Case study

Paramount Group Inc (PGRE)

Primary themes

Environmental | Social | Governance ✓

Approach

Direct ✓ | Collaborative ✓ | Escalation ✓

Objective

Achieved | Ongoing | Not met ✓ | N/A – interaction

Context

PGRE is a REIT specialising in the New York City and San Francisco property markets. We were attracted to this investment due to its valuation. Like many companies specialising in office space in the post-COVID era, the company faced challenges due to decreased occupancy and shifts in working patterns. However, we believed there was a valuation disconnect given the quality of PGRE's prime New York assets.

Summary

Our escalatory actions were directed at holding the CEO and Board to account over the CEO's conduct, leadership of the company and governance concerns.

This case study demonstrates the application of our rigour, tenacity and strategic awareness to uphold client interests. The pathway was not straightforward, but we sought to utilise our investor rights and responsibilities to maximum effect.

In early 2025, the company revealed in a securities filing that it paid approximately $4m in previously undisclosed compensation (via related-party payments) to the CEO and entities linked to his wife. As set out in the relevant filing, this included over $3m paid to a private jet charter company which was co-owned by the CEO, $12,000 for wine from his vineyard and additional payments to retain a design firm owned by the CEO's wife.

This was not in keeping with the conduct and behaviour we expect from a CEO and, in our view, it was also indicative of questionable controls, oversight and policies within the firm that enabled this situation.

2024 Background: We held previous misgivings about the company's approach to corporate governance which stemmed from our proxy voting dialogue ahead of the 2024 AGM. At that point, the CEO's package increased significantly for the year under review amid underperforming returns for shareholders, including Jupiter funds. Total compensation doubled from $10.5m (FY22) to $20.9m (FY23), which was driven primarily by one-time retention awards. We identified further problems with these retention awards; the Executives were granted front-loaded awards intended to be in lieu of equity compensation for FY24 and FY25.

In our assessment, there was a 'pay for performance' issue and we remained cautious on the allocation and front-loading of two years' worth of grants to compensate Executives for share price decline and the impact this had on other existing awards. **We strongly believed that this arrangement set an unwelcome precedent and risked further unintended consequences which were not in the interests of PGRE shareholders.**

We engaged with the company ahead of the AGM in order to formally record our misgivings, but the company failed to take any action. We were concerned that the CEO joined the pre-AGM call (along with other company representatives) to discuss compensation matters when it is accepted practice that such engagement should be led by the Company Secretary or Compensation Committee Chair to ensure appropriate levels of independence. Consequently, Jupiter voted against Executive compensation at the May 2024 AGM, which was in line with ISS recommendations. **The advisory vote was not approved by shareholders.**

Engagement objectives

Given the existing governance concerns from 2024, we recognised the need to adopt a more front-footed approach. In our view, the 2025 disclosures were prejudicial to the CEO's credibility and created reputational risk for the company. Furthermore, the company's Board failed to review and reform governance practices despite the concerns raised by Jupiter – a step which would be expected in the circumstances.

Therefore, we escalated our concerns and made clear that the Board needed to demonstrate accountability.

Engagement

We continued to have communication with management on these matters across 2025. However, we recognised our direct approach needed to be reinforced. Our escalation strategy involved communication with the company, various attempts at collective engagement and discussions with advisors.

The company's 2025 AGM was scheduled for 7 May 2025 and we observed that ISS had, much to our surprise, recommended in favour of all items. We liaised with the proxy agency, albeit at short notice, but it was unable to change recommendations. This was again rather surprising, because the information about the previously undisclosed payments was in the public domain with sufficient lead time. We felt strongly that there was a case to answer and that this was a pressing governance issue.

Outcome

We also made attempts during this period to speak to a range of shareholders. These discussions uncovered that our concerns were shared by other parties. We received assurance from one such party that it would be engaging with management independently on the contentious topics.

We voted against all resolutions at the May 2025 AGM. Although the agenda items passed, there was notable dissent which appeared to reflect the sentiment shared during our conversations with other shareholders. The CEO's re-election and compensation item received c.29% and 35% votes against, respectively.

In May 2025, the company announced a strategic review to explore options to maximise shareholder value. News of the review also incorporated senior management transitions with a change in CFO, Treasurer and General Counsel coming into immediate effect. The market reacted positively, anticipating a potential sale.

We believe that the upfront and challenging dialogue with the company from a range of shareholders, including Jupiter, was helpful in providing clarity to management and triggering activities to enhance shareholder value. The market responded positively to news that the company was undertaking a strategic review, with some stakeholders anticipating a sale.

The Company's 10-K (30 July 2025) provided details that **The Division of Enforcement of the SEC is investigating the adequacy of disclosures concerning executive compensation, perquisites, the use of corporate assets, related-party transactions, and conflicts of interest.** At the time, the company stated it was co-operating but could not expand on associated timelines, costs and outcomes.

In September 2025, the company announced it had agreed to be acquired by Rithm Capital. The shareholder vote to approve the deal was scheduled for December 2025 and it was not without contention.

Although the merger agreement was unanimously accepted, we voted against all items to signal our longstanding disappointment in the management of the company by the CEO and senior executives. The meeting agenda also contained an advisory resolution to approve golden parachutes for named Executives. This was connected to the Change of Control as a result of the deal. Proxy advisor, ISS, recommended against given best practice concerns regarding accelerated vesting and other elements. The company's 8K (16 December 2025) reveals that the advisory vote failed, with c.67% of the meeting voting against. This was an advisory vote and has no bearing on the transaction.

Objective not met: We were satisfied with the strategic review and the consequent direction of the company. We feel our direct escalation and dialogue with other shareholders was beneficial in contributing to a clear message for change. The terms of the sale were favourable to the company's shareholders, including our clients. Although the sale was a suitable outcome for our clients, the core engagement objective related to CEO conduct and wider Board accountability did not meet our expectations.