Emira Property Fund introduces a share incentive scheme for employees

Emira Property Fund has recently introduced a phantom share incentive scheme for employees as part of its on going efforts to improve the performance of the fund.

This came about as a natural progression from the internalization of the Fund's Manco in September 2010 and the need to align the interest of staff members more closely with the performance of the Fund.

Previously, Emira was asset managed by an external property management company, Strategic Real Estate Managers (STREM), where the staff were incentivised to grow the profits of the Manco and not necessarily the profits of the fund.

Two years ago, Emira and Strem agreed to amend the service charge arrangement with STREM from a fee based on 0,5% of the enterprise value of the fund (market capitalization plus debt) to a monthly fee based on the fund's actual operating costs, thereby effectively internalizing Emira's Manco.

The problem with the old arrangement was that the fees paid tended to spiral upwards as the value of the fund grew. In addition, it created an inherent conflict between the interest of the fund's asset managers, who were desirous of maximizing the profits from the assets under their control and PI holders whose interests are to maximize the returns from their investment in the fund.

After having effectively internalized the Manco, it thus become important to find a way in which Emira could go one step further to align the interests of its staff more closely with those of PI holders.

In order to achieve this, it was decided to introduce a share incentive scheme which, in part, ties individual remuneration directly to the performance of the fund.

Because Emira is a collective investment scheme in properties and the fund and its Manco are both governed by the Collective Investment Scheme Control Act, there are certain limitations in purchasing Emira PI's or in facilitating the purchase of Emira PI's by staff members. It was therefore decided, after various options were examined, to implement a "phantom" share scheme.

The "phantom" share scheme decided on replicates the purchase of R30m worth of Emira shares by staff members, wholly funded by a loan, in every way -

except that the shares do not actually need to be purchased and no loans need to be raised as it is a "phantom" share scheme.

Employees effectively receive notional "ownership" of a tranche of Emira shares financed by a notional "loan" from Emira at a rate similar to that which they would be able to secure in their personal capacities.

The dividends received from the notional shares service the notional interest that accrues against the "loan." After a vesting period of between 3, 4 and 5 years starting from scheme implementation date of September 15th 2010, the benefits of the share "ownership," which comprises the capital appreciation of the shares and the amortization of the "loan," accrue to the staff.

Emira has hedged its own exposure to staff in terms of the scheme through the purchase of Emira share options, which entailed an upfront cash payment, which effectively removes the risk that, in terms of the scheme, if the price of Emira PI's rises sharply, Emira will be obliged to pay out large incentives to staff, which will in turn reduce the funds available for distribution to PI holders.

Says Emira CEO, James Templeton:

"We believe that the 'phantom' share scheme now in place at Emira, which replicates in every way the purchase of Emira shares by employees, funded by a loan on the open market, is the cleanest, simplest and most elegant solution to the long-term share incentivisation of Emira staff. It is expected to have material benefits for both the fund and PI holders over the longer term."

Ends