

SAFESTORE Plc.

Engagement rationale

Safestore Plc. (SAFE) is a real estate company providing self storage facilities for its customer and business (e-commerce) tenants. The Board of Safestore requested input on proposed changes to the Safestore Director's remuneration policy.

Background

Appropriate management compensation (both variable and fixed) is important from a governance perspective but also from an environmental perspective as ESG goals should be clearly defined and carry significant weight in the remuneration policy.

Theme for engagement

- Remuneration linked to ESG target



Engagement objectives

- Bring more balance between fixed and variable compensation as the current remuneration policy is too much tilted towards variable compensation.
- Bring current overhead expenses (SG&A) back inline with UK peers as the current vesting of the LTIP program has SAFE screen negative on excessive overhead (which we subtract from their NAV as return leakage)
- We asked to make ESG targets explicit in the variable compensation and to give it meaningful weight. Meaningful weight implies approximately 30% of the KPIs of the company assigned to ESG targets. The weight assigned to ESG targets in the current remuneration policy is too low (approximately 7%). Key ESG KPIs for us would be the net zero target on all 3 scopes, externally verified, by 2035 (Safestore has committed already, and management's variable compensation should be directly aligned).

Development

Positive

Milestone



Engagement results

- The Board of Safestore pro-actively reached out to us for input on the remuneration policy which is deemed appropriate governance behavior. We have given the Board written input
- The new remuneration and LTIP scheme has significantly reduced the expense ratio both in absolute terms and relative terms versus the UK sector.
- Overhead expense ratio (remuneration and LTIP payments divided by gross asset value of real estate) declined from 1.5% to 0.7%, thus saving shareholders 80bp per annum in expense leakage.
- The 0.7% expense ratio is approx. 30bp lower than UK average.
- Variable and fixed remuneration awards are more balanced now which prevents management from taking too much risk when chasing variable compensation.
- ESG targets are part of the LTIP especially on GHG intensity reduction target. Although we would prefer a 30% weight to the LTIP on ESG, the integration of ESG targets is a step in the right direction.

Next steps

- We close the engagement successfully



Company

Safestore Plc is a mid-cap self storage real estate company with presence in the UK and Continental Europe.

Country

United Kingdom

Sector

Real Estate

Market cap

Mid Cap

Kempen Fund

European Property Fund

Materiality

Proper management incentivization contributes to good governance and sufficiently weighing ESG targets in remuneration policies.

ESG Research

MSCI ESG Rating: AA
Sustainalytics: (low risk)

Engagement initiated

Q1 2023

Latest update

Q3 2024

