

GOVERNANCE INDEX FOR TRUSTS (GIFT)¹

June 29, 2017

¹ The Governance Index for Trusts – GIFT - is produced by Associate Professor Mak Yuen Teen and Chew Yi Hong and supported by CPA Australia. The following individuals contributed to the development of GIFT: Alethea Teng Shuyi, Au Mei Lin Eunice, Wu Wenjing and Yap Hui Lin. No part of the GIFT methodology may be reproduced without the prior written permission of Associate Professor Mak Yuen Teen and CPA Australia.

MAIN INDEX

CORPORATE GOVERNANCE (80%)

1.0	Board Matters (20%)	
1.1	Appointment of Directors	
1.1.1	If unitholders are given the right to:	
	(i) Endorse directors, and directors who fail to obtain endorsement are required to resign	3
	(ii) Endorse directors	1
1.2	Board Size	
1.2.1	If there are 6 to 9 directors on the board	1
1.3	Board Independence	
1.3.1	If the Board Chairman is an independent director	2
1.3.2	If the board comprises of:	
	(i) At least 1 independent director with both investment/fund management experience and prior work experience in the industry in which the REIT/BT operates in	3
	(ii) At least 1 independent director with investment/fund management experience and 1 independent director with prior work experience in the industry in which the REIT/BT operates in	3
	(iii) At least 1 independent director with either investment/fund management experience or prior work experience in the industry in which the REIT/BT operates in	1
	For REITs only:	
1.3.3	If the proportion of independent directors is:	
	(i) 75% and above	3
	(ii) At least 50% and less than 75%	2
	(iii) Above 1/3 and below 50%	1
	For BTs only:	
1.3.3	If the proportion of independent directors is:	
	(i) 75% and above	3
	(ii) At least 50% and less than 75%	1
1.4	Nominating and Remuneration Committees	
1.4.1	If the REIT Manager/BT Trustee-Manager sets up a Nominating Committee (NC)	1
1.4.2	If the REIT Manager/BT Trustee-Manager sets up a Remuneration Committee (RC)	1
1.4.3	If the NC is made up of at least 3 directors and:	
	(i) All are independent (including the NC Chairman)	1
	(ii) Majority are independent (including the NC Chairman), where all directors are non-executive	0.5
1.4.4	If the RC is made up of at least 3 directors and:	
	(i) All are independent (including the RC Chairman)	1
	(ii) Majority are independent (including the RC Chairman), where all directors are non-executive	0.5

1.5	Audit Committee	
1.5.1	If the Audit Committee (AC) Chairman has recent and relevant accounting or related financial management expertise or experience	2
1.5.2	If majority of independent directors in the AC has recent and relevant accounting or related financial management expertise or experience	1
1.5.3	If the AC is made up of at least 3 directors and:	
	(i) All are independent (including the AC Chairman)	1
	(ii) Majority are independent (including the AC Chairman), where all directors are non-executive	0.5
2.0	Remuneration of Directors and Key Management (10%)	
2.1	In relation to non-executive directors (NEDs):	
2.1.1	If the fee structure for NEDs is disclosed	1
2.1.2	If fees of each NED is fully disclosed on a named basis	2
2.2	In relation to executive directors (EDs) and key management:	
2.2.1	If remuneration components of EDs and the CEO, as well as the rationale, are disclosed	1
2.2.2	If remuneration of each ED and the CEO is fully disclosed on a named basis, with a breakdown of their remuneration earned, in percentage or dollar terms	2
2.2.3	If remuneration of at least the top 5 key management is disclosed, with a breakdown of their remuneration earned, in percentage or dollar terms:	
	(i) If exact remuneration is disclosed on a named basis	2
	(ii) If remuneration is disclosed in bands of at least S\$250,000 and on named basis	0.5
2.2.4	If the following performance measures are used to determine remuneration of EDs:	
	(i) Return on equity or total unitholder return	2
	(ii) Distribution per unit or net asset value per unit	1
3.0	Alignment of Incentives and Interests (10%)	
3.1	If detailed amounts of all fees paid to the REIT Manager, Trustee and Property Manager or the BT Trustee-Manager and Asset Manager are fully disclosed	1 point for each disclosed, 4 points if all are disclosed
3.2	If the REIT Manager/BT Trustee-Manager's performance fee is pegged to a total unitholder return-type metric, distribution per unit or net asset value per unit	4
3.3	In relation to acquisition and divestment fees:	
	(i) If acquisitions and divestments do not trigger fees of more than 1% of the purchase price and 0.5% of the sale price paid to the REIT Manager/BT Trustee-Manager	1
3.4	If the payment of the REIT Manager/BT Trustee-Manager's performance fee is no more frequent than once a year	1
4.0	Internal and External Audit (10%)	
4.1	Internal Audit	
4.1.1	If the REIT Manager/BT Trustee-Manager has disclosed whether it has either an in-house or outsourced internal audit function	2
4.1.2	If the REIT Manager/BT Trustee-Manager has a dedicated internal audit function, and it is:	
	(i) In-house	2
	(ii) Outsourced to an external independent firm	2
	(iii) Outsourced to its Sponsor or related entity	1
4.2	External Auditor Independence and Quality	
4.2.1	If the external auditor is a public accountant registered in Singapore	1
4.2.2	If the external auditor is a Big Four audit firm or mid-tier audit firm	1

4.3 External Audit Opinion	
4.3.1 If the REIT/BT has an unqualified audit opinion and no Emphasis of Matter paragraph	4
5.0 Communication with Unitholders (15%)	
5.1 Timeliness of Results	
5.1.1 If full-year results are released within 45 days after the relevant financial period	0.5
5.1.2 If quarterly results are released within 30 days after the end of every quarter of the financial period	0.5
5.2 Accessibility of Information	
5.2.1 If the REIT/BT has a website with the link provided on SGX or the Annual Report	0.5
5.2.2 If the Prospectus is disclosed on the REIT/BT's website	0.5
5.2.3 If Annual Reports are available on the REIT/BT website	
(i) Since its listing or IPO	1
(ii) Only for the last 5 years	0.5
5.2.4 Financial information for the last 12 quarters is available on the website	0.5
Meetings or conference calls are conducted for investors and analysts to provide updates on the release of financial results, with presentation materials made available on the REIT/BT website.	0.5
5.2.5	
5.3 Investor Relations Function	
5.3.1 There is a dedicated IR link on the website	1
5.3.2 The REIT/BT provides contact details:	
(i) Of a specific IR contact person	1.5
(ii) Of the general IR department	0.5
(iii) Contact details absent, only enquiries form to be filled up	0.5
5.3.3 If the REIT/BT is responsive to calls or emails requesting information	2.5
5.4 AGM Matters	
If the AGM Notice is sent to unitholders at least 21 calendar days before the meeting, or at least 28 calendar days if the meeting includes a special resolution.	1
5.4.1	
5.4.2 If AGM is not held during the last 5 business days of April, July or October	2
5.4.3 If presentation materials of AGM and EGMs are available on the website/SGX	1
5.4.4 Detailed meeting minutes are provided on the website/SGX	2
6.0 Other Governance Matters (15%)	
6.1 Management Experience	
6.1.1 In relation to CEO experience relevant to the REIT/BT management:	
(i) At least 10 years of experience	2.5
(ii) At least 5 years of experience	1
6.1.2 In relation to CFO experience relevant to the REIT/BT management:	
(i) At least 10 years of experience	2
(ii) At least 5 years of experience	1
6.1.3 In relation to Head of Investment/Asset Management experience relevant to the REIT/BT management:	
(i) At least 10 years of experience	1.5
(ii) At least 5 years of experience	1
6.2 Investor Protection	
6.2.1 If the REIT/BT mainly operates in a country with a strong rule of law	3
6.3 Interested Person Transactions	
6.3.1 If the AC has a policy of reviewing all interested person transactions	1.5

6.4	Non-Entrenchment of REIT Manager/BT Trustee-Manager	
6.4.1	If the Sponsor/Controlling holder holds less than 50% of units in the REIT or 25% of units in the BT	3
6.5	Stapled Security Structure	
6.5.1	In relation to the stapling of the REIT/BT:	
	(i) If the REIT/BT is not stapled	1.5
	(ii) If the REIT/BT is stapled to a related business	0.5
BUSINESS RISK (20%)		
1.0	Leverage-Related Risks (9% for REITs, 11% for BTs)	
1.1	Overall leverage is:	REIT or BT:
	(i) 0% to 20%	3 or 5
	(ii) 20% to 35%	2 or 4
	(iii) 35% to 45%	1 or 3
1.2	If the debt maturity of the REIT/BT is at least 3 years	1.5
1.3	No more than 25% of the debt matures in the next 12 months	1.5
1.4	If at least 70% of the REIT/BT's borrowings carry fixed interest rates	3
2.0	Volatility of Returns (3%)	
2.1	In relation to the volatility of returns:	
	(i) The bottom 25% of REITs/BTs	3
	(ii) The next 25% of REITs/BTs	2
	(iii) The subsequent 25% of REITs/BTs	1
	<i>For REITs only:</i>	
3.0	Development Limit (2%)	
3.1	Development limit is:	
	(i) 10% or less of the REIT's deposited property	2
	(ii) More than 10% to less than 20% of the REIT's deposited property	1
	(iii) 20% to 25% of the REIT's deposited property	0.5
4.0	Lease Commitments (3%)	
4.1	If the current year Weighted Average Lease Expiry (WALE) of the REIT/BT relative to the prior year WALE:	
	(i) Increased, or is more than 5 years	3
	(ii) Remains constant	1
5.0	Income Support Arrangements (3%)	
5.1	If the REIT/BT discloses that:	
	(i) No income support payments are present	3
	(ii) Total income support is 5% or less of total earnings	2
	(iii) Total income support is between 5% to 10% of total earnings	1

MERIT ITEMS

CORPORATE GOVERNANCE

1.1	Appointment of Directors	
1.1.1	If unitholders are given the right to: (iii) Appoint directors	2
2.0	Remuneration of Directors and Key Management	
	If remuneration of EDs and key management includes units or rights to units in the REIT/BT that vest over a minimum of 3 years	1
3.0	Alignment of Incentives and Interests	
	If all non-executive directors (including independent directors) hold units until the end of their directorships	2
	In relation to acquisition and divestment fees: If acquisitions and divestments do not trigger fees paid to the REIT Manager/BT Trustee-Manager or such fees are charged on a cost-recovery basis	5
5.0	Communication with Unitholders	
	If the Trust Deed is disclosed on the REIT/BT's website	2
	If a video conference or webcast of meetings is provided for AGMs held in Singapore	2
	If AGM and EGMs are held in accessible locations or shuttle bus services are provided for unitholders for locations that are not easily accessible	1
	If unitholders are invited to send in questions before AGM and EGMs and/or ask questions during AGM and EGMs	1
6.0	Other Governance Matters	
	If the REIT Manager/BT Trustee-Manager submits itself for reappointment at regular intervals:	
	(i) Once every 2 years or less	3
	(ii) Once every 2 to 4 years	2
	(iii) Once every 5 years	1
	and where reappointment is subject to unitholders' approval at a general meeting	

BUSINESS RISK

5.0	Use of Hybrid Securities	
	If the REIT/BT does not use any form of hybrid securities	2
6.0	Change of Control' Covenants	
	If any loan agreements are publicly disclosed clearly in the website	2
	If the REIT/BT publicly discloses that there are no 'change of control' covenants in any loan agreements	2

DEMERIT ITEMS

CORPORATE GOVERNANCE

1.0 Board Matters	
If the board's Chairman is an executive director or an immediate family member of the CEO, another executive director or key management	-2
If any of the CEO and executive directors of the REIT Manager/BT Trustee-Manager is not employed full-time in the day-to-day operations of the REIT Manager/BT Trustee-Manager and take up an executive role in another entity	-2
If any of the CEO and executive directors of the REIT Manager/BT Trustee-Manager serves on more than one other external board of a listed issuer	-2
<i>(Limited to a maximum of -2 points per director)</i>	
If any independent directors:	
- Sits on the board of a related REIT/BT	-1
- Was formerly a director of a related entity within the last 3 years	-1
- Is appointed to the REIT/BT after retiring from a related REIT within the last 3 years	-1
- Is related to the Sponsor	-1
- Is a 'busy director'	-1
- Served on the board for a consecutive period of more than 9 years	-1
If one or more members is/are related to the REIT/BT Sponsor, and there are less than 3 other independent directors in the AC	-2
2.0 Remuneration of Directors and Key Management	
If remuneration of directors and key management is linked to the revenue of the REIT/BT	-2
If the remuneration of directors or key management of the REIT Manager/BT Trustee-Manager is linked in any way to entities other than the REIT/REIT Manager or BT/BT Trustee-Manager	-2
3.0 Alignment of Incentives and Interests	
If the REIT Manager/BT Trustee-Manager's performance fee is pegged to gross revenue	-3
If the largest substantial unitholder of the REIT/BT reduces its interests by more than 20% of its stake in the past 3 years	-2
If the total amount of fees paid to the REIT Manager/BT Trustee-Manager is increasing despite DPU decreasing over the past 3 years	-3
If a profit forecast or forecast DPU is not made in the case of an acquisition	-1 for each acquisition
If the CEO and executive directors of the REIT Manager/BT Trustee-Manager sit on the board of another entity with competing interests	-3
4.0 Internal and External Audit	
If the REIT/BT changed its auditor within 3 years and has not given appropriate reasons for the change	-3
If the external auditor issues a/an:	
(i) Adverse opinion	-10
(ii) Disclaimer of opinion	-10
(iii) Qualified opinion	-5

5.0 Communication with Unitholders

If the REIT/BT had adverse news reports relevant to its corporate governance, transparency or investors relations	-3
If the REIT/BT announced any discrepancy in the net profits attributable to unitholders between unaudited and audited results	-2
If the REIT/BT held its AGM/EGM overseas and:	
(i) No webcast was provided	-2
(ii) A webcast was provided	-1
	-3 for each resolution
If any AGM/EGM resolution is not passed	

6.0 Other Governance Matters

Interested Person Transactions

If all disclosable interested person transactions have not been disclosed	-3 for each disclosure
If the independent valuer did not disclose the methodology and assumptions for its valuation of interested person transactions	-2
If a premium is paid to acquire assets in interested person transactions and no appropriate reasons are provided	-2

Turnover of Directors, CEO, CFO and COO

If an executive director, CEO, CFO or COO of the REIT Manager/BT Trustee-Manager changes more than once within a financial year	-3 for each person
If any director resigns or does not seek re-appointment after serving 3 years or less and no clear reasons are given	-3 for each person
If the CEO, CFO or COO of the REIT Manager/BT Trustee-Manager resign without adequate disclosure of information regarding the circumstances, search for replacement and the expected time frame for a new appointment	-3 for each person
If any of the directors, CEO, CFO or COO resign and raise corporate governance-related concerns:	
(i) If 2 or more persons resign during the same time period and cite similar reasons	-10
(ii) If 1 person resigns citing such concerns	-5

Regulatory Issues Concerning Directors, CEO, CFO and COO

If regulatory action was taken against a director, CEO, CFO or COO and he/she continues to stay on the board within 3 years of the action	-10 each year for a minimum of 3 years
If regulatory action was taken against a director, CEO, CFO or COO and he/she remains on the board after 3 years	-5 each year for a further 3 years
If a director, CEO, CFO or COO was charged during the financial year	-5
If a director, CEO, CFO or COO was being investigated during the financial year	-3
If a disqualified director joins the board within 5 years of the end of disqualification	-5

Private Placements

If the REIT Manager/BT Trustee-Manager launches a private placement of new units at a discount in the REIT/BT	-2
---	----

Change in Control of Manager

If the REIT Manager/BT Trustee-Manager is sold	-2
--	----

SGX Queries

In relation to the number of unusual trading queries received from SGX during the financial year:

- | | |
|-----------------------------------|----|
| (i) 10 or more | -6 |
| (ii) More than 5 and less than 10 | -4 |
| (iii) 3 to 5 | -2 |

If the REIT/BT makes a major announcement within 2 months following a "nil" response to a query regarding trading activity raised by SGX	-3
--	----

If the REIT/BT received any disclosure-related queries from the Singapore Exchange during the financial year	-2 for each query received
--	----------------------------

Stapled Security Structure

If less than 65% of a stapled group's assets is invested in income-producing real estate	-1
--	----

If the development activities carried out by the stapled group is 35% and above, or the completed properties are not held within the stapled group for at least 3 years after completion	-1
--	----

If the stapled group has an overall leverage limit of 60% and above	-1
---	----

Other Issues

If an EGM was convened at the request of:

- | | |
|---|----|
| (i) 50 or more unitholders making up less than 10% of the REIT/BT, or | -5 |
| (ii) 10% of the unitholders of the REIT/BT | -3 |

For REITs only:

If there are inconsistencies in the methodology used by the REIT to calculate rental reversions and no timely disclosure of relevant material information	-2
---	----

If there is non-compliance with any Rules, Regulations, Codes or Acts	-3 to -10 for each instance of non-compliance
---	---

BUSINESS RISK

4.0 Lease Commitments

If the current year Weighted Average Lease Expiry (WALE) of the REIT/BT relative to the prior year WALE decreased, only if the WALE is less than 5 years	-2
--	----

5.0 Income Support Arrangements

If an independent valuer did not attest to the sustainability of the enhanced yield after the expiration of the income support period	-1
---	----

If the REIT/BT does not disclose the effect of income support payments received by the REIT/BT during the year on distribution yields	-2
---	----

If the period of income support exceeds a 3 year lease cycle	-2
--	----

If there is no clear disclosure of the income support arrangements embedded in a master lease	-2
---	----

If the REIT/BT's income support through master leases is withdrawn prematurely, renewed with a significantly shorter lease period or not renewed at all	-3
---	----

If the REIT/BT has sale and leaseback agreements with the Sponsor or its related entities	-1
---	----