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GIFT

GOVERNANCE INDEX FOR TRUSTS 2022

MAK YUEN TEEN
CHEW YI HONG

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AUTHORS
MAK YUEN TEEN & CHEW YI HONG

GIFT

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FOREWORD BY TAN BOON GIN

I am heartened to see an improvement in the overall GIFT average score. This bodes well for Trusts listed on SGX which are recognised as a core contributor to Singapore's standing as a financial centre.

Every small step counts. In last year's foreword, I shared my wish to see the positive signs 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. This trend has continued as evident from the findings of the survey.

However, the pace of improvements can be accelerated. Two areas which corporate governance advocates have been focusing on are the independence of the board, and the link between business performance and remuneration. Following the recommendations of Corporate Governance Advisory Committee, SGX RegCo issued a public consultation in October 2022 on the introduction of a new listing rule requiring the disclosure of the exact amount and breakdown of the remuneration of directors and CEOs of issuers.

Feedback was also sought on limiting the tenure of independent directors. We believe that shareholders (unitholders in the case of REITs and Business Trusts) should have more information on how business performance is linked to remuneration. Boards must continue to engage, and even challenge management to bring about the most optimal outcome for unitholders, thereby ensuring the sustainability of the business. To do this effectively, board renewal and independence are key.

The business environment has been tough in the last few years and will continue to be so with economic uncertainties in the foreseeable future. Coupled with the race of our lives to combat climate change and achieve net zero, businesses will face many challenges ahead.

Good governance practices, while not the only silver bullet for these challenges, will help guide businesses through difficult phases. SGX RegCo will continue to work with the market community to keep up improvements in the REIT and Business Trust sector. As always, we value feedback and where necessary, will act to drive better governance practices.

Tan Boon Gin
CEO
Singapore Exchange Regulation

EXECUTIVE SUMMARY

The Governance Index for Trusts (GIFT), launched in 2017 and now in its sixth edition, 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.

This year, 36 out of 43 trusts, or 84%, participated in the self-assessment. This compares to 80% last year and is the highest participation rate since the self-assessment was introduced in 2018. We thank the trusts 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 sixth edition of GIFT, 43 real estate investment trusts (REITs) and business trusts (BTs) listed on SGX were assessed – two fewer than last year. The decline is due to the mergers of Mapletree Commercial Trust and Mapletree North Asia Commercial Trust (and now known as Mapletree Pan Asia Commercial Trust); and ESR-REIT and ARA LOGOS Logistics Trust (now known as ESR-LOGOS REIT). Two trusts which are currently listed (but suspended from trading) were excluded – Eagle Hospitality Trust (EHT) and RHT Health Trust. Two other newly-listed trusts, Daiwa House Logistics Trust and Digital Core REIT, are not included because they have not yet published an annual report at the time of the cut-off for assessment.

The weightings of 75% for the governance section and 25% for the business risk section continue to apply for GIFT 2022.

To make GIFT more timely for investors, all but one of the trusts were assessed on their business risks using the June 2022 results or operational/financial update. SPH REIT was the only exception that was assessed based on its key business and operational updates for its third quarter results that ended on 31 May 2022. It subsequently changed its financial year end from 31 August to 31 December.

Personnel changes to the board and senior management were assessed up to the cut-off date of end of July 2022.

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

EXECUTIVE SUMMARY (CONT'D)

TOP PERFORMERS AND OVERALL TRENDS FOR GIFT 2021

The trusts ranked in the top 5 in GIFT 2022 are, in order, NetLink NBN Trust, Keppel Pacific Oak US REIT, Cromwell European REIT, CapitaLand Integrated Commercial Trust and Keppel DC REIT. NetLink NBN Trust continues to be the top-ranked trust in GIFT since its debut in 2019. In GIFT 2022, it achieved a new high score of 99, compared to 95 in 2021 and 90 in 2020 and 2019.

We are pleased that Sabana REIT, which had been under scrutiny from unitholders, market watchers and regulators, and which failed in its controversial merger with ESR-REIT in 2020, has significantly improved its score and ranking. It moved up from 38th last year to joint-14th this year as it revamped its board and focused on its core business. Activist unitholders, regulators and the trust itself deserve credit for this improvement. We hope that the board and management will continue to rebuild trust with unitholders.

At the other end, the six lowest-ranked trusts, starting from the bottom-ranked are Dasin Retail Trust, Hutchison Port Holdings Trust, EC World REIT, Lippo Malls Indonesia Retail Trust, and Asian Pay Television Trust and First REIT which are joint fifth from bottom.

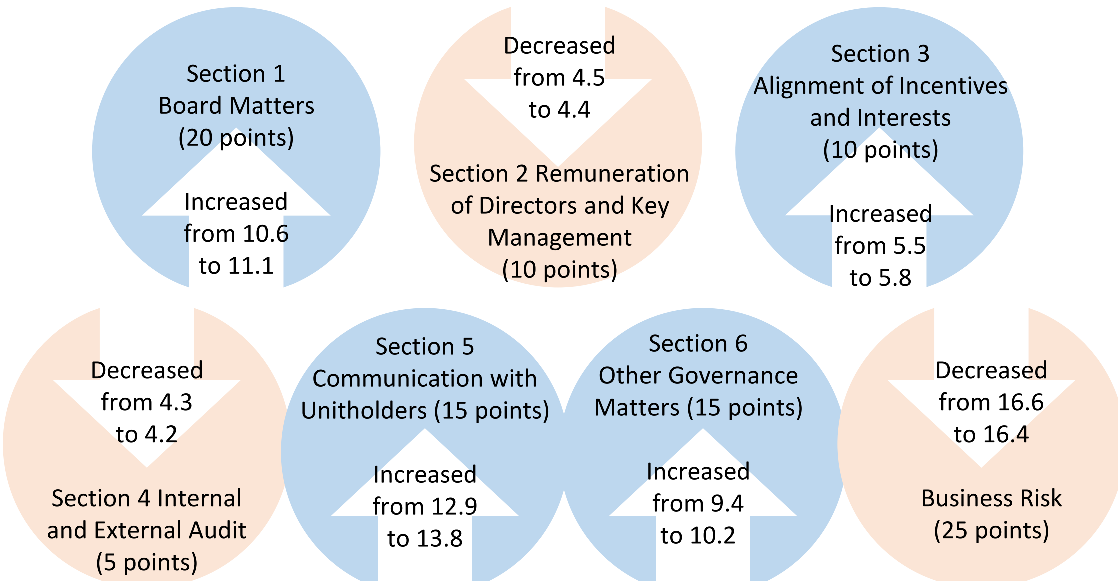
After increasing between 2017 and 2019, the average GIFT score fell in 2020, largely due to changes to the scorecard and scoring methodology although we felt there was a stagnation or even decline in standards. Last year, the average combined governance and business risk score slipped slightly from 64.3 to 64.1.

We are pleased that this year, the average GIFT score reversed the decline and increased from 64.1 to 66.0. The overall average score for those trusts that were in the 2021 and this year's edition increased from 64.0 to 66.0.

EXECUTIVE SUMMARY (CONT'D)

Overview of GIFT 2022

The following is an overall summary of the changes in the individual sections of GIFT:



Overall observations

We see improvements in the overall governance of trusts. While business risks have crept up given the market conditions, the sound regulatory framework established by MAS has helped ensure that there is no distress in the sector.

The consolidation of trusts has taken place and time will tell if these consolidations create value for unitholders.

The independence of directors remains a concern with deviations from Securities and Futures (Licensing and Conduct of Business) Regulations (SFLCBR) common.

More can be and should be done to overcome the resistance to board renewal, especially in business trusts.

Based on our observations of trusts' practices and actions, we remain unconvinced that managers are set up with proper safeguards, incentive systems and balance of power to always put the interests of unitholders before their own, a statutory duty of managers under the Securities and Futures Act and Business Trusts Act.

EXECUTIVE SUMMARY (CONT'D)

Areas where trusts have done well

This year, 31 trusts compared to seven last year, allowed unitholders attending the AGM remotely to ask questions live. Twenty trusts had live voting. However, the improvement had a lot to do with the changes in rules introduced by SGX. Most trusts held their AGMs before July 2022 when they were not required to provide for live Q&A and live voting for virtual AGMs. Some chose not to have live Q&A and most did not have live voting in early 2022. However, trusts that held their AGM later in the year were required to have both live Q&A and live voting. We did not differentiate between those trusts that provided for live Q&A and live voting when it was mandatory versus those that did not when they were not mandatory because all trusts could have provided for both even if not mandated.

All trusts posted their minutes this year as it is still required by SGX and we hope they will continue to do so compared to just over 60% of trusts posting their minutes of meeting prior to the pandemic. This became mandatory for all listed issuers holding virtual meetings under the Covid-19 measures introduced by ACRA, MAS and SGX.

More trusts (37 or 86% compared to 29 or 64%) gave at least 21 days of notice for AGMs without special resolutions and at least 28 days of notice for AGMs with at least one special resolution.

Like last year, all except one trust disclosed the exact fees paid to non-executive directors (NEDs). In this area, trusts do much better than for other listed companies on SGX. 23 of the trusts – or 53% – disclosed the fee structure for NEDs. NEDs, especially independent directors (IDs), are supposed to promote good corporate governance and transparency and this should start with disclosure of their own fee structure and fees.

Trusts generally do well in terms of experience of their management teams and for operating mostly in countries with a strong rule of law. However, as trusts diversify overseas, these areas, together with lack of experience of boards in overseas markets that trusts are operating in, may increase the governance and business risks of more trusts going forward. This year, three trusts received demerit points because we assessed that their CEO/ED has no prior experience in the region they are expanding to, and we assessed 14 boards as lacking any experience in the overseas market that the trusts operate in.

EXECUTIVE SUMMARY (CONT'D)

Areas of improvement

The number of trusts that allow endorsement of directors by unitholders continue to increase slowly, with eight trusts now doing so compared to seven last year, six in 2020 and five in 2019. The trusts which adopted this practice this year are: Keppel DC REIT, Keppel Infrastructure Trust, Keppel Pacific Oak US REIT (new), Keppel REIT, Lendlease Global Commercial REIT, NetLink NBN Trust, Parkway Life REIT and Starhill Global REIT. Sabana REIT was issued a directive by the Monetary Authority of Singapore (MAS) to seek endorsement of an independent director. We note that the manager of Sabana REIT has not given an undertaking to the trustee to provide unitholders with the right to endorse the appointment of each director. As such, we have not awarded the points to Sabana REIT and will further observe the REIT at the next AGM.

Attendance of directors in board and committee meetings improved, with three trusts receiving demerit points for having one or more directors missing two or more meetings or missing meetings for two consecutive years, compared to 10 trusts last year and 14 in 2020. Since we started looking at directors' attendance, the number of demerit points decreased from 26 to 13 to 6 this year.

More trusts have the investor relations contact details on the website, up from 62% to 70%. The adoption of live Q&A and live voting by trusts have led to improved engagement and communications with unitholders. We are pleased to see that some trusts adopting live Q&A and live voting when it was not mandated by SGX.

We see some evidence that the disclosure of remuneration is improving although it is limited to selected trusts. The introduction of long term incentives for executive directors, CEOs and key management personnel, if well designed, can lead to better alignment with unitholders.

Areas with little improvement, stagnation or even deterioration

Although the number of all male boards fell slightly, from 11 out of 45 to 9 out of 43, we believe trusts are not doing enough to expand the pool of candidates when recruiting IDs. There are also 12 mono-ethnic boards and 18 boards with only directors aged 50 and above. Only 15 trusts have multi-dimensional diversity in terms of gender, age and ethnicity and received the two merit points under GIFT.

EXECUTIVE SUMMARY (CONT'D)

IDs often tick the boxes on independence but have relationships that cause us to redesignate them from independent to non-independent or to impose demerit points. The number of trusts with an independent chairman (after re-designating certain chairmen to non-independent) fell from 21 (47%) last year to 18 (42%) this year. In all, 15 trusts had at least one ID re-designated to NED, with 26 IDs re-designated in total. The number of trusts with a majority of IDs fell from 33 two years ago to 30 last year (both out of 45 trusts) and to 25 (out of 43) in GIFT 2022.

BTs continue to lag in terms of board renewal. We do not see how long-tenured directors on the boards of BTs are immune to the threats to their independence, simply because of the trust structure (BT vs REIT). In a clear sign of box-ticking, a BT stated that it is subject to and complies with the BTA and thus relevant rules relating to independent directors serving beyond nine years in the Listing Manual do not apply.

The relevance of board competencies of trusts has remained stagnant. This year, 18 trusts compared to 19 last year have at least one ID with both experience in the industry AND investment/fund management experience and 7 (compared to 9) did not have any ID with either relevant investment or industry experience. In addition, there are only 29 trusts (67%) having an audit committee (AC) chairman with recent and relevant accounting/financial management experience and expertise, compared to 31 last year, although there is a slight improvement in the number of ACs that have a majority of IDs with such experience, increasing from 13 (29%) last year to 15 (35%) this year.

Twelve trusts compared to 11 had six or more board meetings, four or more AC meetings and two or more nominating committee (NC) and remuneration committee (RC) meetings.

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. Only 20 trusts (47%) held their AGM outside the peak period. This is a significant decline from 29 (64%) trusts that did so last year.

Four trusts disclosed the exact remuneration of the CEO this year, compared to three last year, 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.

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EXECUTIVE SUMMARY (CONT'D)

Two trusts amended their trust deeds to calculate their performance fees based on increases in distribution per unit (DPU) which results in better alignment of interest with unitholders. A total of 21 trusts (offset by one trust that was delisted) now use DPU to calculate performance fee. Overall, the link between DPU and management fees (assessed over a three-year period) remains weak as nearly three-quarters of the trusts were given the demerit point for this. Thirteen trusts (30%) saw DPU decrease while fees increase; and another 18 trusts (42%) saw fees increasing faster than DPU increase or decreasing slower than DPU decrease. Only 12 trusts (28%) avoided the demerit although this is an improvement compared to the 16% last year.

The timeliness of release of annual results and half-yearly results continues to fall, with fewer trusts (27 versus 34) releasing their latest annual results within 45 days and also fewer trusts (22 versus 28) releasing their half-yearly results within 30 days.

Only six trusts, compared to nine last year, continued with full quarterly reporting. On the bright side, Mapletree Pan Asia Commercial Trust announced at the end of October 2022 that it will be reverting to a quarterly reporting framework and will pay distributions, if declared, on a quarterly basis commencing from the third quarter ending 31 December 2022. We think that trusts, especially the larger ones, should have the economies of scale to report quarterly.

Watch list

Over the years since GIFT was started, more trusts are using some form of hybrid securities, usually perpetual securities. This year, the number of trusts using hybrid securities stands at 16 (out of 43) compared to 17 (out of 45) in 2021 and 14 in 2020. 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. Leverage has also been inching up over the years.

With interest rates rising and expected to continue rising, more trusts may avoid using pure debt and opt to use perpetual securities instead since they are usually treated as equity. This results in trusts understating its "leverage". In addition, while trusts usually report the average cost of debt, these numbers exclude the cost of the perpetual securities, thus under-stating borrowing costs.

EXECUTIVE SUMMARY (CONT'D)

Last year, we flagged that 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), although it was based on a very limited sample. This year, two China-based trusts faced re-financing issues. One is selling off key assets to pay off their loans when the banks started to demand that they reduce their outstanding loans. As a result, the REIT is selling its asset to the sponsor, although to its credit, it is also giving a special distribution to unitholders after the sale of assets. Another could only obtain short-term loan extensions that were as short as three months while it explored the sale of assets.

There are increasing concerns about cybersecurity breaches and the theft of personal information from companies and organisations, with more reported incidents in Singapore and around the world. We have concerns about the website security of certain trusts. We found that five trusts still use "http" rather than "https" for their website.

Trusts often have inherently complex structures to comply with legal or tax requirements, particularly foreign trusts. Such complex structures could create additional governance and business risks for trusts. It is important that the risks of such complex structures are properly assessed and clearly explained to investors. In June 2021, one trust announced that it was applying to list one of its wholly-owned subsidiaries on a stock exchange, which will then become a listed UK REIT. The subsidiary will remain wholly-owned after listing. This "technical" listing was successfully completed in August 2021 and was undertaken to obtain preferential tax treatment under the tax laws of the UK, where the properties of the trust are located.

One trust (that we have excluded from GIFT) has faced tax and legal problems related to its complex structure, and has spent years in the courtroom with no resolution in sight. Some of the problems we have seen in Eagle Hospitality Trust are arguably related to its complex structure.

The number of board meetings vary widely across trusts, ranging from just two meetings in a year for two trusts to as many as 17 for one trust. While the number of meetings would be expected to be related to the number of major corporate actions undertaken, such as acquisitions, disposals or fund-raising, we are concerned that some trusts are having as few as two board meetings a year as this could raise questions about effective board oversight. This is particularly so given the challenging economic environment and risks that businesses have been facing over the past two years. In GIFT, we consider any fewer than four board meetings as too few.

EXECUTIVE SUMMARY (CONT'D)

In September 2022, it was announced that the government had introduced changes to enhance the transparency and governance of registered business trusts in Singapore. Business trusts will be required to provide more information about their beneficial owners and it will be easier for unitholders to remove trustee-managers. Auditors of listed business trusts and their subsidiaries have to seek the consent of MAS if they wish to resign before their term.

We welcome the increasing emphasis placed on managers and trustee-managers and their directors to prioritise the interests of unitholders where there are conflicts with the interests of managers and their owners. However, the fact that there are still only a handful of trusts that allow unitholders to endorse the appointment of directors; continuing questions about independence of independent directors in many trusts; and remuneration policies for management and incentive structures for managers that are often more aligned with the interests of the manager than unitholders, means that the intent of regulators may not be translated into practice. We therefore plan to become stricter in a number of these areas and possibly change the point allocations in future editions of GIFT to better differentiate trusts in these areas.

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. We therefore continue to urge the wider adoption of the following practices 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

There is also scope for trusts to improve diversity in terms of gender, age, experience and ethnicity.

EXECUTIVE SUMMARY (CONT'D)

We would also like to see clearer alignment of interests between trust management and managers/trustee-managers and strong linkages between remuneration and value creation, through the careful design of remuneration policies and incentives for managers/trustee-managers.

With larger trusts, the benefits of an internally managed structure may outweigh its perceived disadvantages, and the case for continuing with an externally managed structure should be evaluated. The trust structure can itself be a matter of investor preference. NetLink NBN Trust adopted an internally managed structure from its establishment and has ranked first in every GIFT ranking since it was listed. We hope to see more trusts moving towards such a structure in the near future.

Given the importance of the trust deed, we are puzzled why only three trusts post it on their website. We urge regulators to make it mandatory for the trust deed to be made easily accessible through the trust website.

Going forward, trusts are likely to have the option of holding either physical-only meetings or virtual-only meetings. We believe hybrid meetings are the best mode of such meetings and will recognise trusts that adopt this mode for future meetings.

Caveats

While we have taken great care in assessing the governance and business risks of the trusts covered in GIFT, we would like to continue 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.

EXECUTIVE SUMMARY (CONT'D)

- 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.

A look to the future

As the sector matures, we have in recent years modified the scoring criteria in GIFT and focused more on substance and recognise trusts going beyond the bare minimum. It is timely for a substantive review of GIFT given the evolution of the market conditions and practices in the past three years. We plan to update the scoring criteria, the thresholds and further de-emphasise pure disclosure-type information for which all trusts provide sufficient information, such as fees paid to manager/trustee/property managers.

We feel very strongly that REITs should use DPU or a return-type metric as the basis for the trust's performance fees to better align with the interests of unitholders. The next version of GIFT will also have more granularity whereby we will also consider the ratio of expenses to weighted average net assets (including and excluding performance component of asset management fee) and total operating expenses to net asset value. Tracking this will enable unitholders to see if trusts get more efficient as they get bigger.

We have also modified the assessment in areas such as conduct of AGMs and quarterly reporting as new rules are introduced and trusts change their practices in light of new requirements or changing expectations, and will continue to adapt GIFT to ensure its continuing relevance.

In assessing the trusts, we are currently tracking and scoring almost 300 items in the GIFT database. We hope to further improve the assessment process and explore how we could engage with unitholders and investors in the process.

EXECUTIVE SUMMARY (CONT'D)

We are also considering whether and how environmental and social factors – the "E" and "S" of ESG – should be incorporated into GIFT going forward. We are mindful that GIFT should remain focused as an assessment primarily of the governance and business risks of trusts. However, environmental and social factors will undoubtedly increasingly affect the business risks of trusts. Nevertheless, due to concerns about "green" or "social" washing, we will be cautious in how we incorporate them into GIFT. Areas which we may include in GIFT include sustainability-related experience of board members and senior management; clear disclosure of how the trust is addressing the risks and opportunities from physical and transition risks associated with climate change; clear disclosure of sustainability governance and management structures; qualifications and experience of chief sustainability officers or equivalent; whether and how remuneration of key management is linked to sustainability-related factors; and the use of independent external assurance for sustainability disclosures. We may incorporate aspects of these into the self-assessment and invite trusts to provide information to support their self-assessment. It is possible that we may include a separate section to describe how different trusts are addressing these issues, but not incorporate into the scoring and rankings.

EXECUTIVE SUMMARY (CONT'D)

Recommendations We put forward the following recommendations for trusts and regulators to consider:

- **Recommendation 1:** The Business Trusts Act to set a 9-year limit for independent directors, similar to REITs.
- **Recommendation 2:** The disclosure of the trust deed in the trust website should be mandatory.
- **Recommendation 3:** The disclosure of Interest Coverage Ratio (ICR) and Adjusted ICR should be mandated for both REITs and business trusts.
- **Recommendation 4:** Remuneration policies, including share plans, should be based on the performance of the trust, and not the manager and not the holding company/group. If this is not the case, the risks and how they are mitigated should be clearly explained as expected by MAS.
- **Recommendation 4a:** An independent vote by unitholders should be required if key executives are given shares of the holding company/group with vesting conditions linked to the holding company/group.
- **Recommendation 5:** As a policy or at least in advance for the financial year, the manager/trustee-manager should state how it is receiving its fees in terms of the proportion of cash and units.
- **Recommendation 6:** If a director is deemed independent by the manager despite he/she being deemed not to be independent under the Securities and Futures (Licensing and Conduct of Business) Regulations, an endorsement by independent unitholders should be required.

Governance Index For Trusts – GIFT 2022

Ranking	REIT/BT	Governance risk Score	Business risk Score	GIFT 2022
1	NetLink NBN Trust	75	24	99
2	Keppel Pacific Oak US REIT	66	21	87
3	Cromwell European REIT	65	20	85
4	CapitaLand Integrated Commercial Trust	56	24.5	80.5
5	Keppel DC REIT	58	20.5	78.5
6	Frasers Centrepoint Trust	53.5	23.5	77
7	Far East Hospitality Trust	54.5	22	76.5
7	Keppel REIT	58.5	18	76.5
7	Mapletree Pan Asia Commercial Trust	56.5	20	76.5
10	Manulife US REIT	57	19	76
11	Parkway Life REIT	53	22	75
12	CapitaLand Ascendas REIT	58.5	15.5	74
12	United Hampshire US REIT	57	17	74
14	Elite Commercial REIT	56.5	15	71.5
14	IREIT Global	48.5	23	71.5
14	Sabana REIT	47	24.5	71.5
17	Mapletree Industrial Trust	51	20	71
17	Prime US REIT	50	21	71
19	AIMS APAC REIT	50.5	18	68.5
20	Frasers Logistics & Commercial Trust	51.5	16.5	68
21	Sasseur REIT	49	18.5	67.5
22	Starhill Global REIT	49.5	17.5	67
23	CapitaLand China Trust	51	15.5	66.5
23	CapitaLand India Trust	46.5	20	66.5
25	ARA US Hospitality Trust	51	14.5	65.5
26	BHG Retail REIT	52	12	64
27	Keppel Infrastructure Trust	48	15	63
28	Lendlease Global Commercial REIT	46	16.5	62.5
28	Mapletree Logistics Trust	47	15.5	62.5
30	SPH REIT	43	19	62
31	Frasers Hospitality Trust	45.5	15.5	61
32	ESR-LOGOS REIT	40	19	59
32	First Ship Lease Trust	44	15	59
32	OUE Commercial REIT	45	14	59
35	CapitaLand Ascott Trust	44.5	13.5	58
35	Suntec REIT	50	8	58
37	CDL Hospitality Trusts	44	12.5	56.5
38	Asian Pay Television Trust	34	14.5	48.5
38	First REIT	42	6.5	48.5
40	Lippo Malls Indonesia Retail Trust	46.5	-0.5	46
41	EC World REIT	40.5	2.5	43
42	Hutchison Port Holdings Trust	33	5.0	38
43	Dasin Retail Trust	17.5	9.5	27

EXECUTIVE SUMMARY – KEY FINDINGS

Section 1 - Board matters

- Eight trusts now allow unitholders to endorse directors although none have given unitholders the right to appoint directors, compared to 7 last year
- This excludes Sabana REIT which sought the endorsement of an independent director following a directive by the MAS
- Average board size remains at just over 7 directors, with the smallest board having 3 directors and the largest 14 directors; 72% of the boards have 6 to 9 members, which is the size range used in GIFT to assess appropriateness of board size
- The number of trusts with an independent chairman has decreased from 21 (47%) to 18 (42%)
- The number of trusts with a majority of independent directors fell from 33 two years ago to 30 last year (both out of 45 trusts) and to 25 (out of 43) in GIFT 2022
- While 3 trusts have 75% or more independent directors on the board, they have very small board sizes of 3 to 5 directors. Going forward, trusts will only receive points for a high percentage of independent directors if their board meets a minimum threshold of number of directors, in order to ensure sufficient diversity of skills, experience and perspectives
- Eighteen trusts have directors that we deem to have experience in the industry and in investment/fund management; 18 have either one of the two while 7 had none
- There are 9 all-male boards, 12 mono-ethnic boards and 18 boards with only directors aged 50 and above. Only 15 boards (35%) compared to 40% last year have all the three attributes of gender, ethnic and age diversity
- Thirty-five trusts have a combined Nominating and Remuneration Committee (NRC), 5 other trusts have separate NC and RC, 1 trust has a RC but no NC while two trusts do not have NRC, NR or RC
- Twenty-nine trusts (67%) are assessed to have an AC chair with recent and relevant accounting/financial management experience compared to 31 (69%) last year; 15 trusts (35%) compared to 13 trusts (29%) last year have a majority of the independent AC members with recent and relevant accounting/financial management experience and expertise
- Twelve trusts (28%) compared to 11 (24%) trusts received additional merit points for holding at least six board meetings, four AC meetings and two NC/RC/NRC meetings
- Attendance by directors at board and board committee meetings improved again this year, with only 4 trusts receiving 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, compared to 10 trusts last year and 13 in 2020
- However, some boards are very inactive, with two boards meeting just twice during the year

EXECUTIVE SUMMARY – KEY FINDINGS

Section 2 - Remuneration matters

- Similar to last year, 23 trusts disclosed the fee structure for non-executive directors (NEDs)
- Asian Pay Television Trust continues to be the only trust not to disclose the exact fees for NEDs
- Only 4 trusts, up from 3 last year, disclosed the exact remuneration of the CEO/ED
- Four trusts, the same as last year, disclosed the remuneration for KMP in bands of no more than $250,000 with breakdown into different components, while 12 other trusts (one more than last year) disclosed for fewer than five KMPs
- Twenty-seven trusts did not earn any points for remuneration disclosure of KMPs which we see as crucial in allowing unitholders to establish the link between value creation and remuneration
- Twenty-two trusts disclosed that the trust uses a return-based metric, such as total unitholder return or return on equity, to determine the remuneration of EDs or management, compared to 20 last year
- Approximately two-thirds of the trusts included a long-term component in the remuneration packages of executive directors/senior management; 14 trusts (33%) have not incorporated any long-term component in the remuneration of EDs, CEO and/or senior management
- The number of trusts that disclosed that they have put in place schemes which provide units or rights to units that vest over a minimum of three years remains the same as last year, at 17
- We are concerned that more trusts are using shares of the holding company (of the REIT manager or of the BT trustee-manager) to remunerate KMP as this may lead to a mis-alignment of interest. Ten such trusts received demerit points this year for doing so

EXECUTIVE SUMMARY – KEY FINDINGS

Section 3 - Alignment of incentives and interests

- Twenty-one trusts base performance fees on distribution per unit (DPU) which results in better alignment of interest with unitholders and another 21 trusts use net property income (NPI)
- Most trusts (39) charge up to 1% and up to 0.5% for acquisitions from third party and related parties respectively; some trusts did not disclose the percentages
- Several related trusts from the same group have the policy that NEDs and IDs hold units until the end of their directorships

- Another group also give out fees in the form of units but do not require NEDs to hold until the end of their directorships although the CEO and key management personnel who are remunerated partially in units are encouraged to hold such units while they remain in the employment of the manager
- No trust charges fees on a cost-recovery basis
- Thirteen trusts (30%) saw DPU decrease and fees increase over a 3-year period; 18 trusts (42%) saw fees increasing faster than DPU increasing, or decreasing slower than DPU decrease; only 12 trusts (28%) had fees that changed in a commensurate manner with DPU
- In some cases, REITs disclose that an acquisition is a non-disclosable transaction as it was a small acquisition relative to the portfolio. 8 trusts received demerit points for not providing the pro-forma profit or DPU related to their acquisitions

Section 4 - Internal and external audit

- Twenty-two trusts use an external independent service provider for their internal audit or have their own in-house internal audit function, which is the same as last year, while the other 21 have an IA from the sponsor

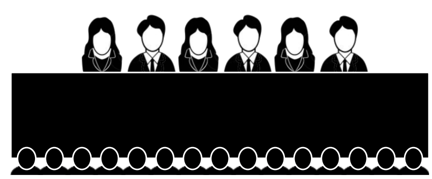
EXECUTIVE SUMMARY – KEY FINDINGS

Section 4 - Internal and external audit

- Six audit firms accounted for all the external audits of the 43 trusts. One Big 4 firm accounted for 44% of the external audits for trusts, the other 3 Big 4 firms have a roughly equal share each of 51% of the external audits, while two smaller audit firms each audits 1 trust

- All but two trusts have a clean audit opinion; EC World REIT has a material uncertainty related to the ability to refinance existing borrowings before they become due for repayment while Dasin Retail Trust has an emphasis of matter paragraph stating that a material uncertainty exists that may cast significant doubt on the group's and trust's ability to continue as a going concern

Section 5 - Communication with unitholders



- Only 6 trusts, compared to 9 last year, continued the practice of providing unitholders with quarterly reporting (including financial statements) following the change to risk-based quarterly reporting We applaud their efforts to continue to provide unitholders with timely financial information

- Based on the risk-based approach for quarterly reporting, Dasin Retail Trust has to report its financial statements for the quarter ending September 2022 while EC World REIT has to do so for the quarter ending September 2023 if the auditor does not issue a clean opinion on their next set of financial statements and continues to highlight any material uncertainty on going concern

- Another 35 trusts give an operational update, with the remaining 2 trusts, Dasin Retail Trust and Hutchinson Port Holdings, neither practising quarterly reporting nor providing operational updates

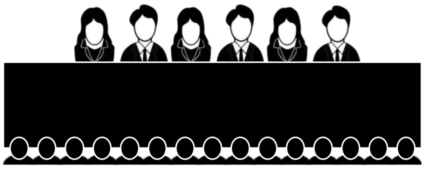
- The number of trusts that posted their full-year results within 45 days from the end of the financial year continues to fall, with 63% or 27 trusts doing so, compared to three quarters (34) of the trusts in 2021 and 82% (37) in 2020

EXECUTIVE SUMMARY – KEY FINDINGS

Section 5 - Communication with unitholders

- For the half-year results, 22 trusts (51%) compared to 28 trusts (62%) reported within 30 days

- While the websites of most trusts are good sources of information, with trusts posting prospectus, annual reports, financial results, presentations, updates, it is disappointing that we continue to find only 3 trusts that posted their trust deed



- All trusts now have an IR section on their website, with 30 trusts (70%) providing an IR contact there, compared to 28 trusts (62%) last year

- It is highly encouraging that 36 trusts (84%) participated in the self-assessment, which continues the trend of increasing participation; the 7 trusts that did not participate were contacted by other means to test the IR responsiveness; 2 trusts were uncontactable after multiple calls over several days were made to the IR hotline

- Thirty-seven trusts (86%) were given the maximum points for providing at least 21 days of notice when the AGM did not contain any special resolutions or at least 28 days of notice when the AGM has at least a special resolution; this was an improvement from the 64% last year

- Disappointingly, an increasing number of trusts held their AGM during the peak period, with 23 trusts (53%) doing so, compared 16 trusts (36%) last year and 15 trusts (33%) in 2020

- We recognise that the prevailing practices due to COVID-19 safe management measures, SGX RegCo guidelines and the uncertainty of COVID-19 trends have impacted on the conduct of AGMs by trusts; we will continue to monitor these trends; we made minor adjustments to the scoring of GIFT such as to the cut-off timings as SGX guidelines changed over the course of the study

- All trusts provided their AGM presentation slides and minutes of their meetings, the latter is still required by SGX

- Most trusts that held their AGMs during April when it was not required to have live Q&A and live voting; some chose not to have live Q&A and most did not have live voting in early 2022; trusts that held their AGMs later in the year were required to have live Q&A and live voting; in all, 31 trusts (72%) had live Q&A while 20 trusts (47%) had live voting

- Only 1 trust did not get enough unitholder's support to carry a resolution that relates to the appointment of ID

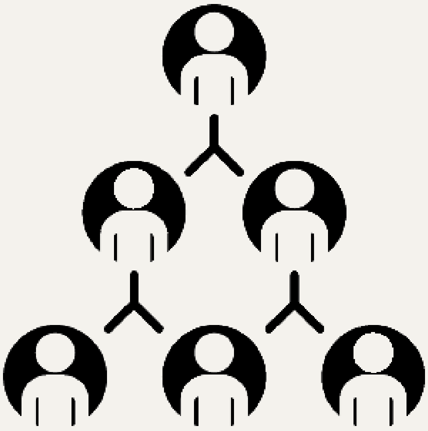
EXECUTIVE SUMMARY – KEY FINDINGS

Section 6 - Other governance matters

- Trusts generally scored well for the experience of their management teams; those which did not get the full points are usually because of a lack of clarity and details

- Three trusts were given demerit points because we assessed that the CEO/ED has no prior experience in the region the trusts are expanding into

- Fourteen trusts were assessed to have boards that did not have any independent director with relevant experience in the overseas market the trust operates in



- Thirty-three trusts scored 2 or 3 points for operating (mostly) in countries with a strong rule of law while 10 trusts fail to meet the threshold in GIFT

- Eleven trusts have controlling unitholders who have more than 50% in a REIT or more than 25% in a business trust; these holdings would allow them to veto any resolutions to remove the manager/trustee-manager

- Twenty trusts received demerit points as they received disclosure-related queries from SGX; starting from last year, we have moderated the application of demerit points in view of higher occurrence of queries and this has led to more variation in application of demerit points

- Twelve trusts received demerit points for carrying private placements at below the last reported NAV; a single demerit point was given if the trust carried out a concurrent preferential offering to unitholders to allow them to participate in a dilutive equity fund raising

- A trust that carried out a (standalone) non-renounceable preferential offering was also given a demerit point

- Two trusts received demerit points for the change in control in the manager/trustee-manager

- One trust received a requisition to conduct an EGM

- Three trusts were assessed to have varied the form of payment (units or cash) to the manager/trustee-manager to "manage" the DPU

- A trust has a distribution waiver agreement with certain investors from its IPO that expired on 31 Dec 2021; currently, there are no more trusts with such an agreement

EXECUTIVE SUMMARY – KEY FINDINGS

Business risks

- The average leverage continues to increase, to 36.8% compared to 36.0% last year, 35.7% in 2020 and 34.9% in 2019
- Nearly half of the trusts (21) had leverage of between 35% to 40%; just over 20% have leverage of over 40%
- In terms of interest coverage ratio (ICR), about half of the trusts (23) still scored the maximum points; as the disclosure of ICR and adjusted ICR is not required for business trusts; only 4 out of 7 business trusts disclosed their ICR
- Nineteen trusts (44%) scored the maximum for having a weighted average debt maturity of more than 3 years, compared to 20 last year and 22 the year before
- Thirty-four trusts (79%) have less than 25% of debt maturing in the next 12 months, with 1 other trust having 25%-30% of its debt maturing in the next 12 months; the remaining 8 trusts have more than 30% maturing in the next 12 months
- On the interest rate front, 28 trusts (or 65%) have fixed (or swapped to fixed) borrowing costs for at least 70%, comparable to last year; 9 have at least 50% (but less than 70%) and the balance 6 trusts did not have at least 50% of borrowing costs fixed (or swapped to fixed)
- In terms of exposure to foreign assets and foreign currency, only 6 trusts (compared to 8 trusts last year) had less than 30% exposure to foreign assets and hedged their distributions for 1 year (or more); 6 other trusts hedged their distributions for less than a year; 31 other trusts had more than 30% of their assets in foreign markets
- One trust received demerit points for expanding to a new geographical area without a vote by unitholders
- Eighteen trusts had increased WALE (by GRI) or WALE of more than 5 years, compared to 14 last year; 4 trusts maintained its WALE while 6 others only disclosed WALE by NLA and it was more than 5 years; 15 trusts (or 35%) did not score for this criterion; one trust received a further 2 demerit points for having a decreasing WALE that was less than 2.5 years
- Thirty-two trusts had no income support; 7 trusts had income support that was less than 5% of total distributions and one other trust had income support of between 5% and 10%; 3 trusts had income support that exceeded 10%; 3 trusts had income support that exceeded 3 years
- Two trusts received demerit points for not disclosing the effect of income support payments on DPU
- While the number of trusts using hybrid securities, usually perpetual securities, remained at about 37%, the principal amount increased from $4.1 billion to $5.0 billion in our estimates; three trusts 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 2022

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 2022, there are 45 real estate investment trusts (REITs)[3], business trusts (BTs) and stapled trusts (STs)[4] on the Singapore Exchange (SGX), accounting for a total market capitalisation of $122 billion, compared to $125 billion in 2021.

The total market capitalisation of REITs and BTs has grown tremendously, from $85 billion when we first started GIFT in 2017. However, in the past year, the total market capitalisation has decreased due to investors' changing risk appetite as interest rates rise, amongst other factors. As we write this report, the prices of trusts have fallen at least 10% to as much as 58% from the 52-week high, with an average drop of 27%.

Of these 45 trusts, five are constituted as stapled trusts (STs) (total market capitalisation of $8.5 billion), seven as pure business trusts ($11.4 billion) and 33 as REITs ($102.2 billion).

A total of 43 trusts are covered in this sixth edition of the Governance Index for Trusts (GIFT), which assesses the governance and business risk of these trusts. Two newly-listed trusts, Daiwa House Logistics Trust and Digital Core REIT, are not included because they had not published an annual report at the cut-off date of 31 July 2022.

GIFT remains the only published governance index in Singapore that specifically caters to listed REITs and BTs in Singapore. Separate scores for the governance and business risk areas are published. 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] Eagle Hospitality Trust and RHT Health Trust have been excluded from the count.

[4] 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.

In 2018, we started the practice of inviting trusts to complete a self-assessment using the GIFT scorecard. 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.

Participation in the self-assessment has increased every year since it was started in 2018, from 67% in 2018, to 74% in 2019, 78% in 2020, 80% in 2021 and 84% this year. We thank those who responded for engaging with us 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).

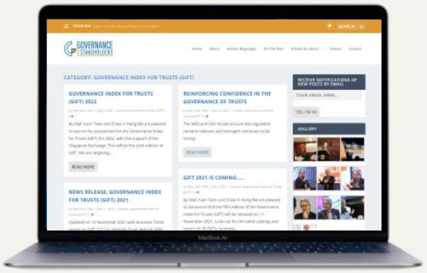
The business risk section carries 25 points. Business risk is assessed using leverage-related factors of overall leverage, debt maturity, percentage of fixed interest rate borrowing, and interest coverage ratio; and other factors relating to lease expiry, income support arrangements, development limit,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

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). 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 issuers 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 43 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 2022 is the end of July 2022. However, for a REIT which published its annual report and held the AGM in October 2022, we used information from their 2022 annual reports and 2022 AGM as the 2021 data would be rather outdated. In previous years, we would have done the same for SPH REIT but SPH REIT recently changed its financial year end from 31 August to 31 December. As such, SPH REIT assessment for GIFT 2022 was based on the 2021 annual report supplemented with their announcements on SGX and information on their website.

Figure 1 shows the distribution of market capitalisation for the 43 trusts assessed for GIFT 2022. There are 29 trusts in the billion-dollar club, compared to 32 last year. Four are business trusts, four are stapled trusts and 21 are REITs.

CapitaLand Integrated Commercial Trust is the trust with the largest market capitalisation on SGX at approximately $14.5 billion at the cut-off date. CapitaLand Ascendas REIT, at approximately $12.5 billion, follows in second position and these two stand out as the only two trusts with market capitalisation of over $10 billion. Mapletree Pan Asia Commercial Trust (MPACT) (previously known as Mapletree Commercial Trust) comes in at a close third following the merger with Mapletree North Asia Commercial Trust at $9.9 billion.

Mapletree Logistics Trust, Mapletree Industrial Trust and Frasers Logistics & Commercial Trust are the next three largest REITs at approximately $8.4 billion, $7.3 billion and $5.3 billion respectively. These three, along with MPACT, are the only trusts with market capitalisation between $5 billion and $10 billion.

Twelve trusts have a market capitalisation of between $2 billion and $5 billion, with another 11 between $1 billion and $2 billion. In the market capitalisation range of $300 million to $1 billion, there are 12 trusts.

With the decline in the unit prices of REITs and BTs, there are now four trusts that have market capitalisation of $300 million or less - First Ship Lease Trust (being the smallest), Asian Pay Television Trust, Dasin Retail Trust and BHG Retail REIT.

The trend of trusts expanding overseas in search of growth continues - only four trusts remain as Singapore pure-plays, down from five and seven one and two years ago respectively.

3. COVERAGE (CONT'D)

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 43 trusts is from 38 to 90 out of a maximum of 100 points, with a mean of 67.5 and median of 68.5. The mean and median increased by 0.8 point and 1 point respectively.

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

When merit and demerit points are included, the overall range of scores is from 27 to 99, with a mean of 66.0 and median of 67. 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 increased by 1.9 points while the median increased by 2.5 points.

For those trusts that were in last year's and this latest edition, the overall average score for the 43 trusts increased from 64.0 to 66.0 points.

The trusts ranked in the top 5 in GIFT 2022 are, in order, NetLink NBN Trust, Keppel Pacific Oak US REIT, Cromwell European REIT, CapitaLand Integrated Commercial Trust and Keppel DC. NetLink NBN Trust continues to be the top-ranked trust in GIFT since its debut in 2019. In GIFT 2022, it achieved a new high score of 99, compared to 95 in 2021, and 90 in 2020 and 2019.

	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	10.6	4.5	7.3	4.4	11.8	13.0	15.9
Highest score	17	9	10	5	15	15	22
Lowest score	3	0.5	3	3	7	7.5	3

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

4. KEY FINDINGS (CONT'D)

Sabana REIT, which had been under scrutiny from unitholders and regulators and which had the failed merger with ESR-REIT in 2020, has significantly improved its corporate governance and business practices. It moved up from 38th last year to joint 14th this year as it revamped its board and focused on its core business. Activist shareholders, regulators and the trust itself deserve credit for this improvement. We hope that the board and management will continue to rebuild trust with unitholders.

At the other end, the lowest-ranked trusts, starting from bottom are Dasin Retail Trust, Hutchison Port Holdings Trust, EC World REIT, Lippo Malls Indonesia Retail Trust, and Asian Pay Television Trust and First REIT which are joint fifth from bottom.

There are some notable changes in scores and rankings compared to the previous year. While NetLink NBN Trust continues to maintain a healthy double digit point lead over second-ranked Keppel Pacific Oak US REIT, a 4.5 point gap in score has now opened up between the third-placed trust, Cromwell European REIT, and the new fourth-ranked CapitaLand Integrated Commercial Trust. In fact, the second to fourth placed trusts improved their scores by 7.5 to 9 points to pull away from the rest.

In the past, there was more clustering of the trusts at the top of the ranking – last year, just three points separated the nine trusts that were in the third position to the joint ninth position. Having said that, small differences in GIFT do not represent a significant difference in governance and/or business risks as there are inherent judgement calls, arbitrary cut-offs and scoring thresholds in formulating the index.

The top 11 trusts all scored higher in GIFT 2022 than they did last year. Only two out of the top 18 trusts dropped points this year. The biggest improvements in ranking were Sabana REIT, which leapt from 38th to joint 14th with a 17.5 point improvement in score, while CapitaLand Integrated Commercial Trust moved up from 9th to 4th and Keppel REIT from 15th to joint 7th.

When we disaggregate the governance and business risk sections of GIFT, the trusts that were assessed to be in the top 5 in the governance score alone are NetLink NBN Trust, Keppel Pacific Oak US REIT, Cromwell European REIT, CapitaLand Ascendas REIT and Keppel REIT.

Based on the business risk score alone, the best performing are CapitaLand Integrated Commercial Trust, Sabana REIT, NetLink NBN Trust, Frasers Centrepoint Trust and IREIT Global.

The trusts that in the top 10 for both governance and business risk factors (in alphabetical order) are:

Better governance and lower business risk
Keppel DC REIT
Keppel Pacific Oak US REIT
NetLink NBN Trust

At the other end, the trusts that were assessed to be in the bottom 10 for both governance and business risk factors (in alphabetical order) are:

Poorer governance and higher business risk
CapitaLand Ascott Trust
CDL Hospitality Trust
Dasin Retail Trust
EC World REIT
First REIT
Hutchison Port Holdings Trust

4. KEY FINDINGS (CONT'D)

4.1. Board matters

4.1.1. Appointment of directors

Eight trusts now give unitholders the right to endorse directors of the manager, compared to seven last year. The trusts which adopted this practice this year are: Keppel DC REIT, Keppel Infrastructure Trust, Keppel Pacific Oak US REIT (new), Keppel REIT, Lendlease Global Commercial REIT, NetLink NBN Trust, Parkway Life REIT and Starhill Global REIT.

Sabana REIT was issued a directive by the Monetary Authority of Singapore (MAS) to seek endorsement of an independent director. We note that the manager of Sabana REIT had not given an undertaking to the trustee to provide unitholders with the right to endorse the appointment of each director. As such, we have not awarded the points to Sabana REIT and will further observe the REIT at the next AGM.

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.

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 median (mean) board size is 7 (7.17) directors, with a range from three to 14 directors. The smallest board was at the manager of Sabana REIT, which had three directors, all independent.

72% of the trusts have a board size of six to nine directors, the range used in GIFT to determine appropriate board size. Twenty-one trusts have no executive director (ED) on the board of the manager. The other twenty-two trusts have a sole executive director (ED).

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). Nevertheless, boards with less than six directors should consider whether they have an adequate mix of skills, competencies and experience, and diversity in perspectives. In future, we may only award points for high percentage of independent directors if boards have at least five or six directors.

4.1.3. Board chairman

All of the managers have a non-executive chairman. Twenty-two, 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.

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 26 directors (15 last year) serving on the boards of 15 trusts (12 last year), with four being the chairman of the board.

After the re-designation, 18 trusts (42%) compared to 21 last year have an independent board chairman.

4. KEY FINDINGS (CONT'D)

How I met my ID: The search and nomination process at Sabana REIT

The manager of Sabana REIT had been under scrutiny from some activist unitholders, market commentators and regulators, leading up to and following the failed merger of Sabana REIT with ESR-REIT. With public concerns raised about the independence of one of its existing independent directors and proposed new independent directors, MAS directed Sabana to seek the endorsement of unitholders for the appointment of its independent directors. After a few false starts, the manager in July 2022 announced the appointment of Lee Kai Jong Elaine (Mrs Elaine Lim) as a new independent director. Mrs Elaine Lim is an honorary advisory of SIAS.

The announcement of the appointment was accompanied by comments from the Board on the appointment, which included extensive details about the search and nomination process, as shown below. We believe that the appointment of all independent directors for listed companies and trusts should include similar details, and not just when the appointment of independent directors is facing scrutiny.

The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)

The Nominating and Remuneration Committee ("NRC") had reached out to its business networks and independent organisations such as the Securities Investors Association (Singapore) ("SIAS") to source for and identify potential candidates over an intensive two-month recruitment process.

The NRC evaluated potential new directors based on the candidates' background, experiences and knowledge in business and general management and expertise relevant to the business of Sabana Industrial REIT. The evaluation criteria also included consideration of the composition and progressive renewal of the Board, Board diversity and independence of the candidates.

Following the shortlisting of Lee Kia Jong Elaine (Mrs Elaine Lim), the NRC conducted an in-depth interview and discussions with her to assess her suitability and ensure that she was fully aware of the commitments required as Board member. The NRC, whose members are not prior acquainted with Mrs Elaine Lim, also carried out a thorough and professional candidature evaluation including due diligence background checks to ensure her fitness and propriety.

To this end, Mrs Elaine Lim was determined by the NRC to be suitable, with her extensive experience in capital market transactions and her work experience with a large number of corporate entities and non-profit organisations, including providing thought-leadership and training to advance corporate governance practices. Specifically, she served as member of the review panel for a corporate governance e-guide first produced by Singapore Institute of Directors and a board appointment guide for charities published by the Council for Board Diversity. Her track record allows her to complement the existing experience of the Board and bring corporate governance best practices to Sabana Industrial REIT. Additionally, Mrs Elaine Lim's appointment was supported by SIAS, an association for minority shareholders.

Having considered the recommendation of the NRC, the Board approved Mrs Elaine Lim's appointment as Independent Non-Executive Director, member of the Audit and Risk Committee and member of the NRC. The appointment of Mrs Elaine Lim as Independent Director is subject to endorsement of the independent unitholders of Sabana Industrial REIT by an ordinary resolution at or before its annual general meeting. If the resolution is carried, Mrs Elaine Lim will continue to serve on the Board as Independent Non-Executive Director. If the resolution for the endorsement is not carried, Mrs Elaine Lim will serve on the Board as Non-Independent Non-Executive Director.

In her we trust: Appointment of independent director

A partner of a well-known law firm was an independent director of an industrial trust managed by ARA from March 2010 to March 2019.

Upon her retirement from the industrial trust after 9 years, she joined another industrial trust managed by ESR as an independent director in March 2019 and was appointed as the board chairman in July 2021.

In addition, a month after leaving the ARA-managed industrial trust, in April 2019, she was appointed as an independent director and chair of the audit committee of the managers of the soon-to-be-list ARA-managed hospitality business trust.

In August 2021, ESR Cayman (the owner of the ESR-related manager) proposed to acquire ARA Asset Management (the controlling shareholders of the ARA-related managers) and on 18 October 2021, ESR-REIT proposed to acquire ARA LOGOS REIT.

While she could be independent in conduct, character and judgement, there are questions as to whether she would be perceived to be independent.

4. KEY FINDINGS (CONT'D)

4.1.4. Independent directors and competencies

Regulatory requirements applicable to REITs and BTs differ for the percentage of IDs on the board. Therefore, 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 25 this year compared to 30 last year.

With regard to competencies, trusts having IDs who have investment/fund management or valuation experience and prior working experience in the industry is useful. Eighteen trusts (19 last year) have IDs with both types of experience while 18 trusts (17 last year) have IDs with either investment/valuation-related experience or industry experience. The remaining seven trusts (nine last year) did not have any IDs with either type of experience.

Twenty trusts (down from 26) attracted one to four demerit points for their IDs due to their association with the sponsor or controlling unitholder, or busyness. This was partly due to the increase in number of directors being redesignated as non-independent non-executive directors in the assessment of GIFT.

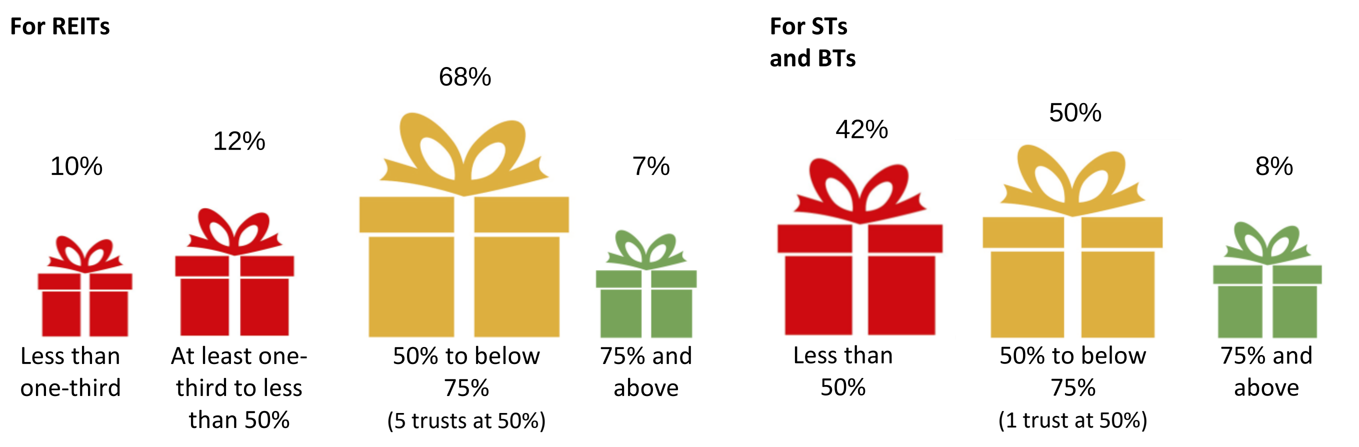


Figure 2: Percentage of Independent directors on the boards of REITs and BTs

In GIFT, boards with directors of both gender, more than one ethnicity and with at least one director aged below 50 received merit points. Fifteen trusts (18 last year) have all these three board attributes..

There are 9 trusts with all-male board directors (down from 11), 12 boards consisting of only one ethnicity (down from 14), and 18 boards with only directors aged 50 and above (up from 17).

4.1.5. Board committees

There is an increase in number of trusts with a nominating committee (NC) or remuneration committee (RC), with 40 having a NC compared to 36 last year, and 41 having a RC compared to 37 last year. Thirty-five trusts (81%) have a combined NC and RC. Trusts are given the same points whether they have separate NC and RC, or combined them.

Only 5 NCs and 6 RCs have all IDs, the same numbers as last year.

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

34 BOARDS WITH BOTH GENDER

31 BOARDS WITH MULTIPLE ETHNICITIES

25 BOARDS WITH AT LEAST ONE DIRECTOR AGED BELOW 50

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

4. KEY FINDINGS (CONT'D)

To have or not to have?: Decisions on having board committees

The number of trusts with a NC or RC, or a combined NRC, has increased this year.

The decision as to whether to have such committees seems to be influenced by a group policy, with related trusts often following the same practice of not having such committees. This raises questions as to whether the boards of these managers are truly making independent decisions about the need for the committees or they are simply following a policy set by the owners of the managers.

For instance, the managers of two trusts linked to the same group had NRCs but they were dissolved in January 2020 following the takeover of the unlisted owner of the two managers. All the managers under the new owner did not have an NRC, so it appears that the dissolution of the NRCs was to follow the policy of the new owner. However, in October 2021, the new owner apparently changed its policy and established NRCs for all the trusts it controlled – including the two trusts which had just dissolved its NRC 21 months ago.

This begs a bigger question about the governance of trusts by the managers. Can regulations be premised upon the manager/trustee-manager being independent and putting the interests of unitholders before their own, when they seem to follow the policies of the owners of the manager/trustee manager when it comes to governance arrangements?

More committees, better governance? New and different committees

With the focus on ESG and sustainability, it is unsurprising that some trusts may consider setting up a new committee to oversee sustainability-related risks and opportunities.

One of the top-ranked trusts constituted a Board Environmental, Social and Governance ("ESG") Committee for the primary purpose of, among others, developing and articulating the trust's ESG strategy. However, there are different sustainability governance structures that trusts can adopt, including incorporating oversight of sustainability risks and opportunities into existing committees. Having more committees may not necessarily mean better corporate governance.

One trust has a committee with a rather unusual name of Designated Committee, which says little about what the committee is designated to do. The Designated Committee's terms of reference said that it is "tasked with assisting the Board in reviewing matters relating to financing, refinancing, hedging strategies and arrangements and transactions involving derivative instruments for hedging purposes, in accordance with its terms of reference. The Designated Committee also assists the Board in other reviews and projects." However, no Designated Committee meeting was held during FY 2021. Instead, the Designated Committee reviewed matters relating to financing, refinancing and hedging arrangements through email communications with management.

4. KEY FINDINGS (CONT'D)

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).

Twenty-nine (67%) of the trusts have an independent AC chair assessed to have recent and relevant accounting or related financial management expertise or experience, compared to 69% last year. Fifteen or 35% of the trusts, compared to 30% last year, have a majority of IDs in the AC having such expertise or experience. We continue to be surprised that several ACs are chaired by lawyers who may not have relevant accounting or related financial management expertise or experience. As they should well recognise, it is not a defence to claim that one does not possess the necessary expertise or experience when assessing whether a director has adequately discharged their duties.

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

4.1.6. Board and board committee meetings

Twelve trusts had six or more board meetings, four or more AC meetings and two or more NC and RC meetings received two merit points. Four trusts (down from 10) received 6 demerit points (down from 13) 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.

Board meetings: Is two really enough?

In GIFT, we give a merit point if the trust has at least 6 board meetings, 4 audit committee meetings and 2 NRC meetings. We believe anything less than 4 board meetings a year are too few for the board to be actively engaged in overseeing management and operations.

However, this is not to say that the more meetings the better. The number of meetings will also depend on the number of major corporate actions, such as acquisitions, disposals and fundraising.

During the year, the number of board meetings ranged from as few as two for two of the trusts, to as many as 17 for one and 12 for another.

Are two board meetings a year really enough?

4.2. Remuneration of directors and key management

Disclosure of remuneration relating to NEDs for listed trusts has improved over the past few years and has been much better than for listed companies. Twenty-three trusts, the same number as last year, disclosed the fee structure for NEDs. For actual NED remuneration, 42 trusts or 98% disclosed individual remuneration on a named basis, with the exception of Asian Pay Television Trust (APTT) just like last year. APTT continues to use the explanation that the remuneration is 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”.

4. KEY FINDINGS (CONT'D)

However, the same high disclosure standards cannot be said for the remuneration of EDs and KMP. Only four trusts, compared to three last year, disclosed the exact remuneration of the CEO – Cromwell European REIT, Far East Hospitality Trust, Hutchison Port Holdings and NetLink NBN Trust. Like last year, 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. They are Far East Hospitality Trust, Hutchison Port Holdings, Manulife US REIT and NetLink NBN Trust.

The poor disclosures and explanations provided are disappointing given the guidance issued by MAS which view the explanations provided as unsatisfactory. With SGX proposing to make the disclosure of the exact remuneration of individual directors and CEOs mandatory for listed companies, it is hoped that the days of poor disclosures of remuneration at least for EDs and CEOs will soon be a thing of the past.

On the performance measures used to determine the variable component of remuneration of KMP, 22 disclosed that they use return on equity (ROE) or total unitholder returns (TUR) compared to 20 last year, and eight (versus 11 last year) 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 gained a merit point for having schemes for their EDs/senior management which provided units or rights to units that vest over a minimum of three years – the same number as last year.

We are concerned that we are seeing more trusts giving out remuneration units of the holding company (of the REIT manager or of the BT trustee-manager), as this may mis-align the incentive of the recipients.

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

53% FEE STRUCTURE FOR NEDS

98% ACTUAL FEES FOR NEDS

9% EXACT REMUNERATION FOR CEO/ED

37% REMUNERATION OF KMP DISCLOSED IN BANDS

Figure 5: Key remuneration disclosures and practices

Searching for the “secret sauce”: Long-term incentives

A number of trusts have reviewed and in some cases revised or introduced new incentive plans, especially long-term incentive plans. This is generally welcome as having an appropriate balance between fixed salary, short-term incentives and long-term incentives is essential to good corporate governance. Some form of unit-based long-term incentives for KMP of trusts is generally appropriate to align their interests and those of unitholders.

One REIT manager disclosed that it is setting up a long-term incentive plan which will be part of the variable component, to complement its existing variable components. The REIT currently remunerate its CEO and KMP with fixed components (base salary, fixed allowances and statutory employer contribution) and variable components (which comprise short-term cash incentives) based on the achievement of financial KPIs of the manager and individual KMP.

Another REIT manager said that it was reviewing “unit scheme or other forms of long-term incentive schemes for the CEO and KMP.” A third manager introduced a long-term incentive in the form of a Performance Unit Plan (PUP) which is applicable to KMP. It said: “The PUP has a three-year performance period and the final number of units to be granted depends on the achievement of certain performance targets at the end of the performance period.”
However, the trustee-manager at another trust cancelled the long-term incentive plan (the “LTIP”) for senior management in the previous financial year, that was adopted in 2013 under the previous owners of the trustee-manager. The expense attributable to the previous year against the cancellation of the LTIP of $1.7 million was recognised in the financial statements, deemed to be not material, and therefore the trustee-manager is of the view that no further disclosure is required.

4. KEY FINDINGS (CONT'D)

Remuneration: Aligning to whose interests?

The tension between the interests of the manager/trustee-manager and the interests of unitholders are often starkly manifested in key performance indicators (KPIs) used to determine the variable remuneration of KMP of the manager/trustee-manager.

Trusts commonly define KPIs related to "corporate performance" as the performance of the manager/trustee-manager, while some others define them in terms of the performance of both the manager/trustee-manager and the trust. Since the interests of unitholders are not necessarily the same as the interests of the manager/trustee-manager, linking the remuneration of the KMP to the manager/trustee-manager's performance may cause them to prioritise its interests ahead of those of unitholders.

The following are examples of how trusts define the KPIs of their KMP.

Trust A: "…variable components comprise short-term cash incentives based on the achievement of financial KPIs of the REIT Manager and individual KMP". There is no mention of the performance of the trust itself.

Trust B: "The Manager's remuneration framework is directly linked to corporate and individual performance, both in terms of financial and non-financial performances as well as the financial performance of the Manager, which is closely linked to [the trust's] distributable income, and is distributed to employees based on their individual performance. For the long-term incentives, it said: "The performance targets comprise of a combination of the Absolute Total Unitholder Return ("ATUR"), Assets Under Management ("AUM") Growth and Distribution Per Unit ("DPU"). ATUR drives alignment of Unitholders interests with the Manager, whilst the DPU and AUM Growth complement the ATUR in capturing [the trust's] long-term value creation objectives. The Manager believes that the unit-based components of the remuneration for KMP serve to align the interests of such KMP with that of Unitholders and [the trust's] long-term growth and value."

Like all the trusts we have reviewed, Trust B did not disclose the weighting of each KPI - an overweighting on AUM, for instance, could arguably incentivise its KMP to grow AUM which may not necessarily be in the interests of unitholders.

Trust C: "…the short-term incentive is driven by the Manager Corporate Scorecard where it covers a mixture of financial and non-financial KPIs aligned to both [the trust] and the Manager."

Trust D: "…the size of the annual performance bonus pot of the Manager is determined by the financial performance of the Manager which is closely linked to the trust's distributable income and is distributed to KMP based on their individual performance."

Trust E: "The CEO's performance bonus and remuneration increment are based on an annual appraisal exercise. The annual appraisal takes into consideration the contribution of the CEO towards the long-term strategic goals of [the trust] and the Manager, including key factors such as… efforts to improve and maximise profit of the Manager and [the trust]."

Trust F: "The variable component is in the form of a variable bonus that is linked to the Manager's and each individual employee's performance."

Trust G: "The annual performance incentive is mainly tied to the performances of the Trustee-Manager and [the trust] and the individual employee across a balanced set of performance indicators including financial, operational, compliance and information technology focus areas to drive value creation…A significant and appropriate proportion of key management personnel's remuneration is structured so as to link rewards to corporate and individual performance. The corporate and individual performance-related elements of remuneration are designed to align the interests of Directors and key management personnel with those of Unitholders and other stakeholders and to promote the long-term success of the Trustee-Manager."

We are pleasantly surprised to see another trust that understood the possible mis-alignment of incentives and designed their unit plan to avoid such situations. It stated the following:

"[The remuneration] structure [which includes a Restricted Unit Plan] links rewards only to the performance of [the trust] and the individual's performance, and there is no link to the performance of the controlling shareholder of the REIT Manager."

4. KEY FINDINGS (CONT'D)

What's the plan? Share plans that may need careful monitoring

Some trusts have adopted share plans related to the sponsor/controlling unitholder. This raises the question as to what safeguards there are to ensure that managers/trustee-managers and their directors fulfil their statutory duties to prioritise the interests of the unitholders over those of the managers and their shareholders.

In FY 2021, several trusts introduced a one-time Special Founders Performance Share Plan (Special PSP Award) which was granted by Company A group to selected senior executives within the group (including the REIT managers/trustee-manager) to "commemorate its listing, foster a 'founders' mindset' in driving transformation and retain talent." The grant has a five-year vesting period with defined performance parameters which are linked to the group. It said that such compensation is in the long-term interests of the trust as the trust is a key part of group's business and ecosystem (and Company A is also the largest unitholder of the trust), and management's actions to grow the trust and drive the trust's performance will also have a positive impact on Company A, thus reinforcing the complementary nature of the linked performance between the trust and Company A. It added that the cost of this one-time award will be borne by the REIT manager/trustee-manager and it is not expected to form a significant part of the key management personnel's remuneration over a five-year period.

To reassure unitholders, it added that a proportion of management's remuneration is paid in the form of units, which further incentivises management to take actions which are beneficial to the unitholders. It said that the Special PSP Award will therefore not result in management prioritising the interest of Company A over that of the trust given that the bulk of their remuneration is determined based on the evaluation of the performance of the trust and a proportion of their remuneration comprises units. It also emphasised that under the applicable legislation, the trustee-manager and directors of the trustee-manager are required to act in the best interest of the trust and give priority to the interest of the trust over the interests of the shareholders of the trustee-manager, and this would further mitigate any potential conflicts of interest. Save for the Special PSP Award, the NRC will continue to assess and reward the key management personnel based on the performance of the trust. Accordingly, it said the trustee-manager is of the view that there would not be any conflicts of interest arising from the arrangement, nor would the arrangement result in any misalignment of interest with those of unitholders.

Notwithstanding that the trust explained that it has considered the possible risk of mis-alignment of interests with the introduction of the plan, and is satisfied that such a risk is mitigated, the PSP may reinforce consideration of the interests of the sponsor/controlling unitholder. In this case, we note that the awarded shares do not appear excessive.

For several trusts in another group, CEOs of the managers/trustee-manager were granted performance shares on a one-off basis under the group's five-year Performance Share Plan ("PSP") 2020 – Transformation Incentive Plan ("TIP") in July 2021. It said that shares awarded under the PSP 2020-TIP are subject to predetermined performance targets over a five-year performance period. Although the allocation value of the awards is less than S$90,000 (with vesting which can range from 0% to 150% of the award), is the five-year performance target that of the trust or of the group? If the latter, then the managers have not explained why such an arrangement would not result in a misalignment of interest between the manager and the unitholders, or the mitigating measures instituted to address any potential misalignment, as required by MAS. Again, such a plan may reinforce the interest of the sponsor/controlling unitholder versus the unitholders' interest.

Another trust introduced the 2022 Performance Share Plan and the 2022 Retention Plan (the "2022 Plans") to grant unvested performance shares to employees of the group. It said: "While the granting of [sponsor/controlling unitholder's] performance shares under the 2022 Plans and their quantum to the employees of the manager is dependent on the performance of these individuals as employees of the manager…and the implementation of a retention mechanism, the vesting of each tranche of the 2022 Plans will be dependent on the collective performance of the various lines of businesses of [investment management division] which is the Group's main platform dedicated to its asset management activity in each of the relevant vesting period. …The Board has reviewed [the] 2022 Plans and is of the view that these plans provide an added performance incentive, a retention mechanism and potential increase in remuneration for these employees of the manager and are not prejudicial to the interests of Unitholders of [the trust]. Additionally, all cost of the 2022 Plans is wholly borne by [the sponsor/controlling unitholder]."

The non-executive directors (NEDs) at another trust are eligible to receive shares of the sponsor under the sponsor's employee incentive plans as part of their remuneration package as employees of the Group in FY2022. It said that their holdings in shares of the sponsor are not material and accordingly, the award of the shares of the sponsor to the NEDs as part of their employee remuneration will not result in a misalignment of interests of these directors with the long-term interests of the unitholders. Furthermore, it said there is unlikely to be any potential misalignment of interests given that they act as non-independent non-executive directors and do not hold executive positions in the manager. It added that as non-independent directors, they would in any event have to abstain from approving and recommending any related party transactions with an entity within the group, mitigating any potential misalignment of interests with those of unitholders. It also said that other than disclosed above, the remuneration of the directors and management are not paid in the form of shares or interests in the sponsor or its related entities and are not linked to the performance of any entity other than trust.

4. KEY FINDINGS (CONT'D)

Finally, at another trust, stock options and deferred share units of the sponsor/controlling unitholder were granted to three directors as part of their remuneration package as employee/director of the group. It said their shareholdings are non-material and accordingly, the stock options and deferred share units will not result in a misalignment of interests of the directors with the long-term interests of the unitholders "…."

To be fair, the situations described above are not unique to trusts. In companies, it is not uncommon for employees of the parent or another group entity to be serving as non-executive directors of another group entity. As they are full-time employees, their main remuneration will be as employees and inevitably linked to the performance of the entity where they are employed. Where the interests diverge, there is also a risk that they will act in the interests of the entity where they are employees.

In the case of externally-managed trusts, the risks of mis-alignment of interests may be more severe as many of their transactions are related party transactions with the sponsor or related entities of the sponsor.

In a previous consultation, MAS had the view that remuneration paid to directors and executive officers in the form of shares or interests in the controlling shareholder or its related entities, may result in a misalignment of interests as it creates an incentive for these individuals to prioritise the interests of the controlling shareholder over those of REIT unitholders. However, it recognised that the award of such shares may be necessary in view of talent management and business practices in the industry. The onus was then put on the REIT manager to explain why such an arrangement will not result in misalignment of interest between the REIT manager and the unitholders, or disclose the mitigating measures instituted to address any potential misalignment.

Unitholders should closely examine these practices to understand and assess the inherent misalignment.

Remuneration disclosure: Cromwell European REIT takes the cake

In this year's GIFT, Cromwell European REIT moved from fourth to third in the ranking, and improved its overall score by nine points, to 85 points. One of its areas of strength is the disclosure of the remuneration of its CEO.

First, it disclosed the exact total amount and breakdown.
Second, it disclosed considerable details about how the assessment of performance of the CEO and KMP was undertaken, as follows:

"After the close of each year, the Board reviews CEREIT's achievements against the targets set and determines the overall performance taking intoconsideration these achievements and other qualitative factors such as the business environment, regulatory landscape and industry trends. For FY 2021, such targets have been largely met by all of the KMP. As described on page 34 of this Annual Report, due to COVID-19, the FY 2021 DPU was 2.6% below FY 2020's DPU. On a like-for-like basis excluding €2.8 million of capital gains paid out in FY 2020, DPU was 0.5% higher y-o-y, thus achieving the 95% gateway. In determining the payout quantum for each KMP under the plan, the Board considers, amongst other factors, the overall business performance and individual performance relative to KPIs as well as affordability. Generally, a minimum of achieving more than 70% of the qualitative factors and quantitative factors are required to be eligible for a payout under the plan, with the Board providing 76-82% scores for the KMP for FY 2021."

Cromwell could consider providing more information on the metrics or indicators used to assess both corporate and individual performance. Going forward, the Board may also consider linking the remuneration of KMP to sustainability-related factors, in which case, it could consider providing details on factors, metrics and targets, taking into account any commercial sensitivities.

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. In the next version of GIFT, we plan to reduce the use of such highly-related disclosure type criteria.

Twenty-one trusts (20 last year) use a unitholder return-type metric (essentially DPU) to determine the performance fee of the manager, with DPU being the most common measure by far. Another 21 trusts link the performance fee to an income-type metric usually net property income.

In GIFT, we have a demerit item to assess how DPU and management fees change over a 3 year period. 30% or 13 trusts saw DPU decrease while fees increase, compared to 16 last year. 42% (18 trusts) saw fees increasing faster than DPU increase or decreasing slower than DPU decrease compared to nearly 50% last year. Only 12 trusts (28%), compared to seven last year, avoided this penalty.

Most trusts (39) charge up to 1% and up to 0.5% for acquisitions from third party and related parties respectively and none base these fees on a cost-recovery basis.

Trusts from one group have the policy that NEDs and IDs to hold units until the end of their directorships. Another group also included fees in the form of units but do not state that it required NEDs to hold until the end of their directorships although the CEO and key management personnel who are remunerated partially in units are encouraged to hold such units while they remain in the employment of the manager.

In some cases, REITs disclose that an acquisition is a non-disclosable transaction as it was a small acquisition relative to the portfolio. In such cases, we wonder if it is worth the manager's attention and effort to make an acquisition that is less than 5% (SGX threshold for non-disclosable transactions). Are they acting in the interests of unitholders in such cases or are they just incrementally growing the portfolio in furtherance of their own interest? We consider it necessary to provide the pro forma impact on the trust to allow unitholders to understand the rationale of the acquisition. After all, unitholder funds were utilised in the acquisition. Nine trusts received demerit points for not disclosing the pro forma profit and/or DPU of their acquisitions.

Overall, there are pockets of improvements by selected trusts but there remains considerable room for improvement in the area of alignment of incentives and interests for the whole sector.

We also notice large unitholders selling down their stakes in at least four trusts. Unitholders should pay attention to large unitholders divesting significant stakes.

Managers are hot!

There is a joke that when a football manager was asked whether he prefers to buy Messi or Ronaldo, he said he prefers to buy their agents. The same may apply in the case of whether to invest in managers or the trusts, if given the choice.

The sale of a manager generates high returns…to the shareholders of the manager.

Take the following case. On 30 September 2022, ESR Group Limited ("ESR") announced that it is acquiring 7.7% of the total issued shares in ESR-LOGOS Funds Management (S) Limited, the manager of ESR-LOGOS REIT ("E-LOG Manager") from Mitsui & Co., Ltd. ("Mitsui"). Prior to this transaction, ESR had acquired 654,546 shares in the E-LOG Manager from Shanghai Summit Pte. Ltd., bringing its interest to 91.3% on 27 July 2022. With the acquisition of Mitsui's stake, ESR will own 99% of the E-LOG Manager.

According to an SGX filing, the 654,546 shares changed hands for $65 million. It means that the manager is valued at more than $271 million.

It's like buying the one who runs the farm, rather than the cow or milk.

4. KEY FINDINGS (CONT'D)

iWonder? A puzzling deal that improves occupancy rate

In one of the more puzzling deals by SGX-listed REITs, a REIT entered into a new lease agreement with a tenant for a total lease duration of 12 years although the REIT provided a two-year renovation phase (rent-free period) upfront, starting from June 2022. There is also a break option at the end of the eighth year in June 2030 and the initial annual rent is approximately €0.7 million, together with an annual rent indexation based on a 3% margin above the applicable consumer price index.

However, the trust has to contribute €5.4 million of approximately €7.8 million in total capital expenditure to upgrade the power supply requirements, air conditioning and fire protection of the asset, with the tenant contributing the remaining €2.4 million. This upgrading works will bring the asset to a higher rating, which enhances the "uptime performance, valuation and future leasing potential of the [asset] space…"

The trust will be out of pocket in year 0 to the tune of €5.4 million. It will collect nothing in the first two years and receive €0.7 million with escalation for six years until year 8, or about €4.2 million (before escalation). Unitholders may wonder: why not just put the money in fixed deposit? The trust will be still be out of the pocket if the tenant exercises the break clause at the end of year 8.

Based on inflation of 2-3.5%, for the entire 12-year lease, the trust will get an estimated IRR of 6.6% to 7.5% based on the $5.4 million of capital investment required, before considering land cost, taxes, miscellaneous costs, depreciation and opportunity costs. In such a case, the trust could have better explained to unitholders the benefit to them from incurring this capital expenditure.

Who is supporting who?

One trust announced that the Sponsor Vendor will acquire a Japanese asset at the purchase price of JPY17,450 million without rental support from a fund it manages, and on-sell the asset to the trust at JPY17,800 million with rental support of 12 months.

If 100% debt-funded, the acquisition will improve DPU by 2.9% on a pro forma basis and leverage will increase to 42%. If the deal is 60% debt-funded like the current portfolio, DPU accretion is 0.5%.

While the consideration of JPY17,800 million is below the two independent valuations, the sponsor appears to be benefitting from being the "middleman" in this deal. The trust will be paying the sponsor JPY350 million more to receive the rental support of at most JPY236.5 million. While the sponsor may be deserving of the premium as they take on certain risks in the event that the trust does not proceed with the transaction, it is noted that this is an interested person transaction and the sponsor has been managing the asset. Should the trust not proceed with the purchase, the deposit will be given back to the trust only after the sponsor sells the asset to a third party.

With regard to the rental support, unitholders should ensure that the trust enters into a good lease with a strong counterparty and not be rushed into one simply to lease out the vacant spaces as soon as possible.

In any case, the manager received strong support of 99.67% for this diversification at the EGM.

Non-disclosable transactions: If it's non-disclosable, is it worth doing?

Listed trusts, like listed companies, are subject to Chapter 10 of the SGX Rulebook in determining whether a transaction is disclosable or non-disclosable and whether shareholders' or unitholders' approval is required.

One foreign REIT announced the acquisition of two assets in Italy and Germany in April 2022 as it continues its "pivot" to logistics. It said that based on Chapter 10, the acquisitions are "non-disclosable transactions" and are not expected to have any material effect on the REIT's net tangible assets. In July 2022, it divested an office asset in Finland and acquired an additional asset in UK as part of its continuing "pivot" to the light industrial/logistics sector. Again, it relied on Chapter 10 and deemed the divestment and acquisition as a "non-disclosable transaction".

The reliance on Chapter 10 in these cases arguably reflects a box-ticking mentality in the application of the rules. Given that they are part of the change in strategy, should they be treated as like "disclosable transactions" and the relevant disclosures followed, notwithstanding that the financial impact of each individual transaction may be considered immaterial?

Trusts that approach Chapter 10 based on financial materiality of individual transactions may also raise the question of "if it's not disclosable, is it worth doing?".

In another example, another REIT announced the acquisition of a new asset in the Netherlands. The acquisition was also considered a non-disclosable transaction under Chapter 10. In this particular example, the acquisition was said to be DPU-accretive but in other cases, a non-disclosable acquisition may be DPU-neutral or DPU-dilutive and if so, unitholders need to better understand the rationale for doing so.

As trusts grow bigger, the 5% threshold naturally increases – a trust with $3 billion in AUM will only need to disclose acquisitions larger than $150 million. We believe that trusts should disclose the pro-forma impact even though transactions may be "non-disclosable".

4. KEY FINDINGS (CONT'D)

4.4. Internal and external audit

This section of GIFT tends to be the most stable with few surprises, and in 2020, we reduce the weightage from 10 points to five points.

One Big 4 firm accounted for 44% of the external audit market for trusts; two smaller audit firms each served as the external auditor for two trusts; the other three Big 4 have a roughly equal share of the external audits of the other 22 trusts.

This year, all except two trusts, received a clean audit opinion. The sole trust which did not receive a clean audit opinion last year again did not receive a clean audit opinion this year.

Trusts did well in the area of internal audit. Twenty-two trusts, the same as last year, outsourced their internal audit to a Big 4, mid-tier or reputable risk consultancy firm or have their own in-house internal audit function. The remaining 21, compared to 23 last year, outsourced to the internal audit department of the sponsor. In GIFT, we consider the latter practice to be the less ideal even though there may be certain benefits from having a groupwide internal audit function.

Emphasis of Matter: Dasin Retail Trust and EC World REIT

Dasin Retail Trust's auditor, Deloitte & Touche, once again included an emphasis of matter (EOM) paragraph that a material uncertainty exists that may cast significant doubt on the Group's and Trust's ability to continue as a going concern.

For EC World, its auditor PwC included an EOM in respect of material uncertainty related to the ability of EC World REIT and its subsidiaries to refinance their existing borrowings before they become due for repayment.

EC World's EOM further stated: "As at 30 June 2022, the current liabilities of the Group and ECW exceeded the current assets by S$526,926,000 and S$108,753,000 respectively. The Group have borrowings of S$689,348,000 which are due for repayment within the next 12 months from the reporting date. Notwithstanding, the condensed interim financial statements are prepared on a going concern basis, as the Manager is confident that refinancing of these borrowings will be completed before these borrowings become due for repayment."

For EC World, the Weighted Average Lease Expiry (WALE) has also fallen to just 1.8 years by net lettable area and 2.1 years by gross rental income.

Cybersecurity risk: Is there a cybersecurity risk assessment and cybersecurity audit?

Recent cybersecurity breaches in Singapore and around the world have highlighted what may have become a forgotten risk for some entities as they grapple with more immediate risks, such as pandemic, supply chain, geopolitical and other risks.

This year, we did a simple review of website security of the 43 trusts covered. We found that five trusts use "http" rather than "https" for their website, which indicate relatively weak website security. This also indicates the trusts' and the boards' low cybersecurity awareness.

Are audit committees of trusts undertaking a cybersecurity risk assessment and is the internal audit of these trusts tasked with undertaking a cybersecurity audit?

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 shareholder 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

The number of trusts that released their latest annual results within 45 days of the year end continue to fall, with 27 trusts doing so compared to 34 last year. There was also a drop in the number of trusts that released the half-year results within 30 days, falling from 28 to 22 trusts.

Trusts that continue with quarterly reporting received two points. Only six trusts, compared to nine last year, did so. The six are Asian Pay Television Trust, EC World REIT, First Ship Lease Trust, Lippo Malls Indonesia Retail Trust, Mapletree Industrial Trust and Mapletree Logistics Trust. After the cut-off for the assessment of GIFT 2022, Mapletree Pan Asia Commercial Trust announced that it will revert to quarterly reporting, starting with the quarter ending 31 December 2022.

4.5.1. Accessibility of information and investor relations

All trusts have their IPO prospectus on the website but, like last year, 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.

4. KEY FINDINGS (CONT'D)

All the trusts provided information for contacting Investor Relations (IR), with 30 or 70% providing a specific IR contact person with contact details on the website, compared to 62% last year.

Regarding the responsiveness of the trust's IR, the 36 trusts (84%) who took up our invitation to submit a voluntary self-assessment were deemed to have met this criterion. We contacted the remaining seven trusts to assess if we can reach their IR. With a further five responding, two trusts were assessed as not meeting the IR responsiveness test.

4.5.3. Unitholder meetings

More trusts (37 vs 29) 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.

Disappointingly, only 20 trusts, compared to 29 last year, avoided holding the AGM in the last five working days of the peak months of April, July and October.

Above average but poor? The art of not telling it like it is

In its presentation slides, one trust highlighted that its "Occupancy Rate Remains Above Industry Average". However, the fact is that the occupancy rate has decreased for many years and stands at only 80%. This trust used to say that it had "High Occupancy Rate" but stopped saying that after it finds itself impacted hard by the pandemic.

More than just a question of presentation, is management being held accountable for the continuing decline in occupancy rate? Should the board be held accountable for not expanding the trust's mandate to other sectors?

In June, the trust was downgraded to B2 from B1 by Moody's. B2 is deemed non-investment grade (as is B1). The manager highlighted that the trust remains in compliance with its financial covenants and the aggregate leverage limit as prescribed under the Property Funds Appendix.

However, the trust had earlier announced that it applied for and received waiver of financial covenants in its facility agreements for up to 31 December 2022. Unitholders may be wondering if the trust is in compliance with its original financial covenants or with the relaxed financial covenants.

This trust has been one of the lower-ranked trusts in GIFT over several years, including this year.

For those trusts that held their AGMs during April 2022 when it was not required to have live Q&A and live voting, some chose not to have live Q&A and most did not have live voting. Trusts that held their AGMs later in the year were required to have live Q&A and live voting. In all, 31 trusts (72%) had live Q&A while 20 trusts (47%) had live voting. We hope that going forward, all trusts will hold hybrid meetings, with live Q&A and live voting, which is preferred by most investors.

All trusts provided their AGM presentation slides and minutes of their meetings, the latter is still required by SGX.

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, the disclosure by trusts improved to allow us to better 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,

	Chief Executive Officer	Chief Financial Officer	Head of Investment or Asset Management, or their equivalents
Experience of ten years or more	95%	98%	84%
Experience of between five to ten years	5%	2%	7%
Experience of below five years, no such appointment or insufficient disclosure	0%	0%	9%

Table 2: Experience of key management

4. KEY FINDINGS (CONT'D)

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.

In total, three trusts (compared to six last year) received the demerit point for lack of experience for management and a third (14 trusts) received the demerit point for lack of experience for the board, the same proportion as last year.

We believe that there are challenges faced by a trust venturing overseas when such experience is absent in management and the board. Trusts should consider the relevant international experience on their boards when they expand overseas.

4.6.3. 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 trusts, the same number as last year, 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.

An agile REIT?

An important role of the board and management is to keep the trust's strategy under review, and adjust and change it if necessary. However, if the strategic change comes very soon after listing, it raises the questions of whether unitholders invested in one business only to find that they have invested in something else. In addition, one might revisit the disclosures in the IPO prospectus and/or examine the ability of the manager to execute.

One trust was listed in early 2020. Two years later, it sold two self-storage properties. The top-up amount (income support) of the two properties of approximately US$4.7 million had been fully depleted and it appears that the occupancy rates of the new assets (45% & 64%) were still low. The trust sold the properties as it viewed it as an opportunity to benefit from a market dislocation between high valuations and cash flow. Even as the transaction took longer than expected and that the sale consideration was revised downwards from US$49.0 million to US$45.5 million, the trust expected to recognise an estimated net divestment gain compared to both the last valuation and the book value of the properties.

The manager believed that the divestment would allow for the recycling of capital for reinvestment into higher yielding properties, with a view to increase the trust's distributable income and "accordingly benefit [the trust] and the Unitholders as a whole".

Foreign-based trusts and complex structures: An under-appreciated risk?

In last year's report, we included a review of the sector and one of the areas we flagged was the complex structure common in many trusts, especially for trusts with mainly foreign assets for which additional entities often have to be created to comply with legal and tax requirements.

In June 2021, one trust announced that it was applying to list one of its wholly-owned subsidiaries in a UK stock exchange, which will then become a listed UK REIT. The subsidiary will remain wholly-owned after listing. This "technical" listing was undertaken to obtain preferential tax treatment under the tax laws of the UK, where the properties of the trust are located.

Another trust has faced tax and legal problems related to its complex structure, and has spent years in the courtroom with no resolution in sight.

Adverse events relating to foreign assets may also not be fully disclosed or disclosed in a timely manner.

In December 2021, Digital Core REIT listed on the SGX. It was one of the two newly-listed trusts not covered in GIFT this year. Touted as a "pure-play data centre REIT", its sponsor and manager, Digital Realty Trust, is described in the prospectus as the sixth largest publicly traded US REIT. This is a unique case where, and for the first time, a SGX-listed REIT has a sponsor and manager which is another (listed) REIT.

It is interesting that the sponsor carved out assets and listed Digital Core on SGX. It perhaps would not make sense to do so on NYSE where the sponsor REIT itself is listed and which is a far larger listing venue for REITs. Unlike its sponsor REIT which is internally managed, as is the common practice in the US, Digital Core is externally managed.

Digital Core's prospectus touts that it is to benefit from the sponsor's "best-in-class" ESG leadership. On the "Social" aspect of ESG, it said that Digital Realty has amended its corporate governance guidelines "to clarify that director candidate pools must include candidates with diversity of race, ethnicity and gender". Digital Realty's 11-member board does indeed have three women. In contrast, Digital Core has a five-member all male board, with two Singaporeans. One of the two Singapore independent directors spent 30 years with DBS Bank until his retirement in 2019 and was responsible for the bank's equity markets business in Singapore. DBS Bank is one of three issue managers, bookrunners and underwriters for Digital Core's listing.

4. KEY FINDINGS (CONT'D)

Digital Core's initial portfolio comprises 10 freehold data centres in key markets of the US and Canada with a valuation of US$1.46 billion and a net rentable area of 1.2 million square feet (111,484 square metres). Its parent, sponsor and manager, Digital Realty, has a global data centre footprint that stretches across 290 facilities in 50 metropolitan areas of 26 countries. One question is how the 10 data centres in the initial portfolio for Digital Core are selected and valued.

The media release by Digital Realty dated 6 December 2021 said that the listing of Digital Core "is ideally positioned to help Digital Realty create value by providing a perpetual capital partner for core assets, while acting as an extension of our global platform and enabling customers to continue to rely on Digital Realty's track record of operational excellence". It also spells out "key strategic and financial benefits for Digital Realty". While the benefits of the listing to Digital Realty are clearly spelt out, the same cannot be said about the benefits of the listing to the unitholders of Digital Core.

Bankruptcy of major customer

On 21 April 2022, Digital Core provided a first quarter business and operational update. In the market and portfolio update, it mentioned that its fifth largest customer, which it did not name, had filed for Chapter 11 bankruptcy on 11 April 2022. The customer occupies 2.7MW of capacity in Toronto and represents approximately US$5 million of annualised revenue or around 7.1% of Digital Core REIT's total revenue.

This happened just three years after the customer had come out of a prior bankruptcy. Digital Core did not announce the default as a standalone announcement on SGXNET. The first quarter business update was about 10 days after the default.

It further stated that the manager is confident of back-filling the capacity should the customer rejects its leases due to the "tight market conditions in Toronto". The manager also said that it has reached an in-principle agreement with the sponsor, Digital Realty, to guarantee the cash flow to Digital Core REIT in the event of a near-term cash flow shortfall due to the customer bankruptcy. The REIT stated in bold, underlined font that "<u>**This customer event is not expected to impact DPU**</u>".

The April announcement was followed by an announcement on 28 July 2022 titled "Cash flow support agreement" in which Digital Core REIT informed unitholders that the REIT's fifth largest customer has filed for bankruptcy protection. The customer was said to be current on its rental obligations under its lease through the month of July 2022. As a result of the bankruptcy, the sponsor has entered into a "cash flow support agreement" with the REIT manager, under which the Sponsor Entity will provide cash flow support to Digital Core REIT of no more than once per calendar quarter, calculated based on a formula set out. The total amount provided by the Sponsor Entity pursuant to the Cash Flow Support Agreement will not exceed US$7.5 million.

Digital Core REIT will repay the Sponsor Entity the aggregate amount received pursuant to the Cash Flow Support Agreement. Based on the first quarter update in April, unitholders may get the impression that the sponsor is covering any shortfall from the bankruptcy of a major customer but the subsequent announcement in July made it clear that the sponsor is only providing temporary cash flow support which will be paid back by the REITs in cash or units. Is it really the case that the “customer event is not expected to impact DPU” as the announced earlier in April 2022?

Further diversification

On 22 September 2022, Digital Core REIT Manager, the manager of Digital Core, announced the proposed acquisition of a 25% interest in a data centre in Frankfurt, Germany, and an 89.9% interest in another data centre in Dallas, United States. The latter acquisition is conditional on equity fund raising taking place. The acquisition of the data centre in Germany means that it is diversifying out of the US and Canada, where its initial assets are located.

Missed forecasts

Since its listing, Digital Core has missed its forecasts of distributable income to unitholders for the first three quarters ended 30 September 2022, with the US$34.4 million in distributable income being 3.4 percent lower than its forecast of US$35.6 million.

Digital Core has seen its unit price increased to US$1.20 from its listing price of US$0.88. Since early April, and along with poorer market sentiments, the unit price of Digital Core has fallen to as low as US$0.50 by 31 October 2022, a fall of 58% from its 52-week high.

Digital Core REIT has a financially strong sponsor listed on the largest stock exchange in the world. However, the sponsor has its own unitholders to account to, and the interests of those unitholders may not necessarily be the same as the unitholders of Digital Core REIT here.

4. KEY FINDINGS (CONT'D)

4.6.4. AC review of interested person transactions

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

4.6.5. Entrenchment of 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. In total, 11 trusts were assessed to have more entrenchment, the same number as last year. It is also noted that MAS has consulted and will be proceeding to lower the threshold to a simple majority to remove the trustee-manager in a BT.

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

The powers of managers

A good illustration of the powers of a manager versus unitholders (as compared to the rights of a shareholder in a listed company) is in the matter of changing the name of a listed trust compared to a listed company. On 27 September 2022, Ascendas Funds Management (S) Limited, the manager of Ascendas REIT, announced that with effect from that date, Ascendas REIT's name has been changed to CapitaLand Ascendas REIT.

That same day, Ascendas Property Fund Trustee Pte, the trustee-manager of Ascendas India Trust, announced that the name of the trust has been changed to CapitaLand India Trust with effect from that date.

A similar change took place at Ascott Real Estate Investment Trust which was renamed "CapitaLand Ascott Real Estate Investment Trust“.

For a SGX-listed company, the change of name is a special resolution requiring the approval of at least 75% of the shares voted. For a trust, the manager or trustee-manager essentially just snaps its fingers and the change can be implemented immediately.

It is not only in relatively mundane matters like name changes where the powers of managers far outweigh those of unitholders.

4.6.6. 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.

4.6.7. Other negative governance events

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

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

In addition, we tracked the number of instances the trusts receive disclosure-related queries from SGX. Twenty trusts, compared to 27 last year, received demerit points for disclosure-related queries from SGX, such as clarification on deviation from guidelines in the corporate governance code. We believe that trusts can avoid most disclosure-related queries through stronger discipline in reviewing their announcements and disclosures, particularly where there are deviations from norms, such as large changes in certain financial numbers or deviations from recommended corporate governance practices.

Eleven trusts, compared to seven last year, 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.

4. KEY FINDINGS (CONT'D)

One trust that carried out a standalone preferential offering was also given a demerit point. One trust again received a requisition to conduct an EGM.

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. Two trusts received demerit points for the change in control in the manager/trustee-manager.

Trusts can artificially boost their distributions by obtaining waivers to distributions from certain vendors of assets or strategic unitholders. Unitholders should take note as this would impact the ability of the trust to maintain/increase its distribution per unit. Dasin Retail Trust had a distribution waiver arrangement that expired on 31 December 2021. Currently, there are no trusts with such a waiver.

We assessed that three trusts varied the form of payment (units or cash) to the manager/trustee-manager which disproportionately affected the actual DPU beyond the impact of the core business. For instance, a manager can opt to take its fees in units instead of cash so as to maintain its DPU (up)trend. A trust may also opt to fully take its fees in cash, breaking its tradition of taking fees in units, which resulted in the DPU decreasing just prior to a privatisation offer by the controlling unitholder.

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.

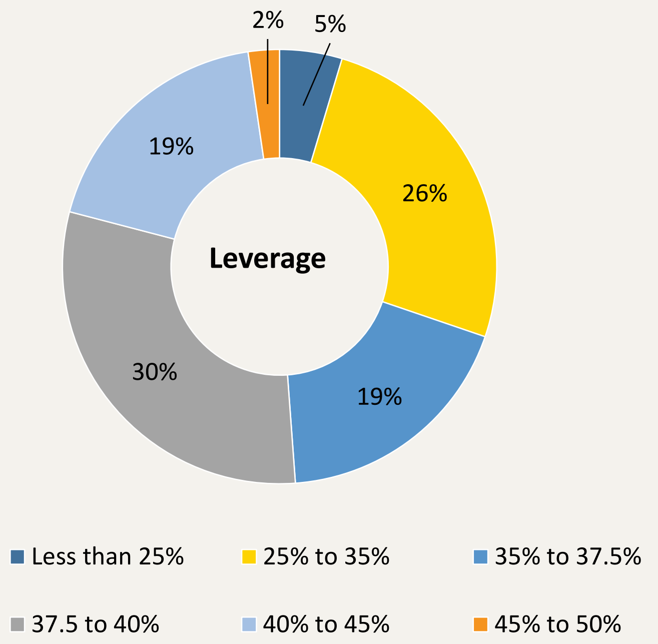
In April 2020, MAS introduced a new requirement for REITs to disclose the interest coverage ratio (ICR), following its decision to increase the leverage limit for REITs. We included the disclosure and range of ICR in the GIFT scorecard.

Figure 6 shows 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.

In terms of ICR, 23 of the trusts received the maximum points. However, 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.

Seven trusts, instead of three, had ICR below 2.75, which is the minimum threshold in GIFT and therefore did not receive any points for ICR. This is a significant development that unitholders may want to watch as the ICRs of trusts decline. In addition, the adjusted ICR would be the more appropriate measure if a trust has hybrid securities, such as perpetual securities. We are looking into incorporating adjusted ICRs in future editions of GIFT.

4. KEY FINDINGS (CONT'D)



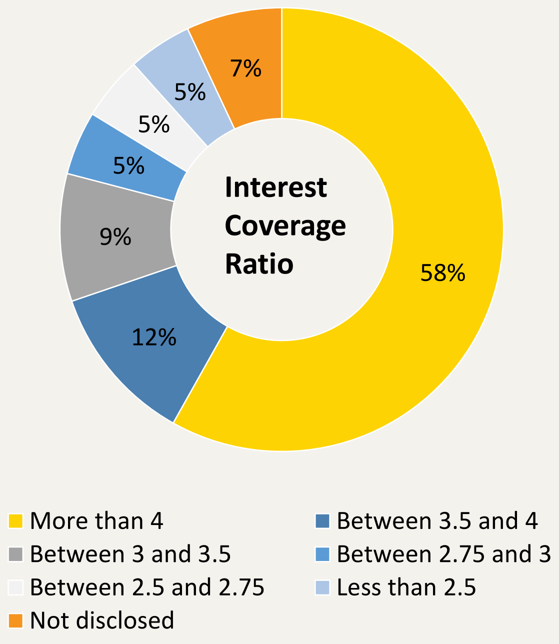


Figure 6: Distribution of the level of leverage and interest coverage ratio

Debt maturity

Nineteen trusts (compared to 20 last year) have weighted average debt maturity of longer than three years and 15 (17 last year) have a weighted average debt maturity of between two and three years. Nine trusts have a weighted average debt maturity of less than two years, with some as low as 0.7 years.

Debt maturing in next 12 months

Thirty-four trusts, compared to 38 last year, 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 eight trusts have more than 30% of their borrowings maturing in the next 12 months.

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, 18 trusts received the maximum points for having a higher WALE or WALE by GRI of at least 5 years (14 last year). Four trusts

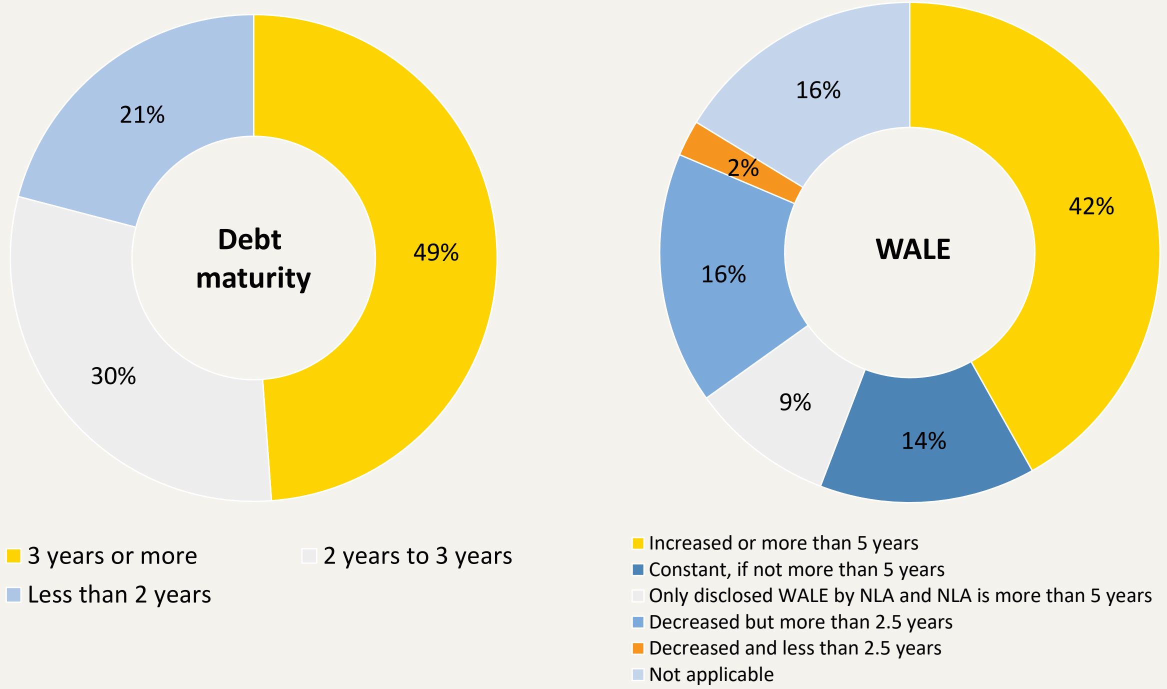


Figure 7: Distribution of the weighted average debt maturity and the weighted average lease expiry

4. KEY FINDINGS (CONT'D)

maintained their WALE while six others only disclosed WALE by NLA and it was more than 5 years. Fifteen trusts (or 35%) did not score for this criterion.

Fixed interest rates

Twenty-eight trusts (29 last year) have more than 70% of their borrowings carrying fixed or swapped to fixed interest rates and received the maximum points. Nine (12 last year) hedged at least 50% of their interest rate risks (but less than 70%). The remaining six (four last year) hedged less than 50% and received no points.

Foreign currency risks

In terms of exposure to foreign assets and foreign currency, only six trusts (compared to eight last year) did not have more than 30% exposure to foreign assets and hedged their distributions for 1 year (or more); six other trusts earned partial points as they had less than 30% in foreign assets earning foreign currency and hedged their distributions for less than a year. Thirty-one other trusts had more than 30% of their assets in foreign markets and received no points, the same number as last year.

The case of Chinese trusts

In the previous edition of GIFT, we mentioned the currency mismatch and the financing risks of certain Chinese trusts. Over the past year or more, two China-based trusts have faced re-financing issues – Dasin Retail Trust and EC World REIT – with the external auditors of both trusts including EOM paragraphs in their opinion.

Dasin Retail Trust could only obtain short term (as short as 3 months) loan extensions for both its onshore and offshore facilities. It has assets in RMB but loans in RMB (approximately 30%), SGD (41%) and USD/HKD (29%). This led to a significant currency mismatch. Over the years, the NAV per unit has decreased from $1.53 to $1.25.

In EC World REIT's case, it is also looking to sell off assets to repay banks when the banks demanded that they reduce their outstanding loans. As a result, the REIT is selling its asset to the sponsor. In July 2022, it announced that it has successfully extended the maturity date of the outstanding facilities to 30 April 2023 to have sufficient time to complete the on-going refinancing exercise. To its credit, it will be declaring a special distribution to unitholders after the sale of assets. The trust appears to be negatively affected by bankers who are overly cautious due to the situation in China.

Sasseur REIT took pro-active measures to address this issue. It proposed splitting up the total loan profile into two separate loans. New facilities will comprise different tenors with different lending rates. Lending banks are encouraged to participate in both onshore loan and offshore loan components, so as to provide better alignment of interests between the banks and the REIT.

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.

In our estimates, the principal amount of perpetual securities increased from $4.1 billion to $5.0 billion even as the number of trusts using hybrid securities, usually perpetual securities, remained the same.

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.

Sixteen trusts (compared to 17 last year) have hybrid securities, usually perpetual securities. Twenty seven trusts were given two merit points for not using hybrid securities. Three trusts (one last year) received further demerit points as the distribution to perpetual security holders was higher than 25% of the distribution to unitholders.

Investors should pay attention to the increasing use of hybrid securities, and the inching up of leverage over the years, especially given the current high interest rate environment. These trends point towards an increase in the overall business risk of trusts.

Digging deeper into hybrid securities

By our estimates, the principal amount of hybrid securities, pre-dominantly perpetual securities, has increased from $4.1 billion to $5.0 billion. Perpetual securities cost more than bank borrowings but they can be structured in such a way that they are considered equity. Trusts may be attracted to perpetual securities, despite their higher cost, because leverage figures are in fact improved when they take on perpetual securities.

A trust raised $375 million in perpetual securities in 2 tranches within 12 months when unitholders' funds amounted to just $945 million. While bank borrowings cost the trust 3.2% per annum, the perpetual securities were priced at 5.375% to 5.65%. Unitholders need to be aware that the average cost of borrowings often shown by trusts does not factor in the coupon rates on the perpetual series and hence usually under-stated.

Another REIT has an adjusted interest coverage ratio of 2.5 times after it issued $400 million in perpetual securities in 2 tranches within 10 months. The perpetual securities cost the trust 4.2% and 5.25%; in particular, the 5.25% Series 002 perpetual securities was used to fund an acquisition that provided yield of 4.4% (which was already upward-adjusted to exclude the COVID-19 impact). The acquisition was an interested person transaction.

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, 2005 and 2018. He has been a member of the Corporate Governance Advisory Committee since it was formed by MAS in 2019. Prof Mak chairs the Nomination Committee of the National Kidney Foundation, serves on the advisory board of the Hawkamah Institute for Corporate Governance based in Dubai, and is senior adviser and member of the advisory board of the Vietnam Independent Directors Association.

Prof Mak developed the Governance and Transparency Index (GTI) and was the Singapore expert involved in developing the ASEAN Corporate Governance Scorecard. He has edited 11 annual volumes of corporate governance case studies and a special financial services edition, published by CPA Australia. He publishes regular reports on corporate governance- and ESG-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 and ESG 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

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