

March 24, 2014

Conceptual Executive Incentive Program Design

for



These materials are confidential and to be used only by the client to whom they are addressed



Fibra Uno has engaged Farient Advisors (Farient) to assist with the design of short-term (i.e., annual) and long-term incentives for its executives

- Fibra Uno is a high growth Mexican FIBRA (with similarities to a U.S. REIT) traded on the Mexican stock exchange
- Farient is a U.S. executive compensation consulting firm
- Fibra Uno specifically engaged a U.S. executive compensation consulting firm because:
 - A significant portion of Fibra Uno's shareholders are U.S. institutional investors
 - These investors would like to see an executive incentive program with typical U.S. style features

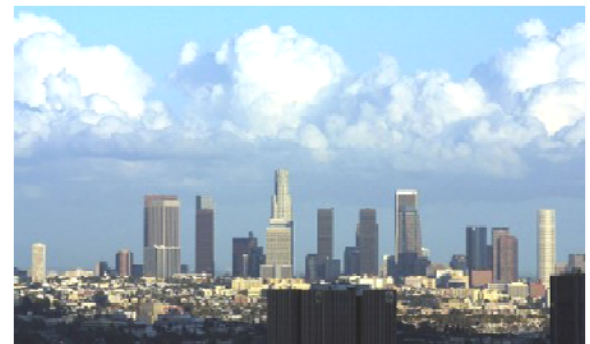
Farient is a fast-paced growth organization built specifically to meet today's pressing executive compensation market needs



- **Founded in 2007**
- **20+ staff** members
- **Clients and experience across a wide variety of industries and growth/ maturity stages**
- Outstanding **relationships**
- Heavy **experience** in **transactional situations** (M&A, IPO, spin-offs, other)
- Prominent **voice** in Director forums
- Serving clients through our **NY and LA** offices and our **London** partner, Kepler Associates
- **Independent**



- **Driving convergence** on pay and performance alignment through **proprietary data, software, methodologies, and research**
- Subscription services and research to both **investors** and **corporations**
- **Strategic partnership** with ISS for research distribution
- www.farient.com





Overview of topics covered:

- Overall incentive design approach and process
- Short-term incentive (STI) design structures
- Long-term incentive (LTI)/equity design structure
- Incentive design features
 - Performance measures
 - Measurement level
 - Payout leverage
- Goal setting process
- Employee equity plan share requirements



Executive compensation incentive program design starts with several important guiding principles

- Alignment of management with shareholders
- The definition of success
- Company's desire to link pay with performance
- Balancing attraction and retention of talent
- Balancing compensation cost with perceived value to employees

Executive compensation, if done right, is a strategic activity

Context and Priorities

Business Strategy and Industry Economics

- Competitive landscape
- Drivers of shareholder value
- Sources of competitive advantage

Organizational Effectiveness

- Leadership
- Change management
- Capabilities
- Values

Total Compensation Strategy

Fundamental Questions

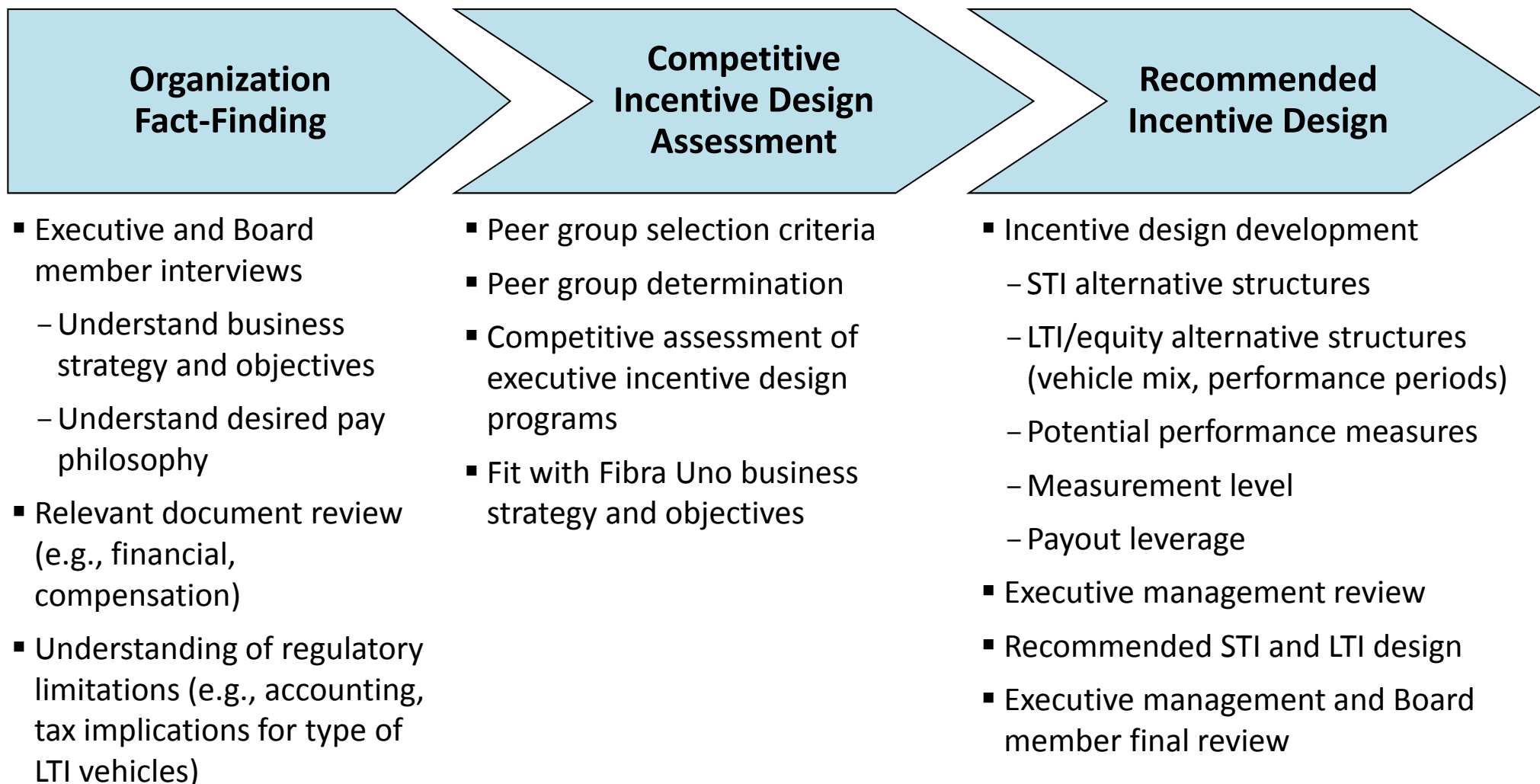
- **What do we pay for?**
 - Performance measures
 - Goals
 - Linkage
- **How much do we pay?**
 - Peer Group
 - Positioning
- **How do we pay?**
 - Differentiation
 - Vehicles
 - Risk vs. reward
 - Time horizon

Pay Components

- Base salary
- ***Fairment Focus***
- Short-term incentives
- Long-term incentives/equity
- Benefits/perquisites
- Other
 - Contractual arrangements
 - Stock ownership

Effective compensation strategies are typically developed with significant client involvement

Approach and Process to Develop Fibra Uno Incentive Design



Screening criteria for selecting peer group companies includes:

- U.S. publicly traded REITS
- Retail REITS, Office REITS, Diversified REITS, and other classes of REITS, if appropriate
- Revenue parameters (e.g., \$100 million to \$2.5 billion), with market cap also taken into account
 - Peer group will be used to assess typical incentive design structures
 - Size is therefore not as critical as for determining pay levels⁽¹⁾
- “Best in class” REITs (established, mature, high-performing, etc.)

Illustrative Example of REIT Peer Group

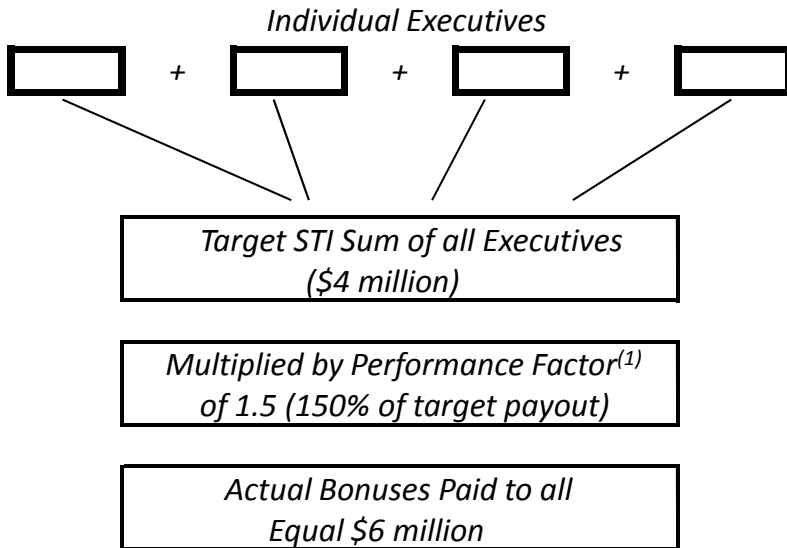
Company Name	Primary Industry	Revenue (\$MM)	Market Cap as of 2/28/2014
General Growth Properties, Inc	Retail REITs	\$2,641	\$19,456
Boston Properties Inc.	Office REITs	\$2,211	\$17,202
Digital Realty Trust Inc.	Office REITs	\$1,492	\$6,957
SL Green Realty Corp.	Office REITs	\$1,479	\$9,441
The Macerich Company	Retail REITs	\$1,188	\$8,451
CBL & Associates Properties Inc.	Retail REITs	\$1,065	\$3,025
Kimco Realty Corporation	Retail REITs	\$951	\$9,122
Realty Income Corporation	Retail REITs	\$778	\$9,221
Taubman Centers, Inc.	Retail REITs	\$767	\$4,447
Mack-Cali Realty Corp.	Office REITs	\$709	\$1,959
Alexandria Real Estate Equities, Inc.	Office REITs	\$631	\$5,156
Brandywine Realty Trust	Office REITs	\$561	\$2,296
Weingarten Realty Investors	Retail REITs	\$532	\$3,719
Columbia Property Trust, Inc.	Office REITs	\$527	\$3,314
Corporate Office Properties Trust	Office REITs	\$525	\$2,330
Regency Centers Corporation	Retail REITs	\$521	\$4,688
Kilroy Realty Corp.	Office REITs	\$460	\$4,723
Equity One Inc.	Retail REITs	\$334	\$2,729
Rouse Properties, Inc.	Retail REITs	\$234	\$1,080
Inland Real Estate Corp.	Retail REITs	\$183	\$1,068

(1) Executive pay levels are correlated with company size (e.g., revenue); therefore, peer groups for setting pay levels have companies that are optimally 0.5x to 2x the company; a peer group for pay program incentive design need not adhere to these parameters

For STI, executives would be provided a target STI opportunity stated as a percentage of salary (most common) or STI pool, depending on the STI structure chosen

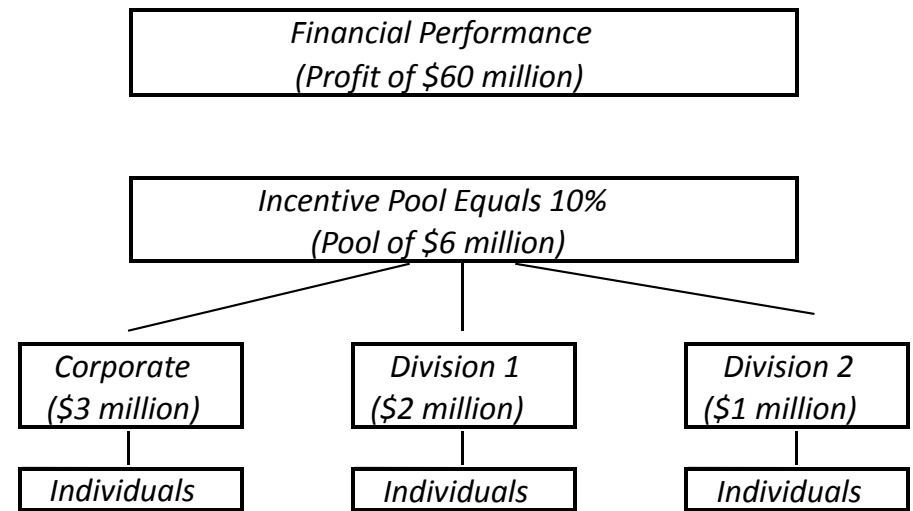
STI Design Structures with Illustrative Amounts

Target Approach – “Bottom-Up” Percentage of Salary



For Example:
 Executive A has Target STI = 50% of \$200,000 Salary
 Performance Factor = 1.5 (150% of target payout)
 $50\% \times \$200,000 \times 1.5 = \$150,000$ STI for Executive A

Pool Approach – “Top Down” Percentage of STI Pool



For Example:
 Executive A gets 5% of Corporate Pool
 $\$3 \text{ million} \times 5\% = \$150,000$ STI for Executive A

(1) Performance factors are typically determined as a percentage of the target payout; for example if actual performance on a given performance measure is above the target performance goal, there is a corresponding payout expressed as a percentage of the target payout

LTI for Fibra Uno executives would consist of a combination of two or three LTI vehicles, with a significant proportion in more performance-oriented vehicles

LTI Vehicles

LTI Vehicle	Characteristic
Stock Options	<ul style="list-style-type: none"> ▪ Recipient has the right to purchase shares in the future at today's stock price, vesting is generally time-based (e.g., 3-5 years)
Restricted Stock/ Unit (RSUs)	<ul style="list-style-type: none"> ▪ Grant of shares or units that vest over time (e.g., 3-5 years), number of shares is fixed ▪ Retention is major benefit
Performance Stock/Share/ Unit	<ul style="list-style-type: none"> ▪ Grant of shares or units that vest at end of a performance period (e.g., 3 years) by achievement of specific performance goals ▪ Grants typically made on annual basis ▪ Ultimate value received by the employee depends upon the # of shares x stock price at end of performance period
Performance Cash Plan	<ul style="list-style-type: none"> ▪ Similar to STI except performance is measured over a multi-year period (e.g., 3 years) ▪ Grants typically made on annual basis ▪ Not as common in publicly-traded companies as performance equity

- REIT practice is generally restricted stock/restricted stock units (RSUs) combined with performance shares/units
- Options are less common among REITs given REITs' high dividend yields, but there may be a place for them in high growth companies or turnaround situations
- Choice of vehicle may be influenced by Mexican accounting or tax considerations (to be determined)

Final LTI vehicle choice for Fibra Uno will be affected by a number of factors

Considerations for LTI Vehicle Selection

Vehicle	Perceived Value Creation Prospects	Pay Upside	Shareholder Value Alignment	Selective Performance Focus	Retention Capability	Share Usage ⁽¹⁾	Cash Usage
Options	High ⁽²⁾	High ⁽²⁾	High	Low	Moderate	High	Low
Restricted Stock/ Units	Low ⁽³⁾	Low	Low	Low	High	Moderate	Low ⁽⁴⁾
Performance Shares/Units ⁽⁵⁾	Moderate/High	High ⁽⁶⁾	High ⁽⁷⁾	High	Moderate	Moderate	Low ⁽⁴⁾
Performance Cash Plan	Moderate	Moderate	High ⁽⁷⁾	High	Moderate	Low	High

(1) Refers to gross share use; ISS and some institutional shareholders normalizes for economic value of options vs. shares

(2) Not as high for REITs as for other industries due to REITs' high dividend yield

(3) Also often used in uncertain or volatile value creation environments

(4) Provided that settlement is in shares

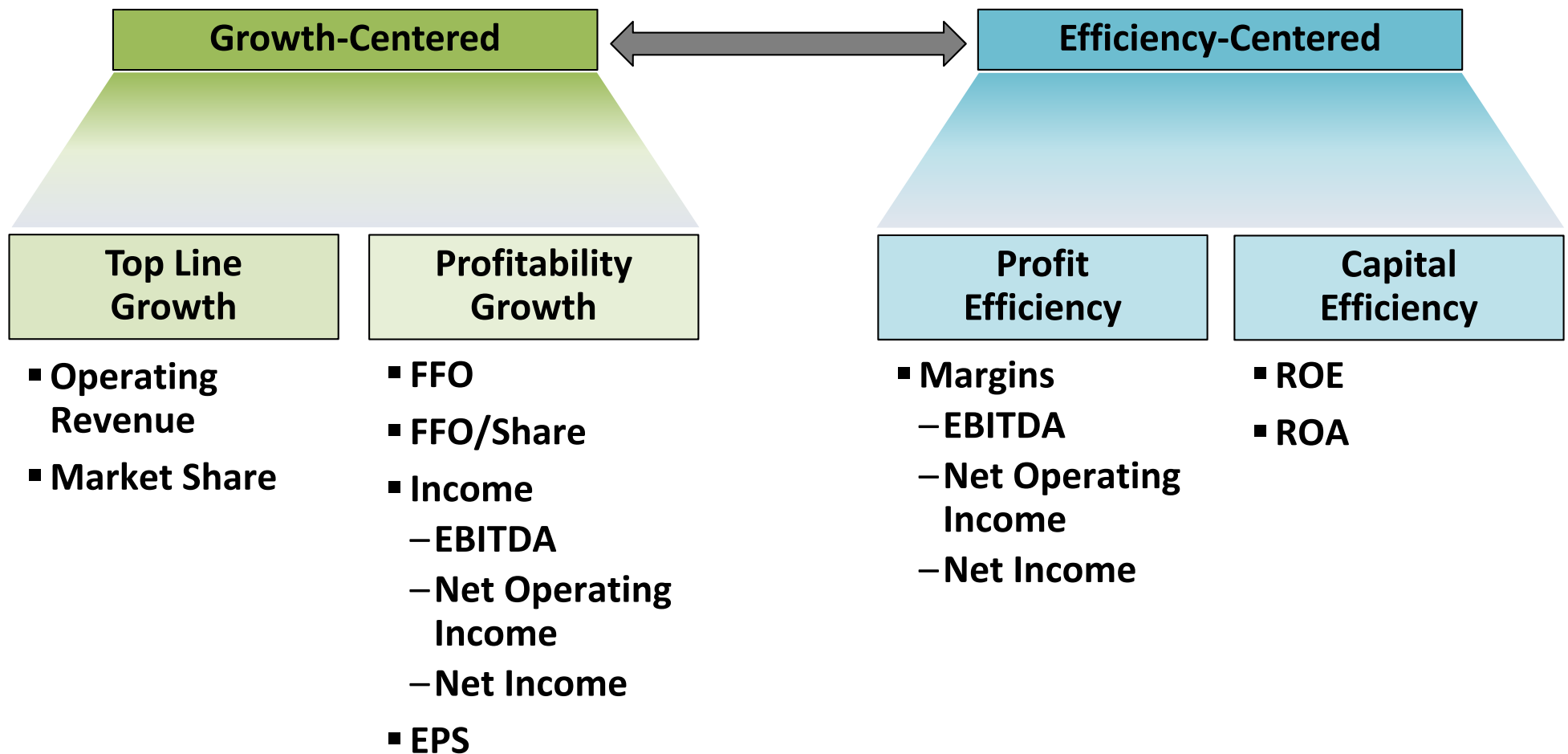
(5) Settled in shares

(6) Provided that there is upside leverage on number of shares that can be earned (e.g., >= 150% of target)

(7) Provided that measures and goals link to value

For optimum STI and LTI performance measure selection, Fibra Uno could start by considering financial measures that balance growth and efficiency while ensuring a focus on key business imperatives

Examples of Potential REIT Financial Performance Measures



In addition, Fibra Uno may opt for including strategic or operational measures that drive how that financial performance is achieved, and market-based measures that reflect shareholder value

**Examples of Potential REIT
Strategic, Operational and Market-Based Measures**

Strategic/Operational Measures

- **Development activity**
- **Acquisition activity**
- **Balance sheet management**
- **Liquidity management**
- **Leverage**
- **Expense reductions**
- **Occupancy**
- **Leasing activity**

Market-Based Measures

- **Price/FFO**
- **Enterprise Value/EBITDA**
- **Total Shareholder Return (TSR)**
- **Relative vs. peers or index**
- **Absolute goal (TSR or stock price)**

The organizational level used to measure STI and LTI performance would likely follow typical competitive practice

STI Performance Measurement Level

- Depends on company characteristics
- Corporate vs. business unit weighting
 - Higher business unit weighting with high business unit autonomy
 - Higher corporate weighting with high business unit interdependency
- Corporate/business unit level vs. individual level
 - Meaningful individual component with internally competitive environment
 - Little or no individual component with a strong team approach

LTI Performance Measurement Level

- Typically measured at the corporate level for all executives
- Unifying incentive, ties performance to shareholder value creation

STI – Corporate and Business Unit Level Illustrative Weightings


Executive Organizational Level	Measurement Level	
	Corporate	Business Unit
Corporate Executives	100%	0%
Business Unit Head	50%	50%
Business Unit-Others	33%	67%

STI – Corporate, Business Unit, Individual Level Illustrative Weightings

Executive Organizational Level	Measurement Level		
	Corporate	Business Unit	Individual
Corporate Executives	75%	0%	25%
Business Unit Head	37.5%	37.5%	25%
Business Unit-Others	25%	50%	25%

LTI – Corporate, Business Unit, Individual Level Illustrative Weightings

Executive Organizational Level	Measurement Level		
	Corporate	Business Unit	Individual
All Executive Levels	100%	0%	0%



Payout leverage (amount above or below target payout) would be established based on competitive practice, difficulty (or ease) of performance goals, and potential volatility of performance outcomes

- Target incentive opportunities for each executive
 - A target STI expressed as a percentage of salary (more common) for a target approach design (“bottom-up”) or as percentage of STI pool for a pool approach design (“top down”)
 - A target LTI grant expressed in unit of currency (e.g., Mexican pesos), to be divided into agreed upon proportions for each LTI vehicle as determined for the plan
- STI payout leverage for target approach design (“bottom-up”)
 - Maximum payouts for STI generally range from 150% to 200% of the target payout
 - Threshold payouts for STI generally range from 0% to 90% of the target payout
- STI payout leverage for pool approach design (“top down”)
 - Maximum pool funding generally ranges from 150% to 200% of the target funding
 - Threshold pool funding generally ranges from 0% to 90% of the target funding
- LTI payout leverage (for performance vehicle)
 - Maximum payouts for LTI generally range from 150% to 200% of the target payout
 - Threshold payouts for LTI generally range from 0% to 50% of the target payout

A goal setting approach (or combination of approaches) would be adopted based on the following methods

Goals-Setting Methods

Prospective Method

- Sets goals at the beginning of the performance period and evaluates performance in relation to those goals
- Can be further broken down as follows:
 - **Budget Approach**, where goals are set per the budget, thus changing from year to year
 - **Timeless Standards Approach**, where goals are set as absolute standards that do not change each year
 - **Historical Approach**, where goals are set based on past performance of either the company or peer companies
 - Assumes that past performance is a good indicator of appropriate future performance

Relative (Retrospective) Method

- Requires no goals to be set, and instead measures performance after the fact in comparison to peers or industry performance for a given time period
- Useful in an uncertain economy when goals are hard to set
- Problematic if there are not really good peer companies that are:
 - Sufficiently similar to the company
 - Similarly influenced by market conditions
- Peer group needs to be sufficiently large (e.g., 15+ companies) to negate distortions in results from outlier company performance and/or acquisitions of peers
- *Index may be viable alternative if there are not enough peers*



An employee equity plan would need to be established within the parameters of competitive practices

- Plan likely to expire ten years after establishment
- Number of shares available in plan likely to have total potential dilution equal to 5% of shares outstanding (or other percentage based on competitive practice)
- Plan shares, in practice, likely to last five to eight years (depends on incentive design, number of participants, annual share usage guidelines, stock prices over time, etc.)
 - Circumstances that use shares more quickly
 - Strong company growth drives more executive hires who are plan participants
 - Company performs well but stock price declines due to external market factors⁽¹⁾
 - Circumstances that use shares more slowly
 - Strong stock price growth⁽²⁾
 - Weak performance such that performance shares/units do not vest (shares go back to plan for new grants)
- Annual share usage guidelines (e.g., up to 1%) to be establish based on:
 - Typical REIT practices (e.g., annual run-rate dilution)
 - Target annual LTI/equity compensation for executives

(1) A lower stock price requires more shares to deliver same target annual LTI value

(2) A higher stock price requires fewer shares to deliver same target annual LTI value