SUPPORTED BY SGX

GIFT
GOVERNANCE INDEX FOR TRUSTS 2021

MAK YUEN TEEN
CHEW YI HONG

First published in November 2021

GOVERNANCE INDEX FOR TRUSTS 2021
Volume 5

AUTHORS
MAK YUEN TEEN & CHEW YI HONG

GIFT

GOVERNANCE INDEX FOR TRUSTS VOL 5

MAK YUEN TEEN
CHEW YI HONG

ACKNOWLEDGEMENTS

The authors would like to thank the trusts for their participation in the self-assessment, making GIFT a community effort; the partners for their support in the development of GIFT and SGX for its continuing support. However, the authors are responsible for the content in this report and any errors.

FOREWORD BY TAN BOON GIN

GIFT is a gift that keeps giving to the regulators. Once again, it has provided us great insight into the progress made by the Trusts listed on our market in terms of their governance.

Compared to 2020, there has been a slight decrease in the overall average score for trusts this year. Despite this, I am heartened to see some improvements especially in the area of board matters.

At a broad level, more trusts are now adhering to the spirit of the rules rather than the letter of the law. First, the number of trusts voluntarily seeking unitholders' endorsement of directors is slowly increasing over the years. Second, the percentage of trusts having a Nominating Committee and a Remuneration Committee have also increased following a decline in 2020. These are positive signs that I hope will continue to permeate through the sector as more trusts adopt practices to give unitholders rights that are more closely aligned to that of shareholders of listed companies.

Even while there are improvements in the practices pertaining to the board of directors, more can be done as highlighted in GIFT 2021. Board composition, especially in the area of independent directors with relevant experience and board diversity, continues to be an area in need of improvement. At the same time, trust managers must bear in mind that investors do not just look to a list of requirements being checked off, but rather that a rigorous assessment has been undertaken to determine the suitability of the directors appointed.

The market community, together with the regulators, must continue to strive for improvements in the sector, both in the terms of the diversity and quality of our offerings, and in the quality of our governance. It is only with these two facets working in unison that Singapore can continue to enjoy its status as a leading listing venue for REITs and BTs.

Tan Boon Gin
CEO
Singapore Exchange Regulation

EXECUTIVE SUMMARY

The Governance Index for Trusts (GIFT), first launched in 2017, is supported by the Singapore Exchange (SGX). MoneySense, the national financial education programme, provides a link to GIFT to assist investors in assessing if they are comfortable with the corporate governance of REITs[1]. We appreciate their support.

Since 2018, trusts are able to submit a self-assessment which we take into account in our assessment. From last year, trusts are able to do this online and we are pleased that 36 out of 45 trusts, or 80%, participated in the self-assessment this year. This is the highest participation rate so far. We thank those who responded for engaging with us on this initiative and look forward to the continuing engagement from all the trusts listed on SGX.

For this fifth edition of GIFT, 45 real estate investment trusts (REITs) and business trusts (BTs) listed on SGX were assessed – the same number as last year. Two trusts which are currently listed (but suspended from trading) were excluded – RHT Health Trust and Eagle Hospitality Trust (EHT). Three newly-listed trusts have been added to GIFT 2021 - Elite Commercial Trust, Lendlease Global Commercial REIT and United Hampshire US REIT.

In GIFT 2020, the weighting for the governance section was adjusted from 80% to 75% while the weighting for the business risk section increased from 20% to 25%. These weightings continue to apply for GIFT 2021.

To make GIFT more timely for investors, all but one of the trusts were assessed on their business risks using the June 2021 results or operational/financial update. The only exception was a REIT that provided its key business and operational updates in July for its third quarter results that ended on 31 May 2021.

Personnel changes to the board and senior management were assessed up to the cut-off date of end of July 2021.

Beyond box-ticking

As noted in GIFT 2020, with the sector maturing, we focused even more on substance and recognise trusts going beyond the bare minimum, rather than mere disclosure and practices which trusts would be expected to have anyway, such as the existence of a website, or the publication of minutes of meeting which was rare prior to the pandemic.

[1] https://www.moneysense.gov.sg/articles/2018/10/understanding-real-estate-investment-trusts-reits

EXECUTIVE SUMMARY (CONT'D)

Minor changes made to the scoring guidelines include the addition of a criterion for live Q&A during the virtual AGM, a new merit item for live voting and the reduction of points (to one) for posting minutes of meeting online (previously two points). In addition, over the past year, we have had the opportunity to assess how trusts responded to the cessation of quarterly reporting – trusts that the provided updates for their first and third quarters received a point while trusts that continued with quarterly reporting received two points.

TOP PERFORMERS AND OVERALL TRENDS FOR GIFT 2021

The top-ranked trusts in GIFT 2021 are Netlink NBN Trust, Keppel Pacific Oak US REIT, Mapletree North Asia Commercial Trust, Cromwell European REIT and United Hampshire US REIT (two trusts in joint fourth place). Netlink NBN Trust has been the top-ranked trust in GIFT since its debut in 2019. In GIFT 2021, it achieved a new high score of 95, compared to 90 in 2020 and 2019.

At the other end, the five lowest-ranked trusts are EC World REIT, First REIT, Lippo Malls Indonesia Retail Trust, Hutchison Port Holdings Trust and Dasin Retail Trust. Dasin Retail Trust's score of 24 is the lowest since GIFT was launched.

Prior to 2020, the average GIFT score was improving since the first edition, increasing from 62.2 in 2017 to 65.6 in 2018 and to 68.0 in 2019. In 2020, the average combined score fell largely due to changes to the scorecard and scoring methodology. However, we said in our 2020 report that we felt standards have stagnated somewhat or even declined even as trusts grew bigger. This year, the average combined governance and business risk score slipped slightly from 64.3 to 64.1.

The three new entrants, United Hampshire US REIT, Elite Commercial REIT and Lendlease Global Commercial REIT, debut at joint 4th, joint 6th and 30th respectively.

Excluding the three new trusts, the overall average score for those trusts that were in both last year's and this latest edition decreased from 64.4 to 63.6.

Looking separately at the two components of GIFT, the average governance score decreased from 48.0 to 47.4 while the average business risk score improved slightly from 16.3 to 16.6. We should point out that had one point not been reallocated from the posting of minutes to having live Q&A at the AGM, there would have been a marginal increase in the total GIFT score in 2021. We reduced the points for posting of minutes and re-allocated to live Q&A because the former was mandatory for virtual meetings. As it stands, the average overall GIFT score is 64.1.

EXECUTIVE SUMMARY (CONT'D)

Areas where trusts have done well

Just over 60% of trusts posted their minutes of meeting prior to the pandemic. This has become mandatory for trusts holding virtual meetings under the Covid-19 measures introduced by ACRA, MAS and SGX. We hope that trusts will continue this practice even for physical meetings post-pandemic.

Like last year, all except one trust disclosed the exact fees paid to NEDs. This is in stark contrast to the poor level of disclosure of NED fees for other listed companies on SGX. Twenty three trusts – just over half – disclosed the fee structure for non-executive directors (NEDs), compared to 17, or 38%, last year.

Gradual improvement

More trusts allow endorsement of directors by unitholders, with newly-listed Lendlease Global Commercial REIT being the latest to do so. In all, unitholders in seven trusts can now endorse directors and directors who do not receive unitholders' endorsement have to step down. The seven trusts exclude Sabana REIT which was directed by MAS to seek endorsement for two newly-appointed independent directors at its AGM, but these directors resigned after certain minority investors said they would withhold endorsement. In 2020, six trusts sought endorsement, while five did so in 2019.

After a decline in 2020, the percentages of trusts having an NC and RC have bounced back to around the 2019 level. This should further increase next year as five trusts from the same group formed their respective NRC in October 2021 (after the cut-off date of this report).

Attendance of directors in board and committee meetings improved, with 10 trusts compared to 14 having one or more directors missing two or more meetings or missing meetings for two consecutive years. The number of demerit points decreased from 26 to 13.

EXECUTIVE SUMMARY (CONT'D)

More trusts (31 compared to 28) disclosed the performance measures used to determine the variable component of remuneration for KMP. While one fewer trust (29 versus 30) disclosed that they have a long-term component in their remuneration framework in place, more (21 versus 18) disclosed the KPIs used for the long-term component. More trusts (17 versus 14) also disclosed that they have put in place long-term incentive schemes which provide units or rights to units that vest over a minimum of three years.

Seven trusts this year, compared to none last year, allowed unitholders attending the AGM remotely to ask questions “live” by text chat. However, none allowed questions by “live” video or had “live” voting at the AGM, except for ESR-REIT which had a hybrid AGM and Mapletree Logstics Trust which conducted a hybrid EGM.

There has been an increase in activism by minority unitholders. We view this as a positive development as long as the activism is undertaken in a responsible manner aimed at protecting or enhancing value for all unitholders.

Areas where the sector has stagnated, regressed or not met expectations

Disappointingly, all male boards have remained at 11, similar to last year. The number of trusts with an independent chairman (after re-designating certain chairmen to non-independent) fell from 22 last year to 21 this year, while the number of trusts with a majority of independent directors (IDs) fell from 33 to 30.

The relevance of board competencies of trusts also fell in two main respects. Fewer trusts (19 compared to 22) have at least one ID with both investment experience and experience in the sector and more (9 compared to 8) did not have any ID with either relevant investment or industry experience. In addition, while the number of trusts having an audit committee (AC) chairman with recent and relevant accounting/financial management experience and expertise remained constant at 31, the number of ACs that have a majority of IDs with such experience fell from 15 to 13.

EXECUTIVE SUMMARY (CONT'D)

Eleven trusts compared to 13 had six or more board meetings, four or more AC meetings and two or more nominating committee (NC) and remuneration committee (RC) meetings.

Given the importance of having truly independent directors with the relevant competencies, we believe trusts can also do better in explaining their search and nomination process, and be stricter in assessing the independence of directors based on both the letter and the spirit of the rules.

Another area where trusts can improve is in providing more information relating to the cessation of directors and key officers, and in the case of key officers, information about the search for replacement and the expected time frame for a new appointment.

Trusts should endeavour to hold their AGMs earlier to avoid the peak period usually observed in the last week of April, July and October to improve engagement with unitholders.

The trusts that disclosed the exact remuneration of the CEO are the same as last year and remains at just three, while the number that disclosed the remuneration of the top 5 KMP in bands of no more than $250,000 together with a breakdown into individual components remains at four.

While one more trust than last year based performance fees on distribution per unit (DPU) which results in better alignment of interest with unitholders, the relationship between performance fees and DPU has weakened to some extent compared to last year.

The timeliness of release of annual results and half-yearly results has dropped, with fewer trusts (34 versus 37) releasing their latest annual results within 45 days and also fewer trusts (28 versus 30) releasing their half-yearly results within 30 days.

Only nine trusts continued with full quarterly reporting compared to 12 last year.

EXECUTIVE SUMMARY (CONT'D)

Watch list

Over the years since GIFT was started, more trusts are using some form of hybrid securities, usually perpetual securities. In GIFT 2021, there were 17 trusts using hybrid securities compared to 14 last year. Their use could increase the risk of a trust even though leverage ratios may appear reasonable, and ordinary investors may not fully understand their risks.

PRC REITs and business trusts appear to have higher duration mismatch, with greater use of short-term financing, and currency mismatch (use of "offshore" loans to fund RMB assets). A caveat is that this is based on a very limited sample.

Wish list

Given the prevalent externally managed trusts listed on SGX, and the pervasive conflicts of interest and recurring interested person transactions involving sponsors and their related entities, it is particularly important to have truly independent boards. The following are practices that we hope would be more widely adopted to enhance board independence:

- independent board chairman
- majority of independent directors
- stricter application of independence criteria
- information about the search process on appointment of an independent director (although the appointment template states that the search and nominating process should be disclosed, how a director is sourced is almost never disclosed)
- endorsement of directors by unitholders

Trusts should also provide positive assurance that policies, procedures and safeguards relating to conflicts of interest and interested person transactions are applied in practice, such as recusal from deliberations and decision-making by conflicted parties.

We are puzzled why trust deeds are so rarely disclosed on the website of trusts. Regulators may wish to consider making such disclosure mandatory.

The structure of trusts, especially those with significant foreign assets, is often highly complex and difficult for unitholders to understand. Trusts can help unitholders better understand the rationale for the structure and how risks associated with such a structure are mitigated.

Trusts should have fully interactive Q&A and live online voting for all unitholder meetings.

.

EXECUTIVE SUMMARY (CONT'D)

Caveats

While we have taken great care in assessing the governance and business risks of the trusts covered in GIFT, we would like to highlight the following caveats:

- Limitations of a governance index

The index only includes measures that are reported or observable, and quantifiable. Measures such as integrity of the board; "quality" of the sponsor, management and trustee; "strength" of counterparties and "quality" of properties, are important factors that are not directly assessed. The index also does not directly assess the governance and business risks associated with highly complex ownership structures involving many layers of entities incorporated in multiple jurisdictions, and entities which are related to the sponsor.

- Not a substitute for investors' due diligence

We believe that the GIFT scores provide a useful starting point for investors in understanding the governance and business risks of trusts and for trusts to benchmark themselves against their peers. However, they are not a substitute for investors doing their own due diligence.

- Risk appetite varies for investors

Over the years, we have observed that trusts that are ranked lower in GIFT tend to perform more poorly in subsequent periods. However, trusts that have poorer governance or higher risk could outperform, especially over relatively short time periods. Risk appetite varies for investors and some investors may be prepared to invest in riskier trusts with the hope of higher returns.

.

Governance Index For Trusts – GIFT 2021

Ranking	REIT/BT	Governance risk Score	Business risk Score	GIFT 2020
1	NetLink NBN Trust	74	21	95
2	Keppel Pacific Oak US REIT	58	21	79
3	Mapletree North Asia Commercial Trust	57	20	77
4	Cromwell European REIT	57	19	76
	United Hampshire US REIT	55	21	76
6	Elite Commercial REIT	55	19	74
	Keppel DC REIT	56	18	74
	Mapletree Commercial Trust	53	21	74
9	CapitaLand Integrated Commercial Trust	49	24	73
	Far East Hospitality Trust	55	18	73
	Frasers Centrepoint Trust	50.5	22.5	73
12	Parkway Life REIT	51.5	21	72.5
13	Manulife US REIT	53	18.5	71.5
14	Frasers Logistics & Commercial Trust	50	21	71
15	Keppel REIT	54	16.5	70.5
16	AIMS APAC REIT	50.5	19.5	70
	IREIT Global	47	23	70
18	Ascendas REIT	52	17.5	69.5
19	Mapletree Industrial Trust	50.5	18.5	69
20	Sasseur REIT	49	19.5	68.5
21	Starhill Global REIT	49.5	18	67.5
22	First Ship Lease Trust	47.5	18	65.5
23	Ascendas India Trust	47	17.5	64.5
	Keppel Infrastructure Trust	50.5	14	64.5
25	BHG Retail REIT	51	12.5	63.5
26	ARA US Hospitality Trust	50	13	63
27	CapitaLand China Trust	43.5	19	62.5
	SPH REIT	42.5	20	62.5
29	Prime US REIT	42	20	62
30	Lendlease Global Commercial REIT	43	18.5	61.5
31	Frasers Hospitality Trust	45	16	61
	Mapletree Logistics Trust	44	17	61
33	ESR-REIT	43.5	16	59.5
34	CDL Hospitality Trusts	45	13.5	58.5
	OUE Commercial REIT	45.5	13	58.5
36	ARA LOGOS Logistics Trust	40.5	15	55.5
37	Ascott Residence Trust	43.5	11	54.5
38	Sabana REIT	34.5	19.5	54
	Suntec REIT	44.5	9.5	54
40	Asian Pay Television Trust	39	13	52
41	EC World REIT	42.5	5.5	48
42	First REIT	37.5	10	47.5
43	Lippo Malls Indonesia Retail Trust	38	3.5	41.5
44	Hutchison Port Holdings Trust	32	7.5	39.5
45	Dasin Retail Trust	16	8	24

EXECUTIVE SUMMARY – KEY FINDINGS

Section 1 - Board matters

- With the addition of Lendlease Global Commercial REIT, 7 trusts now give unitholders the right to endorse directors
- This excludes Sabana REIT which will seek endorsement from independent unitholders for the appointment of independent directors following a directive by the Monetary Authority of Singapore
- Average board size remains at just over 7 directors, with the smallest board having 3 directors and the largest 12 directors
- The number of trusts with an independent chairman has decreased by one to 21 (approximately 47%)
- Two-thirds of the trusts (30 compared to 33 last year) have a majority of independent directors on board, with 3 of them having 75% or more independent directors on board
- Nineteen trusts (compared to 22) have at least one independent director with both investment experience and experience in the sector, and 9 trusts (compared to 8 last year) did not have any independent directors assessed to have either relevant investment or industry experience
- There are 11 all-male boards, 14 mono-ethnicity boards, and 17 boards with only directors aged 50 years old or more. Only 40% of boards (18 boards, an increase of 3) were recognised to have all the three attributes of gender, ethnicity and age diversity
- More trusts have formed a NC or RC, or a combined NRC, with 9 not having a NC and 8 not having an RC. Five trusts under the same group formed their respective NRC in late October 2021 (after the cut-off date of this report)
- The number of trusts assessed to have an AC chair with recent and relevant accounting/financial management experience remained constant at 31 (69%)
- Less than 30% (13 trusts compared to 15) have a majority of the independent AC members with recent and relevant accounting/financial management experience and expertise
- Eleven trusts received additional merit points for holding at least six board meetings, four AC meetings and two NC/RC/NRC meetings
- Attendance by directors improved during the year - 10 trusts (down from 14) received a total of 13 demerit points (down from 26 demerit points) for directors missing two or more meetings in a year or if any director did not have full attendance for two consecutive years

EXECUTIVE SUMMARY – KEY FINDINGS

Section 2 - Remuneration matters

- Twenty three trusts (up from 17) disclosed the fee structure for non-executive directors (NEDs)
- Other than Asian Pay Television Trust, trusts fully disclosed the exact fees for NEDs
- Only 3 trusts disclosed the exact remuneration of the CEO
- Four trusts disclosed the remuneration for KMP in bands of no more than $250,000 with breakdown into different components while 11 other trusts (one more than last year) disclosed for less than five KMPs
- Approximately two-thirds of the trusts include a long-term component in the remuneration packages of executive directors/senior management
- Seventeen trusts disclosed that they have put in place schemes which provide units or rights to units that vest over a minimum of three years
- More trusts (31 compared to 28 last year) disclosed the KPIs used to determine the remuneration of executive directors/senior management, with 20 disclosing return on equity and/or total unitholder return as KPIs, and 11 disclosing DPU and NAV as KPIs

EXECUTIVE SUMMARY – KEY FINDINGS

Section 3 - Alignment of incentives and interests

- Twenty trusts base performance fees on distribution per unit (DPU) which results in better alignment of interest with unitholders than net property income (NPI), compared to 19 last year, with two of the newcomers (Elite Commercial REIT and United Hampshire US REIT) doing so

- In just over a third of the trusts, management fees increased while DPU dropped. For nearly half the trusts (up from 40% last year), fees increased faster than DPU increased or fees decreased less than DPU decreased
- A business trust had its controlling unitholder enter into an option to sell up to 26% in the BT, along with a 70% stake in the unlisted trustee-manager. Part of the holdings of the BT's controlling unitholder have been pledged to a financial institution and they have been forced sold in the market to meet "margin calls"
- Four trusts did not show the pro-forma impact of their acquisitions

Section 4 - Internal and external audit

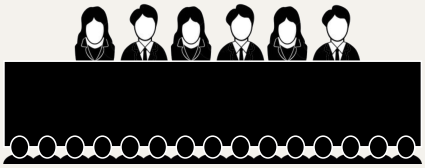
- Twenty two trusts used an external independent service provider for their internal audit or have their own in-house internal audit function while the other 23 have an IA from the sponsor
- A business trust received an emphasis of matter in respect of material uncertainty related to the ability of the trust and its subsidiaries to refinance the existing borrowings by the external auditor

EXECUTIVE SUMMARY – KEY FINDINGS

Section 5 - Communication with unitholders

- Only 9 trusts continued the practice of providing unitholders with quarterly reporting (including financial statements) following the change to risk-based quarterly reporting

- All but one of the remaining 36 trusts provided quarterly updates, with Hutchison Port Holdings Trust being the only trust to not have provided unitholders with quarterly updates since February 2020



- Last year, 2 trusts continued with quarterly reporting because of an ongoing merger; the surviving trust stopped its quarterly reporting after the merger was completed

- Approximately three quarters (34) of the trusts posted their full-year results within 45 days from the end of the financial year, down from 37 previously; for the half-year results, 28 (compared to 30) trusts reported within 30 days

- Only 3 trusts posted the trust deed on their website; the prospectus for all the trusts can be found on their website

- More trusts (28) provided the name of an IR contact person on their website, 14 directed unitholders to email the IR department; and three provided a contact form without a direct email

- More trusts (16) held their AGMs during the peak period compared to 15 in the last review and 12 in the review before that

- All except Lippo Malls Indonesia Retail Trust (LMIRT) posted their AGM slides; based on the AGM minutes, the LMIRT chairman provided unitholders with an update, the outlook and the strategic direction of the trust at the AGM

- Live voting was not implemented at any AGM (other than at the hybrid meetings); ESR-REIT conducted a hybrid AGM in April 2021 while Mapletree Logistics Trust conducted a hybrid EGM in November 2020 (but the latter reverted to holding a fully virtual AGM in July 2021)

- Seven trusts, namely Asian Pay Television Trust, ESR-REIT, Mapletree Commercial Trust, Mapletree Industrial Trust, Mapletree Logistics Trust, Mapletree North Asia Commercial Trust and NetLink NBN Trust, offered unitholders attending remotely the opportunity to ask questions "live" during the AGM via the live chat function

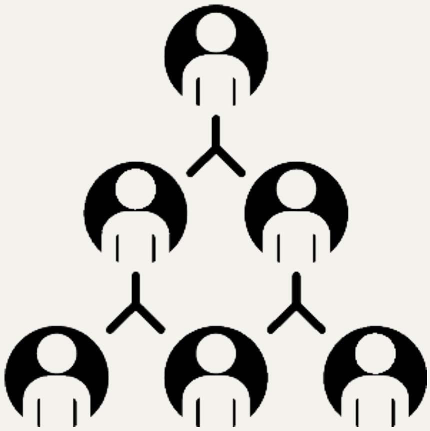
- Seven trusts set the cut-off for the submission of questions by unitholders to more than 96 hours before the AGM. The trusts did not receive demerit points if they answered the questions prior to the cut-off of voting to facilitate unitholders to make informed votes, or had implemented "live" Q&A

- All the trusts posted their minutes of AGM online due to SGX's requirements

- Unitholders of Sabana REIT rejected the proposed amendment of its trust deed which would have facilitated a scheme of arrangement merger with ESR-REIT

EXECUTIVE SUMMARY – KEY FINDINGS

Section 6 - Other governance matters



- Forty trusts had CEOs who had at least 10 years of relevant experience; however, based on the trusts' disclosure, we were not able to quantify the length of experience of the other five CEOs
- The CFO and CIO/Head of asset management roles are also held by qualified personnel although some business trusts did not have this position (or its equivalent)
- When CEOs were assessed for prior experience/track record for trusts with foreign assets, 6 CEOs were found to be lacking in experience in the overseas geographical area
- Similarly, a third of the boards did not have any independent director with relevant experience in the foreign geographical area
- About a quarter of the trusts (11) operate in countries with less robust rule of law
- Two trusts received demerit points for having directors resign after serving less than three years without clear and valid explanation
- One trust that was fairly recently listed saw the departure of its CFO within seven months from its IPO and received demerit points
- A director who was investigated for his role in a failed trust remained on the board of a REIT
- Eighteen trusts (30 last year) received no queries from SGX; the remaining 27 trusts (compared to 15) received between 2 and 6 demerit points for disclosure-related queries from SGX. There has been a significant increase in the number of queries by SGX, especially some that are COVID-19 related. We moderated the application of demerit points in light of this
- Fourteen trusts (compared to 18) carried out private placements during the period under review and 7 trusts (4 last year) carried out their private placements at prices below the last reported NAV. Trusts that had placed out new units at above the NAV per unit did not receive demerit points; there were also 6 instances of non-renounceable preferential offerings by trusts
- In 11 trusts, the controlling entities hold more than 50% of the units in a REIT or 25% of the units in a BT, thus having an entrenching stake

EXECUTIVE SUMMARY – KEY FINDINGS

Business risks

- Actual (non-weighted) leverage crept up from 34.9% to 35.7% to 36.0% between 2019 and 2021; on a like-for-like basis, comparing trusts that were scored in the past two years, the leverage went up only marginally from 35.8% to 35.9%

- MAS has made it mandatory for REITs to disclose their leverage ratios and ICRs prior to 2022. From 2022 onwards, REITs must disclose their adjusted ICRs. This does not apply to BTs. Of the 7 BTs, 3 did not disclose the ICR

- 29 out of the 33 REITs received points for having ICRs of more than 2.75 times. One REIT disclosed a "profit cover" ratio instead of the required ICR while another REIT has an ICR that is below the level mandated by MAS

- Four out of 5 stapled trusts disclosed the ICR, with 2 scoring at the low end of the ICR range in GIFT (both at 2.8x). Two others had ICRs below 2.5; a newly listed hospitality stapled group stopped disclosing its ICR in its business updates/presentation slides after it fell to very low levels – it showed an ICR of 0.1x in its annual report

- Twenty out of 45 trusts (22 last year) had weighted average debt maturity of at least three years and 17 others had a weighted average debt maturity of between two and three years

- Based on the financial figures as of May/June 2021, 38 out of 45 trusts had no more than 25% of debt maturing in the next 12 months. Trusts with higher refinancing exposure include BHG Retail REIT, CDL Hospitality Trusts, Dasin Retail Trust, EC World REIT, First REIT and Sasseur REIT; the weighted average debt maturity of these trusts ranged from 0.6 to 1.8 years

- Fewer trusts (29 vs 31) had more than 70% of their borrowing costs fixed (including swapped to fixed rates). Curiously, 3 BTs did not disclose or did not hedge their interest rate exposure with one other BT hedging only a small portion of its offshore debt

- Eight trusts scored the maximum points for having low foreign currency risks, mostly due to them not having more than 30% in foreign assets earning foreign currency

- Trusts with WALE increasing, greater than five years or remaining constant are awarded points, while those with WALE of less than 2.5 years and decreasing are given demerit points. Overall, 14 trusts (from 12 last year) received the maximum points for having a higher WALE or if WALE by GRI is at least five years. One trust, down from 3 trusts last year, received demerit points for having a lower WALE that was less than 2.5 years

- An additional 3 trusts (17 now) have hybrid securities (usually perpetual securities). One trust received additional demerit points as the distribution to perpetual security holders was higher than 25% of the distribution to unitholders

GOVERNANCE INDEX FOR TRUSTS (GIFT)[2]

November 2021

FULL REPORT

[2] The Governance Index for Trusts – GIFT – is produced by Professor Mak Yuen Teen and Chew Yi Hong, in collaboration with governanceforstakeholders.com. The following individuals contributed to the initial 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 Professor Mak Yuen Teen.

1. INTRODUCTION

As at 31 July 2021, there are 47 real estate investment trusts (REITs), business trusts (BTs) and stapled trusts (STs)[3] on the Singapore Exchange (SGX), accounting for a total market capitalisation of $125 billion, a robust recovery from the $111 billion level that we reported last year.

The total market capitalisation of REITs and BTs has grown by over 43 percent from $85 billion when we first started GIFT in 2017, a compounded average growth rate of over 10 percent.

Of these 47 trusts, six are constituted as stapled trusts (STs) (total market capitalisation of $7.4 billion), seven as pure business trusts ($11.7 billion) and 34 as REITs ($105.8 billion).

This fifth edition of the Governance Index for Trusts (GIFT) assesses the governance and business risk of 45 of these trusts. There are three trusts which are new in GIFT 2021, namely Elite Commercial REIT, Lendlease Global Commercial REIT and United Hampshire US REIT. One cash trust (RHT Trust) was excluded, as was Eagle Hospitality Trust which is suspended and essentially insolvent.

GIFT remains the only published governance index in Singapore that specifically caters to listed real estate investment trusts (REITs) and business trusts (BTs) in Singapore. It assesses both governance and business risk factors.

Since 2018, we have also published separate scores for the governance and business risk areas. 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 pay particular attention to trusts that have poorer governance and higher risk.

[3] 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.

The weights for the governance factors and business risk factors are 75 and 25 percent respectively. A minor adjustment was made in GIFT 2021 to allocate a point to trusts having live Q&A during the unitholder meetings, while reducing the points allocated to posting of minutes of meetings online as this is mandatory under the Covid-19 measures for unitholder meetings. Any trust that allowed live voting would also receive additional merit points. Trusts also get a point if they provide unitholders with business/operational updates for their first and third quarters. The impact of SGX queries on the assessment was moderated in view of the increased frequency of queries especially during the initial stage of the pandemic.

In 2018, we started the practice of inviting trusts to complete a self-assessment using the GIFT scorecard, which we transitioned online in 2020. We reviewed the self-assessment as part of our independent assessment, although our assessment may not necessarily be the same as the self-assessment provided by the trust. The self-assessment is completely voluntary and trusts that do not participate are not penalised.

Based on the participation in the self-assessment, the level of interest in GIFT amongst the trusts continues to be high. In 2018, 29 out of the 43 trusts (67%) we were able to contact by email submitted a self-assessment. In 2019, 34 out of 46 (74%) did so. For GIFT 2020, 35 out of 45 trusts, or 78%, participated in the self-assessment. In GIFT 2021, 36 trusts or 80% participated in the self-assessment. We would like to thank those who responded for engaging with us on this initiative and look forward to the continuing engagement from all the trusts listed on SGX.

We would also like acknowledge the support of the Singapore Exchange, and the recognition for GIFT given by MoneySense, the national financial education programme, for providing a link to GIFT to assist investors in assessing the corporate governance of REITs in their investment decisions. We believe that GIFT is useful for improving governance and building greater trust in the sector.

2. METHODOLOGY

GIFT includes a main section carrying an overall score of 100 points. Since 2020, 75 points have been 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 (5 points), communication with unitholders (15 points) and other governance matters (15 points).

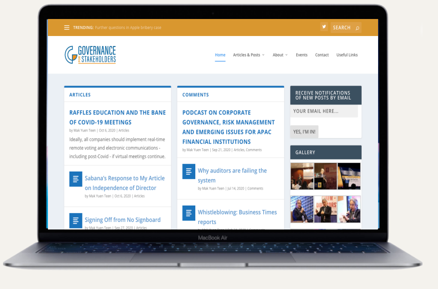
The business risk section carries 25 points. Business risk is assessed using leverage-related factors of overall leverage, debt maturity, percentage of fixed interest rate borrowing, and interest coverage ratio; and other factors relating to lease expiry, income support arrangements, development limit, and foreign assets and foreign currency risks.

The criteria and weighting for REITs and BTs are different in a few areas 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 giving unitholders the right to propose directors for appointment and the manager/trustee-manager submitting itself for reappointment at regular intervals. Most merit points range from one to three points per item, with the exception of acquisition and divestment fees being charged on a cost-recovery basis/no such fees (five points). New merit items since GIFT 2020 are multi-dimensional diversity on the board and the frequency of board and board committee meetings. The maximum number of merit points in GIFT 2021 is 25.

Demerit points are given for cases such as independent directors serving on boards of a related manager, having an excessive number of directorships in listed companies and managers and poor attendance at board and board committee meetings. 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

Of the 45 trusts assessed, five are stapled. Of these, only one has a dormant business trust. Stapled trusts were scored mostly as REITs but where relevant, the stricter standards for BT governance were applied to the stapled trusts.

The cut-off date for GIFT 2021 is the end of July 2021. However, for the two REITs which published their annual report and held their AGM in October, we used information from their 2021 annual reports and 2021 AGM as the 2020 data would be rather outdated.

Figure 1 shows the distribution of market capitalisation for the 45 trusts assessed for GIFT 2021. There are 32 trusts in the billion-dollar club, back to the level seen in 2019 after a dip in 2020. Four are business trusts, three are stapled trusts and 25 are REITs. Following the merger with CapitaLand Commercial Trust, the renamed CapitaLand Integrated Commercial Trust became the trust with the largest market capitalisation on SGX at approximately $14 billion at the cut-off date. Ascendas REIT, at approximately $13 billion, follows in second position and these two stand out as the only two REITs with market capitalisation of over $10 billion. Mapletree Logistics Trust, Mapletree Industrial Trust and Mapletree Commercial are the next three largest REITs at approximately $9.0 billion, $8.1 billion and $7.2 billion respectively. Frasers Logistics & Commercial Trust, the result of another merger, is the only other trust with a market capitalisation of above $5 billion at $5.6 billion. Fourteen trusts have a market capitalisation of between $2 billion and $5 billion, with another 12 between $1 billion and $2 billion.

Eleven trusts have market capitalisation ranging from $300 million to $1 billion. The two smallest trusts on SGX are business trusts – First Ship Lease Trust and Asian Pay Television Trust - at $143 million and $229 million respectively.

Only five trusts remain as Singapore pure-plays (down from seven), confirming the continuing trend of trusts expanding overseas in search of growth.

Figure 1: Distribution of market capitalisation

4. KEY FINDINGS

For the main index (before considering merit and demerit points), the overall range of scores for the 45 trusts is from 41.5 to 87 out of a maximum of 100 points, with a mean of 66.7 and median of 67.5. While there is only a slight decrease in the mean score by 0.1 point, the median base score decreased by two points in 2021 following a one-point decrease in 2020.

When merit and demerit points are included, the overall range of scores is from 24 to 95, with a mean of 64.1 and median of 64.5. The total score, including merit and demerit points, is a more complete measure of the governance and business risk of a trust. Compared to last year, the mean score fell by 0.2 points while the median fell by 1.5 points.

The overall score would have increased slightly if not for the reallocation of one point from the posting of minutes online to having live Q&A during the virtual AGM, which only seven trusts did so (but all using live chats only). Minor adjustments are made to GIFT from time to time to ensure its continuing relevancy and to recognise trusts with the best practices.

Excluding the three new trusts, the overall average score for those trusts that were in last year's and this latest edition decreased from 64.4 to 63.6 points.

	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	5 points	15 points	15 points	25 points
Average score	10.5	4.3	7.0	4.4	11.4	12.9	16.0
Highest score	16.5	9	10	5	15	15	22
Lowest score	4	0.5	3	3	8	7.5	5.5

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

For the overall GIFT score, the top trusts for 2021 are Netlink NBN Trust, Keppel Pacific Oak US REIT, Mapletree North Asia Commercial Trust, Cromwell European REIT and United Hampshire US REIT (two trusts in joint fourth place), while the bottom five are EC World REIT, First REIT, Lippo Malls Indonesia Retail Trust, Hutchison Port Holdings Trust and Dasin Retail Trust. Dasin Retail Trust's score of 24 is the lowest since GIFT was launched.

There are some changes in rankings compared to the previous year. Again, there is some clustering of the trusts at the top of the ranking. Just four points separate the nine trusts that are in the third position to the joint ninth position.

The top four trusts all scored higher in GIFT 2021. Keppel Pacific Oak US REIT, Mapletree North Asia Commercial Trust and Cromwell European REIT moved up from joint 10th, joint 4th and joint 10th, to 2nd, 3rd and joint 4th respectively. United Hampshire US REIT debuts at joint 4th.

When we disaggregate the governance and business risk sections of GIFT, the trusts that were assessed to be in the top 10 and bottom 10 for both governance and business risk factors are:

Better governance and lower business risk
NetLink NBN Trust
Keppel Pacific Oak US REIT
Mapletree North Asia Commercial Trust
United Hampshire US REIT
Mapletree Commercial Trust

Poorer governance and higher business risk
Asian Pay Television Trust
EC World REIT
First REIT
Lippo Malls Indonesia Retail Trust
Hutchison Port Holdings Trust
Dasin Retail Trust

4. KEY FINDINGS (CONT'D)

Netlink NBN Trust extends its lead at the top of GIFT 2021 – Is it time to reexamine the roles and conflicts of external managers?

Netlink NBN Trust extends its lead at the top of GIFT 2021 with a score of 95 in GIFT 2021. It adopted a "live" chat function to allow unitholders to submit questions during the virtual AGM. In addition, the trust secured its refinancing which improved its debt profile and visibility. Netlink NBN Trust's strong performance is an open secret and the reasons have been reported in previous GIFT reports.

The majority, if not all, of the practices can be adopted by trusts:

- Allow unitholders to endorse directors
- Independent chairman
- Full disclosure on remuneration (both NED and executives)
- ED/KMP remuneration based on total unitholder return (amongst other) and vests over three year period
- "Live" Q&A during the AGM
- Low gearing
- Long debt maturity
- No hybrid securities
- Internal manager so reduced misalignment of interest

Perhaps it is time to deepen the discussion on internally and externally-managed REITs. Markets such as Singapore, Japan and Hong Kong rely on external managers whereas the largest and most mature market (the US) is dominated by internally managed REITs.

A lack of alignment due to real or perceived conflicts of interest and contentious fee structures are the strongest arguments against having external managers. Internally managed vehicles are widely regarded as best practice, and, in the US, the world's largest and most mature REIT market, only 3% of REITs by market capitalisation are externally managed. A study has found that larger US REITs that are internally managed outperformed their externally managed peers, although this is not necessarily the case for smaller REITs and REITs outside of the US. As REITs consolidate and become larger, the trade-offs between the internally managed and externally managed models may change and the case for the internally managed model may become more compelling.

As REITs in Singapore grow, would the misalignment widen? Are safeguards that have worked in the past work as well in the future given the increasing fees? Would unitholders, and thus the long term future of sector, be better served with internal managers? The support for the externally managed model in Singapore seems to rely somewhat on moral suasion or the concern with protecting reputation driving responsible behaviour on the part of the sponsor. It is difficult to put in effective safeguards in an externally managed model to ensure that unitholders' interests are protected and prioritised.

With even a modestly-sized manager easily being priced at over $100 million due to its recurring and perceived stable fees, it will take a lot to change the status quo.

4.1. Board matters

4.1.1. Appointment of directors

With the addition of Lendlease Global Commercial REIT, seven trusts gave unitholders the right to endorse directors of the manager. The others are Keppel DC REIT, Keppel Infrastructure Trust, Keppel REIT, Netlink NBN Trust, Parkway Life REIT and Starhill Global REIT. This compares to five trusts for 2019. Where the manager commits to procure the resignation of directors who are not endorsed by unitholders, the unitholders' vote becomes effectively binding. The endorsement is made possible by the provision of an undertaking by the sponsor/ controlling shareholder of the manager to the trustee/trustee-manager. The seven trusts exclude Sabana REIT which will seek endorsement from independent unitholders for the appointment of independent directors following a directive by the Monetary Authority of Singapore.

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

.

4.1.2. Board size

The average (mean) and median board size is seven directors, with a range from three to 12 directors. 73% of the trusts have a board size of six to nine directors, the range used in GIFT to determine appropriate board size. Twenty two trusts (compared to 24 last year) have a sole executive director (ED) on the board while one other trust (a BT) has two executive directors. The remaining 22 trusts have no ED on the board of the manager. Boards can operate efficiently with relatively smaller boards without compromising board effectiveness if they have good processes for selecting suitably qualified non-executive directors (NEDs).

4.1.3. Board chairman

All of the managers have a non-executive chairman. Twenty-three, or about half, stated that their chairman is an independent director (ID). We re-designate a chairman from independent to non-independent where he/she has significant relationships with the manager/trustee-manager or the sponsor (even where the nominating committee has deemed the director to be independent). This is because IDs should be perceived to be independent.

4. KEY FINDINGS (CONT'D)

Relationships that we consider to be serious enough to cause a re-designation include significant consulting services (including legal services) provided by the director or his/her firm, or concurrent major and multiple appointments on the boards of a sponsor, controlling unitholder or other related entities. We do the same for all IDs on the board other than the chairman. In total, we re-designated 15 directors serving on the boards of 12 trusts, with two being the chairman of the board.

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, regulatory requirements applicable to REITs and BTs differ. Accordingly, we use different ranges for REITs and BTs in awarding points. 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%. Figure 2 shows the percentages of IDs for REITs and BTs (including stapled trusts) respectively within each of these ranges, after the re-designation of IDs where applicable. In terms of trusts having a majority of IDs, there are 30 this year compared to 33 last year.

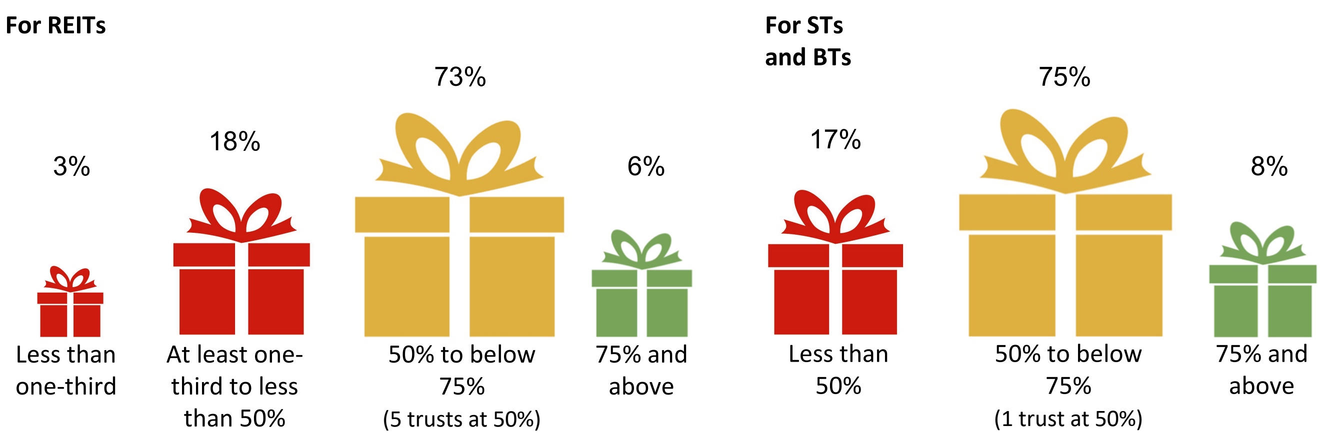


Figure 2: Percentage of Independent directors on the boards of REITs and BTs

With regard to competencies, IDs commonly have banking, accounting, legal and management experience. For trusts, having IDs who have investment/fund management or valuation experience and prior working experience in the industry is useful. Fewer trusts (19 compared to 21 last year) have IDs with both types of experience while 17 (compared to 16) trusts have IDs with either investment/valuation-related experience or industry experience. The remaining nine trusts did not have any IDs with either type of experience.

Twenty-six trusts (up from 23) attracted one to four demerit points for their IDs due to their association with the sponsor or controlling unitholder, or busyness.

Board diversity was assessed based on gender, ethnicity and age. Boards with at least one female director, more than one ethnicity and with at least one director who is in their 40s or younger received merit points. More trusts (18 vs 15) have all these three board attributes. Four trusts, up from three such trusts, had none of these attributes.

There are 11 trusts with all-male board directors and 14 boards consisting of only one ethnicity.

34 boards with both gender

31 boards with multiple ethnicities

28 boards with director(s) 40s or below

Figure 3: Dimensions of diversity on the boards of REITs and BTs

4. KEY FINDINGS (CONT'D)

4.1.5. Board committees

There is an increase in number of trusts with a nominating committee (NC) or remuneration committee (RC), with 36 having a NC compared to 33 last year, and 37 having a RC compared to 34 last year. Nearly 70% (or 31 trusts) have a combined NC and RC. Trusts are given the same points whether they have separate NC and RC, or combined them.

Five trusts under the same group formed their respective NRC in late October 2021 (after the cut-off of this report and not included in the statistics presented above).

Only 5 NCs and 6 RCs have all IDs.

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

Figure 4 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).

Figure 4: Composition of independent directors in the NC, RC and AC

Thirty-one (69%) of the trusts have an independent AC chair assessed to have recent and relevant accounting or related financial management expertise or experience, and approximately 30% of the trusts have a majority of IDs in the AC having such expertise or experience. We are stringent in assessing the AC members (including the chairman), 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. We are surprised that several ACs are chaired by lawyers who may not have relevant accounting or related financial management expertise or experience.

Eleven trusts that had six or more board meetings, four or more AC meetings and two or more NC and RC meetings received two merit points. Ten trusts (down from 14) received 13 demerit points (down from 26) for instances where a director missed two or more board or board committee meetings in a year and/or did not have full attendance in each of the last two years.

4.2. Remuneration of directors and key management

Disclosure of remuneration relating to NEDs has improved significantly over the last five years. More than half of the trusts (23 trusts) disclosed the fee structure for NEDs compared to a third two years ago. For actual NED remuneration, 44 or 98% disclosed individual remuneration on a named basis, with the exception of Asian Pay Television Trust (APTT). APTT used the explanation that the remuneration is

Setting up a non-independent RC

One business trust set up a new RC in February 2021 with clear terms of reference. This could have seen its score improved.

Unfortunately, the three-member RC has two independent directors, including the chair, who have served for more than nine years, with the third being a non-independent non-executive director. The trust lost many points for board composition because we re-designated the long-serving independent directors as non-independent and it also failed to gain points for the newly established RC as all members are considered non-independent in our assessment.

4. KEY FINDINGS (CONT'D)

not paid out of the trust property and hence Principle 8 of the Code of Corporate Governance 2018 is complied with, and that Provision 8.3 (requiring the disclosure of remuneration of directors and key management personnel) is not "directly applicable". Another business trust disclosed the fees paid to its NEDs as they were charged to the trust. However, the trust simply stated that it does not employ any staff and did not even attempt to justify its deviation from Provision 8.3 of the Code of Corporate Governance 2018.

The same cannot be said for disclosure of remuneration of EDs and KMP. Only three trusts disclosed the exact remuneration of the CEO – Netlink NBN, Hutchison Port Holdings and Far East Hospitality – while only four trusts disclosed the remuneration of the top 5 KMP in bands of no more than $250,000, together with a breakdown into individual components. Eleven other trusts disclosed for fewer than the top 5 KMPs.

MAS had provided guidance to REITs clarifying that any justification stating that remuneration is payable out of the assets of the REIT manager and not out of the deposited property of the REIT would not be considered a satisfactory explanation for not disclosing remuneration of the CEO, each individual director and at least its top 5 executive officers on a named basis whether in exact quantum or in bands of S$250,000. However, we found that REITs often continue to use this explanation.

On the performance measures used to determine the variable component of remuneration of KMP, 20 disclosed that they use return on equity (ROE) or total unitholder returns (TUR), and 11 disclosed they used distribution per unit (DPU) or net asset value (NAV).

Twenty nine trusts included a long-term component in their remuneration framework although eight trusts did not disclose the KPIs used.

Seventeen trusts disclosed that they have schemes for their EDs/senior management which provided units or rights to units that vest over a minimum of three years.

Two trusts received demerit points as one or more of their NEDs received remuneration shares in a related entity based on the performance of a related entity other than the trust.

Figure 5 shows the key remuneration disclosures and practices of the trusts for items in the main index.

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

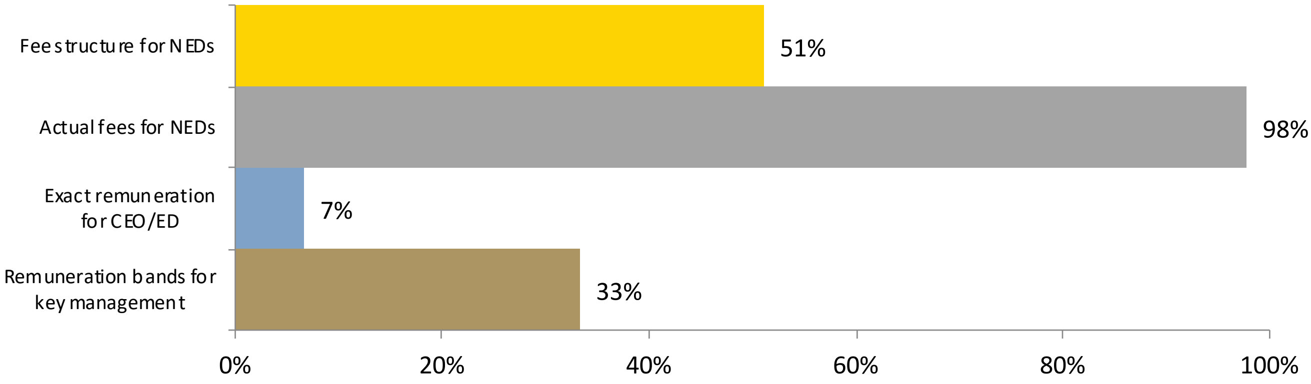


Figure 5: Key remuneration disclosures and practices for REITs and BTs

Not getting the memo

APTT provided the following explanation for not disclosing remuneration, including the exact remuneration of its NEDs, in accordance with the Code:

"As APTT does not bear the remuneration of the independent directors, the Chief Executive Officer and Chief Financial Officer, the Trustee-Manager is of the view that Principle 8 of the Code is complied with, notwithstanding the guidance under Provision 8.1 of the Code to disclose the amounts and breakdown of such remuneration given that APTT had set out above the remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation… As the remuneration packages of the independent directors, Chief Executive Officer and Chief Financial Officer are not paid out of Trust property, the guidance under Provision 8.3 of the Code is not directly applicable."

On the disclosure of remuneration of KMP, First Ship Lease Trust simply stated: "The Trust does not employ any staff."

Better late than never?

At one trust, it was disclosed in the FY2020 annual report that an independent director received fees from the sponsor in financial years 2019 and 2020 for serving on the sponsor's advisory panel.

However, in the FY2019 annual report, the REIT had stated that the said director does not have any relationships with the sponsor and is not faced with any of the circumstances identified in the Code, SFR and Listing Manual, or any other relationships which may affect his independent judgement.

(It was made clear that the director also served as a non-executive director of a wholly owned subsidiary of Temasek, which is related to the REIT in question.)

4. KEY FINDINGS (CONT'D)

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 set by MAS.

Twenty trusts (up from 19) use a unitholder return-type metric, DPU or NAV per unit to determine the performance fee of the manager, with DPU being the most common measure by far. We consider these measures to be better than income-type metrics such as net property income (NPI) because they better align the interest of the managers with that of unitholders. These trusts (which includes the two newcomers that scored better in GIFT 2021) received five points. The remaining 25 trusts link the performance fee to an income-type metric such as NPI, distributable income, gross profit and cash flow.

More trusts (16 compared to 15) paid higher fees to the manager/ trustee-manager when DPU of the trust decreased. Nearly 50% (22 trusts) had their fees increased faster than DPU increased, or decreased slower than DPU decreased. Only seven trusts (down from 12) avoided the demerit points for this.

All the externally managed 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. The trustee-manager of a BT did not appear to have disclosed in the annual report that its acquisition fee was charged at 1% of the enterprise value of the acquisition until the year after it received $10.7 million in acquisition fees for a big acquisition based on the enterprise value (and not the purchase consideration).

Four trusts, under the same property group, have a policy requiring their NEDs to hold some units at all times during his or her board tenure. Another trust recommends the NEDs to hold units of the business trust so as to better align the interests of directors with the interests of unitholders.

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 NPI as a performance measure, and adopting a policy requiring NEDs to hold some units until they leave the board.

An overview of NED fees

With trusts making good disclosure on the fees paid to NEDs, we are able to provide an overview of how NEDs are remunerated. Unitholders do not get a say on remuneration of NEDs (including IDs) but the disclosure of NED fees serves to improve the transparency of such matters.

The data was collected from trusts' annual reports. Certain boards have voluntarily reduced the fees in view of the pandemic. Trusts' practices vary – some NEDs do not receive fees or may have their fees paid to the sponsor/related entities. Some trusts also pay out 20% of the fees for NEDs in units to better align the interests of NEDs with unitholders'. Fees for newly listed trusts are understated and are not comparable since the fees cover only part of the year.

NEDs should be fairly compensated for their time, effort and expertise and fees should be in line with market norms.

However, we observe that some trusts paid relatively higher fees to the NEDs without any discernable reasons. This is a greater concern if the NEDs are also controlling unitholders of the trusts.

Total NED fees ranged from $208,000 (AIMS APAC REIT) to $829,000 (NetLink NBN Trust). The amount of NED fees is dependent on the size of the board, especially the number of independent directors. More than three-quarters of Netlink NBN Trust's fees went to the five independent directors. On the other hand, AIMS APAC REIT has a much smaller board of five, and only the three independent directors received fees.

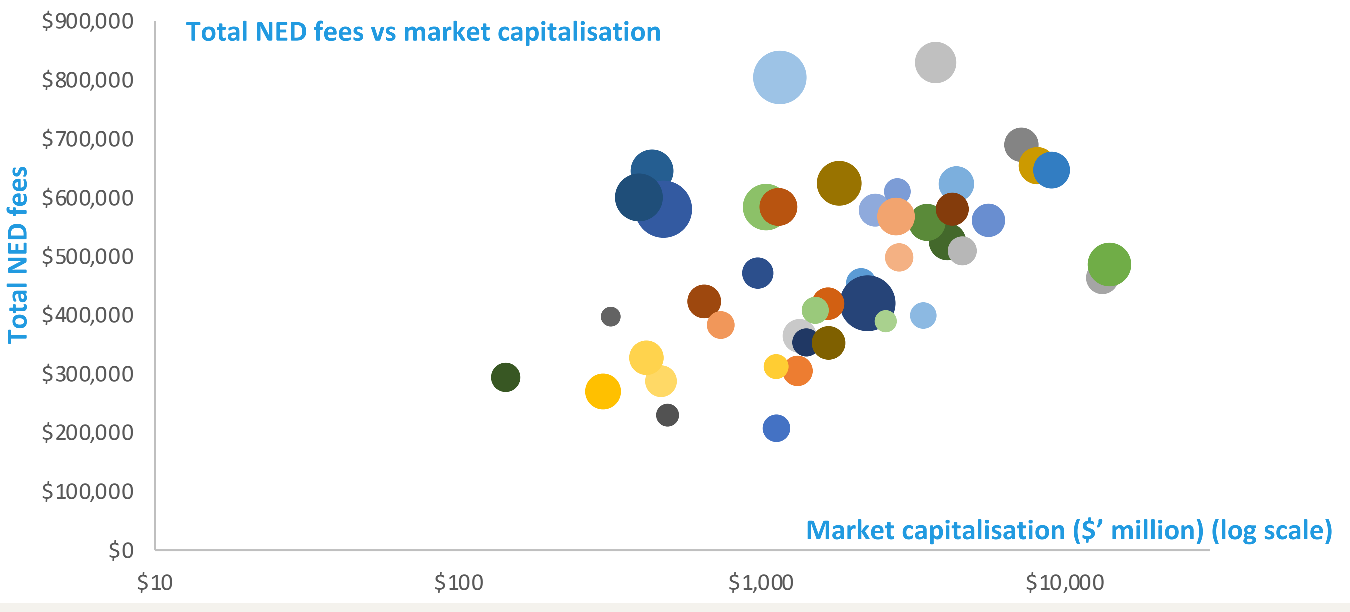
Two of the outliers are Sasseur REIT and Dasin Retail Trust. Sasseur REIT has the second highest NED fees of $804,000, with $234,000 and $180,000 paid to the non-executive chairman (who is also founder and chairman of the sponsor) and the other non-executive director (who is also co-founder and co-chairman of the sponsor, and spouse of the chairman) respectively. Dasin Retail Trust paid each of its two NEDs (also controlling unitholders) and three IDs a flat fee of $120,000 each. The $600,000 fees paid to its NEDs is the 10th highest of all the trusts when its market capitalisation is the fifth lowest of all the trusts in GIFT. To put things in perspective, Dasin has a rather simple business model of owning malls in China and its market capitalisation relative to the largest trust is just 3%.

As a starting point, we analysed the total NED fees against the market capitalisation (logarithmic scale) of the trusts. We see that it is fairly linear. We have also sized each bubble to reflect the average fee paid to each director that received NED fees in each trust. Trusts with large bubbles are those that paid higher NED fees on average. Dots that are higher/lower represent trusts that pay relatively high/low total NED fees when compared to a similarly-sized trust.

An overview of NED fees

REITs	
AIMS APAC REIT	$207,500
ARA LOGOS Logistics Trust	$305,000
Ascendas REIT	$463,286
BHG Retail REIT	$270,000
CapitaLand China Trust	$454,100
CapitaLand Integrated Commercial Trust	$485,922
Cromwell European REIT	$420,000
EC World REIT	$423,150
Elite Commercial REIT	$397,256
ESR-REIT	$624,000
First REIT	$645,000
Frasers Centrepoint Trust	$524,816
Frasers Logistics & Commercial Trust	$561,000
IREIT Global	$383,000
Keppel DC REIT	$509,120
Keppel Pacific Oak US REIT	$312,340
Keppel REIT	$622,900
Lendlease Global Commercial REIT	$583,503
Lippo Malls Indonesia Retail Trust	$579,952
Manulife US REIT	$419,308
Mapletree Commercial Trust	$689,500
Mapletree Industrial Trust	$654,000
Mapletree Logistics Trust	$646,448
Mapletree North Asia Commercial Trust	$557,500
OUE Commercial REIT	$578,333
Parkway Life REIT	$498,000
Prime US REIT	$364,457
Sabana REIT	$287,500
Sasseur REIT	$804,000
SPH REIT	$389,500
Starhill Global REIT	$353,400
Suntec REIT	$580,000
United Hampshire US REIT	$229,794
Business Trusts	
Ascendas India Trust	$352,586
Asian Pay Television Trust	Not disclosed
Dasin Retail Trust	$600,000
First Ship Lease Trust	$294,000
Hutchison Port Holdings Trust	$610,000
Keppel Infrastructure Trust	$567,457
NetLink NBN Trust	$829,350
Stapled Trusts	
ARA US Hospitality Trust	$327,322
Ascott Residence Trust	$399,181
CDL Hospitality Trusts	$408,000
Frasers Hospitality Trust	$471,292
Far East Hospitality Trust	$583,825

We should clarify that we do not believe that market capitalisation should be the sole or even key determinant of NED fees. Smaller trusts may face greater challenges and have less developed systems and processes, requiring greater time commitment from NEDs. Trusts may also need to consider how to remunerate NEDs for additional time commitment beyond normal board and committee responsibilities, such as when there is increased M&A activity or restructuring. It is important that such additional remuneration is not seen to be related to outcomes that benefit the managers or sponsors at the expense of unitholders.



4.4. Internal and external audit

Since GIFT 2020, the number of points for internal and external audit was reduced from ten points to five points. The internal and external audit functions are still important but we have reduced the weightage of pure disclosure-type items, combined items and awarded fewer points for an unmodified opinion, while retaining the demerit points for modified opinions.

All trusts appointed Big 4 or mid-tier accounting firms.

This year, the auditors of a business trust included an emphasis of matter in respect of material uncertainty related to the ability of the trust and its subsidiaries to refinance their existing borrowings before they become due for repayment.

Trusts did well in the area of internal audit. Approximately half of the trusts (22) outsourced to a reputable external firm (Big 4, mid-tier or reputable risk consultancy firm) or have their own in-house internal audit function, and the other half (23) outsourced to the internal audit department of the sponsor.

Trusts should consider how possible conflicts of interest and perceived independence of the internal audit when it is outsourced to the internal audit department of the sponsor are addressed, even though there are benefits from having a groupwide internal audit function.

4. KEY FINDINGS (CONT'D)

4.5. Communication with unitholders

Communication with unitholders is another area that trusts often excel in although more can done to capitalise on the opportunities presented by virtual meetings. The change in the quarterly reporting regime and the COVID-19 measures for meetings have had some impact on the scoring.

4.5.1. Timeliness of results

Fewer trusts (34 vs 37) released their latest annual results within 45 days while there was also a drop in the number of trusts that released the half-year results within 30 days (from 30 to 28).

With the cessation of mandatory quarterly reporting, trusts that provided business/operational updates for the first and third quarters received a point. Given the scale of the trusts, we think the benefits of continuing with quarterly reporting far outweigh the costs. Trusts that continue with quarterly reporting received two points. Hutchison Port Holdings Trust stopped all forms of quarterly updates since the SGX rule change.

Only nine trusts continued with quarterly reporting. They are AIMS APAC REIT, Asian Pay Television Trust, EC World REIT, First Ship Lease Trust, Lippo Malls Indonesia Retail Trust, Mapletree Industrial Trust, Mapletree Logistics Trust, Parkway Life REIT and Sasseur REIT.

Last year, we reported that as a consequence of trusts ceasing quarterly reporting, nine trusts stopped making quarterly distributions. In addition, the trust that completed its merger ceased quarterly reporting and stopped its quarterly distribution just two months after the merger.

4.5.2. Accessibility of information and investor relations

All trusts have their IPO prospectus on the website but only three posted their trust deed – First Ship Lease Trust, Lippo Malls Indonesia Retail Trust and NetLink NBN Trust. We strongly urge trusts to make their trust deed available on their website as it is an important document relevant for unitholders.

All the trusts provided information for contacting Investor Relations (IR), with 28 or 62% providing a specific IR contact person with contact details on the website. The rest provided either general contact details for an IR department or only an enquiry 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 six out of the 45 trusts – or 80% - took up our invitation to submit a voluntary self-assessment.

With a further six responding to our email query, three trusts were assessed as not meeting the IR responsiveness test.

4.5.3. Unitholder meetings

Fewer trusts (29 vs 35) 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 statutory requirements of 14 days and 21 days respectively. This statistic may however be skewed by the fluidity of the measures taken during the pandemic. We hope trusts provide unitholders with at least 21 days' notice (and 28 days if there are special resolutions) especially if its unitholder base is more global in nature.

There was no automatic extension of time to hold the AGM and this meant that the AGMs have to be held within the usual 4-month timeframe unless a trust requested for an extension. Compared to 30 trusts last year, 29 trusts avoided holding the AGM in the last five working days of the peak months of April, July and October. Trusts should avoid the peak AGM days to improve engagement with unitholders.

4. KEY FINDINGS (CONT'D)

Seven trusts had a cut-off time for the submission of questions that was more than 96 hours before the AGM. The 96-hour cut-off was picked so that trusts can provide their responses to unitholders' queries before the cut-off for registration and proxy voting which was usually between 48 to 72 hours before the meeting. Unfortunately, the current practice is less than ideal as unitholders in most cases did not get to see the trusts' responses to their questions before voting. For trusts that had earlier cut-offs for the submission of questions, they would receive the allocated point if they answered the questions before the cut-off of the proxy voting or allowed "live" Q&A at the AGM.

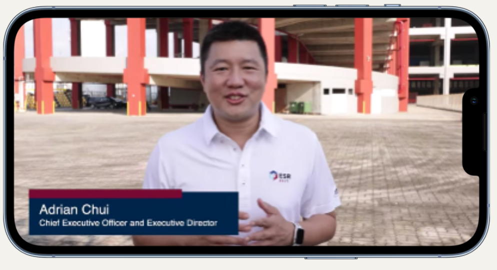
All trusts posted their minutes of meeting online on SGXNet. Only one trust (Lippo Malls Indonesia Retail Trust) did not post its AGM presentation material online.

A creative way to engage with unitholders

ESR-REIT has its own YouTube channel since November 2019 and the REIT has used it since November 2020 to provide unitholders with its interim updates and financial results announcement.

The two latest YouTube videos show the CEO and the Head of Capital Markets and Investor Relations present the 1H 2021 financial results and the 3Q 2021 Interim Business Update respectively.

The judicious use of social media may be a way for trusts to better engage with the new generation of investors.



4.6. Other governance matters

4.6.1. Key management experience

One of the key areas we assessed here is the 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. Most trusts continue to have highly experienced management in these important roles. However, for five trusts, the disclosures were not sufficient for us to assess the experience of the CEO.

4.6.2. Geographical experience of the boards and CEO

Trusts were also assessed on the experience of management and the board if the trust has overseas assets. Trusts received one demerit point if the CEO did not have any experience in the foreign country. In such cases, the demerit points will cease after two years on the basis that the CEO has learnt on the job and acquired sufficient experience in the foreign market by then.

We also looked at the geographical experience of the boards for trusts with significant overseas assets and whether there are any IDs with experience in the overseas market. Where none of the IDs have such experience, we deducted one demerit point.

.

	Chief Executive Officer	Chief Financial Officer	Head of Investment or Asset Management, or their equivalents
Experience of ten years or more	89%	98%	82%
Experience of between five to ten years	11%	2%	7%
Experience of below five years, no such appointment or insufficient disclosure	0%	0%	11%

Table 2: Experience of key management

4. KEY FINDINGS (CONT'D)

In total, 13% (or six trusts) of the trusts received the demerit point for lack of experience for management and a third received the demerit point for lack of experience for the board.

While we are not suggesting that trusts replace their CEO when they venture overseas, we do believe that there are challenges faced by the trust when such experience is absent. For IDs, we urge trusts to consider the relevant international experience on their boards when they expand overseas so that their boards can better oversee and support the trusts' overseas ambition.

4.6.3. Resignation of senior management

Five trusts received demerit points because the CEO, CFO or other C-suite executives of the manager/trustee-manager resigned without adequate disclosure of information regarding the circumstances, search for replacement and the expected time frame for a new appointment.

For new listings, if the ED, CEO, CFO, CIO or other C-suite executive of the manager/trustee-manager resigns within 18 months of listing, the trust will get three demerit points. One trust received such demerit points as the CFO resigned within seven months of its listing.

4.6.4. 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. Ten were not awarded points as they solely or pre-dominantly operate in countries with weaker rule of law. Trusts were given partial points if they have some exposure to countries outside the top 25th percentile of the World Bank Governance Indicators.

4.6.5. AC review of interested person transactions

All the trusts disclosed that the AC reviews all interested person transactions (IPTs).

4.6.6. 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. In the case of Eagle Hospitality Trust, even though 65% of the stapled securities were considered to be in public hands, the resolution to appoint a new REIT manager failed as the amendment to the trust deed (an extraordinary resolution and inter-conditional on the passing of all four resolutions) was voted down at the EGM.

Naturally, the higher the percentage of units held by the 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 out of the 33 REITs, one out of five stapled trusts and three out of seven BTs were assessed to have less entrenchment.

No trust currently subjects its manager to periodic re-appointment by unitholders which would earn the trust up to three merit points.

4.6.7. Stapling of REIT/BT

Stapling a trust with another trust further complicates the legal structure of the listed entity, 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 five of the trusts included in our assessment are stapled and four have an active trustee-manager stapled to the REIT in a related business.

4.6.8. 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.

4. KEY FINDINGS (CONT'D)

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.

In addition, we tracked the number of instances the trusts receive disclosure-related queries from SGX. Thirteen trusts were queried by SGX on its disclosure practices, such as clarification on deviation of CG practices.

4.6.9 Alignment of interests

Starting from GIFT 2020, we recognise that private placements at above book value, in theory, is accretive although a renounceable rights issue, on paper, is the most equitable method to raise funds from the perspective of unitholders.

As the trusts grew larger, we have observed their preference for private placements. The commonly-given reasons are that private placements can be concluded very quickly and that the trust's exposure to institutional investors can be increased through such private placements. The other possible unspoken reason is that the sponsor/controlling unitholder does not have to come up with fresh capital but benefits from having a larger assets under management (AUM) and thus fees. Some sponsors hold as little as 10% of the units but benefit from 100% of the management and performance fees. Sponsors may carry out more placements as long as they feel that their control of the trust is not under threat.

MAS has been clear that managers have to put unitholders' interests first. We wonder how much debate on the fund-raising method happens in the boardroom given that REIT managers and their directors have a legal obligation to act in the best interests of unitholders, and prioritise unitholders' interests over those of the REIT manager and its shareholders. We observed trusts carrying out a private placement and a preferential offering at the same time to fund their acquisitions. While the preferential offering was made non-renounceable, the price of its preferential offering was lower than the price for its private placement. While not perfect, this private placement-preferential offering combination, if executed well, mitigates some of the concerns of all the stakeholders as compared to carrying out private placement or a preferential offering solely.

Seven trusts received demerit points for carrying out dilutive private placements at prices below its NAV per unit. No demerit points were given to trusts that carried out private placements at above their NAV per unit.

Six trusts carried out non-renounceable preferential offerings.

In recent years, there have been changes to the ownership of REIT managers and BT trustee-managers. Such changes may result in a shift in the trust's strategy, including growth plans and market focus, risk profile and board and key management personnel. Three trusts received demerit points for changes in the control of the manager in the past two years.

Trusts can artificially boost their distributions by obtaining waivers to distributions from certain vendors of assets or strategic unitholders. Dasin Retail Trust has a distribution waiver arrangement in respect of the distribution period up to and including 31 December 2021. Unitholders should take note as this would impact the ability of the trust to maintain/increase its distribution per unit.

4. KEY FINDINGS (CONT'D)

4.7. Business risk

Starting from GIFT 2020, 25 points are allocated to factors related to business risk. These factors include: (a) leverage-related factors of overall leverage, interest coverage ratio, 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; (c) extent of income support arrangements; and (d) foreign assets and foreign currency risks.

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

In April 2020, MAS introduced a new requirement for REITs to disclose the interest coverage ratio (ICR), following its decision to increase the leverage limt for REITs. We included the disclosure and range of ICR in the GIFT scorecard.

Figures 6 and 7 show how the trusts fared in terms of the distribution of the level of leverage, interest coverage ratio, the weighted average debt expiry and the weighted average lease expiry.

Of the seven business trusts, three did not disclose the ICR as the MAS requirement only applies to REITs. However, BTs face similar risks with regard to leverage and loan servicing ability. REITs and BTs that did not disclose their ICR did not receive any points.

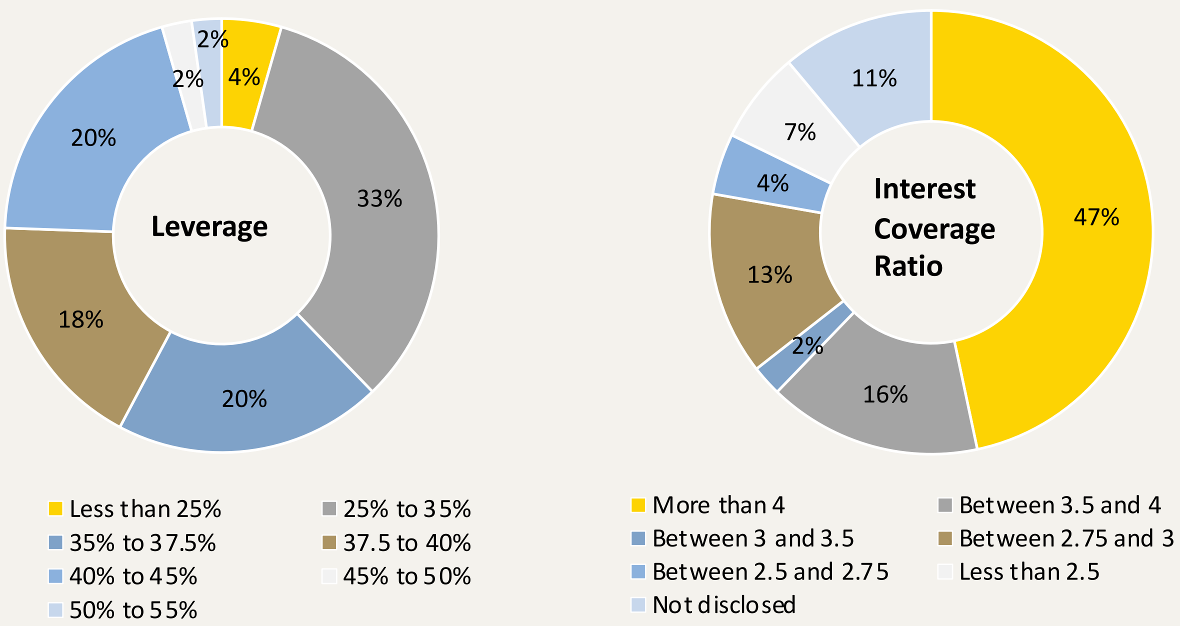


Figure 6: Distribution of the level of leverage and interest coverage ratio

Three REITs had ICR below 2.75, which is the minimum threshold in GIFT and therefore did not receive any points for ICR. One REIT did not receive any points for ICR because it reported profit cover, not interest cover, with a very different definition.

Debt maturity

Fewer trusts (20 compared to 22) have weighted average debt maturity of longer than three years and 17 of them (13 last year) have a weighted average debt maturity of between two and three years. Eight trusts have a weighted average debt maturity of less than two years, with some as low as 0.6 years.

Debt maturing in next 12 months

Based mostly on the 3 or 6 months results/update ending May/June 2021 at the cut-off), 38 have less than a quarter of their borrowings maturing in the next 12 months. Another trust has between 25% and 30% of its loans maturing in the next 12 months and the remaining six trusts have more than 30% of their borrowings maturing in the next 12 months. We note that some trusts depend on a single major loan facility which concentrates the refinancing risks in the years when the facility is due for refinancing. For one trust, it was as high as 100% of its borrowing due for renewal within 12 months.

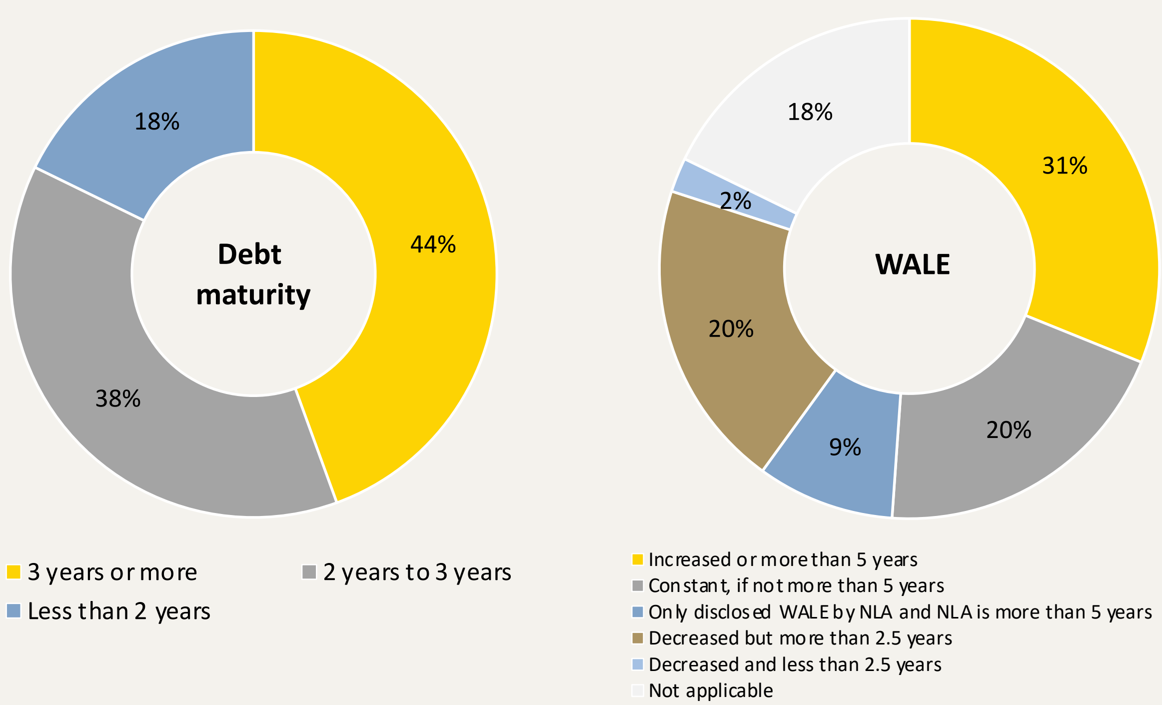


Figure 7: Distribution of the weighted average debt maturity and the weighted average lease expiry

4. KEY FINDINGS (CONT'D)

Weighted average lease expiry

Trusts were also assessed on their weighted average lease expiry (WALE) as a key business risk factor. WALE by gross rental income (GRI) was assessed more favourably than WALE by net lettable area (NLA) as the latter does not reflect the true risks to unitholders. Any trust that only discloses WALE by NLA would not be able to score the maximum points.

Trusts with WALE increasing, greater than 5 years or remaining constant are awarded points while those with decreasing WALE of less than 2.5 years are given demerit points. Overall, 14 trusts received the maximum points for having a higher WALE or WALE by GRI of at least 5 years; a trust received demerit points for having a lower WALE that was less than 2.5 years.

Fixed interest rates

Fewer trusts (29 compared to 32) have more than 70% of their borrowings carrying fixed or swapped to fixed interest rates and received the maximum points. Twelve hedged at least 50% of their interest rate risks (but less than 70%). The remaining four hedged less than 50% and received no points.

Foreign currency risks

Just 14 trusts scored the points for having lower foreign currency risks, with eight of them scoring higher by having mostly Singapore assets. Six trusts earned partial points if they had less than 30% in foreign assets earning foreign currency and substantially hedged their income. The remaining 31 exceeded the 30% threshold and received no points.

Development limit

For REITs, we include development limit as another factor related to business risk. REITs are allowed to exceed a 10% development unit with the approval of unitholders. A higher development unit exposes the REIT to higher risk. We have not observed any REIT seeking unitholders' approval to increase the development limit since the limit was raised.

4.7.1. Use of hybrid securities

Perpetual securities are increasingly being used by trusts to finance their acquisitions. Under current accounting standards, perpetual securities are classified as equity even though they have debt-like features. This has contributed to their growing popularity especially as issuers' leverage ratios increase.

Trusts that do not use hybrid securities, such as convertible or perpetual securities, are given two merit points. We decided to reward those that do not use hybrid securities as we felt that the use of such securities may understate the true business risk of a trust or make their business risk more difficult to assess.

More trusts (17 compared to 14) have hybrid securities, usually perpetual securities. Twenty eight trusts were given two merit points for not using hybrid securities. One trust received further demerit points as the distribution to perpetual security holders was higher than 25% of the distribution to unitholders.

For perpetual securities, the distribution rate could be as low as 3.07% for Ascott Residence Trust (after the rate was reset in June 2020).

Typically, the distribution rate is reset after 5 years (although in some cases, the first reset is after 5.5 years), with an exception being Keppel Infrastructure Trust with a reset and step-up after 10 years.

Trusts with hybrid securities (perpetual securities unless stated otherwise)

AIMS APAC REIT
ARA LOGOS Logistics Trust
Ascendas REIT
Ascott Residence Trust
CapitaLand China Trust
ESR-REIT
First REIT
Keppel Infrastructure Trust
Keppel REIT
Lendlease Global Commercial REIT
Lippo Malls Indonesia Retail Trust
Mapletree Industrial Trust
Mapletree Logistics Trust
OUE Commercial REIT (Convertible perpetual preferred units)
SPH REIT
Starhill Global REIT
Suntec REIT

GIFT 2021 - REVIEW OF THE SECTOR

NOVEMBER 2021

REVIEW OF THE SECTOR

Since we started GIFT in 2017, the total market capitalisation of REITs and BTs listed on the Singapore Exchange (SGX) has grown by over 43 percent from $85 billion to $125 billion as at 31 July 2021. SGX has been able to continue to attract new listings in the sector, with three new REITs included in GIFT for this year.

However, over the past year, we have witnessed the collapse of Eagle Hospitality Trust (EHT), less than one year after its listing. EHT was never included in GIFT because it did not have a sufficient listing history for us to assess its governance and business risk. However, its failure did cause us to reflect on whether changes to the GIFT scorecard are necessary. To us, the key lessons from the EHT case include the following:

- all parties involved in a listing must effectively play their roles, particularly in undertaking robust due diligence
- the complex structures inherent in many trusts, which are difficult for ordinary investors to understand, create governance and business risks
- the integrity, quality and track record of the sponsors are critical
- the pervasiveness of conflicts of interest and interested person transactions makes it particularly important for the manager/trustee-manager to have a truly independent board
- effective policies, procedures and safeguards relating to potential conflicts of interest and interested person transactions, particularly involving sponsors, must be implemented in practice

In GIFT, we have been strict in assessing the independence of directors, often imposing demerit points or even re-designating directors deemed by trusts to be independent as non-independent. The main scorecard also includes an item on whether there is a policy for the audit committee to review all interested person transactions.

However, it is infeasible to design a scorecard (for that matter, listing rules, CG code, legislation, etc.) that captures all factors, especially those that involve subjective judgements about "integrity" of sponsors, directors and key management; or "quality" of sponsors and assets, although these may manifest in the governance and business risk factors included in the scorecard.

As Albert Einstein famously said, "Not everything that matters can be measured and not everything that can be measured matters." We believe that what we have measured do matter but we also recognise that the scorecard may not have measured everything that matters.

.

REVIEW OF THE SECTOR (CONT'D)

In finalising the scores and rankings, we considered some of the factors, usually the more subjective ones, that we have not measured, especially for trusts that are highly ranked. In some cases, we have certain reservations but we have accepted the possible limitations rather than make subjective adjustments to the scores.

With that said, we are considering incorporating further adjustments to the scorecard for future assessments in order to capture more of what we believe matters. In the following section, we share our thoughts on what they may be.

Building greater trust

As mentioned earlier, the complex structure common in many trusts, often with many layers of entities incorporated or registered in multiple jurisdictions, is difficult for investors to understand and may give rise to corporate governance and business risk concerns.

This is especially so for trusts with foreign assets. Trusts should do more to help investors understand why it is structured in a certain way and why various layers of entities are used. Rather than just showing the structure of the trust and related entities on the website as most trusts do, trusts may wish to explain the business reasons for the structure that has been adopted.

Trusts can also help investors better understand how the different entities within their structure are governed. For example, what safeguards are in place to ensure that these entities do not enter into transactions with other parties without the knowledge and approval of the board of the manager, especially the independent directors? In the case of EHT, it was alleged that the sponsors were able to procure the master lessors, which were subsidiaries of EHT, to enter into non-disturbance agreements with the master lessees, which the sponsors owned. Trusts can explain the controls and assurance mechanisms, such as board mandates, limits of authority and internal audits, that help mitigate the risk of transactions at related entities that are harmful to unitholders' interests. This risk is significantly heightened if the sponsor is a "financier"-type sponsor, and not one which has a good operational track record in the industry coupled with an organic pipeline.

.

REVIEW OF THE SECTOR (CONT'D)

The prevalent externally managed model and the sponsors' multiple roles that apply to most trusts tend to give rise to recurring and pervasive conflicts of interest. This makes having truly independent directors playing key roles on the board being particularly important. In EHT's case, the two co-founders/sponsors held the positions of chairman and deputy chairman of the board. The board's oversight role is likely to be compromised in such situations.

Having an independent chairman and a majority of independent directors is a good start and it is an area that we may put more weight on. However, we have some concerns about purely technical approaches based on minimum compliance with the rules often used by trusts to determine independence of directors. In some cases, trusts also deem directors as independent who are not independent based on the specific criteria in the rules, using the discretion the board has under the rules. We rarely see trusts going beyond the minimum standards in determining independence of directors, based on what is disclosed.

We continue to encounter situations where the process for appointing independent directors, or the relationships they have with parties not strictly captured by rules, cause us to have doubts about the independence of a director. We intend to be even stricter in future in assessing independence of directors because we believe that this issue is even more important in trusts than other issuers, given that conflicts of interest and interested person transactions are so pervasive, and unitholders generally do not have the opportunity to at least endorse the appointment of directors.

Having the appropriate board composition is not enough if robust procedures and safeguards relating to conflicts of interest and interested person transactions are absent or not practised. The prospectuses of trusts that we have seen generally state that there are procedures and safeguards in place. For example, the prospectus of one trust states that one of the procedures for mitigating conflicts of interest involving the sponsor is that "any nominees appointed by the sponsor and/or its subsidiaries to the REIT Manager board to represent its interests will abstain from deliberations and voting on such matters." Most trusts also state that the audit committee has a policy of reviewing interested person transactions. We believe trusts should disclose more information about the policies, procedures and safeguards, and confirm that they are applied in practice.

REVIEW OF THE SECTOR (CONT'D)

Trusts can also improve stakeholders' trust through the Audit Committee or Audit and Risk Committee providing more information on its process for arriving at its opinion that acquisitions and divestments to interested persons are based on normal commercial terms and are not prejudicial to the interests of the trust and minority unitholders. The current practice of the committee merely citing the opinion of the independent financial adviser may raise questions about the value add of independent directors on the committee, and the robustness of the process in reviewing such transactions.

Prioritising unitholders' interests

Directors of the manager and trustee-manager are required to prioritise the interests of unitholders ahead of the interests of the manager and the sponsor, where they conflict. There are, however, actions taken by trusts that appear to be more in the interest of the manager or sponsor than unitholders.

For example, the fees for an acquisition in Australia for a BT was based on the enterprise value (EV) of AUD1,100 million, rather than the purchase consideration which was AUD777 million. Did the board consider that the use of EV to determine the acquisition fees might encourage riskier acquisitions as the higher the leverage, the better it is for the trustee-manager in terms of fees earned?

Another example is at a REIT with European assets that recently changed its distribution currency from Singapore dollars to Euros. Time and cost savings were cited as reasons for the change, along with the introduction of dual currency trading for the units on SGX. The manager stated that it no longer needs to hedge its future distributions. While that may be true, the fact is that the underlying currency risk is directly transferred to unitholders, especially for Singapore-based unitholders who probably do not have the scale or expertise to hedge their currency risks.

Unitholders' endorsement of directors

Directors in an externally managed trust are directors of the manager and therefore appointed by the shareholders of the manager, rather than unitholders of the trust. This will

.

REVIEW OF THE SECTOR (CONT'D)

inevitably create perceptions that independent directors are beholden to the shareholders of the manager. While the rules require directors of trusts to prioritise the interests of unitholders, they are difficult to enforce in practice. This difficulty was put under the spotlight in the failed merger by way of a trust scheme of arrangement between ESR-REIT and Sabana REIT.

Allowing unitholders more influence in the appointment of independent directors, such as giving them the right to endorse these directors and requiring those who do not receive endorsement to resign, or allowing unitholders to propose candidates for appointment as independent directors, can improve confidence that the interests of all unitholders are safeguarded. There is a very slow increase in number of trusts giving unitholders the right to endorse directors, with seven trusts included in GIFT 2021 doing so, compared to six in 2020 and five in 2019.

We believe all trusts should put directors forward for endorsement by unitholders, with sponsors and the controlling shareholders of the manager abstaining from the vote.

We may increase the merit points for those that do. We hope that trusts that currently put directors up for endorsement do not discontinue this practice when the endorsement by unitholders is not as strong as they would have liked. In the GIFT 2019 report, we pointed out that one trust revoked the endorsement, claiming that it was no longer necessary. In this case, the resolution to endorse one of the directors received 41% of votes against. In discontinuing with the endorsement the following financial year, the trust said that "the Board is satisfied that the current composition has sufficiently met its independence and governance and assessed that Unitholders are no longer required to endorse the appointment of directors at the AGM."

Independent directors

It is not uncommon to see directors having certain relationships other than just being a director of the manager/trustee-manager and be deemed to be independent. One example is the case of law firms providing services while their partners serve as independent directors. In a number of major overseas jurisdictions, this is strongly discouraged by the

REVIEW OF THE SECTOR (CONT'D)

professional legal associations and/or avoided by companies. In other markets, such directors may be deemed non-independent regardless of the amount of fees the law firm earns from a company. It may also increase personal risk for both the legal practitioner/director concerned and risk to the company.

A pipeline of independent directors from one firm?

We observed that the partner of one law firm retired as lead independent director of a REIT manager due to the 9-year limit for independent directors. The law firm provides legal services to the manager. She was replaced as independent director by a partner of the same firm who is also deemed independent. Not only does the legal services provided by the law firm raise questions about independence, the succession of one partner by another partner from the same firm as independent director suggests a close relationship between the law firm and the manager. Being also the chairperson of the NRC, unitholders would question the robustness of the search and nomination process.

There are other business relationships that may affect the independence of a director which are not specifically covered by the rules or which are deemed by the board to not compromise the independence of a director. For example, a director may be employed by a related entity of a major service provider and is deemed to have no business relationship with the manager or sponsor, on the basis that the related entity is a separate legal entity.

You can always count on me

At another REIT, a director was the retired partner of a major accounting firm, which is the external auditor of both the REIT and the listed company which owns the sponsor. Less than a year after he retired as partner, he was appointed as lead independent director of the listed company. After he retired as independent director of the listed company, he was appointed as non-independent chairman of the REIT manager that same day. Less than three years later, he was re-designated by the REIT manager as an independent chairman. He has an unbroken relationship with the sponsor/manager and his independence would be in question.

REVIEW OF THE SECTOR (CONT'D)

Redesignating from independent to non-independent directors

Some trusts may choose to re-designate an independent director to non-independent after nine years or where certain relationships have developed which may affect the director's independence. We do not penalise trusts which re-designate directors from independent to non-independent although trusts should carefully consider whether it is more appropriate for the director to retire after nine years than be re-designated.

There were two directors of trusts covered in this year's report who were re-designated from independent to non-independent after nine years, and then retired at the next AGM. As these re-designations were clearly transitionary measures to avoid the director(s) resigning before the AGM, we do not have any concerns about such re-designations.

One trust re-designated an independent director to non-independent after the director was appointed as a director of an unlisted subsidiary of the sponsor, and as chairman of a management committee of the sponsor. The REIT said that the NRC and the board, after taking into consideration the scope of his appointment to the subsidiary of the sponsor and the total fees he would receive, considered that he ceased to be considered independent. This trust appears to carefully consider the assessment of director independence and it did not use the flexibility in the rules to continue to deem the director as independent.

Disclosure of other appointments

One trust disclosed the working experience and occupations during the last 10 years of a newly appointed independent director using the standard SGX notice of appointment template. However, the trust failed to disclose that the newly appointed director still holds a full-time job as a civil servant. This understated the busyness of the director and was also not in compliance with the requirement in the appointment template.

Remuneration policy for management

Over the past few years, we have seen an overall improvement in remuneration policies of trusts, in terms of use of long-term incentive plans for senior management and better alignment with the interests of unitholders. The Covid-19 pandemic over the past two years

.

REVIEW OF THE SECTOR (CONT'D)

appears to have led some trusts to make changes to their remuneration policies, which is understandable given the need to continue to motivate and retain key management. For example, a retail REIT and another hospitality trust shortened the performance period used to determine the award of long-term incentives, possibly to recognise that the performance in a Covid-19 year will be severely impacted and this was no fault of management who probably worked harder to oversee the operations. However, we believe that trusts can better explain why certain changes are made and whether these changes are permanent or temporary.

Covid-19 and changes in remuneration policy

A retail REIT shortened the performance period for the grant of restricted units under its Restricted Unit Plan from two years in FY2019 to one year in FY2020. The units granted will continue to vest in the same way as the previous year – in three tranches over two years after the performance period.

In another hospitality trust, the performance period for performance units under its Performance Unit Plan was three years in FY2019. In FY2020, it was changed to a Restricted Unit Plan with a performance period of one year.

Neither trust explained the reason for the change in performance period.

What's a long-term incentive plan?

A retail trust said that the trustee-manager currently does not have any plans for long-term incentives in place for key management personnel because there are no executive directors appointed to the board and that the trust was only listed in 2017. This seems to show a lack of understanding that a long-term incentive plan can be applied to key management personnel who are not executive directors, and that such a plan is forward looking and a trust can have a long term incentive plan even at IPO.

REVIEW OF THE SECTOR (CONT'D)

Disclosure of remuneration

The disclosure of NED fee structure and exact NED remuneration are areas where we have seen significant improvement since we started GIFT. In GIFT 2021, only Asian Pay Television Trust (APTT) did not disclosure the exact remuneration of each individual NED.

However, the disclosure of remuneration of the CEOs and other executive officers is a different matter, with little improvement over time.

MAS has clarified to REITs that any justification stating that remuneration is payable out of the assets of the manager and not out of the deposited property of the REIT would not be considered a satisfactory explanation for not disclosing the remuneration of the CEO, each individual director and at least its top five executive officers on a named basis in exact quantum or bands of S$250,000. However, in GIFT 2021, we continue to find trusts using such an explanation, particularly for not disclosing the remuneration of the CEO and other executive officers.

Special fees for NEDs

In the main section of the report, we looked at the highest paid NEDs, and total NED fees relative to market capitalisation of the trusts. We should clarify that we do not believe that market capitalisation should be the sole or even key determinant of NED fees. Indeed, smaller trusts may face greater challenges and have less developed systems and processes, requiring greater time commitment from NEDs. We also believe that NEDs should be fairly remunerated although we are not certain that the relatively higher fees highlighted are the result of greater time commitment or value add by the NEDs.

One area where we have some concern is the payment of additional ad hoc fees to NEDs, especially IDs, which may appear to be linked to certain outcomes.

While it may be justifiable for trusts to pay additional ad hoc fees to NEDs on the basis that additional time commitment is necessary to deal with special challenges or increased activity in the trust, such as restructuring or M&As, care must be taken regarding how these

REVIEW OF THE SECTOR (CONT'D)

additional fees are determined. Otherwise, NEDs, especially IDs, may be perceived to be rewarded for supporting decisions that may not necessarily be in the best interest of unitholders.

Trusts should consider whether their current remuneration policy for NEDs and approach to setting their remuneration need to be reviewed to ensure that it is transparent and does not create the perception that the NEDs, especially the IDs, are beholden to the sponsor or creates the wrong incentives.

More frequent refinancing, more fees?

A REIT with foreign assets paid each director one-off additional fees of S$10,000 for the directors' additional effort and time spent with management during the refinancing exercise. While it may be fair to remunerate directors for additional time spent, could this result in a perverse incentive of directors shortening the tenure of loans in order to be paid fees more frequently?

In this case, the REIT does not appear to have an optimal debt profile - its weighted debt maturity stood at just 1.13 years and it also has a significant proportion of its debt maturing in the next 12 months.

He who pays the NEDs calls the tune?

A healthcare REIT stated that the fees received by non-executive directors are at fixed rates and determined by the shareholder of the manager on an annual basis.

While NED fees are ultimately approved by the manager, it is important that they are guided by an appropriate remuneration policy for NEDs and not seen to be determined unilaterally by the manager annually or linked to achieving the manager's objectives.

Meanwhile, a Singapore-based industrial REIT said that its NEDs are paid fixed salaries which seem to suggest that the NEDs are employees. It is unfortunate that the REIT has described its remuneration policy as such, especially with questions having been asked about the independence of the board during the lead-up to a fiercely contested merger.

REVIEW OF THE SECTOR (CONT'D)

Independent Committee in the spotlight

In July 2020, for its HY2020 FY results, First REIT highlighted its "healthy balance sheet with strong financial position" and showed unitholders that its weighted average lease expiry was 7.0 years, with leases stretching to December 2032.

Five assets were due for renewal in 2021 for which the REIT manager had been in discussion with PT Lippo Karawaci Tbk ("LPKR") since 2019. Earlier on 1 June 2020, LPKR unilaterally announced its intention to restructure all of the master lease agreements (MLAs) which LPKR had entered into with First REIT for the LPKR Hospitals.

It is worth noting that the other leases would only run out in 2025 for two assets, 2027 for five assets and from 2028 to 2032 for eight other assets. However, the terms for all the leases with LPKR were renegotiated in this MLA restructuring exercise[4].

The manager is cognisant that there is a real risk and high probability that LPKR would default under the existing LPKR MLAs and the restructuring should avoid the adverse consequences of a default by LPKR under the existing MLAs; and avoid the time, costs and complications of enforcing legal rights in Indonesia which First REIT will have to deal with should LPKR default under the LPKR MLAs.

The Board of the Manager had set up an independent board committee (the "Independent Committee") comprising all the independent directors of the board, to consider and evaluate the rental restructuring proposed by LPKR.

While the proposed rental restructuring was approved by unitholders at the virtual extraordinary general meeting on 19 January 2021, unitholders may wonder how the REIT allowed itself to be exposed to a single tenant that has such leverage over the REIT. Did the Independent Committee give serious thoughts to enforcing its legal rights in Indonesia? After all, this involved interested persons and the market viewed the restructuring as highly value-destructive.

At the end of the day, the NRC (comprising two IDs and a NED) recommended a one-off fee for the Independent Committee members "in appreciation for the contributions and time spent on this ad-hoc project".

A sum of $40,000 was paid to to the chairman of the Independent Committee and members of the Independent committee received $20,000. Given that the NRC and the Independent Committee have overlaps (including the chairman), how does the NRC avoid the possible perception that the fees are for the outcome which is favourable to the master lessee, rather than for the additional effort? Hypothetically, if the committee had recommended a different course of action but still expended the same or greater effort, would the additional fees still be paid? We are not questioning the integrity of the directors involved or the quantum of the additional ad hoc fees but think there should be more transparency regarding how these fees are determined.

[4] For The announcement of the details of the restructuring exercise by First REIT can be found here: https://firstreit.listedcompany.com/newsroom/20201129_202002_AW9U_UOKSQCO9QRZCYAQF.2.pdf.

REVIEW OF THE SECTOR (CONT'D)

Possible over-valuations

Independent valuers play an important role in many corporate actions, and probably none more so than in the context of trusts. This is the case both at the IPO, where two independent valuers are typically appointed for the valuation of assets acquired by the trust leading up to the IPO, and on a continuing basis as the trust acquires or divests assets. In some cases, valuation fees for a year exceed audit fees, such as at the then-CapitaLand Mall Trust where valuation fees was $728,000 compared to audit fees of $432,000 in FY2020.

Even though valuations are subject to international valuation standards, valuers are not subject to the same regulation and oversight as auditors. SGX has in recent years enhanced its rules relating to valuation and engaged with the valuation profession to improve standards and transparency in this area.

Nevertheless, we believe there can be better transparency in the use of valuations for acquisitions and divestments.

Para 5.1(d) in Appendix 6 of the Code on Collective Investment Schemes (CCIS) states that a property fund "may acquire assets from or sell assets to interested parties, if…each of those assets is acquired from the interested parties at a price not more than the higher of the two assessed values, or sold to interested parties at a price not less than the lower of the two assessed values."

In the case of EHT, two valuers were used to value the 18 properties that were acquired. One valuer assigned a higher valuation to 16 out of the 18 properties and its valuations became the adopted valuation against which the purchase consideration for each property was compared. This resulted in a higher discount from valuation for 16 out of the 18 properties, than if the valuations of the other valuer were adopted.

Similarly, at newly-listed Elite Commercial Trust (which is ranked joint 6th in GIFT 2021), the valuations of one of the valuers were used to determine the purchase consideration for all the properties acquired by the trust from the sponsor just before the IPO. The valuations of the adopted valuer were higher in most cases, often substantially so, and the purchase consideration for every property was then based on the valuation of this valuer.

In these and other cases of multiple asset acquisitions prior to the IPO, trusts following the CCIS guideline adopt the valuations of the valuer providing more of the higher valuations, with the valuations of the other valuer disregarded. We believe that the practice of using the higher of the two assessed values in the case of asset acquisitions, and the lower of the two assessed values for asset sales, should be reconsidered.

REVIEW OF THE SECTOR (CONT'D)

Engagement and communications with unitholders

In the five years of GIFT, communications with unitholders has consistently been an area that trusts generally excel in. It is therefore disappointing that we found that only seven trusts that held virtual/hybrid meetings for unitholders allowed for live Q&A (and only using text chat for those attending by virtual means). Most trusts followed the minimum requirements under the Covid-19 measures issued by the regulators for their meetings although two trusts also led the way by holding hybrid meetings in November 2020 (Mapletree Logistics Trust's EGM) and in April 2021 (ESR-REIT's AGM).

In terms of deadline for submitting questions before the AGM, most trusts used a 72-hour cut-off time before the AGM. However, some used a longer cut-off time. For these trusts, we looked at whether the longer cut-off was to enable the trust to answer questions submitted before the deadline for voting, and whether they allowed questions after the deadline. We reviewed the minutes to see if questions submitted after the cut-off time were answered at the AGM itself, if the trust had allowed "live" Q&A.

EC Global REIT and Dasin Retail Trust required unitholders to submit questions seven days before the AGM, LMIRT had a cut-off of 120 hours, while Starhill Global REIT had a cut-off of 155 hours. EC Global REIT and LMIRT posted the answers only the day before the AGM, after the cut-off time for voting. They did not accept questions submitted after the cut-off time and there was no live Q&A (by chat or video) at the AGM. The minutes did not indicate further questions being answered at the AGM. Dasin Retail Trust, after imposing a seven-day cut-off for questions, did not post any replies to questions at all. The AGM minutes did not indicate that no questions were received, and no answers to unitholders' questions can be seen in the minutes. Starhill Global REIT provided their responses to the unitholders' questions at 7.20 am, less than four hours prior to the deadline for the submission of proxy forms at 11am.

In contrast, Netlink NBN Trust provides a good example. It adopted a deadline of seven days before the AGM to submit questions. On the day that the deadline expired, it posted an announcement that no questions had been received and reminded unitholders that they can still ask questions "live" (by chat) at the AGM. The AGM minutes showed that questions were asked "live" at the AGM and answered. We hope that it will move to the next level at its next AGM and allow "live" Q&A by video and "live" voting.

REVIEW OF THE SECTOR (CONT'D)

Trusts should ensure that their communications are fair and do not mislead unitholders. One area they should be mindful of is in comparing performance over time.

Adjusting DPU for comparison

One trust reported that DPU stood at 5.031 Singapore cents for FY2020, representing an increase of 5.5% as compared to the DPU of 4.772 Singapore cents for FY2019. It then said that for the purpose of comparison, the DPU for the financial period for the previous comparative half year had been restated to reflect the effects of the rights units issued in the current year.

FY 2019 DPU was calculated based on actual DPU for the financial period from 1 January 2019 to 30 June 2019 ("1H 2019 DPU"), with 2H 2019 DPU adjusted for the rights units.

Is it appropriate to adjust the previous DPU for the comparison, which gives the impression of a more significant improvement in DPU?

Trusts facing challenges

- Dasin Retail Trust

The refinancing woes of Dasin Retail Trust (DRT) led its auditor, Deloitte & Touche LLP, to include an emphasis of matter in respect of material uncertainty related to the ability of DRT and its subsidiaries to refinance their existing debt before they are due for repayment, in its auditor's report for FY2020 in April 2021. The auditor's opinion remained unqualified. It had earlier in March 2020 announced that it was no longer required to practise quarterly reporting following the adoption of the risk-based approach to quarterly reporting. With this emphasis of matter issued by the auditor, DRT would have to continue with quarterly reporting. However, it has a one-year grace period to comply with the requirement to comply with the quarterly reporting requirement.

In May 2021, DRT announced that its controlling unitholder had pledged 38 million units or 4.87% of the DRT units to create share margin financing facilities. On 4 August 2021, the trust disclosed that it received a notification by the controlling unitholder the day before, that the bank had exercised its margin call and sold over 1.785 million of shares from as early as 22 June 2021. It would appear that there was some delay in the announcement of the change in interest by the controlling unitholder.

REVIEW OF THE SECTOR (CONT'D)

ARA US Hospitality Trust

The pandemic took its toll on ARA US Hospitality Trust (ARA USH), where its manager did not earn any management fees in FY2020 because there there was no distributable income. Fees are based on distributable income for the trust. The interests of the manager and unitholders are aligned in that both received nothing for FY2021. It would be interesting to see if the manager will seek to review the terms of its fees if the challenges persist, or whether it will continue to ride it out with unitholders.

ARA USH changed its updates from quarterly to half-yearly reporting, moving to only providing a quarterly business and operations update. This is despite the fact that it is more critical for stapled securityholders to receive more timely updates of its financial and operational performance due to Covid-19. Its interest coverage ratio (ICR) saw a continual decline from 3.4 times based on its May 2020 update for the quarter of January to March 2020, to 1.5 times for the half year from January to June 2020. ARA USH stopped disclosing its ICR in its 3Q business and operations update (announced in November 2020) and only disclosed that it has fallen to 0.1 times in its FY2020 Annual Report. The aggregate leverage has also ballooned from 32.1% to 48.2%. In FY2021, the trust continued not disclosing the ICR in its 1QFY2021 business and operations update and in its results for the first half-year results for FY2021.

MAS has stated that REITs are required to disclose both leverage ratios and ICRs from May 2020 to provide investors with timely information about the financial position of REITs.

Sabana REIT

In December 2020, the proposed merger between Sabana REIT and ESR-REIT fell through after one-third of units voted against the extraordinary resolution on the proposed amendments to the Sabana REIT EGM trust deed necessary for the merger to proceed. This followed an intensive and extended campaign led by Quarz Capital Management and Black Crane Capital, minority unitholders of Sabana REIT, who were unhappy with the terms offered to Sabana REIT unitholders for the proposed merger.

Quarz and Black Crane continued their campaign into 2021. In March 2021, two newly-appointed independent directors resigned after the Quarz and Black Crane said they would

REVIEW OF THE SECTOR (CONT'D)

withhold the endorsement of these directors at the April 2021 AGM. MAS had imposed the requirement for Sabana REIT to seek endorsement following the failed merger with ESR-REIT and questions raised about the independence of certain directors. Following the appointment of another new independent director in June 2021, Quarz and Black Crane attempted twice in June and August 2021 to requisition an EGM for the purpose of endorsing the appointment of the new director, which was unsuccessful. The fight between the activist minority unitholders and the manager of Sabana REIT looks set to continue.

- Hutchinson Port Holdings Trust

One constant for GIFT since we launched the first edition in 2017 is that Hutchinson Port Holdings Trust has languished near or at the bottom. It has always been in the bottom five, taking the second last position in 2019, last in 2020, and second last again this year. Even this year, when it finally formed a remuneration committee with three non-executive directors as members, the two independent directors had served more than nine years and were re-designated to non-independent in our assessment.

Its poor corporate governance and lack of transparency are also accompanied by poor financial performance over the years although its FY2021 distribution to unitholders increased for the first time since FY2012 (first full year of its IPO in 2011).

There appears to be little that unitholders and regulators can do to push it to improve its disclosure, corporate governance and performance.

Risks in the sector to watch out for

There are certain trends in the sector that investors should be mindful of. Over the years since GIFT was started, we have seen more trusts using some form of hybrid securities, with the majority being perpetual securities. In GIFT 2021, there were 17 trusts using hybrid securities compared to 14 last year. Such hybrid securities are a way for trusts to lower their leverage and could be used more as trusts reach the leverage limits imposed by MAS (for REITs). Their use could increase the risk for unitholders.

Another trend we observed, albeit on a very limited sample, is that the PRC REITs and business trusts appear to have higher refinancing risks with significant currency mismatch.

REVIEW OF THE SECTOR (CONT'D)

They tend to obtain short-term financing and they make use of “offshore” loans to fund RMB assets. We see that in BHG Retail Trust, EC World REIT and Dasin Retail Trust. Again, such duration and currency mismatch increases risk for unitholders as trusts may not be able to refinance their debt which falls due for repayment.

Regulatory wishlist

Over the years, we have suggested regulatory reforms that could be considered to further improve investor trust in the sector.

We repeat our call for regulators to review the rules relating to independent directors for trusts, including the flexibility given to boards in “over-riding” the criteria used to determine independence. We urge regulators to be pro-active in questioning trusts about the process for appointing independent directors and determining their independence. Consideration should also be given to making an independent chairman and a majority of independent directors mandatory requirements or at least recommended best practices for all trusts.

Regulators should consider requiring all trusts to put directors forward for endorsement by unitholders. They should also consider requiring all trusts to publish their trust deeds on their website. Other regulatory reforms could include requiring trusts to provide a positive confirmation that policies, procedures and safeguards relating to conflicts of interest and interested person transactions are not only in existence but are in fact practised.

Regulators should also consider if the transactions involving interested parties under the Code on Collective Investment Schemes should be amended to take into account the two sets of assessed value. The current practice of using the higher of the two assessed values in the case of asset acquisitions, and the lower of the two assessed values for asset sales, should be reconsidered.

ABOUT THE AUTHORS

Mak Yuen Teen

Mak Yuen Teen is Professor (Practice) 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 was a member of the Corporate Governance Council formed by MAS in 2017 to review the Code and is member of the Corporate Governance Advisory Committee formed by MAS in 2019.

Prof Mak developed the Governance and Transparency Index (GTI) and was the Singapore expert involved in developing the ASEAN Corporate Governance Scorecard. He also edits an annual collection of case studies published by CPA Australia and publishes regular reports on corporate governance-related topics. Prof Mak also conducts corporate governance training for directors, regulators and other professionals in the region.

Prof Mak has a personal website at www.governanceforstakeholders.com where he shares his personal views on current corporate governance issues, and research reports and case studies that he has produced.

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.

Professor Mak Yuen Teen
bizmakyt16@gmail.com
www.governanceforstakeholders.com

GOVERNANCE FOR STAKEHOLDERS