SGX Twenty-Fourth Annual General Meeting 2023

29 September 2023

Responses to Shareholders' Questions

Singapore Exchange Limited (SGX) would like to thank shareholders for submitting their questions in advance of the Twenty-Fourth Annual General Meeting to be held at Marina Bay Sands Expo and Convention Centre, Level 4, Peony Ballroom, 10 Bayfront Avenue, Singapore 018956 and using virtual-meeting technology on Thursday, 5 October 2023 at 10:30am Singapore time.

Below are our responses to both AGM and non-AGM related questions received.

AGM-related questions

Finance

1. **In FY23, a total of close to S$50 million of accounting adjustments have been made: (a) intangible asset impairment and reduction of forward liability to acquire non-controlling interests for Scientific Beta, and (b) contingent consideration reduction for MaxxTrader. These adjustments are close to 10% of the total acquisition costs of Scientific Beta and MaxxTrader. These adjustments seem to suggest that the two acquisitions are not performing to expectation at point of acquisition. Would the management be able to elaborate more?**

   The reasons for the accounting adjustments for MaxxTrader (MT) and Scientific Beta (SB) – which are non-cash and non-recurring - are different. Each accounting adjustment should be viewed in context.

   In the case of MT, the $15M write-back was due to MT's CY2022 revenue not meeting an agreed outperformance threshold as part of an earn-out structure. SGX, as the acquiror, therefore did not have to pay an additional $15M of acquisition consideration.

   1. Earn-out is a mechanism designed to protect the acquiror from over-paying and to help bridge price differences between buyer and seller at the point of acquisition.

   2. SGX would therefore only have to pay the additional $15M if MaxxTrader was able to achieve a higher-than-expected revenue outperformance.

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3. As SGX has already made a provision at the point of acquisition for this additional consideration, we had to effectively unwind the provision which is reflected as an accounting gain. This is not the same as a purchased intangible asset or goodwill impairment.

4. As such, the write-back had no impact to the carrying value of MaxxTrader on our books.
   In the case of SB, the write-back of the forward liability to acquire the 7% non-controlling interest and the purchased intangible asset impairment collectively reflects SB's weaker than expected operating performance. We acknowledged that SB has been negatively impacted mainly by the macro-economic environment as markets have tilted away from factors and value stocks towards technology-driven, cap-weighted stock.

Nonetheless, we need to differentiate between these 2 SB-related adjustments as follows:

1. The $23M writeback of the forward liability to acquire the remaining 7% stake in SB means our expectation of the cost of acquiring the 7% stake in SB that SGX does not currently own has been reduced, compared to the estimate at the point of acquisition in FY2020.

2. The $8.3M[1] purchased intangible assets impairment reflect the weaker than expected outlook of the business and that recovery is likely to take some time. This impairment represented about 3% of the original acquisition price consideration[2].

   [1] Does not include deferred tax liability recorded under tax expense in the Statement of Comprehensive Income

   [2] Based on 100% equity interest in SB.

2. There has been a huge increase of Treasury income from the various business units. Would the management be able to elaborate more on how the Treasury income (for each business unit) is earned?

Treasury income (TI) is earned from participants' assets held as collateral in relation to the trading of SGX's securities and derivatives products. Such investment is limited to permissible instruments prescribed under the Securities and Futures Act (SFA) and associated regulations.

Participants' cash assets are placed in high-quality liquid instruments with low market risks. This include either current or fixed deposit accounts with regulated banks in Singapore and/or in reverse repurchase arrangements with qualified counterparties permitted under the SFA.

The TI that SGX earns is offset by interest paid[1] to clearing members on their balances lodged. This is a standard practice of central counterparty clearing houses (CCP) globally. The higher TI in FY2023 was mainly due to rising interest rates.

[1] The interest is computed based on the daily weighted average interest rate obtained from settlement banks with which cash collateral are placed.

3. Current Capital Allocation: Could you provide an overview of how SGX is currently deploying its capital? What are the main areas or projects where the company is allocating its funds?

Responsibility and Accountability: Who within the management team is primarily responsible for overseeing capital allocation decisions? Are there any specific committees or individuals tasked with this responsibility?

Ensuring Proper Deployment: How does SGX ensure that capital is deployed efficiently and effectively both now and in the future? Are there specific metrics or benchmarks used to evaluate the success of capital allocation decisions?

Long-Term Strategy: Could you shed some light on SGX's long-term capital allocation strategy? How does the company plan to balance short-term and long-term investments to create sustainable shareholder value?

SGX Group's capital allocation is driven by two strategic priorities, namely investing for growth using the cash we generate or borrow (while staying within prudent leverage limits) and rewarding shareholders through a sustainable and growing dividend over time, consistent with the Group's long-term growth prospects. Investments can be through any of: (a) inhouse projects for existing or new business units; (b) businesses where SGX sees strategic value in becoming a shareholder; and (c) acquisitions of strategic importance to SGX.

Management undertakes a budgeting and capital allocation exercise each financial year, which includes a review of the Group's medium-term growth plan, and the resources needed to deliver the plan. The plan is submitted to the Board for approval, with the CEO and CFO responsible for the execution of the plan and resource deployment. Regular business reviews are conducted to monitor the plan execution; adjustments are made if necessary to achieve the desired business outcomes.

In the evaluation of capital deployment opportunities, we have a structured approach that takes into consideration financial and non-financial metrics. Non-financial metrics revolve around strategic fit; financial metrics include revenue growth potential, operating margins etc. In the case of acquisition opportunities that involve control, we also evaluate metrics such as earnings accretion, and the internal rate of return vs. cost of capital. Management ultimately will take into account various factors specific to the proposed investment in making capital allocation decisions.

As an illustration, in FY2023, SGX generated $447M in net operating cash flow of which 81% was used to fund dividends to shareholders ($344M) and share buyback ($19M). If the proposed FY2023 Q4 final dividend of 8.5 cents per share is approved at the upcoming AGM, this would translate to an annualized cash dividend payment increase of $21M.
The remaining cash generated in FY2023 was largely used to:

- Fund business-as-usual capex and strategic investments. Business-as-usual capex are meant to support growth, efficiency, and resilience; major items included enhancements to our OTC FX business infrastructure, Energy Market Company (EMC) system refresh, upgrades to our Titan OTC trade reporting system and improvements to our office premise efficiency. Strategic investments made included minority investments – new and additional - in Wilshire Benchmarks and Climate Impact X (CIX); and

- Reduce our debt liabilities, which were incurred to support our investment activities. This reflects our prudent capital management approach, which has been validated by our AA2 rating issued by Moody's. Our balance sheet remains robust with a 1.1x gross debt to EBITDA at end-FY2023 (vs. 1.2x at end FY2022), allowing us to retain flexibility to fund acquisitions should they arise.

4. **Given that SGX continuously strives to improve its return to shareholders, its management focus needs to be sustained without undue organisational distraction. Could you please elaborate how the Energy Market Company is congruent with the market focus of SGX given that EMC is not involved in the financial markets? What are the plans for EMC to be made more relevant to the business and shareholders of SGX? Alternatively, are there plans to hive off the EMC if it is deemed to be less relevant to the business domain of the SGX?**

SGX Group's multi-asset strategy cuts across equities, fixed income, currencies and commodities -- the latter which involves our offerings as a risk management and price discovery venue for the physical commodities markets.

The Energy Market Company (EMC) is the market operator of the National Electricity Market of Singapore (NEMS), Asia's first such liberalised wholesale electricity market. Over the last 20 years, EMC has developed a strong 24/7 round-the-clock spot auction market capability which plays a pivotal role in advancing Singapore's net-zero ambitions.

It supports the growth of renewable energy by promoting efficiency and transparency prices, and attracts investments aimed at lowering carbon emission in the energy sector. For example, EMC has worked with Climate Impact X (CIX), a Singapore-based global carbon exchange and marketplace, to launch its carbon credit auction market.

Beyond Singapore, ASEAN offers tremendous growth opportunities in the energy sector, particularly the renewable energy space, with growing climate change concerns. ASEAN's demand for energy grew by more than 80% between 2000 and 2019 and is expected to triple by 2050, from the 2020 level. The region aims to achieve a 23% share of renewable energy in total energy supply by 2025. This requires a major shift in investments in low carbon alternatives, including renewables power, hydrogen and electromobility.

5. Could you summarize the strategies and initiatives implemented by SGX to make the SGX an appealing listing or dual-listing destination for Southeast Asia unicorn companies, focusing on competitive advantages, regulatory flexibility and incentive programmes?

Singapore is well-known for being an international financial hub. Key to that is its stable political and pro-business environment. Our reputation as a trusted, neutral hub is well-appreciated by issuers and investors around the world. Singapore is also fast becoming a huge wealth-management hub. Its broad institutional investor base includes global asset owners, investment funds, family offices and sophisticated retail investors from the region.

The SGX platform is tailored to support companies' capital structure at every stage of their growth. Our listing environment is set up with various frameworks and initiatives that cater to companies across diverse sectors and geographies.

Our platform supports companies with the ambition to build up an international profile and pan-Asian visibility. Almost 40% of equity issuers and 80% of debt issuers are from beyond Singapore's shores. We offer equity listings in seven currencies and debt listings in 26 currencies. SGX is also deeply connected with other exchanges. We launched in May Depository Receipts (DR) under the Thailand-Singapore DR Linkage, extending the reach of Thai investors to our listed companies and Singapore investors' access to Thai issuers.

We have a Market Makers and Active Traders programme that works to bolster liquidity and facilitate trading at competitive bid and offer prices. SGX-listed companies are also able to raise capital in the secondary markets easily: they raise eight times more funds in the secondary markets compared with funds raised at IPO, meaning companies are able to raise additional equity capital post-IPO to fund growth on an ongoing basis via our platform.

Our listing process is also efficient and seamless for companies. Wholesale bond listings approvals take one business day and equity listings approvals take six to eight weeks. We understand timing consideration is key in tapping the capital markets.

Our dynamic regulatory framework also allows for various listing structures to cater to different fundraising needs. Our streamlined secondary-listing processes allow existing listed companies to easily tap a different capital pool and support their business push in Asia and globally. We recently announced subtle changes to our listing requirements to ensure greater competitiveness for listings of healthcare and biotech companies.

Singapore also has a deeply supportive and collaborative ecosystem. The joint interagency initiatives are proof that Singapore probably has one of the most supportive ecosystems in the world, with unprecedented collaboration between private and public sectors. Set up by the Singapore government and Temasek, we have the Anchor Fund @ 65 to anchor promising high-growth enterprises to support companies working towards a listing in Singapore. The Growth IPO Fund by the investment arm of the Singapore Economic Development Board is set up to invest in earlier-stage high-growth and innovative enterprises. There is also a funding scheme provided by MAS to support companies with listing expenses and resources are also channelled to enrich the research coverage of Singapore-listed companies for investor education and awareness. In addition, there is a structured requirement from MAS and EDB for Singapore incorporated family offices to invest part of their assets under management into our capital markets.

6. **"Hong Kong will set up a task force to look into ways to boost stock market liquidity, according to Chief Executive John Lee. Financial Secretary Paul Chan will lead the group and will announce more details this week, Lee told reporters on Sunday (Aug 27)." [https://www.businesstimes.com.sg/companies-markets/hong-kongs-lee-plans-task-force-boost-stock-market-liquidity [businesstimes.com.sg] Additional data: HKEX average daily value = HK$101.8bb / S$17.7bb and in comparison SGX average daily value = S$1.02bb. What is management's comment on HKEX actions please? More importantly, can management please share more on plans to boost SGX market liquidity? What plans to increase number of companies listed? What KPI / drivers does management use to measure/improve number and quality of IPO listings annually? What plans to improve valuations of companies listed on SGX? What plans to attract more big listings to SGX?**

In recent years, Singapore has further consolidated its standing as an international financial and wealth management hub. With a strategic geographic location, stable regulatory environment and a well-established financial infrastructure, Singapore has attracted a diverse range of investors from around the world. What’s noteworthy is the growing segmentation of investors, including high net-worth individuals, family offices, institutional investors and retail traders among others. This diversification of investor segments has deepened liquidity pools across various asset cases and also enhanced market resilience.

In addition, we have a Market Makers and Active Traders programme that works to bolster liquidity and facilitate trading at competitive bid and offer prices with rebates or waivers offered on certain exchange fees such as clearing fees to participants in both programmes.

As regional corporates continue to grow and require global markets financing via equity and/or debt, SGX with its strategic location and robust infrastructure, is positioned to support these companies’ capital structure. In addition to interagency initiatives to promote listings (mentioned in Q5 above), SGX also conducts regular joint marketing with our brokers and participants to wider our investors and companies outreach in and outside of Singapore.

Our listing environment is set up with various frameworks and initiatives that cater to companies across diverse sectors and geographies. Our listing process is also made efficient and seamless for companies with the support from our regulatory arm SGX RegCo and the Monetary Authority of Singapore (MAS) to facilitate approvals for debt and equity listings. We continue to have active discussions with a diverse range of companies seeking either a primary or secondary listing in Singapore, as part of their growth ambitions in Asia.

7. **"The merged capital markets unit will be led by Koh Jin Hoe, currently executive director for global sales and origination; and Matthew Song, head of corporate and institutional client coverage, according to the bourse." [https://www.businesstimes.com.sg/companies-markets/sgxs-equity-capital-global-head-mohamed-nasser-ismail-leave-exchange [businesstimes.com.sg]] Can management please share more details on how the merged capital markets unit can improve the Singapore equities market?**

   The new Capital Markets Unit will integrate our ability to serve across the full capital structure, offering both equity and debt capital solutions. Clients' evolving needs will be more swiftly and better understood, resulting in strategies and solutions tailored to address their unique capital requirements even as markets and macro conditions change rapidly.

   Customers accessing the Singapore securities market can expect more streamlined processes, simplifying their journeys, and enabling them to tap into a diverse investor base more effectively. Ultimately, this structure is aimed at enhancing the vibrancy and efficiency of the market, thereby strengthening Singapore's position as a preferred destination for capital raising and investment in the region.

Non AGM-related questions

8. **AI is a latest trend now. Does SGX currently have any project related to AI? Will the future investment direction link to AI?**

   SGX Group is actively engaged in several AI-related projects. These involve various aspect of our operations, including compliance and risk management.

   One example is the Anti Money Laundering (AML) transaction-monitoring project, which uses AI/machine-learning technology to proactively detect money-laundering activities. The solution is aligned with industry standards, combines anomaly detection, behavioural analysis and rule-based triggers. It efficiently groups accounts and transactions into cases, helping to prioritise critical cases based on risk scoring. It also reduces the number of false-positive alerts and enhances efficiency in reviewing suspicious cases.

   Another initiative is the Redflag project, which applies machine-learning techniques on data such as company financials, market data, external probability of default data, as well as corporate announcements to generate "red flags" of financial distress among listed companies.

   SGX Group's future investment direction is indeed closely linked to AI and other emerging technologies. Our aim is to harness the power of AI to improve operational efficiency, protect our platforms against cybersecurity risks and technology disruptions, and create opportunities for market participants.

9. **Please refer to the joint statement by MAS and SGX RegCo titled "MAS and SGX RegCo to Safeguard Interests of Unitholders of Eagle Hospitality Trust" on 20 April 2020. Without having to comment on the parts for MAS and CAD, what has SGX RegCo done during the last year to safeguard interests of unitholders of Eagle Hospitality Trust unitholders?**

   To recap we have put in place in the past few years improved disclosure obligations for master lease arrangements with sponsors, including among others, the terms of such leases, quantum of security deposits and measures to safeguard such security deposits; engaged with the then-trustee manager of Eagle Hospitality Trust (EHT) on a trading resumption proposal and worked with the Association of Banks in Singapore to enhance the Listings Due Diligence Guidelines.

In the past year, the investigation into EHT has continued, and we have engaged with the authorities and provided information.

Once the result of the investigation is known, we will study the findings closely to see what else needs to be improved so as to further safeguard investor interest.

Meanwhile, we remain in touch with legal advisors of the EHT trustee, DBS Trustee, on legal developments.

10. **DBS Group Holdings held 26 million and 11 million units of EHT. In DBS Group Holdings' announcement on 29 March 2023 titled "Responses to substantial and relevant questions received from DBSH shareholders in relation to DBSH 24th annual general meeting", DBSH stated that "DBS has since written off its investment in the EHT stapled securities as the stapled security holders are not expected to receive any distributions from the liquidating trusts interests." From the viewpoint of SGX RegCo, is it confirmed that EHT unitholders "are not expected to receive any distributions from the liquidating trusts interests"?**

DBS Trustee as trustee of EHT, has disclosed via SGXNet on 16 February 2022 and again on 3 April 2023, that EHT stapled securityholders are not expected to receive any distribution following the liquidation of the various US subsidiaries and entities whether in their capacity as equityholders or in their capacity as claimants for unpaid dividends. The announcements are found here and here respectively.

DBS Trustee has also disclosed via SGXNet on 17 August 2023 that it has commenced the liquidation process of the Singapore subsidiaries by way of members' voluntary liquidation. The announcement can be found here.

11. **In the recent history, there are quite a few cases that implicate fraudulent or conflict of interest behaviours of sponsors, like injecting dubious or over-valued assets into listing /listed trusts, over-promise under-deliver sponsor/master-lessee arrangements, etc etc. Some of these issues have surfaced and become highly consequential, particularly under the challenging high-interest environment in the past few years. Many unitholders have suffered. What measures has the Exchange, and RegCo, taken to address these issues, esp. with regard to its listing framework of REIT/Business Trust, and on risk management practices?**

Aside from the SGX Listing Rules, the regulatory framework for REITs and Business Trusts is governed by the Monetary Authority of Singapore as part of the Securities and Futures Act, and respectively the Code on Collective Investment Schemes (CIS Code) and the Business Trust (BT) Act.

In respect of acquisition of properties from sponsors, the CIS Code requires 2 independent valuations of the properties for interested party transactions while the BT Act requires 1 independent valuation. Independent unitholders' approval is also required for such transactions.

Separately, SGX RegCo has enhanced our rules on property valuation in general since 2021. We have set out requirements on property valuation standards and property valuers. More information is here.

Where the sponsor is the master lessee, we have addressed the concentration risk through various additional requirements as mentioned in our listing decision found here including disclosure requirements at the time of IPO and on a continuing basis, pertaining to the leases and collection from the sponsor-related lessees, and the provision of security deposits where the leases are assessed to be significant.

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