. Mr Ooi has yet to acquire any shares in the company and we urge him to do so in order to align his interests with those of shareholders. At our pre-AGM he stated his intention to acquire shares as soon as he is able.

Item 4	Election of Mr Robert Blain as a Director
ASA Vote	For

Summary of ASA Position

Mr Blain was appointed to the board six months ago. He began his career in Sydney with LJ Hooker and Colliers Jardine where he became Regional Investment Director based in Singapore and later Chief Executive of New South Wales. Mid-career, he joined CBRE Hong Kong and China and became Chair and CEO of CBRE Asia-Pacific, finally returning to Australia in 2019.

Mr Blain is Chair of the Investment Committee and a member of the Nomination and Remuneration Committee. He holds no other directorships. Mr Blain has yet to acquire any shares in the company and we urge him to do so in order to align his interests with those of shareholders.

Item 5	Election of Ms Jialei Tang as a Director
ASA Vote	Undecided

Summary of ASA Position

Appointed to the board in July this year, Ms Tang is a 26-year-old member of the Tang family of Singapore and is not considered independent by virtue of her very large (nearly 5%) shareholding in Cromwell.

She holds a Bachelor of Fine Arts in Architectural Design from the Parsons School of Design and a Bachelor of Arts in Liberal Arts from Eugene Lang College of Liberal Arts at The New School (New York City). She has executive experience in residential property investment and management and in hospitality management.

She is CEO of a property and investment management company in the US, and is also involved in the acquisition, planning and development of various real estate projects in Singapore. She holds a board position at TauRx Pharmaceuticals which focuses on Alzheimer’s research, and handles communication and philanthropy for her family office and is studying for a Master’s Degree at Harvard.

We are concerned about her dearth of experience. As well, we are concerned she may be stretched too thin to devote adequate time to the business of Cromwell. When we queried this at our pre-AGM meeting with the company their response was that her committee obligations at Cromwell are not overly burdensome and her participation has been “so far, so good”.

Item 6	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

Executives are incentivised through fixed, short-term (paid 50% in cash and 50% in stapled securities held for one year) and long-term remuneration (paid as stapled securities if hurdles are met over three years). This year no STI was awarded because the financial gateway was not cleared. This result is in line with shareholders’ outcomes.

On balance we will vote in favour of the report and encourage the company to make minor improvements as spelled out below in Appendix 1.

Item 6	Approval of Directors’ Fees Increase
ASA Vote	For

Summary of ASA Position

Cromwell seeks shareholder approval to increase its Non-executive Director’s Fee Pool from \$1,000,000 to \$1,500,000 so that it can remunerate competitively and commensurate with market rates and to maintain a buffer to provide flexibility to attract and retain high calibre non-executive directors. We support this resolution.

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Appendix 1 Remuneration framework detail

CEO rem. framework	Target* \$	% of Total	Max. Opportunity \$	% of Total
Fixed Remuneration	\$1,600,000	40.0%	\$1,600,000	40.1%
STI - Cash	\$900,000	22.5%	\$900,000	22.5%
STI - Equity	\$0 (CEO already owns >26.6m CMW Stapled Securities)	0	\$0 (CEO already owns >26.6m CMW Stapled Securities)	0
LTI	\$1.5m	37.5%	\$1.5m	37.5%
Total	\$4m	100%	\$4m	100%

Note: FY21 was a transitional year in which the company was served by an outgoing CEO and founder, and an Acting CEO. The incoming 'permanent' CEO commenced in early October 2021. The above remuneration amounts are full year amounts and relate to CEO and founder Paul Weightman who retired in December 2020.

CEO rem. framework	Target* \$	% of Total	Max. Opportunity \$	% of Total
Fixed Remuneration	\$1,000,000	37.04%	\$1,000,000	37.04%
STI - Cash	\$425,000	15.74%	\$425,000	15.74%
STI - Equity	\$425,000	15.74%	\$425,000	15.74%
LTI	\$850,000	31.48%	\$850,000	31.48%
Total	\$2,700,000	100%	\$2,700,000	100%

The above remuneration amounts are the projected annual amounts for the incoming CEO who commenced in October 2021. STI hurdles have yet to be finalized and we look forward to seeing them. Fifty percent of STI will be paid in cash and 50% paid in Stapled Securities held for 12 months. During the first two years of his tenure a slightly larger proportion will be paid in Stapled Securities. LTI will be measured over three years and performance criteria include Total Return, Return on Capital Employed and Relative Total Shareholder Return. If performance criteria are met fifty percent will be paid on completion of the three years and the balance will be held in a holding lock for twelve months. We would prefer a longer measurement period of four to five years.

There have been some changes to this year's remuneration scheme for KMP which is not unexpected following last year's tumultuous change of board and management. The main remuneration framework change is that hurdles for STI's are now lower.

Performance measures for STI for KMP have a very low gateway of achieving 95% of 'earnings guidance or budgeted earnings plus achieving the "Meeting Expectations" level of the company's values-based Behavioral Competencies'. Although the values-based hurdle was cleared this year, the financial gateway was not and thus no STI's were paid for FY21. Had the financial gateway been met, 50-80% of any STI earned would have been based on financial measures.

The quantifiable financial measures for STI were Operating Earnings per Share, Growth in External Assets Under Management, and growth in Australian Funds Management Income. Other non-financial hurdles included the achievement of several corporate business targets. Weightings for each of these components are unclear.

Pleasingly STI for KMP is paid 50% in cash and 50% in equity which is deferred for a further year.

LTI is measured over three years and is paid in stapled securities. One-half is released immediately and the other half is deferred in a holding lock for a further twelve months. ASA prefers LTI to be measured over four or five years, rather than three. Pleasingly the number of performance rights granted is calculated under the Face Value Methodology and if securities are awarded, they are purchased on market.

For FY21 the LTI plan had three equally weighted hurdles, Total Return (TR), Return on Contributed Equity (ROCE) and Total Securityholder Return (TSR). The TR metric was not met and the ROCE portion only vested at 42%. The measurement of the TSR hurdle will not be tested until completion of the three-year vesting period.

We are pleased to see that the incoming CEO will be required to hold a minimum of 100% of his Fixed Remuneration in Cromwell stapled securities within four years of his start date.

On balance we will vote in favour of the remuneration report this year. However, in future years we would like to see the following improvements:

We would prefer to see LTI tested over a minimum of four, preferably five years so that executives' experience more closely aligns with that of long-term shareholders.

We would like to see Cromwell adopt the practice now employed by the many companies that provide a table of actual take-home pay in addition to the statutory remuneration table. An 'actual' table gives shareholders a clearer sense of the executives' pay rather than the accrued accounting costs incurred by the company. And the company has promised to include this in next year's report.

We would like to see the weightings for each STI performance hurdle disclosed. As is, we don't know whether all hurdles are equally weighted or whether perhaps some have very small weightings.