

22 April 2015

The Independent Directors and  
the Audit, Risk Management and Compliance Committee  
Cambridge Industrial Trust Management Limited  
(the Manager of Cambridge Industrial Trust)  
61 Robinson Road  
#12-01 Robinson Centre  
Singapore 068893

RBC Investor Services Trust Singapore Limited  
(as Trustee of Cambridge Industrial Trust)  
77 Robinson Road  
#18-00 Robinson 77  
Singapore 068896

Dear Sirs

- (A) THE PROPOSED PERFORMANCE FEE SUPPLEMENT TO THE TRUST DEED**  
**(B) THE PROPOSED PERFORMANCE FEE UNIT PRICING SUPPLEMENT TO THE TRUST DEED**

*For the purpose of this letter, capitalised terms not otherwise defined shall have the meaning given to them in the circular dated 22 April 2015 to the unitholders of Cambridge Industrial Trust (the “Circular”)*

## **1. INTRODUCTION**

Cambridge Industrial Trust (“**CIT**”) is a Singapore-based industrial real estate investment trust (“**REIT**”), principally investing directly and indirectly in income-producing real estate and real estate related assets in Singapore used primarily for industrial, warehousing and logistics purposes. CIT was listed on the Main Board of the Singapore Stock Exchange Securities Trading Limited (“**SGX-ST**”) on 25 July 2006. As at 31 December 2014, CIT has a portfolio of 50 properties (the “**Properties**”) located across Singapore with a total gross floor area of approximately 8.4 million sq ft and a property value of S\$ 1.37 billion.

Cambridge Industrial Trust Management Limited, the manager of CIT (the “**Manager**”), is seeking approval from Unitholders for the following:

- (a) the proposed Performance Fee Supplement to the Trust Deed, as set out in paragraph 3 of this letter and paragraph 2.1 of the Circular; and
- (b) the proposed Performance Fee Unit Pricing Supplement to the Trust Deed, as set out in paragraph 4 of this letter and paragraph 3.1 of the Circular.

The Manager is considered an “interested person” of CIT for the purposes of Chapter 9 of the Listing Manual. Accordingly, the proposed Performance Fee Supplement to the Trust Deed and the proposed Performance Fee Unit Pricing Supplement to the Trust Deed will constitute “**interested person transactions**” under Chapter 9 of the Listing Manual.

For the purpose of Chapter 9 of the Listing Manual, we, Deloitte & Touche Corporate Finance Pte Ltd (“**DTCF**”), have been appointed as independent financial adviser to the Independent Directors and the Audit, Risk Management and Compliance Committee in respect of the proposed Performance Fee Supplement to the Trust Deed and the proposed Performance

Fee Unit Pricing Supplement to the Trust Deed (collectively the “**Proposed Trust Deed Supplements**”).

**We note that the passing of the Proposed Trust Deed Supplements by the Unitholders are not conditional upon each other.**

## **2. TERMS OF REFERENCE**

Our responsibility is to provide our opinion as to whether each of the Proposed Trust Deed Supplements are on normal commercial terms and will not be prejudicial to the interests of CIT and its minority Unitholders who are not interested persons.

We were neither a party to the negotiations entered into in relation to the Proposed Trust Deed Supplements nor were we involved in the deliberations leading up to the decision on the part of the Directors to enter into these transactions.

We do not, by this letter or otherwise, advise or form any judgement on the strategic, commercial or financial merits or risks of each of the Proposed Trust Deed Supplements. All such evaluations, advice, judgements or comments remain the sole responsibility of the Directors and their advisers. We have however, drawn upon such evaluations, judgements and comments as we deem necessary and appropriate in arriving at our opinion.

The scope of our appointment does not require us to express, and nor do we express, a view on the future growth prospects, earnings potential or value of CIT. We do not express any view as to the price at which the Units may trade nor on the future value, financial performance or condition of CIT.

It is also not within our terms of reference to compare the merits of the Proposed Trust Deed Supplements to any alternative arrangements that were or may have been available to CIT. Such comparison and consideration remain the responsibility of the Directors and their advisers.

We have relied upon the assurances of the Directors who have accepted full responsibility for the accuracy and completeness of the information provided to us. The Directors have confirmed to us that to the best of their knowledge, information and belief, all material information available to them in connection with the Proposed Trust Deed Supplements have been disclosed to us and that such information constitutes full and true disclosure of all material information relating to such transactions and that there is no other information the omission of which would cause any of the information disclosed to us or relied on by us in making our recommendation to be inaccurate, incomplete, untrue or misleading in any material respect. We have assumed that all statements of fact, belief, opinion and intention made by the Directors in the Circular have been reasonably made after due and careful enquiry. Accordingly, no representation or warranty (whether express or implied) is made and no responsibility is accepted by us concerning the accuracy, completeness or adequacy of such information. We have nonetheless made reasonable enquiries and used our judgement in assessing such information and have found no reason to doubt the reliability of such information.

We have not made any independent evaluation or appraisal of the assets and liabilities (including, without limitation, the real properties) of CIT.

Our views are based on market, economic, industry, monetary and other conditions (where applicable) prevailing on and our analysis of the information made available to us as at the Latest Practicable Date. We assume no responsibility to update, revise or reaffirm our opinion, factors or assumptions in light of any subsequent development after the Latest Practicable Date that may affect our opinion or factors or assumptions contained herein. Unitholders should take note of any announcements relevant to their considerations of the Proposed Trust Deed Supplements which may be released by the Manager after the Latest Practicable Date.

The Manager has been separately advised by its own legal adviser in the preparation of the Circular other than this letter. We have had no role or involvement and have not provided any advice whatsoever in the preparation, review and verification of the Circular other than this letter. Accordingly, we take no responsibility for, and express no views, whether express or implied, on the contents of the Circular except as for this letter.

Our opinion in relation to the Proposed Trust Deed Supplements as set out under Section 7 of this letter should be considered in the context of the entirety of our advice. While a copy of this letter may be reproduced in the Circular, the Manager may not reproduce, disseminate or quote this letter or any part thereof for any purpose, other than for the purpose stated herein, without our prior written consent in each instance.

We have not had regard to the general or specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints of any Unitholder. As Unitholders will have different investment objectives, we advise the Independent Directors to recommend that any Unitholder who may require specific advice in relation to his or her specific investment objectives or portfolio should consult his or her stockbroker, bank manager, solicitor, accountant, tax adviser or other professional advisers.

### 3. THE PROPOSED PERFORMANCE FEE SUPPLEMENT TO THE TRUST DEED

The Manager proposes to amend the Trust Deed in respect of the following:

- (i) amending the Performance Fee to a rate of 25.0% of the growth in DPU for a financial year when compared with the then highest DPU achieved by CIT in the previous years for which a Performance Fee was payable under the revised fee formula (the “**High DPU Threshold**” ) multiplied by the weighted average number of Units in issue for such financial year;
- (ii) for the purpose of the calculation of the first Performance Fee payable under the revised Performance Fee formula, the High DPU Threshold will be initially set at 5.357 Singapore cents<sup>1</sup>, being the then highest DPU paid since 2009 (or if the DPU achieved during the Performance Fee Waiver period is higher than 5.357 Singapore cents, such higher DPU);
- (iii) in the event of corporate actions such as Unit consolidations and Unit splits undertaken by CIT, the High DPU Threshold will be adjusted accordingly to take into account such corporate actions;
- (iv) for the Performance Fee to be determined and paid after each financial year (as opposed to the existing Performance Fee formula, where the Performance Fee is determined and paid on a half-yearly basis); and
- (v) waiver of the Manager’s entitlement to Performance Fees for the financial years ending 31 December 2015 (“**FY2015**”) and 31 December 2016 (“**FY2016**” and the Performance Fee waiver, the “**Performance Fee Waiver**”).

The first Performance Fee under the revised Performance Fee formula will only be payable after the expiry of the Performance Fee Waiver period (i.e. from 1 January 2017 onwards) and provided that CIT achieves a DPU exceeding the High DPU Threshold (which will be initially set at 5.357 Singapore cents, being the then highest DPU paid since 2009 or if the DPU achieved during the Performance Fee Waiver period is higher than 5.357 Singapore cents, such higher DPU). Subsequently, the High DPU Threshold will be the then highest DPU achieved by CIT in the previous years for which a Performance Fee was payable under the

---

<sup>1</sup> 5.357 Singapore cents was the actual DPU paid to Unitholders for the financial year ending 31 December 2009 (“**FY2009**”). 100.0% of the operating income of CIT for FY2009 was distributed.

revised fee formula (i.e. the DPU for the relevant financial year in which a Performance Fee was last paid under the revised Performance fee formula).

The Excess Performance Entitlement (as defined in the Trust Deed) of approximately S\$7.67 million which has accrued to the Manager pursuant to the existing Performance Fee formula as at 31 March 2015 remains payable to the Manager and will be paid in the months of July 2015, January 2016, July 2016 and January 2017 and such payment will remain subject to the annual fee cap on the maximum fees to be paid to the Manager in respect of any financial year of an amount equal to 0.8% per annum of the value of the Deposited Property at the end of the financial year. The Manager estimates that such accrued Excess Performance Entitlement will be fully paid by 31 January 2017 and the Manager has elected to receive such payments in cash.

An illustration of the entitlement of the Manager to Performance Fees based on the revised Performance Fee formula and an assumed DPU is included in paragraph 2.3 of the Circular. We recommend that the Independent Directors advise the Unitholders to read this information carefully.

Further, solely for the purposes of determining the Manager's entitlement to Performance Fee under the revised Performance Fee formula, the DPU will be calculated based on the assumption that the Manager has distributed to Unitholders 100% of operating income of CIT, such as, but not limited to, rentals, interest, dividends, and other similar payments or income arising from the Authorised Investments of CIT, with adjustments for the election by the Manager to receive its management fees (including Performance Fees) for the relevant financial year in Units. We note that this is solely for purposes of calculating the DPU for determining the Manager's entitlement to Performance Fee under the revised Performance Fee formula. Actual distributions to Unitholders may or may not comprise 100% of CIT's operating income for the relevant financial year and this statement should in no way be construed as a representation or commitment by the Manager that it will distribute 100% of CIT's operating income for each financial year.

The calculation of the DPU will also exclude the distribution of any one-off income of CIT such as any income arising from any sale or disposal of (i) any Real Estate (whether directly or indirectly through one or more SPVs) or any part thereof, and/or (ii) any Investments forming part of the Deposited Property or any part thereof.

#### **4. THE PROPOSED PERFORMANCE FEE UNIT PRICING SUPPLEMENT TO THE TRUST DEED**

The Manager proposes to amend the formula for determining the issue price of Performance Fee Units such that the issue price of the Units to be issued is to be the greater of:

- (a) the VWAP for a Unit for all trades on the SGX-ST in the ordinary course of trading during the 10 Business Days preceding the last day of the relevant financial year (including the last day of the relevant financial year); and
- (b) the Current Unit Value<sup>2</sup>, at the end of the financial year.

---

<sup>2</sup> "Current Unit Value" (being effectively the net asset value ("NAV") of Deposited Property) refers to "At any time the Value of the Deposited Property, less the Liabilities". As such "the Current Unit Value divided by the number of Units" is effectively "net assets value per Unit".

Further, we note that the Proposed Performance Fee Unit Pricing will not apply to the Excess Performance Entitlement (as defined in the Trust Deed) of approximately S\$7.67 million which has accrued to the Manager pursuant to the existing Performance Fee formula as at 31 March 2015. The Manager has elected to receive such payments in cash.

An illustration of the issue price of Units under the existing issue price formula and the revised issue price formula is set out in paragraph 3.3 of the Circular. We recommend that the Independent Directors advise the Unitholders to read this information carefully.

Details of the Performance Fee Unit Pricing Supplement can be found in Appendix B of this Circular. We recommend that the Independent Directors advise the Unitholders to read this Appendix B carefully.

## 5. EVALUATION OF THE PROPOSED PERFORMANCE FEE SUPPLEMENT TO THE TRUST DEED

In reaching our recommendation in respect of the Proposed Performance Fee Supplement, we have given due consideration to the following factors:

- (1) Rationale and benefits of the Proposed Performance Fee Supplement;
- (2) Comparison with the basis of the performance fees payable by SGX-ST listed business space and industrial REITs;
- (3) Comparison with the basis of the performance fee payable by non-industrial sector-focused SGX-ST listed REITs and business trusts; and
- (4) Other relevant factors.

### 5.1 Rationale and benefits of the Proposed Performance Fee Supplement

The Manager's rationale for the Proposed Performance Fee Supplement is set out in paragraph 2.2.1 of the Circular, certain aspect of which reproduced below:

*"The Manager currently earns a Performance Fee if the total return (combining both capital performance of a Unit and its reinvested income) of the Trust Index<sup>3</sup> outperforms the total return of the Benchmark Index<sup>4</sup>, which currently comprises the nine largest REITs in Singapore. The Performance Fee is calculated in two tiers (Tier 1 and Tier 2) based on a fixed percentage of the outperformance multiplied by the equity market capitalisation of CIT and is currently paid on a half-yearly basis<sup>5</sup>"*

*"The Manager has received feedback from Unitholders that the existing formula for the calculation of the Performance Fee is complex, difficult to understand, not so transparent and open-ended such that there is no effective limit to the amount of fees that can be earned in any particular period. As such, the Manager is revising the Performance Fee formula to be easier to understand and more transparent. Furthermore, the way the Performance Fee has been calculated based on the existing Performance Fee formula has in the past resulted in*

---

<sup>3</sup> "Trust Index" means the performance tracking index for CIT, as calculated by FTSE International Limited or another index provider with similar capabilities, as appointed by the Manager, in consultation with the Trustee, for calculating the Benchmark Index (as defined herein).

<sup>4</sup> "Benchmark Index" means (a) a performance tracking index comprising all of the real estate investment trusts contained in the FTSE AllCap Singapore universe (but excluding CIT) provided by FTSE International Limited or another index provider with similar capabilities; or (b) such other index as may be chosen in accordance with the provisions of the Trust Deed.

<sup>5</sup> For the avoidance of doubt, the Excess Performance Entitlement (as defined in the Trust Deed) which has accrued to the Manager pursuant to the existing Performance Fee Formula as at 31 March 2015 remains payable to the Manager and will be paid in the months of July 2015, January 2016, July 2016 and January 2017.

the Manager being entitled to fees which exceeded what was reasonable. On those occasions, the Manager had then voluntarily reduced its Performance Fee<sup>6</sup> as well as subsequently reduced the Tier 2 Performance Fee rate<sup>7</sup> in favour of Unitholders.”

“Under the revised Performance Fee formula, the entitlement of the Manager to a Performance Fee would instead be tied to the growth in DPU of CIT and therefore be more reflective of CIT’s performance. Also, Performance Fees would only be payable provided that CIT exceeds the High DPU Threshold. The Manager is of the view that the revised Performance Fee formula better aligns the interests of the Manager with that of the Unitholders as compared to the existing Performance Fee formula and would address the concerns with and shortcomings of the existing Performance Fee formula.”

The Manager’s view of the benefits of the revised Performance Fee formula is set out in paragraph 2.2.2 of the Circular. We recommend that the Independent Directors advise the Unitholders to read this information carefully.

Further, we note that, the Manager will voluntarily waive its entitlement to any Performance Fee for FY2015 and FY2016. The Performance Fee waiver is in view of the substantial Performance Fees that were payable to the Manager under the existing Performance Fee formula which exceeded what was reasonable. The Manager considers that the Performance Fee Waiver period of 2 years is reasonable. The Performance Fee waiver is also a transitional arrangement to provide Unitholders with some time to adjust to the revised Performance Fee formula. Accordingly, the first Performance Fee under the revised Performance Fee formula will only be payable after the expiry of the Performance Fee Waiver period and provided that CIT has achieved a DPU exceeding 5.357 Singapore cents, being the then highest DPU paid since 2009, or if the DPU achieved during the Performance Fee Waiver period is higher than 5.357 Singapore cents, such higher DPU.

## 5.2 Comparison with the basis of the performance fee payable by SGX-ST listed business space and industrial REITs

We have considered publicly available information on the performance fee paid to managers of REITs that invest primarily in business space and industrial properties and that are listed in Singapore (the “**Comparable Industrial REITs**”) in order to compare the key commercial terms of the Performance Fee with the performance fee paid to the managers of the Comparable Industrial Property Trusts.

Name of the REIT	Date of Listing	Basis for Performance Fee	Performance fee formula
Viva Industrial Trust (“ <b>Viva Industrial</b> ”)	Nov 2013	DPU growth	25.0% of increase in DPU in a financial year over the preceding financial year (calculated before performance fee) multiplied by the weighted average number of Units in issue for such financial year.  No performance fee is payable if DPU in any financial year is equal to or less than the DPU in the preceding financial year.
Soilbuild Business Space REIT (“ <b>Soilbuild</b> ”)	Aug 2013		

<sup>6</sup> The Manager had on 7 July 2013 voluntarily elected to reduce the Performance Fee payable to the Manager for 1H2013 (as defined herein) by 50%. See announcement entitled “Performance Fee Payable to Cambridge Industrial Trust Management Limited dated 7 July 2013” for further details.

<sup>7</sup> The Manager had on 17 April 2014 unilaterally provided an irrevocable undertaking to the Trustee to reduce the Tier 2 Performance Fee rate from 15% to 5%. See announcement entitled “Unilateral Adjustment to Performance Fees in Favour of Unitholders” dated 17 April 2014 for further details.

Name of the REIT	Date of Listing	Basis for Performance Fee	Performance fee formula
Sabana Shariah Compliant Industrial REIT (“ <b>Sabana</b> ”)	Nov 2010	DPU growth	0.5% of NPI if DPU in a financial year is at least 10.0% over the DPU <sup>(1)</sup> in the preceding financial year (calculated after accounting for the performance fee (if any) for that financial year.
AIMS AMP Capital Industrial REIT (“ <b>AIMS AMP</b> ”)	Apr 2007		<ul style="list-style-type: none"> <li>0.1% of deposited property if DPU in a financial year exceeds DPU in the preceding financial year by more than 2.5% (calculated before performance fee); or</li> <li>0.2% of deposited property if DPU in a financial year exceeds DPU in the preceding financial year by more than 5.0% (calculated before performance fee).</li> </ul>
Ascendas REIT (“ <b>A-REIT</b> ”)	Nov 2002		For A-REIT, “deposited property” is defined as the deposited property less such value of the deposited property attributable to derivative assets and properties under development.
Keppel DC REIT	Dec 2014		3.5% per annum of NPI
Mapletree Industrial Trust	Oct 2010	Net property income (“ <b>NPI</b> ”)	3.6% per annum of NPI.
Cache Logistics Trust	Apr 2010		1.5% per annum of NPI.
Mapletree Logistics Trust	Jul 2005		3.6% per annum of NPI.
<b>Cambridge Industrial Trust (Proposed Performance Fee)</b>	<b>Jul 2006</b>	<b>DPU growth</b>	<b>25.0% of increase in DPU in a financial year over High DPU Threshold (calculated before performance fee) multiplied by the weighted average number of Units in issue for such financial year.</b>

Source: Annual reports and initial public offering documents of REITs.

Note:

1. The DPU in the previous financial year is calculated before accounting for the performance fee (if any) payable for that financial year.
  - (i) For five (5) of the nine (9) Comparable Industrial REITs, the performance fee paid to their manager is based on DPU growth. This is similar to the Performance Fee under the Proposed Performance Fee Supplement;
  - (ii) For the other Comparable Industrial REITs, the performance fee paid to their manager is a percentage of their net property income in the relevant financial year;
  - (iii) The revised Performance Fee formula (being 25% of the increase in DPU) is similar to that adopted by Viva Industrial and Soilbuild;
  - (iv) The exclusion of one-off income such as any income arising from any sale or disposal of real estate (whether held directly or indirectly) or any part thereof in computing the DPU as proposed under the Proposed Performance Fee Supplement is inline with the DPU computation formula adopted by Viva Industrial and Soilbuild; and

- (v) While AIMS AMP, A-REIT and Sabana pay their manager a performance fee based on DPU growth, they use different benchmarks and percentages and so, for that reason, are not directly comparable.

We note the Proposed Performance Fee Supplement incorporates a feature which means that performance fees are only payable in the event of DPU rising above the High DPU Threshold. The High DPU Threshold has been set as CIT's FY2009 DPU from the outset and can only ratchet upwards. Further, we note that none of the Comparable Industrial REITs that pay a performance fee based on DPU growth include such a feature; rather they pay performance fees on the year-to-year changes in DPU. In that regard, the Proposed Performance Fee Supplement sets a higher bar for the Manager for a performance fee to be paid. Further, we note that the following assumptions will be made in computing the DPU for the purpose of the proposed Performance Fee:

- (i) the Manager's fees (base and performance) will be treated as all being payable in cash; and
- (ii) a distribution equivalent to 100% of the taxable income.

This approach facilitates a like-for-like comparison in computing the DPU growth for the Performance Fee calculations.

### 5.3 Comparison with the basis of the performance fee payable by non-industrial sector focused SGX-ST listed REITs and business trusts

We have considered publicly available information on the performance fee paid to managers of 27 REITs and business trusts that are listed in Singapore other than the Comparable Industrial REITs (the "**Non-Industrial Singapore Listed Trusts**") in order to compare the key commercial terms of the Performance Fee with the performance fee paid to the managers of the Non-Industrial Singapore Listed Trusts.

For 22 of the 27 Non-Industrial Singapore Listed Trusts, the performance fee paid to their manager is a percentage of either net property income or gross/net profits or gross revenues for the relevant financial year.

For the other Non-Industrial Singapore Listed Trusts, the performance fee paid to their manager is based on either DPU growth or distributable income or total return. Details of these 5 Non-Industrial Singapore Listed Trusts is set out in the table below.

Name of the REIT	Date of Listing	Basis for Performance Fee	Performance fee formula
IREIT Global (" <b>I-REIT</b> ")	Aug 2014	DPU growth	25.0% of increase in DPU in a financial year over the preceding financial year (calculated before performance fee) multiplied by the weighted average number of Units in issue for such financial year.
OUE Commercial REIT (" <b>OUEC REIT</b> ")	Jan 2014		
Mapletree Greater China Commercial Trust (" <b>MGCC Trust</b> ")	Mar 2013		
Frasers Hospitality Trust (" <b>FHT</b> ")	Jul 2014	Distributable income	5.5% of distributable income



Name of the REIT	Date of Listing	Basis for Performance Fee	Performance fee formula
Starhill Global	Sep 2005	Total return	Tier 1: 5.0% of the amount by which the accumulated return of the Trust Index exceeds the accumulated return of the Benchmark Index, multiplied by the equity market capitalisation of the Trust. Tier 2: 15.0% of the amount by which the accumulated return of the Trust Index is in excess of 2.0% per annum above the accumulated return of the Benchmark Index, multiplied by the equity market capitalisation of the Trust.
Cambridge Industrial Trust	Jul 2006	DPU growth	<b>25.0% of increase in DPU in a financial year over High DPU Threshold (calculated before performance fee) multiplied by the weighted average number of Units in issue for such financial year.</b>

Source: Annual reports and initial public offering documents of REITs and business trusts.

Based on table in the previous page, we note the following:

- (i) The proposed Performance Fee formula is similar to the performance fee formula for I-REIT, OUEC REIT and MGCC Trust; and
- (ii) For FHT, the performance fee paid to its manager is a percentage of its distributable income whereas for Starhill Global the performance fee paid to its manager is along the same lines as that which is presently in place for CIT.

We note that the Proposed Performance Fee Supplement incorporates a feature which means that performance fees are only payable in the event of DPU rising above the High DPU Threshold. The High DPU Threshold has been set as CIT's FY2009 DPU from the outset and can only ratchet upwards. Further, we note that none of the Non-Industrial Singapore Listed Trusts that pay a performance fee based on DPU growth include such a feature; rather they pay performance fees on the year-to-year changes in DPU. In that regard, the Proposed Performance Fee Supplement sets a higher bar for the Manager for a performance fee to be paid.

## 5.4 Other Relevant Factors

### 5.4.1 The Performance Fee Waiver

As noted in paragraph 5.1 of this letter, the Manager has agreed to waive its entitlement to Performance Fees for FY2015 and FY2016. The Manager considers that the Performance Fee Waiver period of 2 years is reasonable. There is, to the best of our knowledge, no precedent for a waiver in such a circumstance in Singapore.

#### **5.4.2 The First DPU Threshold**

The Manager has agreed that the first Performance Fee under the revised Performance Fee formula will only be payable upon the later of:

- (a) the end of the Performance Fee Waiver period; or
- (b) CIT achieving a DPU of at least 5.357 Singapore cents, being the highest DPU paid in the past six years

(i.e.) a Performance Fee may only be payable in respect of FY2017 if the DPU for that year is in excess of 5.357 Singapore cents and this amount is in excess of the DPU for FY2015 and FY2016.

There is, to the best of our knowledge, no precedent for an initial DPU threshold in Singapore. We note that such a requirement is to the benefit of the Unitholders.

#### **5.4.3 Reset of DPU threshold for payment of Performance Fee**

The Proposed Performance Fee Supplement requires CIT to achieve a DPU above the High DPU Threshold (i.e. the actual DPU for any financial year must also exceed the last DPU where Performance Fee was payable to the Manager) in order for the Manager to be entitled to any Performance Fee in that financial year. This in-turn creates a higher DPU threshold for the Manager to be entitled to any Performance Fee.

There is, to the best of our knowledge, no precedent for such a DPU threshold reset in Singapore. We note that such a threshold reset is to the benefit of the Unitholders.

### **6. EVALUATION OF THE PROPOSED PERFORMANCE FEE UNIT PRICING SUPPLEMENT**

In reaching our recommendation in respect of the Proposed Performance Fee Unit Pricing Supplement, we have given due consideration to the following factors:

- (1) Rationale and benefits of the Proposed Performance Fee Supplement; and
- (2) Comparison with the performance fee Unit pricing adopted by other SGX-ST listed REITs and business trusts.

#### **6.1 Rationale and benefits of the Proposed Performance Fee Unit Pricing Supplement**

The Manager's rationale for the Proposed Performance Fee Unit Pricing Supplement is set out in paragraph 3.2.1 of the Circular, which has been reproduced below:

*"While the Manager currently has the discretion to elect to receive the Performance Fee in cash or Units, or a combination of both, the Manager has to date not elected to receive its Performance Fee in the form as Units. This is because the Trust Deed currently requires that any Units issued to the Manager in payment of a Performance Fee be priced based on the greater of:*

- (a) the VWAP for a Unit for all trades on the SGX-ST in the ordinary course of trading during the five Business Days preceding the last day of the relevant half year (including the last day of the relevant half year) and the VWAP for a Unit for all trades on the SGX-ST in the ordinary course of trading during the five Business Days after the last day of the relevant half year (ten Business Days in total); and*
- (b) the per unit value of the Deposited Property.*

*As the per unit value of the Deposited Property (being the gross value of the Deposited Property per Unit, the "Gross Asset Value per Unit") will usually be higher than the VWAP per*

*Unit particularly as CIT has borrowings, this effectively means the issue price of the Performance Fee Units would be the Gross Asset Value per Unit which the Manager believes does not provide a fair reflection of the market price of the Units.”*

The Manager's view of the benefits of the revised Performance Fee Unit Pricing is set out in paragraph 3.2.2 of the Circular. We recommend that the Independent Directors advise the Unitholders to read this information carefully.

## **6.2 Comparison with the performance fee Unit pricing adopted by other SGX-ST listed REITs and business trusts**

We have considered publicly available information on the performance fee Unit pricing of SGX-ST listed REITs and business trusts in order to compare the key commercial terms of the Performance Fee Unit Pricing with the performance fee Unit pricing of the SGX-ST listed REITs and business trusts.

Based on the benchmarking described above, we note the following:

- (i) For 29 of the 36 SGX-ST listed REITs and business trusts, the performance fee unit pricing is based on the 10 Business Days volume-weighted average price (“**VWAP**”) of the units preceding the last day of relevant financial period. This is similar to the Performance Fee Unit Pricing under the Proposed Performance Fee Unit Pricing Supplement;
- (ii) For 6 of the 36 SGX-ST listed REITs and business trusts, the performance fee unit pricing is based upon either the 10 Business Days VWAP preceding the date of issue of new units or the 5 Business Days VWAP preceding the date of issue of new units or the closing prior on the date prior to the issue of the new units;
- (iii) The performance fee unit pricing for Starhill Global is based on the greater of VWAP during the five Business Days preceding the last day of the relevant half year (including the last day of the relevant half year) and the five Business Days after the last day of the relevant half year (10 Business Days in total), and the value of trust property per Unit at the end of the half year and is similar to the existing performance fee unit pricing for CIT; and
- (iv) None of the 35 SGX-ST listed REIT or business trust referred to in point (i) and (ii) have the condition of the greater of VWAP during 10 Business Days VWAP preceding the last day of relevant financial year and the Current Unit Value (i.e. NAV per unit). This is to the benefit of the Unitholders.

## **7. OUR RECOMMENDATIONS**

In arriving at our recommendations, we have taken into account the factors which we consider have a significant bearing on our assessment of the Proposed Trust Deed Supplements including:

In respect of the Proposed Performance Fee Supplement:

- 1. The rationale and benefits of the Proposed Performance Fee Supplement;
- 2. 8 of the other 36 SGX-ST listed REITs and business trusts have adopted year-on-year DPU growth as a basis for calculation of their manager's performance fee;
- 3. 5 out of the 10 REITs and business trusts listed on SGX-ST in 2013 and 2014 have adopted year-on-year DPU growth as a basis for calculation of their manager's performance fee;
- 4. 5 out of the 9 Comparable Industrial REITs have adopted the year-on-year DPU growth as a basis for calculation of their manager's performance fee;

5. 2 out of the 3 Comparable Industrial REITs listed in 2013 and 2014 have adopted year-on-year DPU growth as a basis for calculation of their manager's performance fee;
6. 5 out of 8 of the SGX-ST listed REITs and business trusts that have adopted the year-on-year DPU growth basis pay performance fees equivalent to 25% of annual DPU growth, which is similar to the Performance Fee under the Proposed Performance Fee Supplement;
7. The proposed Performance Fee incorporates a feature which means that the Performance Fee are payable only in the event of the DPU rising above the High DPU Threshold. The High DPU Threshold has been set as CIT's FY2009 DPU from the outset and can only ratchet upwards. We note that none of the Comparable Industrial REITs that pay a performance fee based on DPU growth include such a feature. In that regard, the Proposed Performance Fee Supplement sets a higher bar for the Manager for a performance fee to be paid;
8. In computing the DPU for the proposed Performance Fee, the Manager's fees (base and performance) will be treated as all being payable in cash and a distribution equivalent to 100% of the taxable income. This approach facilitates a like-for-like basis for comparison in computing the DPU growth;
9. The Manager has agreed to waive its entitlement to Performance Fees for FY2015 and FY2016, a two-year period that the Manager considers is reasonable and, which to the best of our knowledge and under similar circumstances, has no precedent in Singapore;
10. The Manager has agreed that a Performance Fee may only be payable in respect of FY2017 if the DPU for that year is in excess of 5.357 Singapore cents and this amount is in excess of the DPU for FY2015 and FY2016. There is, to the best of our knowledge, no precedent for an initial DPU threshold in Singapore. Such a requirement is to the benefit of the Unitholders; and
11. The Proposed Performance Fee Supplement requires CIT to achieve a DPU above the High DPU Threshold. There is, to the best of our knowledge, no precedent for such a DPU threshold reset in Singapore. Such a threshold reset is to the benefit of the Unitholders.

In respect of the Proposed Performance Fee Unit Pricing Supplement:

1. The rationale and benefits of the Proposed Performance Fee Unit Pricing Supplement;
2. For 29 of the other 36 SGX-ST listed REITs and business trusts, the performance fee unit pricing is based on the 10 Business Days VWAP of the units preceding the last day of relevant financial period;
3. For 6 of the other 36 SGX-ST listed REITs and business trusts, the performance fee unit pricing is based upon either the 10 Business Days VWAP preceding the date of issue of new units or the 5 Business Days VWAP preceding the date of issue of new units or the closing prior on the date prior to the issue of the new units; and
4. None of the 35 SGX-ST listed REIT or business trust referred to in point (2) and (3) have the condition of the greater of VWAP during 10 Business Days VWAP preceding the last day of relevant financial year and the Current Unit Value (i.e. NAV per unit). This is to the advantage of the Unitholders.

Having considered the above and subject to the assumptions and qualifications set out herein and taking into account the prevailing conditions as at the Latest Practicable Date, we are of

the opinion that: (i) the Proposed Performance Fee Supplement to the Trust Deed; and (ii) the proposed Performance Fee Unit Pricing Supplement to the Trust Deed are on normal commercial terms and will not be prejudicial to CIT and its minority Unitholders who are not interested persons. Accordingly, we advise that the Independent Directors recommend that the Unitholders vote in favour of the Proposed Trust Deed Supplements.

Our recommendations are addressed to the Independent Directors and the Trustee for their benefit, in connection with and for the purposes of their consideration of the Proposed Trust Deed Supplements. Any recommendations made by the Independent Directors in respect of the Proposed Trust Deed Supplements shall remain their responsibility.

Our recommendations are governed by the laws of Singapore and are strictly limited to the matters stated herein and does not apply by implication to any other matter.

Yours faithfully

**Deloitte & Touche Corporate Finance Pte Ltd**

Jeff Pirie

Executive Director