What are the considerations in selecting an appropriate performance condition for longer-term incentives such as PSUs?

Let me tell you a little bit about our thought process here. We had several objectives in mind when selecting the appropriate metric:

Firstly, we wanted something that drives value creation and does this over the longer term. We want metrics that incentivize decision making for the longer term. We chose to measure value creation in the internet businesses excluding Tencent over a three year horizon. There is a risk that measurements like profit, or cash flow could discourage high risk-adjusted return capital investment, which is actually something that we as a board want the management team to pursue. Those shorter-term financial metrics are still important, and we capture them in our short-term incentive program.

Secondly we wanted to encourage an appropriate level of risk taking. Many of the businesses in which we invest require time to mature and generate short-term cash flow losses. These businesses given capital, support and time can develop into significant market leading entities. Measures like return on invested capital (ROIC), if used in isolation, might incentivize participants to overlook the value potential of early-stage start-ups or to focus only on investment opportunities that provide short-term returns. ROIC is still an important metric to us and is at the core of the valuations process that we use for the Global eCommerce SAR plan, in which the CEO and CFO participate.

Thirdly, we wanted to benchmark against the most relevant competitor companies. These peers, while none a perfect comparable business, come closest to experiencing the operational, talent and capital dynamics of our group. While measurements like total shareholder return (TSR) are commonly used in some other public companies, in our case, we believe calculating this metric relative to other tech indexes might skew towards the Chinese internet ecosystem which would not work for us because the PSU program is designed to focus on our performance excluding the Tencent investment. This is something about which our shareholders have indicated they feel quite strongly. Thus, we measure the value creation over time in the internet businesses excluding Tencent relative to our most relevant peer group.

Next, we needed to select a metric that would be **applicable over the 3-year vesting period**. Our investment horizon, whether it’s organic or acquisitive investment, is long-term, and measuring over 3 years of performance means that any short-term market movements will not have a disproportionate impact. This 3-year time horizon for performance measurement requires the management team to make investment decisions with an appropriately longer-term view to deliver performance consistently. We are both an operator and an investor in extremely dynamic markets, and we would find it impractical to create a precise 36-month profit & loss plan. Many of our businesses are growing quickly, we do a lot of deals every year, and the competitive landscape is always changing. Were we to base the incentive against a 3-year plan it would likely result in a PSU design that would rapidly lose credibility, as frequent changes to goals and targets over the 3-year period would be needed to keep pace with these kind of changes. Instead, we measure value creation in the internet businesses excluding Tencent relative to our competitive peer group, a challenging hurdle for management that aligns outcomes with compensation.

Management must balance our larger, more mature businesses with those that are emerging or new. Redeployment of cash to best value-creating uses is critical in this world. Short term measured investments must have an eye on value creation in a reasonable timeframe, relative to a bespoke relevant peer group, for PSUs to be valuable.