GENERAL ANNOUNCEMENT::RESPONSES TO QUESTIONS FROM SIAS IN ADVANCE OF AGM

Issuer & Securities

Issuer/ Manager

SPH REIT MANAGEMENT PTE. LTD.

Securities

SPH REIT - SG2G02994595 - SK6U

Stapled Security

No

Announcement Details

Announcement Title

General Announcement

Date &Time of Broadcast

25-Nov-2020 18:36:25

Status

New

Announcement Sub Title

Responses to Questions from SIAS in advance of AGM

Announcement Reference

SG201125OTHR9G17

Submitted By (Co./ Ind. Name)

Sheryl Cher Ya Li

Designation

Company Secretary

Description (Please provide a detailed description of the event in the box below)

Please refer to the attached announcement.

Attachments

SPH REIT Announcement - SIAS Questions and Responses.pdf

Total size =310K MB

SPH REIT MANAGEMENT PTE. LTD.
(Registration No: 201305497E)
(Incorporated in the Republic of Singapore)

RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN ADVANCE OF ANNUAL GENERAL MEETING

SPH REIT Management Pte Ltd, as manager (the "**Manager**") of SPH REIT, wishes to thank the Securities Investors Association (Singapore) ("**SIAS**") for submitting their questions on SPH REIT's Annual Report for the financial year ended 31 August 2020 in advance of the Annual General Meeting ("**AGM**") which will be convened and held by way of electronic means on 26 November 2020 at 2.30 p.m. (Singapore time).

The Manager's responses to the questions from SIAS are set out below.

Question No. 1

As noted in the statement by the chairman and CEO, the trust acquired a 50% interest in Westfield Marion Shopping Centre ("Westfield Marion"), the largest shopping centre in South Australia on 6 December 2019.

It was further disclosed that the acquisition of Westfield Marion is in line with the trust's long-term strategy to diversify its asset base and income stream geographically.

(i) With unprecedented disruption caused by the pandemic, would the board (re)state the trust's targeted capital allocation by geography?

SPH REIT's mandate is to invest primarily in a portfolio of income-producing real estate, used primarily for retail purposes in Asia-Pacific. SPH REIT has not set a targeted capital allocation by geography in order to maintain flexibility in the exploration of acquisition opportunities.

SPH REIT will continue to explore acquisition opportunities while being mindful of the uncertainty brought about by COVID-19. Its portfolio in the medium term will remain primarily Singapore based assets.

Post-IPO in July 2013, SPH REIT considered various countries to explore overseas acquisitions. The criteria were benchmarked against SPH REIT's portfolio profile and risk appetite. The Board, after due consideration, then shortlisted Australia to explore acquisition opportunities. In the last four years, the investment team considered and conducted due diligence for several asset acquisition opportunities, primarily in Australia.

The due diligence exercises included site visits to these assets as well as numerous other malls in that locality. These were conducted by senior management across various major states in Australia.

SPH REIT has in place a robust acquisition process. This involves rigorous and disciplined assessment taking into consideration the valuation, yields, value enhancement potential and continuing performance of each available property while taking into account foreseeable risks and the measures required to mitigate them.

(ii) In particular, what adjustment has the board made to the pace and timing of its acquisitions?

There has been no change in the approach for acquisitions.

Whilst the ensuing turmoil in the retail real estate market caused by COVID-19 may present acquisition opportunities, SPH REIT continues to exercise care and gives due consideration, in particular due to the risks brought about by uncertainty in the retail market.

(iii) Can the board help unitholders understand if the manager (especially the CEO) and the board of directors have recent and relevant experience in real estate investing in Australia, in particular, retail malls in Australia? If not, is the REIT's expansion into Australia extending beyond the trust's circle of competence/ experience?

The core strength and competency of the team, led by the CEO, is in the retail sector.

For the acquisitions in Australia, relevant Australian professionals and consultants were selected and engaged to advise and carry through the acquisitions, with active involvement of the SPH REIT management and oversight by the Board.

The first acquisition in Australia was the Figtree Grove Shopping Centre in December 2018, a dominant sub-regional shopping centre located in Wollongong, New South Wales. It was acquired with a minority joint venture partner, who also acts as the asset manager, to ensure alignment of interests with SPH REIT. SPH REIT also appointed a local property manager, Retpro, which is experienced in managing malls across Australia, to manage Figtree.

The second acquisition was a 50% stake in Westfield Marion Shopping Centre in December 2019. The other 50% owner is Scentre which has managed this asset for more than 25 years. Scentre is one of the largest shopping centre landlords in Australia and SPH REIT benefits from this partnership with Scentre's extensive network and its ability to attract the world's leading retail brands.

(iv) Can the manager confirm that the new Australian assets have contributed to the REIT's performance positively on a DPU basis (i.e. DPU accretive)? The trust was successful in tapping the equity market and raised $164.5 million in December 2019 from a private placement of 156.6 million new units to partially finance the Westfield Marion acquisition.

Figtree Grove Shopping Centre and Westfield Marion Shopping Centre are both DPU yield accretive, generating approximately 0.45 cents DPU in FY2020.

In addition, the group's main asset, Paragon, has been adversely affected by the lack of tourists due to border restrictions. Tenant sales declined by 28.3% to $507.8 million on a year-on-year basis while footfall declined by 27.4% to 13.8 million. The Clementi Mall, despite it being a mall in the heartlands, also saw its footfall decline by 27.8% while tenant sales declined by 12.7% to $206.6 million (page 9).

(v) What are the innovative and creative marketing efforts by the manager to help the tenants, especially the tenants in Paragon?

With the border restrictions imposed since February 2020, international tourist arrivals in Singapore have declined by 97%. Without the tourists' consumption along Orchard Road, which is the most visited free access attraction in Singapore, Paragon's tenant sales are inevitably impacted. Paragon's tourist visitation closely reflects the Singapore Tourism Board's report that about 30% of Orchard Road consumption is from tourists.

The Manager is working with the tenants on targeted collaborations to motivate visitation to the mall and stores. To this end, the Manager has provided assistance to the tenants by purchasing their vouchers which will be used to incentivise shoppers' visitation. The tenants on their part have actively engaged with their shoppers through various forms of communication to showcase their latest arrivals and promotions. In addition, for the convenience of their shoppers, online orders and delivery services are also provided.

An enhanced rewards program, "Paragon Club", was launched in 2019. During Phase 2 of COVID-19 where most businesses were allowed to resume, Paragon's rewards program offered additional reward points during this period to motivate shoppers' spend.

The Manager works with its anchor tenant to create a Christmas setting at its atrium for visitors' enjoyment, and at the same time, showcase gift ideas to attract shoppers to the stores.

(vi) Is the manager taking the opportunity to carry out asset enhancement initiatives or to reposition certain sections of the malls to cater to the changes in consumption patterns?

Asset enhancement initiatives will be considered to keep pace with the evolving retail environment. However we are mindful of key considerations such as cash flow, capital expenditure, occupancy, downtime, and the retailers' requirements.

SPH REIT's portfolio occupancy is at 97.7%. Opportunities for significant re-alignment/ re-positioning are limited, in particular, taking into account the considerations set out in the paragraph above.

(vii) Does the board have sufficient clarity on the financial position of the trust to release the sum of $14.5 million in distributable income which has been deferred (amounting to distribution per unit of 0.52 Singapore cents) to unitholders?

The Board has convened regular meetings with management to closely monitor the COVID-19 pandemic since it started. These include both operational and financial updates which allow the Board to assess the situation in a timelier manner.

The Board will continue to assess the situation and remains committed to release the income to unitholders in FY2021.

Question No. 2

The trust structure is shown on page 14 of the annual report. In particular, the manager of the REIT relies on the appointed investment and property managers for the day-to-day running of Westfield Marion Shopping Centre and Figtree Grove Shopping Centre (page 95).

(Source: annual report)

(i) What is the level of influence and control of the operations of the two assets in Australia? Would the REIT manager elaborate further on its ability to value-add to the Australian assets given its lack of familiarity of the markets and the reliance on third party managers?

As co-owners of the two Australian assets, SPH REIT monitors their performance and operations closely by active participation in the day to day management of the assets.

A detailed operating framework is in place for the review and approval of budgets, leasing plans, as well as proposed asset enhancements and capital expenditure. Any deviation will need to be substantiated and approved.

It will continue to value-add to strategic proposals to enhance the positioning of the assets in Australia mainly through tenancy mix and cross-sharing of promotional ideas.

(ii) **Is the REIT acting like a "financial" investor in its overseas expansion with little/no ability to value-add?**

As highlighted in answer (i) above, SPH REIT is not acting like a mere "financial" investor.

The expansion into Australia enhances the sustainability and resilience of SPH REIT's returns to unitholders through the increased geographic diversity, larger freehold land tenure, and longer underlying leases.

To reiterate, the decision on an acquisition is with due consideration on its yield-accretion. The Manager takes into consideration the long-term sustainability of the asset as the objective is to provide stable and regular distributions to unitholders.

(iii) **The REIT further disclosed that fees payable to the outsourced parties include performance bonuses. Are unitholders paying two levels of management and performance fees to the outsourced parties and to the REIT manager (SPH REIT Management Pte. Ltd.)?**

For Figtree Grove Shopping Centre and Westfield Marion, the Manager has appointed an established firm which holds an Australian Financial Services Licence ("AFSL") and has asset management capabilities to oversee the acquisition and management of the assets.

This appointment is part of the tax efficient structure to qualify for a reduced Australian tax rate as advised by independent Australian tax advisors.

In the future, SPH REIT may consider establishing its own setup for this purpose.

(iv) **Can the manager clarify if the current structure for the Australian assets would afford the REIT and ultimate the unitholders tax transparency in terms of the profit, especially for Westfield Marion Shopping Centre? In other words, would income be taxed in Australia before it reaches the REIT?**

SPH REIT has set up a structure for tax efficiency.
Refer to (ii) above.

<u>Question No. 3</u>

As noted in the corporate governance report (page 107), under the Code of Corporate Governance 2018 and the Notice to All Holders of a Capital Markets Services Licence for Real Estate Investment Trust Management (issued pursuant to Section 101 of the Securities and Futures Act), the trust is required the disclose the following:

a) **the remuneration of each individual director and the CEO on a named basis with a breakdown (in percentage or dollar terms) of each director's and the CEO's remuneration earned through base/fixed salary, variable or performance-related income/ bonuses, benefits-in-kind, stock options granted, share-based incentives and awards, and other long-term incentives;**

b) **the remuneration of at least the top five key executive officers (who are neither directors nor the CEO) in bands of $250,000, with a breakdown (in percentage or dollar terms) of each key executive officer's remuneration earned through base/fixed salary, variable or performance related income/bonuses, benefits-in- kind, stock options granted, share-based incentives and awards, and other long- term incentives; and**

c) **the aggregate total remuneration paid to the top five key executive officers (who are neither**

directors nor the CEO).

The manager has reviewed, assessed and decided against such disclosure on the following grounds (page 107):

> ***"the remuneration of the directors and employees of the manager are not paid out of the deposited property of SPH REIT (listed issuer). Instead, they are remunerated directly by the manager, which is a private company…… there is no misalignment between the remuneration of the directors and the key management personnel of the manager and the interests of the Unitholders given that their remuneration is not linked to the gross revenue of SPH REIT and is paid out of the assets of the manager and not out of SPH REIT"***

The Monetary Authority of Singapore issued a guideline (No: SFA04-G07 dated 1 January 2016) which explicitly stated that *"a statement to the effect that the remuneration of the CEO, directors and executive officers of the REIT manager is payable out of the assets of the REIT manager and not out of the deposited property of the REIT would not be considered a satisfactory explanation*" (paragraph 4.2) for the non-disclosure of remuneration.

(i) Would the board help shareholders understand if they are familiar with the relevant regulations for REITs? How does the board ensure that the REIT/ manager complied with the relevant regulations and Code?

SPH REIT's disclosures on remuneration matters are reported in the Annual Report.

The Board is cognizant of the relevant regulations for REITs. The Board is kept updated of changes in regulations and undergoes relevant training programmes. The Board is assisted by the Audit & Risk Committee in overseeing the proper conduct of the Manager.

(ii) In particular, given that MAS has specifically stated what is not considered a "satisfactory explanation" for the non-disclosure of remuneration in its guideline (No: SFA04-G07 dated 1 January 2016), would the board help unitholders understand why it had used the same justification (which has been deemed a non-satisfactory explanation) for the non-disclosure of remuneration?

In the corporate governance report (page 107), apart from the reason that the remuneration was not payable out of the assets of SPH REIT, the following were also set out:

1. the fees that the Manager gets from SPH REIT have been disclosed under the "Interested person/interested party transactions" section of the Annual Report;
2. remuneration matters for the CEO and each of the executive officers are highly confidential and sensitive matters;
3. there is no misalignment between the remuneration of the Directors and the key management personnel of the Manager, and the interests of the Unitholders given that their remuneration is not linked to the gross revenue of SPH REIT and is paid out of the assets of the Manager and not out of SPH REIT; and
4. any disclosure on remuneration matters may have negative impact on the Manager in attracting and retaining talent on a long-term basis, taking into consideration factors such as the commercial sensitivity and confidential nature of remuneration matters, the competitive nature of the REIT management industry, the competitive business environment in which the Manager operates, the importance of ensuring stability and continuity of business operations with a competent and experienced management team in place.

The corporate governance report further sets out the remuneration policy for staff of the Manager, which would allow unitholders to understand the relationship between remuneration of key executives and their performance.

(iii) Would the board reconsider its disclosure practices and disclose the remuneration of the CEO and executive officers in accordance to the requirements of the CG Code 2018 and SFA?

The Board is of the view that where there are deviations from the requirements of the CG Code 2018 and/or the SFA, satisfactory explanation has been given, as set out in the response to Q3(ii) above and elsewhere in the Annual Report. The Board has been reviewing and will continue to review its disclosure practices on an annual basis to determine the appropriate disclosures to make, in accordance with applicable law, regulations, the listing rules and the CG Code 2018.

Issued by SPH REIT Management Pte Ltd
As manager of SPH REIT

Singapore,
25 November 2020

IMPORTANT NOTICE

This announcement is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for Units.

The value of Units and the income derived from them, if any, may fall or rise. Units are not obligations of, deposits in, or guaranteed by the Manager or any of its affiliates. An investment in Units is subject to investment risks, including the possible loss of the principal amount invested.

Investors should note that they will have no right to request the Manager to redeem or purchase their Units for so long as the Units are listed on Singapore Exchange Securities Trading Limited (the "**SGX-ST**"). It is intended that Unitholders may only deal in their Units through trading on the SGX-ST. The listing of the Units on the SGX-ST does not guarantee a liquid market for the Units.