

ANNALY CAPITAL MANAGEMENT INC
Form PRE 14A
March 28, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

CHECK THE APPROPRIATE BOX:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

Annaly Capital Management, Inc.

(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

PAYMENT OF FILING FEE (CHECK THE APPROPRIATE BOX):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- 1) Title of each class of securities to which transaction applies:
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- 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
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- 1) Amount previously paid:
 - 2) Form, Schedule or Registration Statement No.:
 - 3) Filing Party:
 - 4) Date Filed:
-

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Message from our Chairman, CEO and President

Dear Fellow Shareholders,

2018 was a year of transformation for Annaly. We successfully delivered on many of the key corporate goals we communicated to you last year, and despite a difficult macro environment, reached a number of significant strategic milestones made possible by the institutionalization and diversification of Annaly over the past five years. The progress made in 2018 further establishes Annaly as a market and governance leader and positions the Company to continue executing upon the most integral components of our platform and strategy, which are outlined in the themes below.

Operating & Investment Platform

Diversified Shared Capital Model

The most important theme of 2018 was diversification. Annaly has transformed into a diversified operating company built to capitalize on numerous strategic opportunities across multiple complementary businesses. Since our diversification strategy began in 2014, Annaly has broadly invested in over \$10 billion of credit assets through continued development of our platform, expanded institutional partnerships and corporate acquisitions.⁽¹⁾ As a result, today each of our three credit businesses would rank among the top ten industry leaders in their respective industry sectors by size on a standalone basis.

Financing, Capital & Liquidity

Diversification in the ways we access capital and the broadening of our financing alternatives are equally important in driving our outperformance and capital efficiency. Since the beginning of 2016, we have increased our capital base by \$6.5 billion, more than half of which was sourced from avenues besides common equity offerings, further illustrating our leadership in the capital markets.⁽²⁾

We continue to enhance our capital efficiency through non-recourse, dedicated financing structures for each of our credit businesses – improving terms of existing arrangements, increasing financing capacity and establishing new counterparty relationships. Specifically, since the beginning of 2018, we have added \$2.4 billion of additional borrowing capacity across our three credit businesses and expanded our financing diversification by establishing Annaly as a repeat issuer in the residential and commercial securitization markets.⁽³⁾

Operational Efficiency

Continuing to scale our differentiated operating platform has provided a foundation for growth, diversification and efficiency that is unmatched in the industry. Since 2014, we have made significant investments across our four businesses, adding expertise and depth to our investment teams and best-in-class infrastructure to support our strategies. Notably, we have grown our total number of IT professionals by over 40% during this time period. Our expanded in-house technology capabilities have led to the development of proprietary portfolio analytics, financial and capital allocation models, risk testing and accounting software, providing Annaly with distinct competitive advantages and cost savings.

Growth Strategies & Performance

Growth & Income

We have demonstrated, and the market has clearly validated, that size and scale drive performance. 2018 marked another successful year for Annaly and the execution of our long-term growth strategy. We capitalized on a number of opportunities that continue to solidify Annaly's brand as a market and governance leader. Since 2016, amidst a market backdrop with the Fed raising rates eight times and the yield curve flattening by 86%, Annaly has grown its market capitalization 64%, while delivering an additional \$4.2 billion in cumulative dividends to shareholders.

Note: For footnoted information, please refer to "Message from our Chairman, CEO and President" in Endnotes section.

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Organically, we have continued to grow each of our four business platforms by expanding our internal investment options and continuing to broaden our proprietary partnerships. Today, Annaly has established over 20 strategic relationships with industry leading, dedicated partners across our four businesses, which have resulted in improved efficiencies and increased origination capabilities. In addition to our organic growth, expansion of partnerships and superior capital markets access, Annaly remains well-positioned to continue to gain market share through further consolidation, as demonstrated by our acquisition of Hatteras Financial Corp. in 2016 and most recently of MTGE Investment Corp. in 2018.

Risk-Adjusted Returns

The diversification and size of Annaly's lower-levered capital base and investment businesses, along with our prudent risk management processes, continue to drive outperformance of Annaly's total return. Since 2014, our total shareholder return of 83% is 1.2x higher than mREITs, 1.3x higher than the S&P 500 and 2.3x higher than the Yield Sectors.⁽⁴⁾ In addition to our absolute returns, our proprietary model is producing higher cash flow margins than most any other financial services company – our pre-tax margins of approximately 60% are 3x higher than the average for corporations in the Yield Sectors.⁽⁵⁾

Corporate Responsibility and Governance

Corporate Governance

Our dedication to corporate responsibility and governance also sets us apart from the market – and undoubtedly is another contributor to Annaly's historical outperformance. We believe that continually evaluating the framework of our corporate responsibility and governance practices ensures alignment and transparency, resulting in increased value to our shareholders over the long term. In order to more specifically frame our efforts and illustrate our industry leading commitment to governance, we recently published a comprehensive narrative on our website detailing our commitment to ESG, which others are now, of course, beginning to emulate.

In 2018, we also announced two important governance enhancements: the decision to declassify our Board initiating annual election of all Directors, along with adopting an enhanced Board Refreshment Policy that contains both tenure and age limit provisions. Our commitment to Board refreshment is further demonstrated by the election of four new independent directors since the beginning of 2018, three of whom are women, which will bring the percentage of women on the Board to 45% following the 2019 Annual Meeting of Stockholders⁽⁶⁾, which is nearly 2x higher than the average for the S&P 500.

Human Capital

Behind the achievements and successes highlighted in this letter, and in everything we do, is the deep and varied expertise of our most important asset – our people. Today we have over 170 talented professionals, the largest number in the Company's history, who have supported our successful evolution from a mono-line Agency mortgage REIT to the Industry Innovator we are today.⁽⁷⁾ We are very proud of how hard we work at the Company each day and how well we treat each other as partners, and in 2018 we recorded the highest level of employee satisfaction since we initiated our annual employee engagement survey in 2015.⁽⁸⁾

We continue to expand our initiatives focused on advancing diversity throughout the Firm, which remains a key business priority. In 2018, 47% of new hires identified as racially diverse, increasing overall firm diversity to 32%, which is 60% higher than our industry based on Bureau of Labor Statistics data.⁽⁹⁾ Additionally, nearly 40% of new hires in 2018, 40% of Managing Director promotions and 50% of additions to Annaly's Operating Committee since 2015 have been women.

Note: For footnoted information, please refer to "Message from our Chairman, CEO and President" in Endnotes section.

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Responsible Investments

Finally, our dedication to ESG principles, as well as our deep investment capabilities, uniquely positions us to support the vitality of local communities and the economy. This past year, we collaborated once again with Capital Impact Partners, a national mission-driven non-profit community development financial institution, to launch our second social impact joint venture, which is specifically aimed at supporting affordable housing and other community development projects in Washington, D.C.

As we look ahead, we will continue our diversified and complementary growth strategies and reward our shareholders by taking advantage of opportunities in the market that are unique to Annaly. We are more prepared than ever to benefit from our size, liquidity, optionality and operational efficiency. I am grateful for the confidence of our Board, which has empowered us to be the industry leader we have become. I want to thank my fellow shareholders for their steadfast commitment, support and trust of this management team. And, to each Annaly employee, I sincerely appreciate all of the hard work and dedication, every day. We have so much opportunity in front of us.

Finally, this year we are excited to once again virtually “host” investors from around the world at our Annual Shareholder Meeting. The meeting will be conducted online via live webcast for the second consecutive year and we look forward to engaging with you then.

Kevin Keyes
Chairman, Chief Executive Officer & President
April [___], 2019

Note: For footnoted information, please refer to “Message from our Chairman, CEO and President” in Endnotes section.

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Notice of Annual Meeting of Stockholders

To the Stockholders of Annaly Capital Management, Inc.:

Annaly Capital Management, Inc., a Maryland corporation (“Annaly” or the “Company”), will hold its annual meeting of stockholders (the “Annual Meeting”) on May 22, 2019, at 9:00 a.m. (Eastern Time) online at www.virtualshareholdermeeting.com/NLY2019, to consider and vote upon:

1. Elect four Directors for a term of one year each as set forth in the accompanying Proxy Statement;
2. Approve, on an advisory basis, the Company’s executive compensation, as described in the Proxy Statement;
3. Approve an amendment to the Company’s charter to increase the number of authorized shares of capital stock to 3,000,000,000 shares; and
- Ratify the appointment of Ernst & Young LLP as the Company’s independent registered public accounting firm for the year ending December 4, 31, 2019.

The Company will also transact any other business as may properly come before the Annual Meeting or any postponement or adjournment thereof. Only common stockholders of record at the close of business on March 25, 2019, the record date for the Annual Meeting, may vote at the Annual Meeting and any postponements or adjournments thereof.

Your vote is very important. Please exercise your right to vote.

The Company’s Board of Directors (“Board”) is soliciting proxies in connection with the Annual Meeting. The Company is sending the Notice of Internet Availability of Proxy Materials (“Notice”), or a printed copy of the proxy materials, as applicable, commencing on or about April [___], 2019.

To view the Proxy Statement and other materials about the Annual Meeting, go to www.annalyannualmeeting.com or www.proxyvote.com.

All stockholders are cordially invited to attend the Annual Meeting, which will be conducted via a live webcast for a second consecutive year. The Company saw increased stockholder attendance and participation at its first virtual stockholder meeting in 2018 and is confident that this format will once again allow enhanced interaction with our global stockholder base. During the upcoming virtual meeting, you may ask questions and will be able to vote your shares electronically from your home or any remote location with Internet connectivity. You may also submit questions in advance of the Annual Meeting by visiting www.proxyvote.com. The Company will respond to as many inquiries at the Annual Meeting as time allows.

An audio broadcast of the Annual Meeting will also be available to stockholders by telephone toll-free at 1-877-328-2502. If you plan to attend the Annual Meeting online or listen to the telephonic audio broadcast, you will need the 16-digit control number included in your Notice, on your proxy card or on the instructions that accompany your proxy materials. Please note that listening to the audio broadcast will not be deemed to be attending the Annual Meeting, and you cannot ask questions or vote from such audio broadcast. The Annual Meeting will begin promptly at 9:00 a.m. (Eastern Time). Online check-in will begin at 8:30 a.m. (Eastern Time), and you should allow ample time for the online check-in procedures.

If you wish to view the webcast at a location provided by the Company, the Company’s Maryland counsel, Venable LLP, will air the webcast at its offices located at 750 E. Pratt Street, Suite 900, Baltimore, MD 21202. Please note that no members of management or the Board will be in attendance at this location. If you would like to view the Annual Meeting webcast at Venable LLP’s office, please follow the directions for doing so set forth in the “Questions and Answers about the Annual Meeting” section in this Proxy Statement.

By Order of the Board of Directors,

Anthony C. Green

Chief Corporate Officer, Chief Legal Officer and Secretary
April [___], 2019

*Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to be Held on May 22, 2019.
The Company’s Proxy Statement and 2018 Annual Report to Stockholders are available at www.proxyvote.com.*

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Proxy Summary

This summary contains highlights about the Company and the Annual Meeting. This summary does not contain all of the information that you should consider in advance of the Annual Meeting, and the Company encourages you to read the entire Proxy Statement and the Company's 2018 Annual Report on Form 10-K carefully before voting.

2019 Annual Meeting of Stockholders

Time and Date: Wednesday, May 22, 2019 at 9:00 a.m. (Eastern Time)

Place: www.virtualshareholdermeeting.com/NLY2019

Record Date: Close of business on March 25, 2019

Voting: Stockholders are able to vote by Internet at www.proxyvote.com; telephone at 1-800-690-6903; by completing and returning their proxy card; or online at the Annual Meeting

Voting Matters

	Board Vote Recommendation	Page Number
Proposal No. 1: Election of Directors	FOR each Director nominee	14
Proposal No. 2: Approval, on an advisory basis, of the Company's executive compensation	FOR	41
Proposal No. 3: Approval of an amendment to the Company's charter to increase the number of authorized shares of capital stock to 3,000,000,000 shares	FOR	46
Proposal No. 4: Ratification of the appointment of Ernst & Young LLP for the year ending December 31, 2019	FOR	48

Participate in the Annual Meeting

Voting

Stockholders may vote by

Internet

www.proxyvote.com

Telephone

1-800-690-6903

Mail

completing and returning their proxy card

Online

at the Annual Meeting

Information

www.annalyannualmeeting.com

After years of declining attendance at Annaly's in-person annual meetings and marked growth of our international stockholder base over the same time period, the Company saw increased stockholder attendance and participation at its first virtual annual meeting in 2018. The Company is excited to once again embrace the virtual meeting format for the 2019 Annual Meeting. This environmentally-friendly approach also aligns with the Company's broader sustainability goals and reduces costs for both the Company and its stockholders. The virtual meeting will be available to stockholders across the globe via any Internet-connected device and has been designed to provide the same rights to participate as you would have at an in-person meeting, including providing opportunities to make statements and ask questions.

You are entitled to participate and vote at the Annual Meeting by visiting www.virtualshareholdermeeting.com/NLY2019. An audio broadcast of the Annual Meeting will also be available to stockholders by telephone toll-free at 1-877-328-2502. If you plan to attend the Annual Meeting online or listen to the telephonic audio broadcast, you will need the 16-digit control number included in your Notice, on your proxy card or on the instructions that accompany your proxy materials. Stockholders can access Annaly's interactive pre-meeting forum, where you can submit questions in advance of the Annual Meeting and view copies of the Company's proxy materials, by visiting www.proxyvote.com.

If you wish to view the webcast at a location provided by the Company, the Company's Maryland counsel, Venable LLP, will air the webcast at its offices located at 750 E. Pratt Street, Suite 900, Baltimore, MD 21202. Please note that no members of management or the Board will be in attendance at this location. If you wish to view the Annual Meeting via webcast at Venable LLP's office, please complete the Reservation Request Form found at the end of this Proxy Statement.

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Annaly at a Glance

NLY

New York Stock
Exchange (“NYSE”) Traded

1997
Initial Public Offering

\$14.6 billion
Largest mortgage REIT
in the world⁽¹⁾

The Company has been externally-managed by Annaly Management Company LLC (the “Manager”) since July 2013. The Manager is responsible for managing the Company’s affairs pursuant to a management agreement and, as of December 31, 2018, directly employed 95% of the individuals who provide services to the Company. Although certain personnel are employed by subsidiaries of the Company for regulatory or corporate efficiency reasons, for ease of reference, throughout this Proxy Statement, the Named Executive Officers (“NEOs”) and the other employees of the Manager, together with employees of Annaly’s subsidiaries, are sometimes referred to as Annaly’s employees.

Recent Operating Achievements

<p>83% Total Shareholder Return since 2014</p>	<p>Over 50% of capital raised since the beginning of 2016 was sourced from avenues besides follow-on common equity offerings⁽²⁾</p>	<p>\$1.6 billion Common and preferred dividends declared in 2018</p>
<p>\$4.2 billion of originations and purchases across Annaly’s three credit businesses in 2018⁽³⁾</p>	<p>37 Available investment options is nearly 3x more than in 2013</p>	<p>50% Lower operating expense as a percentage of equity than the mREIT index in 2018⁽⁴⁾</p>
<p>\$906 million Acquisition of MTGE Investment Corp., representing Annaly’s third successful transaction since 2013</p>	<p>\$900 million of additional financing capacity added since 2018 through three new credit facilities and upsizing of existing facilities⁽⁵⁾</p>	<p>44% of Operating Committee and Managing Director promotions since 2015 were women</p>

Note: For footnoted information, please refer to “Annaly at a Glance & Recent Operating Achievements” in Endnotes section.

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Annaly's Diversified Shared Capital Model

Diversification is a key component of the Annaly strategy, which has four distinct investment groups. Since 2014, Annaly has diversified its business model by investing in credit assets, which complement the Company's primary portfolio of fixed-rate investments. This strategy is designed to achieve stable risk-adjusted returns and book value performance over various interest rate and economic cycles by pairing shorter duration floating-rate credit loans and securities with the Company's longer duration, fixed-rate agency portfolio.

The Company has 37 investment options across its four investment groups, which is nearly three times more than in 2013 and up from 26 options at the end of 2015. While managing investment decisions, the Company combines a robust capital allocation process with careful risk management. This process enables Annaly to take advantage of market fluctuations and inefficiencies and rotate into credit markets when dislocations occur and pricing is attractive on a risk-adjusted, relative value basis.

Note: For footnoted information, please refer to "Annaly's Diversified Shared Capital Model" in Endnotes section.

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Growth and Income

\$5.7 billion	\$4.2 billion	55%
of market cap growth	of common and preferred	total return to stockholders
since the beginning of 2016	dividends declared	since the beginning of 2016
	since the beginning of 2016	since the beginning of 2016

Since January 2016, Annaly has grown its market cap by \$5.7 billion, or 64%, and declared over \$4.2 billion in cumulative dividends to stockholders amidst a challenging market backdrop, where the Federal Reserve has raised rates 8 times and the Treasury curve has flattened by 86%.

Note: For footnoted information, please refer to “Growth and Income” in Endnotes section.

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Delivering Significant Value For Stockholders

24.4%

Economic return generated by Annaly with its current investment teams since 2014⁽¹⁾

83%

Total shareholder return generated by Annaly since 2014

869%

Total shareholder return since Annaly's IPO⁽³⁾

Since 2014 (the first full year the Company was externally-managed, as more fully described in Management Structure on page 34), shares of the Company's common stock (including reinvestment of dividends) have returned significant value to stockholders relative to both the Company's mREIT peers and other yield-focused investments.

Note: For footnoted information, please refer to Delivering Significant Value for Stockholders in Endnotes section.

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Stockholder Outreach and Results of 2018 Say-on-Pay Vote

~275 Points of outreach to investors for proxy engagement since 2015	~110 One-on-one meetings with stockholders across the globe since 2015	Over 94% of votes cast supported Annaly's 2018 Say-on-Pay vote
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The Company is committed to ongoing engagement with both retail and institutional stockholders through a wide range of mediums, including: in-person meetings, conferences, phone calls and electronic communication. Following the results of Annaly's 2018 advisory resolution on executive compensation (commonly known as a "Say-on-Pay" vote), which received strong support from over 94% of votes cast, the Company has continued its multi-pronged stockholder outreach campaign to solicit feedback on a number of issues, including (i) the Manager's executive compensation program and related disclosure, (ii) the structure, composition and refreshment of the Board, and (iii) the Company's Corporate Responsibility and Environmental, Social and Governance ("ESG") initiatives.

<i>Outreach included approximately of top 50 institutional investors</i>	<i>Outreach included approximately of institutional ownership</i>	<i>Management hosted meetings with investors representing of top 5 largest shareholders</i>
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Annaly's stockholder engagement efforts generated significant feedback for both the Board and management and have resulted in a number of enhancements to corporate governance and compensation practices and disclosures over the last few years. Annaly's stockholders have been extremely instrumental to, and supportive of, these governance and disclosure enhancements and the Company looks forward to continuing to find innovative ways to engage over the course of 2019 and beyond.

The Company's stockholder outreach is complemented by related initiatives, including:

- Analysis of market governance and compensation practices at peer companies
- Advice from external advisors, including governance and compensation consultants, Board search firms and proxy solicitors
- Attendance at investor conferences
- Discussions with proxy advisory services and corporate governance research firms

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Stockholder Engagement

The Board conducted a review regarding the potential declassification of the Board in favor of annual elections of all directors. Following this review, in December 2018, the Board approved and amended the Company's bylaws to declassify the Board over a three-year period.

The amended bylaws provide that Directors will be nominated for one-year terms beginning with the 2019 Annual Meeting of Stockholders with all Directors standing for annual elections commencing with the 2021 Annual Meeting of Stockholders.

Comprehensive third-party facilitated self-evaluation of the full Board, each Board Committee and individual Directors. Focus areas of the evaluation included Board and Committee skills, structure, dynamics, processes, leadership and refreshment. Engaged professional search firm to assist the Board in identifying qualified director candidates with a mandate to present equal representation of women and minority candidates.

Elected four new highly qualified Independent Directors since the beginning of 2018, including three women. 45% of Continuing Directors are women and 45% of Continuing Directors have tenure of less than 5 years⁽¹⁾.

The Nominating/Corporate Governance ("NCG") Committee Chair, in conjunction with an outside governance expert, led a full review of options to facilitate Board refreshment.

Following this review, in October 2018, the Board adopted an enhanced Board refreshment policy providing that an independent Director may not stand for re-election at the next annual meeting of stockholders following the earlier of his or her: (i) 12th anniversary of service on the Board or (ii) 73rd birthday.

Dedicated resources and personnel to enhancing Annaly's corporate responsibility function, including the 2018 hire of a community development veteran Tanya Rakpraja as the Company's Head of Corporate Responsibility and Government Relations.

Added extensive disclosure on the Company's Corporate Responsibility and ESG efforts to Annaly's corporate website. Partnered with Capital Impact Partners to launch a second joint venture dedicated to supporting affordable housing and other community development projects in Washington D.C.

Commenced an energy audit of our Corporate Headquarters in order to more fully track and monitor our impact and energy usage.

Note: For footnoted information, please refer to "Stockholder Engagement" in Endnotes section.

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Corporate Responsibility

As responsible stewards of capital, Annaly takes into account ESG factors that contribute to our ability to drive positive impacts and deliver attractive risk-adjusted returns over the long term. Annaly’s Corporate Responsibility efforts were institutionalized by the establishment of a dedicated Corporate Responsibility team in 2018, which is led by Tanya Rakpraja as Annaly’s Head of Corporate Responsibility and Government Relations. The Corporate Responsibility team collaborates across business areas to develop initiatives, monitor progress and manage reporting, and provides routine updates to the Corporate Responsibility Committee⁽¹⁾ of the Board (and, as appropriate, to the full Board). The Company provides extensive disclosure on its ESG efforts on the “Corporate Responsibility” section of Annaly’s corporate website at www.annaly.com/corporate-responsibility.

The Manager and The Management Agreement

0.75%

In 2019, the Manager reduced its fee on Incremental Stockholders’ Equity⁽²⁾ from 1.05% to 0.75%

29%

Annaly’s management fee is 29% lower than the industry average of 1.47%⁽³⁾

\$300 million

Approximate compensation savings since the Externalization in July 2013⁽⁴⁾

All of the NEOs are indirect owners and/or employees of the Manager

With the exception of Mr. Keyes, each of the other NEOs receives compensation paid by the Manager. Mr. Keyes receives no compensation for his services as the Company’s Chairman, Chief Executive Officer (“CEO”) and President, although, as an indirect equityholder of the parent of the Manager, Mr. Keyes has an interest in the fees paid to the Manager

The Manager is responsible for the compensation of the NEOs (other than Mr. Keyes). Annaly does not pay any cash or equity compensation to its NEOs, and does not provide pension benefits, perquisites or other personal benefits. The Manager uses the management fees paid by the Company to, among other things, pay the compensation and benefits of the NEOs. However, the Company does not allocate any specific portion of the management fees to NEO compensation or otherwise determine such compensation or reimburse the Manager for the costs thereof. For 2018, the Company’s payments to the Manager included the management fee of \$179.8 million and expense reimbursements of \$9.2 million

In March 2019, the Manager and the Company amended the Management Agreement solely to reduce the management fee on Incremental Stockholders’ Equity. Pursuant to this amendment, which recognizes the efficiencies that have been gained with scale, the Company pays the Manager a monthly management fee equal to 1/12th of the sum of: (i) 1.05% of Base Stockholders’ Equity⁽⁵⁾, and (ii) 0.75% of Incremental Stockholders’ Equity⁽²⁾

Note: For footnoted information, please refer to “Corporate Responsibility & The Manager and the Management Agreement” in Endnotes section.

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Proxy Summary

The Manager’s Executive Compensation Program

<p>90.5% of NEO compensation was variable and paid in the form of performance-based incentive bonuses</p>	<p>9.5% of NEO compensation was paid in the form of fixed base salaries</p>	<p>16.8% of aggregate management fees and expense reimbursements paid to the Manager were allocated by the Manager as NEO compensation</p>
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Although Annaly neither employs nor compensates the NEOs, the Company is committed to providing its stockholders with information about the Manager’s executive compensation program in order to enable an informed Say-on-Pay vote.

The Manager’s Executive Compensation Philosophy and Process

The key principle of the Manager’s compensation philosophy for all employees, including the NEOs, is to pay for performance. The Manager’s NEO compensation planning process incorporates key areas of evaluation including: external market data, internal benchmarking, and quantitative and qualitative assessments of Company, group and individual performance. Individuals are evaluated based on mid-year and year-end manager reviews and the utilization of a 9-box talent review model, which assesses individual performance and potential. In establishing and reviewing individual NEO compensation packages, the Manager also considers the nature and scope of each NEO’s role and responsibilities, retention considerations and feedback from stakeholders.

Overview of the Manager’s 2018 Executive Compensation Program

With respect to 2018,⁽¹⁾ the NEOs as a group received aggregate salaries of \$3.0 million and aggregate performance-based incentive bonuses of \$28.7 million from the Manager. These amounts collectively represent 16.8% of the aggregate management fees and reimbursements the Company paid to the Manager for 2018. On an aggregated basis, the NEOs received 9.5% of their total compensation in the form of base salaries and the remaining 90.5% in the form of performance-based incentive bonuses.

In determining the cash bonuses it paid to the NEOs for 2018, the Mana; MARGIN-RIGHT: 0pt" align="right">0

<p>Common Directors and executive officers as a group (7) persons</p>	<p>0.0% 13,907,100 49.8%</p>
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* The address for the officers and directors is South Banbidian Industrial Park, Liqiao Township, Shunyi District, Beijing 101304, People’s Republic of China, (86-10) 8416 3816.

(1) Li Brothers Holding Inc is a BVI company of which Mr. Gangjin Li is the sole shareholder.

(2) Vyle Investment Inc. is a BVI company of which Mr. Brian Lin owns 30%

(3) China Honor Investment Inc. is a BVI company of which Mr. Ang Li is the sole shareholder. Mr. Ang Li is the son of Mr. Gangjin Li, who disclaims beneficial ownership of such shares.

(4)

Represents the number of shares of Common Stock plus options to purchase 225,000 shares of Common Stock that is exercisable within 60 days from July 1, 2007.

(5) Represents the number of shares of Common Stock plus options to purchase 112,500 shares of Common Stock that is exercisable within 60 days from July 1, 2007.

(5) Represents the number of shares of options to purchase 1,500 shares of Common Stock that is exercisable within 60 days from July 1, 2007.

Deadline for Shareholder Proposals

The deadline for submitting shareholder proposals under Rule 14a-8 under the Securities Exchange Act will be set forth in an 8-K to be filed before October 15, 2007.

Upon the effectiveness of the new Articles of Incorporation, the deadline for submitting shareholder proposals outside of Rule 14a-8 will be sixty days prior to the meeting. The meeting date will be set forth in an 8-K to be filed before October 15, 2007.

Incorporation by Reference

The Financial Statements and the Management's Discussion and Analysis of Plan of Operation in the contained Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006 and the Company's Quarterly Report on Form 10-QSB for the Quarterly Period Ended June 30, 2007 are incorporated herein by reference thereto.

By Order of the Board of
Directors:
China Fire & Security Group, Inc.

/s/ Brian Lin

Brian Lin, Chief Executive Officer

Beijing, The People's Republic Of China
August [], 2007
