SUPPORTED BY SGX

GIFT

GOVERNANCE INDEX FOR TRUSTS VOL2

MAK YUEN TEEN
CHEW YI HONG

First published in July 2018

GOVERNANCE INDEX FOR TRUSTS
Volume 2

AUTHORS
MAK YUEN TEEN & CHEW YI HONG

SUPPORTED BY SGX

GIFT

GOVERNANCE INDEX FOR TRUSTS VOL2

MAK YUEN TEEN
CHEW YI HONG

ACKNOWLEDGEMENTS

The authors would like to thank the trusts for their participation in the self-assessment, making this ranking a community effort; the partners for their support in the development of GIFT in 2017; and Lim Yue Feng for his assistance in collecting information from notices, announcements and annual reports and in carrying out the analysis. However, the authors are responsible for the content in this report and any errors.

FOREWORD

The findings of the 2018 edition of the Governance Index for Trusts (GIFT) tell of big gains made among the top-ranking trusts such that what was considered as a top score in 2017 is now a middle-of-the-pack showing. As was the case in 2017, the best-ranked trusts were a mix of smaller to mid-size ones as well as the bigger ones.

These results and the accompanying report are timely reminders to the REITs and Business Trusts sector of three key matters. First, is the importance of transparency and communication. Investors are becoming increasingly savvy and active. They are asking questions on crucial matters and as part-owners of the trusts, they deserve answers that are clear, accurate and timely. This is the minimum that investors, the marketplace and regulators expect.

Second, as a key sector within the Singapore market, the REITs and Business Trusts sector must keep improving. Last year, SGX said it would work with the Singapore Institute of Surveyors and Valuers to enhance valuation conduct and reporting. Our two organisations jointly established a working committee comprising industry participants to review these matters. The Institute has since launched its Practice Guide on Valuations for REITs and IPOs. Aimed at meeting investors' need for clarity and completeness of information, the Guide sets minimum requirements for valuation reporting and for inclusion of key information in valuation summaries. SGX will now look into how the Guide and other related matters should be incorporated into the Listing Rules. We also strongly encourage the REITs and Business Trusts sector to study the Guide and weigh carefully its recommendations.

In April, we introduced the SGX Fast Track programme for issuers with good governance and compliance track record. A total of 60 issuers are on the programme. Of these, 11 are from the REITs and Business Trusts sector. This translates to roughly 25% of the sector and testifies to the quality of the sector as a whole. Nevertheless, if this sector is to continue to grow, improving on governance standing will be crucial. Many other markets are already launching the REITs structure; if Singapore's position as an international hub for REITs and Business Trusts is to be sustained, issuers' governance performance must continue to advance.

Finally, the real estate sector, including REITs and Business Trusts, is a pillar of the Singapore and regional economies. The sector also has a large footprint in terms of the environment and its impact on society. Given rising concerns on matters such as climate change, waste management, and health and safety standards – all of which are relevant to the REITs and Business Trusts sector – sustainability reporting presents yet another opportunity for Singapore-listed trusts to position themselves apart from peers elsewhere.

I will be looking to the next GIFT results from Professor Mak and his partners for clues on the progress made by the sector. I am hopeful that once again, the sector will excel and stand out from not just among other listed issuers in Singapore but also among their peers globally.

By Tan Boon Gin
CEO of Singapore Exchange Regulation

GOVERNANCE INDEX FOR TRUSTS (GIFT)[1]

July 2018

[1] The Governance Index for Trusts – GIFT - is produced by Associate Professor Mak Yuen Teen and Chew Yi Hong, in collaboration with governanceforstakeholders.com. 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.

1. INTRODUCTION

In June 2017, we launched the Governance Index for Trusts (GIFT), the first-ever published governance index in Singapore that specifically caters to listed real estate investment trusts (REITs) and business trusts (BTs) in Singapore. This recognises the increasing importance of REITs and BTs in the Singapore capital market and the differences in their governance structures and practices, and applicable rules and regulations, compared to listed companies. GIFT assesses both governance and business risk factors, with 80 percent of the base score allocated to governance factors and 20 percent allocated to business risk factors. In addition, merit and demerit points are awarded for both areas.

For the inaugural ranking last year, we covered 43 REITs and BTs with a primary listing trading on Singapore Exchange (SGX). Last year, the trusts[2] that were ranked in the top 5 were Keppel DC REIT, Parkway Life REIT, Soilbuild Business Space REIT, AIMS AMP Capital Industrial REIT and Starhill Global REIT.

A number of those ranked low on GIFT last year have been facing challenges. However, we do not assert that GIFT will necessarily predict the financial performance of a trust especially over the short term, or that a highly-ranked trust will continue to be well governed.

As at 30 June 2018, there are 48 REITs and BTs with a primary listing trading on the Singapore Exchange (SGX), accounting for a total market capitalisation of $95 billion. Of these, 6 are constituted as stapled securities (SS), 9 as pure business trusts and 33 as REITs.

For this second issue, we assessed 44 REITs and BTs using publicly available information from annual reports, websites, presentations and other SGXNET announcements of the trusts, and news media reports. We excluded 4 newly-listed trusts (3 REITs and a BT) that have not yet published an annual report at the cut-off date.

For this year's assessment, we made some minor changes to the index and our approach. Other than wording changes to make the criteria clearer, some adjustments were made to fine-tune the scoring criteria and a small number of new demerit criteria were added to recognise risks such as dilution from non-renounceable issues. Volatility of returns of the trust as a business risk factor was dropped as we recognise that this is not wholly under the control of the trust. In its place, we have added a criterion relating to foreign assets and foreign currency risks.

To further improve the understanding of the risks of the trusts, we have provided a breakdown of the governance and business risk scores. This recognises that while risk is important to investors, the level of risk to take is ultimately a business decision by the trust. Investors may wish to consider whether trusts that have higher risks have the commensurate level of governance to safeguard their interests and also the appropriate reward/risk ratio. It may therefore be wise to pay particular attention to trusts that have higher risk and poorer governance.

For this year's assessment, we also contacted all the trusts that have published email addresses for their investor relations function, inviting them to complete a self-assessment using the revised scorecard. This was done primarily to increase the engagement with the trusts and provide an opportunity for them to use the scorecard to reflect on their governance. We reviewed the self-assessment as part of our independent assessment. As the assessment for GIFT is based on publicly available information that is available to investors and other stakeholders, we would like to emphasise that our independent assessment may not necessarily be the same as the self-assessment provided by the trust.

We are delighted with the responsiveness of many of the trusts to the invitation to undertake the self-assessment. Of the 43 trusts we were able to contact by email, 29 submitted a self-assessment. We would like to thank them for engaging with us on this initiative.

Finally, this year, we released GIFT slightly later in order to include the latest annual reports for trusts with a March year end. For these trusts, we used the annual reports released as late as July 2018. This allows us to use the most updated information possible for the financial year under review to assess the trusts.

[2] For brevity, when we use the term "trusts", we are referring to both REITs and BTs collectively. When we use the term "managers", it includes trustee-managers in the case of BTs. We also use the term "trust" and "manager" interchangeably even though governance of REITs and BTs is really about the governance of the manager, not the trust, since REITs and BTs are almost always externally managed in Singapore.

First Ship Lease Trust (FSL) had a drama-filled year as its syndicated loan facility went into default, causing the trust to seek court protection via a scheme of arrangement under section 210 of the Companies Act. Its trustee-manager was then sold, a new sponsor was appointed and the chairmanship of the trust was handed over to the new controlling unitholder while the trust sells some of its assets to pare down debt. Meanwhile, the trust delayed its AGM and when it did publish its audited results, the auditors highlighted the existence of material uncertainty related to going concern of the trust. Eventually, the trust secured commitments to refinance its overdue syndicated loans as a fund emerged as a new substantial shareholder, building up a stake of over 6% in FSL.

Hutchison Port Holdings Trust and Accordia Golf Trust both suffered from falling DPU, with their respective unit price falling by two-fifths and by approximately 15%. RHT Health Trust received an emphasis of matter from its auditors relating to its ability to refinance its bonds, which led to a material uncertainty related to going concern. Lippo Malls Indonesia Retail Trust (LMIRT) has fallen by a third in price too as the quality of its malls was called into question, coupled with concerns about the deteriorating credit quality of its sponsor.

2. METHODLOGY

The index includes a main section carrying an overall score of 100 points. Eighty (80) points are allocated to the following areas of governance: board matters (20 points), remuneration of directors and key management (10 points), alignment of incentives and interests (10 points), internal and external audit (10 points), communication with unitholders (15 points) and other governance matters (15 points).

Twenty (20) points are allocated to business risk, assessed using leverage-related factors of overall leverage, debt maturity, percentage of fixed interest rate borrowing; and other factors relating to development limit, lease expiry; income support arrangements; and foreign assets and foreign currency risks.

There are some differences in terms of criteria and weighting for REITs and BTs to take into account differences in regulatory requirements and business models.

In addition to the main section, there is a section comprising merit and demerit points. Merit points are given for certain practices that we believe trusts should aspire to adopt in order to further improve their governance or to reduce their risks. Examples include putting trust deeds and loan agreements on their websites and avoiding hybrid securities that are classified as equity but have debt-like features. Merit points ranged from one to three points per item and the maximum number of merit points is 25.

Demerit points are given for cases such as independent directors serving on boards of a related manager or having an excessive number of directorships in listed companies and managers. Demerit points generally range from minus one to minus three, although certain serious governance issues can incur as many as 10 demerit points per item.

The full index is available at www.governanceforstakeholders.com.

3. COVERAGE

In this second issue of the index, we assessed 44 trusts, including six that are stapled. Of the six stapled securities, three of them have dormant business trusts. The stapled securities were scored mostly as REITs but where relevant, the stricter standards for BT governance was applied to the stapled securities.

For information from annual reports, we use annual reports published between September 2017 and July 2018.

Ascendas REIT, CapitaLand Commercial Trust and CapitaLand Mall Trust are the three largest REITs with market capitalisation of more than $5 billion. Another 25 trusts are in the billion-dollar club. Of the 16 remaining trusts, 15 have market capitalisation of more than $300 million to $1 billion, with just one exception below the $100 million market capitalisation level.

Of the 36 REITs (which includes the 6 stapled securities) in the index, 25 have the majority of their assets in Singapore. Four others have the bulk of their assets in China and/or Hong Kong and a further two are Australia-centric. The remaining five are focused on Indonesia, Europe, USA and a well-diversified portfolio.

Just one out of eight BTs is Singapore-centric. The remaining seven is a diverse group with geographic focus in China, India, Japan and Taiwan for assets such as shipping vessels, hospitals, ports, retail and industrial real estate, golf courses and Pay TV.

4. KEY FINDINGS

For the main index, the overall range of scores for the 44 trusts is from 51 to 81 out of a maximum of 100 points, with a mean of 68 and median of 68. There is an increase in the mean by 3 points and median by 2 points compared to last year. Overall, there is some improvement in average scores across all areas, except for internal and external audit and business risk. However, we note that the scores are not strictly comparable to last year's since the index has been refined slightly.

The improvement in "Board matters" is partly due to the enhanced independent requirements introduced by MAS that put a hard limit of nine years for independent directors. In the area of "Communication with unitholders", we have also seen trusts starting to put up minutes of meetings on their websites. This has led to an improvement in the scores as well.

When merit and demerit points are included, the overall range of scores is from 40 to 79, with a mean of 65.5 and median of 68. The total score, including merit and demerit points, is a more complete measure of the governance of a trust. Compared to last year, the mean total score improved by 3.5 points and median total score improved by 6 points.

Table 1 shows the distribution of scores for each of the seven areas of the main index.

	Governance Risks						Business Risks
	Board matters	Remuneration of directors and key management	Alignment of incentives and interests	Internal and external audit	Communication with unitholders	Other governance matters	
Allocation of points	20 points	10 points	10 points	10 points	15 points	15 points	20 points
Average score	10.8	4.2	7.2	9.3	11.1	12.6	12.8
Highest score	16	8	10	10	14	15	19
Lowest score	4	0	4	6	6.5	7.5	3

Table 1: Distribution of scores for each of the seven areas of the main index

4. KEY FINDINGS

For the overall GIFT score, the top 5 trusts for 2018 are CapitaLand Commercial Trust and Keppel DC REIT (joint first), followed by Mapletree Commercial Trust and Mapletree Greater China Commercial Trust [3] (joint third), and Frasers Logistics & Industrial Trust, while the bottom 5 are Sabana REIT, Hutchison Port Holdings Trust, Lippo Malls Indonesia Retail Trust, RHT Health Trust and First Ship Lease Trust.

When we disaggregate the governance and business risk sections of GIFT, the following trusts, listed in alphabetical order, were assessed as having both good governance and low business risk, being ranked in the top 10 on both factors. At the other end, the following trusts were assessed as having relatively poorer governance and higher business risk, being in ranked in the bottom 10 on both factors.

Good governance and low business risk
CapitaLand Commercial Trust
Frasers Logistics & Industrial Trust
Keppel DC REIT
Mapletree Commercial Trust
Mapletree Greater China Commercial Trust

Poorer governance and higher business risk
Accordia Golf Trust
First Ship Lease Trust
Hutchison Port Holdings Trust
OUE Commercial REIT
Sabana REIT

[3] Mapletree Greater China Commercial Trust (MGCCT) was renamed Mapletree North Asia Commercial Trust (MNACT) in May 2018 following the acquisition of a portfolio of six properties located in Japan. For the financial year under review, the trust existed as MGCCT and references will be made to MGCCT (instead of MNACT) in this report.

There are some major changes in scores and rankings for certain trusts compared to last year, due to better disclosure and governance practices by these trusts. Some trusts have been overtaken in the rankings even though they have largely maintained their scores compared to last year. This was the result of greater effort on the part of some other trusts to improve their disclosure and governance practices. Other trusts have simply become better.

Certain related REITs moved up in tandem, suggesting that a collective effort was put in to improve disclosure. Changes in scores can also be partly attributed to changes in personnel and changes in the economics of the assets (e.g. leverage, debt maturity and lease expiry etc), and partly due to the adjustment of the scoring guideline.

4.1. Board matters

4.1.1. Appointment of directors

Croesus Retail Trust was the only internally managed trust in last year's ranking, and with its delisting, there are no other internally managed trusts in this year's ranking. Four externally managed trusts – Keppel REIT, Keppel DC REIT, Suntec REIT and Parkway Life REIT – have given the right for unitholders to endorse directors of the manager. This gives unitholders some say in the appointment of these directors. Where the manager commits to procure the resignation of directors who are not endorsed by unitholders, the unitholders' vote becomes effectively binding. All the trusts that give the right to endorse the appointment of directors also stated that they will procure the resignation of unendorsed directors.

However, we note that one of the trusts that allowed unitholders to endorse their directors last year did not put up any directors for re-election. We have taken the position that unless it is clear to us that directors go for re-endorsement at least once every 3 years, the trust would only earn partial points.

Currently, no trust gives unitholders the right to nominate directors, rather than just endorse directors selected by the manager. Therefore, no trust received merit points for this criterion.

4. KEY FINDINGS

4.1.2. Board size

The average (mean) board size is 7 directors, with a range from 4 to 12 directors. Three-quarters of the trusts in the study have a board size of six to nine directors, the range used in GIFT to determine appropriate board size. Managers and trustee-managers generally have fewer committees than listed companies and usually have only a single executive director (ED), the CEO, on the board. They can operate efficiently with relatively smaller boards than their listed company counterparts without compromising board effectiveness, if they have good processes for selecting the right non-executive directors (NEDs).

4.1.3. Board chairman

All of the managers have a non-executive chairman. Many also state that their chairman is an independent director (ID). We have re-designated a chairman from independent to non-independent where he/she has significant relationships with the manager/ trustee-manager or the sponsor (even where the nominations committee has deemed the director to be independent).

Relationships that we consider to be serious enough to cause a re-designation include significant consulting services (such as legal services) provided by the director or his/her firm, or concurrent service on the boards of a sponsor, controlling unitholder or related entities. We do the same for all IDs on the board other than the chairman.

There was an improvement in the scores as all the directors whose tenure have exceeded 9 years stepped down from the boards. Last year, they were re-designated as non-independent IDs.

After the re-designation, 21 trusts have an independent board chairman.

4.1.4. Independent directors and competencies

For the percentage of IDs on the board, we took into account the different regulatory requirements applicable to REITs and BTs in setting the ranges for different number of points awarded. For REITs, the ranges are: (a) below 50%, (b) at least 50% to below 75%, and (c) at least 75%. For BTs, they are: (a) at least 50% to below 75% and (b) at least 75%. As mentioned earlier, some directors were re-designated from independent to non-independent directors. Figure 1 shows the percentage of REITs and BTs (including stapled securities) respectively within each of these ranges.

In terms of competencies, IDs commonly have general business, banking, accounting and legal experience. For trusts, having IDs who have investment/fund management experience and prior working experience in the industry is useful. Based on our assessment, 20 trusts have IDs having either of these type of experience, while 20 have IDs with both types of experience. There is an improvement from last year's assessment due to better disclosure and more directors with such competencies.

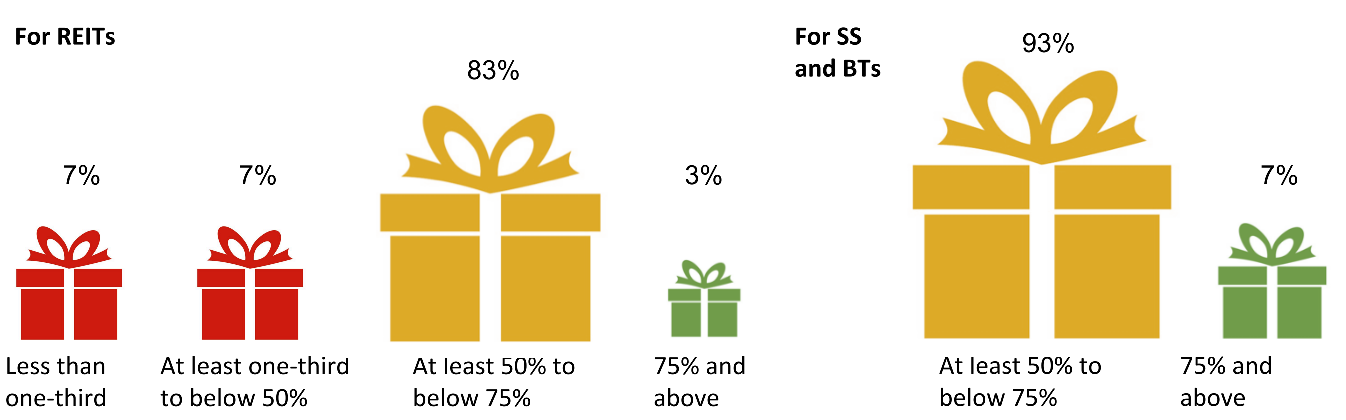


Figure 1: Percentage of Independent directors on the boards of REITs and BTs.

When comparing the self-assessment of the trusts, we find that the trusts (usually the REIT manager or the trustee-manager) frequently score the “ Board Matters” section higher than our independent assessment. We would like to emphasise that GIFT sets a high bar, especially in assessing the independence and experience of an independent director, particularly for audit committee members. It could be that the manager/trustee-manager knows the directors better and hence score them better especially in the area of experience. We encourage trusts to improve the quality of the disclosure on the directors. To qualify as having certain experience, we have looked for specific “hands-on” experience and have not included experience gained as lawyers, consultants, bankers or independent directors in the industry. We encourage trusts to re-evaluate the competencies of their directors to ensure that they have the relevant competencies.

4. KEY FINDINGS

4.1.5. Board committees

Thirty-three trusts have established a nominating committee (NC) and thirty-four a remuneration committee (RC). This is an improvement from last year. Of these, 27 have a combined nominating and remuneration committee. Trusts are given the same points whether they have separate NC and RC, or have combined them. Five NCs and 6 RCs have all IDs on the board committee.

All the trusts have established an audit committee (AC) or an audit and risk committee (ARC).

Figure 2 shows the percentage of each committee that have an independent chairman and the percentages that have all, majority and less than majority of IDs for each committee (after the re-designation of IDs to non-independent directors where applicable).

82% of the trusts have an independent AC chair assessed to have recent and relevant accounting or related financial management expertise or experience, and a third of them have a majority of IDs having such expertise or experience. We are stringent in assessing the latter, focusing on both recency and relevance of the experience. For example, working experience in the financial industry may not necessarily be considered as relevant accounting or financial-related experience for the AC.

Trusts should consider adopting a more rigorous approach when assessing the recency and relevance of the accounting and financial management-related expertise and experience of directors appointed to ACs.

Figure 2: Percentages with independent chairman and composition of independent directors in the NC, RC and AC.

4. KEY FINDINGS

4.2. Remuneration of directors and key management

Disclosures are better when it comes to remuneration of NEDs compared to the remuneration of EDs and key management. For NED remuneration, 84% disclosed the actual remuneration of each individual NED on a named basis, an improvement from last year. However, just 20% disclosed the fee structure, although this is a slight improvement from last year.

More trusts are beginning to disclose the remuneration components and rationale for having these components for their CEO and EDs. When it comes to the remuneration amounts and breakdown for the CEO, other EDs and key management, many trusts still do not even provide disclosures in bands. They often cite competitive reasons and sensitivity for non-disclosure. In addition, many argue that their remuneration is paid by the manager and not by the trust. In our view, such remuneration is ultimately borne by the trust and unitholders, and excessive or inappropriately designed remuneration packages would affect the efficiency and effectiveness of the manager or trustee-manager in managing the trust.

Twelve trusts link the remuneration of the EDs at least partly to return on equity or total unitholder return and sixteen to distribution or NAV per unit.

Figure 3 shows the key remuneration disclosures and practices of the trusts for items in the main index.

Overall, there is still considerable room for improvement in the disclosure of remuneration, especially for EDs and key management.

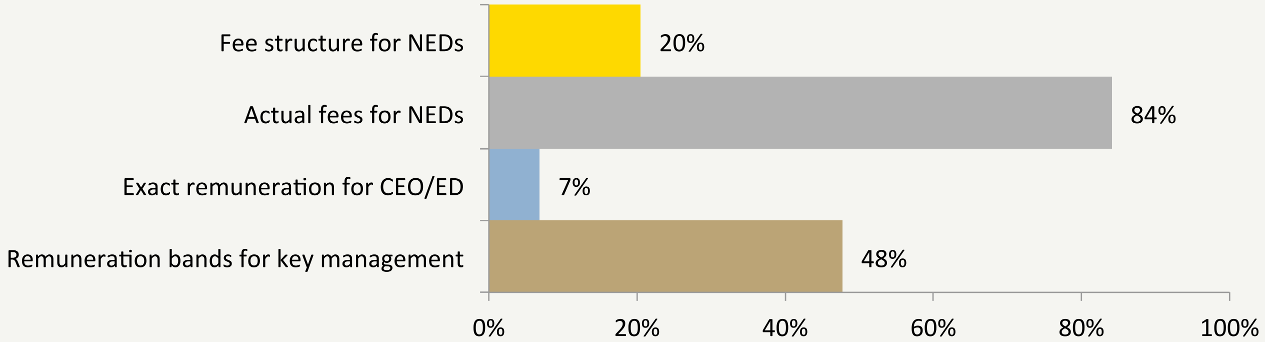


Figure 3: Key remuneration disclosures and practices for REITs and BTs.

To help trusts better understand what we were looking for in terms of disclosure of the fee structure for non-executive directors, we have attached an example below.

Directors' Fees[1]

Directors' fees are reviewed and endorsed by the NRC. The framework for determining the Directors' fees is shown in the table below:–

Main Board	Chairman	S$50,000 per annum
	Director	S$40,000 per annum
Audit Committee	Chairman	S$30,000 per annum
	Member	S$15,000 per annum
Investment Committee	Chairman	S$20,000 per annum
	Member	S$10,000 per annum
Nominating and Remuneration Committee	Chairman	S$20,000 per annum
	Member	S$10,000 per annum
Operational Risk Management Committee	Chairman	S$10,000 per annum
	Member	S$5,000 per annum

For a trust to earn 2 points for the disclosure on remuneration matters of executive directors and the CEO, the scoring guideline has used the term "fully disclose". By "fully disclose", we mean that the disclosure of remuneration should at most be rounded off to the nearest $1,000, with a breakdown into salary, annual bonus, long term incentives and other benefits.

4. KEY FINDINGS

4.3. Alignment of incentives and interests

Trusts are generally transparent about the amounts of different fees paid to the manager and other entities providing services to the trust, including asset management fees (base and performance fees), property management fees, acquisition fees, divestment fees and trustee fees. Such disclosures are highly regulated by rules and regulations set by MAS.

Fifteen trusts use a return-type metric, distribution per unit (DPU) or net asset value (NAV) per unit to determine the performance fee of the manager. They are given higher points in GIFT. However, 25 trusts link the performance fee to net property income, which may not necessarily measure the overall performance of the trust from the unitholder's standpoint.

For at least two trusts, the existence of the performance fee for the trustee-manager was not mentioned at all in the annual report. Even though the managers in these cases have not met the criteria to earn the performance fee, this disclosure on the performance fee and how it is determined should be in the annual report for unitholders' benefit.

Three trusts did not disclose that the quantum of its acquisition fee and the divestment fee. They merely stated that the manager is "entitled under the Trust Deed" to receive such fees but the trust deed is not available online. All the trusts charge acquisition and divestment fees and none base these fees on a cost-recovery basis. One trust has a fee structure that entitles its manager to an acquisition fee of 1.5% for transactions of less than $200 million.

Overall, in the area of alignment of incentives and interests, there can be improvement in linking performance fees more closely to unitholders' interests such as total unitholder return or DPU and reducing the use of net property income as a performance measure, and adopting a policy requiring NEDs to hold some units until they leave the board.

4.4. Internal and external audit

Trusts generally fare well in having reputable external auditors and unmodified audit opinions. All but two received the full 6 points allocated to external audit. No trust had unexplained changes in the external auditor or modified audit opinion (adverse, disclaimer, qualified). However, this year, RHT Health Trust and First Ship Lease have an emphasis of matter relating to material uncertainty related to the trust's ability to continue as a going concern. Both were ranked in the bottom five in GIFT last year.

Similarly, the trusts did well in the area of internal audit. All disclosed that they had an internal audit (either in-house or outsourced). Approximately half of the trusts outsourced to a reputable external firm (Big 4, mid-tier or reputable risk consultancy firm), and the other half outsourced to the internal audit department of the sponsor.

We believe that the common practice of outsourcing internal audit to the internal audit department of the sponsor may undermine the perceived independence of the internal audit function. This is especially so in providing assurance in areas relating to other functions that may be outsourced to the sponsor and related party transactions, which are common for trusts. We urge trusts to bear in mind this possible conflict of interest in such situations.

4.5. Communication with unitholders

4.5.1. Timeliness of results

Communication with unitholders is another area that trusts excel in. More than 80% of the trusts released their latest annual results within 45 days and about 60% released all their quarterly results within 30 days, even though the requirements are to release within 60 days and 45 days respectively (except for the fourth quarter which is 60 days).

4.5.2. Accessibility of information and investor relations

All the trusts have a website with a link to it provided on SGX or the annual report, with a dedicated link for investor relations (IR) on the website. Most have well-designed websites where information is relatively easy to find. All but one have their IPO prospectus on the website and all have at least the past five years' annual reports or all annual reports since IPO if listed for less than five years, usually in a subsection titled "Publications".

In terms of results announcements, all the trusts have a dedicated section for financial results for at least the past 12 quarters or since their listing dates.

4. KEY FINDINGS

We believe that the trust deed is an important document and should be made available to unitholders on the website of the trust. Lippo Malls Indonesia Retail Trust has a dedicated section on the website for its trust deed.

All the trusts also engaged with investors and analysts through meetings and/or conference calls and all but one put their presentation materials on the website.

All the trusts provide information for contacting Investor Relations (IR), with just more than half providing a specific IR contact person with contact details on the website and the rest providing either general contact details for an IR department or only an enquiries form to be filled up and submitted online.

To assess the responsiveness of the trust's IR, we contacted the trusts via email or by using the contact form. Trusts that had already responded to our invitation to submit a self-assessment were deemed to have met this criterion and were not contacted again.

Thirty-nine trusts responded in good time while the remaining five did not respond by the cut-off time two weeks later.

4.5.3. Unitholder meetings

Twenty-one trusts give at least 21 days' notice for meetings with unitholders, and at least 28 days' notice where the meeting includes a special resolution, compared to the requirements of 14 days and 21 days respectively. It is commendable that 32 trusts did not hold their AGMs within the last 5 business days of the peak months of April, July or October, thereby avoiding the peak AGM periods. This was an improvement from 27 AGMs that avoided the peak in the last review period. All trusts should target to avoid the peak AGM periods to improve engagement with its unitholders.

Three trusts did not post their AGM presentation material online. While it might be that there was no presentation made at the AGM, this is an area for improvement for these trusts.

In addition, the CapitaLand-related REITs and the Mapletree-related REITs posted detailed meeting minutes of the AGMs on their REITs' website. We would encourage them and all other trusts to also post the minutes on SGXNet. In addition, they should post the minutes as soon as practicable. In future, we may consider whether minutes are posted on SGXNet and the timeliness of the posting.

4.6. Other governance matters

4.6.1. Key management experience

Good governance needs to be supported by a strong management team. One of the key areas we assessed here is the length of working experience of the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Head of Investment or Asset Management, or their equivalents, in the industry in which the trust operates.

Table 2 shows the distribution of these three key management positions with (i) experience of ten years or more, (ii) five to ten years and (iii) below five years. This year, the scores in this section, especially for the CFO, show marked improvements due to better disclosure.

4.6.2. Rule of law

Where a trust operates mainly in a country with strong rule of law, there is likely to be better protection of investor and property rights. We consider countries in the top 25th percentile of the World Bank Governance Indicators as having strong rule of law. For the trusts assessed, 8 of them are not awarded points as they solely or pre-dominantly operate in countries with weaker rule of law.

4.6.3. AC review of interested person transactions

All but one disclose that the AC reviews all interested person transactions (IPTs). The other trust only states that the AC reviews controls, policies and procedures relating to IPTs or internal audit reports on IPTs, or that it only reviews IPTs above a certain threshold.

	Chief Executive Officer	Chief Financial Officer	Head of Investment or Asset Management, or their equivalents
Experience of ten years or more	73%	91%	84%
Experience of between five to ten years	20%	9%	5%
Experience of below five years	7%	0%	11%

Table 2: Experience of key management

4. KEY FINDINGS

4.6.4. Entrenchment of manager

Managers of trusts are generally entrenched to some extent as it is not easy to replace a manager even if public unitholders are dissatisfied with its performance. However, the higher the percentage of units held by sponsor or controlling unitholder, the harder it is for public unitholders to replace the manager. For REITs, the rules provide that the manager can be removed by a majority of unitholders, while the trustee-manager of a BT can only be removed by 75% of unitholders. Therefore, it would be impossible for public unitholders to remove a manager if the sponsor/ controlling unitholder retains 50% of the units in the case of a REIT and 25% (plus one unit) in the case of a BT. Thirty-two of the trusts were assessed to have less entrenchment.

No trust currently subjects its manager to periodic re-appointment by unitholders. We believe that unitholders recognise the value of retaining an experienced manager or trustee-manager and will not trivialise a decision to change even if they are able to. Perhaps giving unitholders a right to endorse the re-appointment periodically - effectively an advisory rather than a binding vote - would be a good way to gauge the satisfaction of unitholders with the performance of the manager or trustee-manager.

4.6.5. Stapling of REIT/BT

Stapling a trust with another trust further complicates the trust structure, changes its risk-return profile and reduces investor choice (who would prefer to purchase individual trusts on their own if they so wish). This is especially so if the trusts are in unrelated businesses. Only six of the trusts included in our assessment are stapled and just three have an active trustee-manager stapled to the REIT in a related business.

4.6.6. Other negative governance events

Various other negative governance events are taken into account in assessing the governance of the trusts, such as turnover of directors and key management; regulatory issues related to the trust, directors and key management; and non-compliance with laws, regulations, rules and codes.

These negative governance events are rare, but they are important to include in the index to help ensure that the index score better measures the substance of the governance of the trust.

Table 3 shows the negative governance events applicable to some trusts and the number of demerit points deducted for each event.

Common negative governance events	Demerit points
Any of the directors or KMPs resigns and raises corporate governance-related concerns	5 to 10 demerit points
CEO, CFO, CIO or COO of the REIT Manager/BT Trustee-Manager resigns without adequate disclosure of the circumstances	3 demerit points
Non-compliance with any Rules, Regulations, Codes or Acts	3 to 10 demerit points
Delay in holding its AGM within 4 months from the end of the financial year	3 demerit points
Disclosure-related lapses resulting in queries from the Exchange	2 demerit points

Table 3: Negative governance events with demerit points

4. KEY FINDINGS

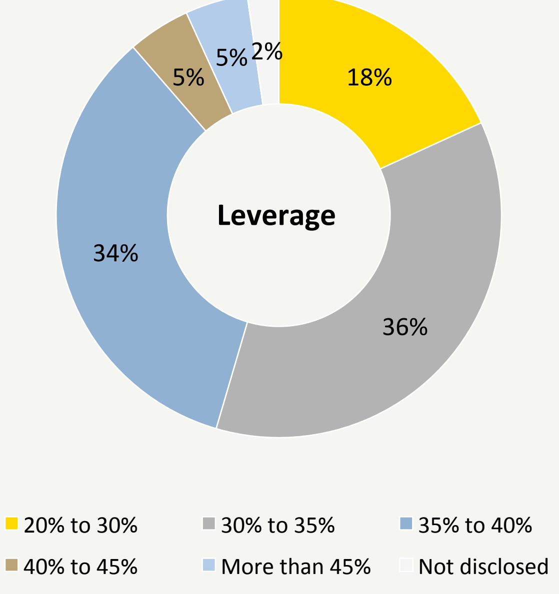
4.7. Business risk

In GIFT, 20 points are allocated to factors related to business risk. These factors include: (a) leverage-related factors of overall leverage, average debt maturity, percentage of debt maturing within 12 months and percentage of borrowings carrying fixed interest rates; (b) change in weighted average lease expiry (WALE) from prior year; and (c) extent of income support arrangements. Volatility of returns of the trust, which was included in the index last year, was dropped as we recognise that this is not wholly under the control of the trust. In its place, we have added a criterion relating to foreign assets and foreign currency risks.

For REIT, a fifth factor, percentage of development limit, was included, with the weightage for overall leverage reduced.

Figure 4 shows how the trusts fared in terms of the distribution of the level of leverage, the weighted average debt expiry and the weighted average lease expiry.

In the case of WALE, we differentiate between those with a WALE of at least five years or with an increase in WALE compared to the previous year, from other trusts with a WALE of less than five years and a constant or decrease in WALE. Twenty trusts have a WALE of at least five years or an increase in WALE. Eight have a WALE of less than five years and a constant WALE, and nine have a WALE of less than five years and a decrease in WALE.



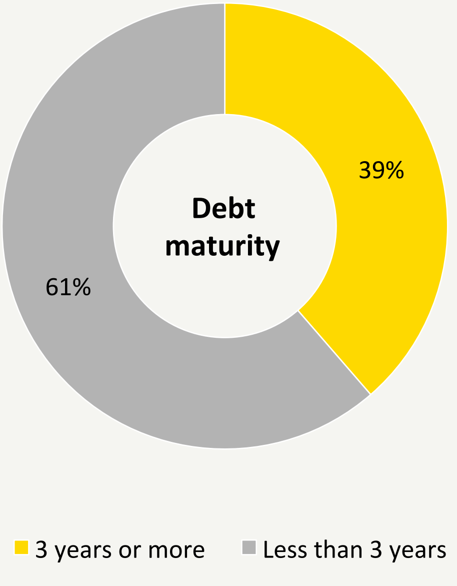


Figure 4: Distribution of the level of leverage, the weighted average debt maturity and weighted average lease expiry

About four-fifth of the trusts did not disclose any income support arrangements or disclose that they did not have such arrangements. The other trusts have some form of income support arrangements, with three trusts having income support exceeding 10% of their total distributions.

For REIT, we include development limit as a fifth factor related to business risk. Recent MAS regulatory changes allow REITs to exceed a 10% development unit with the approval of unitholders. A higher development unit exposes the REIT to higher risk. We did not find any REIT seeking unitholders' approval to increase the development limit in this round of assessment.

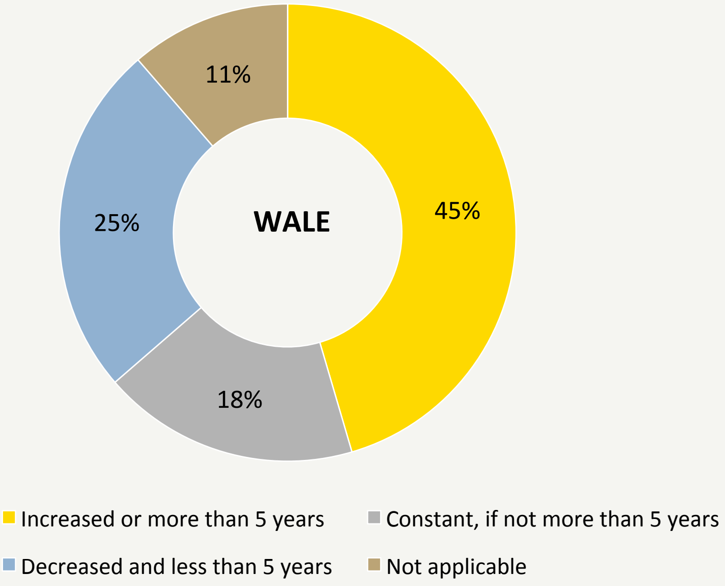


Figure 4: Distribution of the level of leverage, the weighted average debt maturity and weighted average lease expiry (continued)

For business trusts, we recognise that they may not have a direct measurement of WALE depending on the business model. For instance, Accordia Golf Trust depends on player fees and thus the business model of the trust does not provide its unitholders with a high level of certainty of its income.

During the scoring of the trusts, we came across trusts that only disclose WALE by Net Lettable Area (NLA) and not WALE by Gross Rental Income (GRI). We think that this is an area for improvement and we plan to specifically score WALE by GRI in future editions of GIFT.

5. UNWRAPPING THE TRUSTS

We would like to highlight certain matters that, if left unchecked, may cause governance, business risk or performance issues for trusts going forward.

5.1 Change of control in the manager/sponsor

There were several cases of managers of trusts being sold, thus leading to a change of control in the manager/sponsor. Financial details were not disclosed as the managers are private entities although a well-run manager with a reasonable AUM was valued at more than $50 million in the Singapore REIT/BT context. Some examples of trusts with a change in control include ESR REIT (which used to be Cambridge REIT), First Ship Lease Trust and IREIT Global.

As it is difficult to remove the manager given the substantial stake held by the controlling unitholder coupled with dispersed public unitholdings in a typical trust, there is an issue of entrenchment by the manager/trustee-manager. In addition, it is difficult to change the trust deed without the blessing of the manager who is often controlled by the controlling unitholder/sponsor and thus it is unlikely that fees are adjusted downwards.

The recent sale of a manager suggests that there is demand for managers due to the relatively stable nature of their fee-based income. The risk is that when a manager/trustee-manager is bought at a high price, unitholders may ultimately suffer as the manager/trustee-manager is faced with significant pressure to deliver returns to the new owners. Ultimately, it may lead to unitholders paying higher fees to the manager/trustee-manager.

This also creates a potential issue to unitholders when new owners change the mandate (see next section).

5.2 Change of mandate

Most, if not all, trust deeds allow the manager to expand its investment mandate with 30 days’ notice given to “inform” unitholders that the mandate has been expanded. No approval by unitholders is required as stipulated in the trust deed.

There have been several examples of the expansion of a trust’s mandate. A Singapore-focused industrial REIT has expanded to Australia while an Australian-focused industrial REIT expanded to Europe. The usual reason given is the lack of investment opportunities in its original mandate.

5. UNWRAPPING THE TRUSTS

One trust hastily announced a proposed acquisition under the new mandate on the 28th day of the 30 days' "notice period". One other trust went even further to announce a proposed acquisition together with the announcement of an enlarged mandate.

The question unitholders should be asking is whether the new mandate significantly alters the risk profile of the trusts. Unitholders have to evaluate if the manager/trustee-manager has the expertise and the network to make good on the diversification and consider if the governance is in place to prevent over-aggressive acquisitions especially as most managers/trust-managers are compensated based on assets-under-management.

5.3 Foreign currency exposure

If a trust's minority investors depend on the trust for income, then the added exposure of foreign assets earning income denominated in foreign currency will introduce uncertainty and risks to the unitholders' expected income in the form of distributions. However, most REITs have a certain level of natural hedging (i.e. foreign currency denominated loans for its foreign assets).

Hedging the income will reduce the foreign currency risks and provide a certain level of certainty to the short-term cash flow. Some REITs have, as a policy, chosen to be exposed to currency mis-match, i.e., borrowings in Singapore dollars to invest in foreign assets earning income denominated in foreign currency.

5.4 Managing DPU (I)

New REITs and business trusts have emerged in the market that have the sponsor/controlling unitholder/vendor waive their rights to receive distributions for a certain period of time. This then allows the units to be sold/IPO-ed with a certain level of yield to attract investors. In one particular trust, it was disclosed in the annual report that as much as 55% of the units in issue have waived their right to receive distributions. In effect, the actual DPU has been artificially boosted to twice its "sustainable" level if all units are ranked the same and receive distributions. For investors who do not read the fine print, these REITs are trading at artificially high yields and less informed investors may not be aware of it.

5.5 Managing DPU (II)

As stipulated in the trust deed, the fees of managers and trustee-managers could be paid in cash or in units at their discretion. A chairman of a REIT proudly claimed at the AGM that the REIT's CEO could "perform magic" as the CEO increased the REIT's DPU despite carrying out a major asset enhancement initiative at one of its key assets. This was achieved partly by electing to receive its fees in units instead of cash so that the REIT could keep up its trend of increasing DPU over the years/ quarters. In its annual report and in the REIT's presentation material, the increases in the DPU over time were prominently highlighted but not the "magic trick".

Ultimately, there is no free lunch. The hidden cost to unitholders is the dilution of their unitholdings. Imagine if the manager's performance fees depended on increases in DPU, then there will be huge incentives to manage the DPU to earn their performance fees. In the example stated above, the manager's performance fees are pegged to net property income so there is nothing too sinister about the manager managing its DPU.

Governance Index For Trusts – July 2018

Ranking	REIT/BT	Governance Score	Business Risk Score	GIFT 2018
1	CapitaLand Commercial Trust	61	18	79
	Keppel DC REIT	60.5	18.5	79
3	Mapletree Commercial Trust	58	20.5	78.5
	Mapletree Greater China Commercial Trust	61.5	17	78.5
5	Frasers Logistics & Industrial Trust	57.5	20	77.5
6	ESR REIT	62	15	77
7	AIMS AMP Capital Industrial REIT	61.5	14.5	76
8	Ascendas REIT	60	15.5	75.5
	Manulife US REIT	57	18.5	75.5
10	CapitaLand Mall Trust	57.5	17.5	75
11	Frasers Centrepoint Trust	60	14	74
12	Mapletree Industrial Trust	51	22.5	73.5
	Soilbuild Business Space REIT	64	9.5	73.5
14	IREIT Global	54	18.5	72.5
15	Ascott Residence Trust	56	16	72
16	Frasers Hospitality Trust	55.5	15.5	71
17	Frasers Commercial Trust	53	17	70
18	Ascendas India Trust	54	15.5	69.5
	Mapletree Logistics Trust	54.5	15	69.5
20	Keppel REIT	55	14	69
	Parkway Life REIT	53	16	69
22	First REIT	54	14.5	68.5
23	CapitaLand Retail China Trust	52	16	68
24	SPH REIT	55	12	67
25	Ascendas Hospitality Trust	50.5	15.5	66
	Keppel Infrastructure Trust	49	17	66
	Suntec REIT	53	13	66
28	BHG Retail REIT	55.5	8.5	64
29	Far East Hospitality Trust	52.5	11	63.5
30	Starhill Global REIT	46	17	63
31	OUE Hospitality Trust	43	19	62
32	CDL Hospitality Trusts	50.5	10.5	61
33	Asian Pay Television Trust	47	12	59
34	Cache Logistics Trust	49	9	58
	Dasin Retail Trust	44.5	13.5	58
	EC World REIT	48	10	58
37	Viva Industrial Trust	55.5	2	57.5
38	Accordia Golf Trust	44	8	52
39	OUE Commercial REIT	41.5	9	50.5
40	Sabana REIT	48	0	48
41	Hutchison Port Holdings Trust	38.5	7	45.5
42	Lippo Malls Indonesia Retail Trust	48.5	-3.5	45
43	RHT Health Trust	33.5	11	44.5
44	First Ship Lease Trust	35	5	40

Note: *The main Governance score and Business risk score add up to 80 and 20 points respectively. In the two columns above, the scores include merit and demerit points. That is why two trusts scored more than 20 points and a trust received negative points in the business risk section.*

ABOUT THE AUTHORS

Mak Yuen Teen

Mak Yuen Teen is an Associate Professor of Accounting at the NUS Business School, National University of Singapore, where he teaches corporate governance. Prof Mak holds first class honours and master degrees in accounting and finance and a doctorate degree in accounting, and is a fellow of CPA Australia.

He served on committees that developed and revised the Code of Corporate Governance for listed companies in Singapore in 2001 and 2005. He is a member of the Corporate Governance Council formed by MAS in 2017 to review the Code.

Prof Mak developed the Governance and Transparency Index (GTI) and the Governance Evaluation for Mid- and Small-Caps (GEMS) and was the Singapore expert involved in developing the ASEAN Corporate Governance Scorecard.

For more information about Prof Mak's work, please visit his website at www.governanceforstakeholders.com.

.

Chew Yi Hong

Chew Yi Hong is an active investor and a keen observer of the corporate governance scene. He received an MBA with Distinction from the London Business School and graduated from Cornell University with dual degrees in Economics and Electrical Engineering.

Prior to his time spent at a Big 4 public accounting firm, he consulted for a global fund to address corporate governance issues of a listed issuer. Mr. Chew has also researched on other areas of corporate governance including board and senior management diversity in the public and private sectors, and across major Asian economies.

Associate Professor Mak Yuen Teen
NUS Business School
bizmakyt@nus.edu.sg
www.governanceforstakeholders.com