

Singapore trusts market growing, but governance standards are stagnating: 2021 index

Some of the more established trusts have underperformed against the newer kids on the block

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Singapore SINGAPORE-LISTED trusts, such as real estate investment trusts (REITs), have grown bigger over the years, but their standards of governance have failed to rise in tandem – they have in fact stagnated or even fallen, this year's Governance Index for Trusts (GIFT) has found.

The index, which undertook a detailed examination of the corporate governance and business-risk performance of the 45 listed (and currently trading) trusts here, is supported by the Singapore Exchange (SGX) and produced by professor of accounting Mak Yuen Teen and active investor Chew Yi Hong.

This is the fifth annual edition of GIFT.

GIFT 2021 used the June 2021 results or operational/financial updates of the 45 trusts, assessing them on governance (75 per cent) and business-risk factors (25 per cent).

"Investors may wish to pay particular attention to trusts that have poorer governance and higher risk," Prof Mak said.

Netlink NBN Trust topped the rankings, a position it has held since its debut in 2019. The company even extended its lead this year, achieving a new high score of 95, up from 90 in 2020 and 2019. It was highlighted as a role model for other trusts to emulate.

It was followed by Keppel Pacific Oak US Reit in second place, Mapletree North Asia Commercial Trust in third, and Cromwell European Reit and United Hampshire US Reit in joint fourth place.

The five lowest-ranked trusts this year were (in descending order): 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

was the lowest since GIFT was launched.

The average score achieved by all 45 trusts continued to dip. It came in a shade down at 64.1 this year, from 64.3 in 2020 last year; 2020's scores had in turn slipped from 68.0 in 2019. The average score had improved every year before then.

While part of the decrease can be attributed to changes to the scorecard and scoring methodology, the index authors say that standards have stagnated somewhat or even declined as trusts grew bigger.

Prof Mak said: "Some of the more established trusts have stagnated or regressed, and underperformed against the newer kids on the block. We hope the newer kids don't become old and stale over time."

GIFT's scoring was tweaked to reflect the maturing of the sector, and focuses "even more on substance and recognise(s) trusts going beyond the bare minimum, rather than (implementing) 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 meetings, which was rare prior to the pandemic," Prof Mak said.

For example, scoring criteria were added to recognise the provision of a live question-and-answer (Q&A) session, or live voting during a trust's virtual annual general meeting (AGM); points were also awarded to trusts that continued with quarterly reporting or provided updates for their first and third quarters.

Overall, the areas in which trusts

performed well lay in the following areas:

- Posting of meeting minutes: This is now mandatory; prior to the pandemic, about 60 per cent of trusts did so;
- Disclosing of the exact fees paid to non-executive directors or NEDs: All but one trust did so this year;
- Disclosing fee structure for NEDs: 23 trusts did so, up from 17 last year.

More gradual improvement was seen in the following areas:

- A growing number of trusts now allow their unitholders to endorse directors;
- There has been a rebound in the percentage of trusts having a nominating committee and a remuneration committee, to around 2019 levels;
- Directors have improved on their attendance in board and committee meetings; and
- More trusts now disclose the performance measures used to determine the variable component of remuneration for key management personnel.

GIFT 2021 also noted that 7 trusts this year – up from none last year – allowed unitholders attending AGMs remotely to ask questions "live" via text chat. It was noted, however, that none of the trusts allowed questions via live video, nor did any have live voting at their AGMs; the exceptions were ESR Reit which had a hybrid AGM, and Mapletree Logistics Trust, which conducted a hybrid EGM.

The areas in which trusts stagnated, regressed or did not meet expectations were:

- Eleven trusts (nearly a quarter of the 45 in the index) had all-male boards;
- The number having an independ-

ent chairman fell marginally (from 22 to 21);

- The number with a majority of IDs on their boards fell (from 33 to 30);
- A smaller number of trusts now have directors with relevant competencies;
- The number of trusts disclosing the exact remuneration of their chief executive officers has stagnated;
- The release of annual results and half-yearly results has fallen in timeliness.

The number of trusts that have continued with full quarterly reporting has fallen from 12 to 9.

The index authors believe there are other areas trusts can improve on. Prof Mak said: "Given the prevalence of 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 (for trusts) to have truly independent boards."

He added that trusts can also do better in explaining their search and nomination process for IDs, and be stricter in assessing the independence of directors based on both the letter and the spirit of the rules.

Trusts could also do more to aid investors in understanding their complex structures – which typically arise from their multiple layers or operations in multiple jurisdictions – which may help manage corporate governance and business-risk concerns.

"Trusts should also have fully interactive Q&A and 'live' online voting for all unitholder meetings. SGX Regulation chief Tan Boon Gin, in his foreword to GIFT 2021, agreed that improvements could be made, particularly in the areas of board composition.

"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," he said.

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

Governance Index for Trusts 2021

RANK	REIT/BT	GOVERNANCE RISK SCORE	BUSINESS RISK SCORE	GIFT 2021
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
	Fraser's Centreport 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	Fraser's Logistics & Commercial Trust	50	21	71
15	Keppel Reit	54	16.5	70.5
16	AIMS APAC Reit	50.5	19.5	70
	REIT 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	Fraser's 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
	OLE 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
	Surteck 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

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Professor of accounting Mak Yuen Teen