

**QUARZ CAPITAL ISSUES OPEN LETTER TO THE UNITHOLDERS, MANAGEMENT AND BOARD OF SABANA REIT (SGX: M1GU)**

ALL RECIPIENTS ARE ADVISED TO READ  
"IMPORTANT DISCLOSURE INFORMATION"  
AT THE END OF THE ATTACHED LETTER

**VOTING FOR Resolutions 1 and 2 to Implement Clear Internalization Process is Projected to Substantially increase DPU, Unit Price and Corporate Governance for All Unitholders**

VISIT AND REGISTER AT [WWW.SAVESABANAREIT.COM](http://WWW.SAVESABANAREIT.COM) FOR MORE INFORMATION

Thursday, 27 July 2023

Dear Unitholders, Mr. Han and Members of the Board of Sabana External REIT Manager,

We appreciate that the Singapore Court has entirely dismissed ESR's injunction to stop the EGM. The High Court called ESR's case "misconceived", "without merits" and ordered ESR to pay costs to both Quarz Capital and Sabana External Manager. This is after it had also dismissed ESR's earlier interim injunction.

The Court also confirmed that the removal of the manager by a simple majority is a fundamental right of unitholders in Singapore.

It confirmed further that directing the Trustee to set up a new Internal Manager which will be fully owned and aligned with all unitholders, as requisitioned, is in fact a simple majority vote. The Trustee meanwhile has stated that it will immediately execute on setting up the new Internal Manager once Resolution 2 is passed. The Court has also confirmed that the trustee has the discretion and power to find and select a replacement manager. The Court's ruling has confirmed that the process of internalization is entirely executable with strong legal and regulatory frameworks to safeguard unitholders.

We highly recommend unitholders to directly refer to the Court papers instead of listening to opinions of parties which are potentially conflicted. In particular, we strongly reject ESR's claim in paragraph 10 of its letter dated 21 July 2023 that the resolutions are not meant for the immediate implementation of internalization. The resolutions as tabled provide an unequivocal mandate for the Trustee to execute the internalization.

The necessity of any additional resolution, which remains uncertain, hinges on the course of action the Trustee chooses to undertake. The majority requirements for any potential resolution and whether ESR is entitled to vote on any such resolution as an interested party that would lose its fee income from its External Manager once the internalization is completed, remains to be seen.

**Quarz invite all unitholders to its webinar on Monday 31st of July 2023 at 7.30pm**

Link to webinar: <https://us02web.zoom.us/j/88970799227>

(Meeting ID 889 7079 9227)

Join Telegram Group: <https://t.me/savesabanareit> for more updates and information.

YouTube link to video: <https://youtu.be/ASC7VqiAo6s>

Please contact us: +65 8684 6968 for any assistance.

**External Manager will only be removed when the new Internal Manager is fully setup, licensed and ready to take over**

If Resolutions 1 and 2 are passed, there will be no vacancy in the management of Sabana REIT.

This is as the Trustee has confirmed that it will only remove the External Manager once the Internal Manager is fully set up, licensed and ready to takeover. The External Manager has also confirmed that it will fully adhere to the Trustee's instructions.

Sabana’s Trust Deed does not provide for Sabana Real Estate Investment Management Pte Ltd (“Sabana External Manager”, “External Manager”, or “Sabana Manager”) to “resign” unless approved by MAS or the Trustee. The External Manager is also bound by the Securities and Futures Act, Code on Collective Investment Schemes, the Trust Deed as well as other contractual obligations. If Sabana External Manager fails to fulfil their obligations, potential legal and regulatory actions might be taken against the manager and its directors.

MAS has specifically put in place a comprehensive regulatory framework to ensure stability, continuity, and protection to safeguard unitholders in the removal of manager and internalization process.

**In the 21-year S-REIT history, banks have consistently extended support in cases of REIT manager and/or manager ownership changes– Bank loans are strongly backed by Sabana’s ~S\$900 million All-Singapore portfolio**

Sabana’s leverage at ~32.5% is one of the lowest among SGX-listed REITs. It takes Sabana less than 6 years to fully pay off its entire loans due to the strong recurring net property income.

**Sabana REIT has the 6th Lowest Leverage Among SGX-listed REITs**

SGX REITs with Lowest Leverage				SGX REITs with Highest Leverage			
Rank	Name	Leverage (%)	Fixed Rate Debt	Rank	Name	Leverage (%)	Fixed Rate Debt
1	Sasseur REIT	25.7	77.2	33	Mapletree PanAsia Trust	40.9	75.5
2	Fraser Log Trust	27.8	76.2	34	CapLand Int Trust	40.9	77.0
3	Paragon REIT	29.8	84.0	35	ESR Logos REIT	41.6	72.7
4	Far East Hosp Trust	32.0	47.3	36	Suntec REIT	42.8	72.0
5	IREIT Global	32.3	96.9	37	Lippo Malls	42.9	38.7
6	Sabana REIT	32.5	82.2	38	Prime US REIT	43.7	79.0
7	Digital Core	34.4	74.0	39	Elite Comm REIT	46.6	68.0
8	Fraser Hospitality Trust	35.2	86.5	40	Manulife US REIT	49.5	80.2

*\*Leverage in 1Q2023 (2Q2023 for Sabana REIT)*

The External Manager has a mere S\$5.3million of equity<sup>1</sup> while Sabana REIT has a ~S\$900 million<sup>2</sup> All-Singapore property portfolio. It is therefore ‘absurd’ for the External Manager to claim that the bank loans are determined by the External manager when it’s clear that it is Sabana’s property portfolio owned by all unitholders which is really backing the loans.

Throughout the 21-year S-REIT’s history, the banks have consistently extended their support to new REIT manager and/or manager ownership changes in the more than 10 change of control situations. This is as the loans are fully backed by the REIT’s property portfolios. MAS also takes prudent measures to ensure that the leverage levels of REITs are below 50% to facilitate such changes if necessary.

**Snapshot of Change of Control of REIT Managers**

REIT	Date	Change of Control of REIT Manager
IREIT	Apr-20	Purchase of 50% of Manager by Tikehau and City Development
Sabana REIT	Jun-19	Purchase of 51% of Manager by ESR Group
IREIT	Apr-19	Purchase of 50% of Manager by Tikehau and City Development
First REIT	Sep-18	Purchase of Manager by OUE and OUE Lippo Healthcare
Viva Industrial Trust	May-18	Purchase of manager by ESR Group
Cambridge REIT	Jan-17	Purchase of manager by ESR Group
Croesus Retail Trust	Jun-16	Internalisation of Manager of Croesus
Starhill Global REIT	May-10	Purchase of 75% of Manager by YTL
Macarthurcook Ind REIT	Dec-09	Purchase of 50% interest in Manager by AMP Capital

<sup>1</sup> Sabana Real Estate Investment Management Pte Ltd 2021 Financials

<sup>2</sup> Sabana Industrial REIT 1H2023 Financials

In fact, the new Internal Manager, once appointed, will have even stronger credibility and mandate as it will be backed by all unitholders, including significant institutional investors and individual unitholders. The sponsor itself will also indirectly own 20.6% of the new Internal manager as a unitholder of Sabana REIT.

We are highly confident that the banks will support the more than 10,000 unitholders whom many are also Singaporeans and their customers as well, the long-term relationship with Sabana REIT, as well as better corporate governance vs a manager which has been removed by its unitholders.

REITs are evergreen investment vehicles and some of the best clients for the banks as they pay interest to the banks forever. Sabana pays more than S\$11 million of interest per year. We believe that Sabana's bankers would hate to lose a good client such as Sabana REIT to their more than 15 other competing banks.

Please allow us a short analogy:

A property owner purchased a S\$1million property and paid for most of it in cash, with only a small loan of \$325,000 remaining. He hires a manager to take care of the property (leasing, maintenance, periodic refinancing of the loan).

However due to the bad performance of the manager, the owner decides to fire the manager and to manage the property on its own. The manager, in a bid to prevent itself from being fired, comes up with 'scare tactics' and the 'absurd claim' that if he was fired, the bank would recall its loan and the property might need to be force sold.

This manager's claims are clearly absurd, false and misleading. It is completely clear that the loan is backed by the owner's property and not the manager.

**Projected Cost of setting up Internal Manager can potentially be covered by just 2 years of cost savings from internalization – Unitholders enjoy permanent cost savings and might not have to pay any acquisition, divestment and management fees indefinitely.**

With more than 50 REIT managers and 1000 CMS fund management licenses being set up and approved by MAS, it is very clear that there is more than sufficient expertise in Singapore to support the Trustee in setting up a new Internal Manager.

The operating profit of Sabana External Manager is ~S\$1.9 million in 2021 (including S\$400,000 from its wholly owned property management company). Through appropriate adjustment of the salaries and fees of the directors and CEO, who currently receive some of the highest compensation among S-REITs (up to S\$750,000 for the CEO and S\$150,000 for the Chairman) when adjusted for market capitalization and portfolio size, we are highly confident that the projected cost savings of S\$2.4million can be achieved.

The projected cost savings which will potentially increase DPU by more than 7%, will now be fully and permanently enjoyed by unitholders.

Given that the projected cost of setting up the new Internal Manager is around S\$3-5million, it will potentially take less than 2 years of cost savings to fully pay for the new Internal Manager. Post this, unitholders will never have to pay any acquisition, divestment, or management fees again.

The potential cost savings would become even more significant if Sabana were to grow its portfolio by just 50% over the next 10 years. By not having to pay acquisition, divestment and incremental management fees, the internalization would potentially result in more than S\$40 million of cost savings for unitholders.

However, the true cost savings for unitholders is the complete alignment of interest of the internal manager. This ensures that no unitholders' monies will be wasted in potentially value destructive acquisitions done to boost acquisition, performance and management fees to the External Manager.

### **Expedited setup of New Internal Manager to take over management of Sabana REIT**

Resolution 2 also directs the Trustee to consider the retention of Sabana REIT's existing staff. Unitholders invite all existing staff who want to increase unitholder value at Sabana REIT to join the new Internal Manager. This is as the External Manager will most probably terminate most of its employees once it is removed by the Trustee when the new Internal manager takes over as 100% of its revenue and profits are from Sabana REIT and its unitholders.

All REITs in Singapore already have the required personnels to fulfill MAS regulations. In fact, a number of REITs have duplicity of senior management positions such as Co- or deputy CEOs and CFOs due to mergers. The ongoing consolidation in the S-REIT market with more than 10 mergers over the last 7 years has also resulted in a substantial number of qualified personnels available in the market with strong and substantial REIT expertise. Singapore is the 3<sup>rd</sup> largest listed REIT market in Asia Pacific and is also an international financial center with a ready and deep talent pool of highly qualified professionals.

As such, we are highly confident that the new Internal REIT manager will be able to attract highly skilled professionals to work in the best interest of all unitholders.

In fact, Quarz has already received multiple strong interest from highly qualified REIT professionals such as ex-CEOs and CFOs of S-REITs who are interested in working for the new Internal Manager. We intend to share the details of these high caliber professionals with the Trustee.

### **Strong support for the Trustee in setting up the new Internal Manager with best-in-class corporate governance and incentive structure to increase unitholder value**

Quarz is fully committed and prepared to support the Trustee in establishing the new Internal Manager, which will be wholly owned by all unitholders. Upon the passage of the two resolutions, we will move swiftly to collaborate with all Sabana unitholders who wish to support this internalization process.

In this endeavor, we will engage with Sabana's bankers, MAS, SGX RegCo, and corporate governance experts. Our aim is to ensure that the Trustee is well supported in creating the new Internal Manager, with best-in-class corporate governance practices, systems, and incentive structures in place to maximize benefits for all Sabana unitholders.

In light of the significant positive impact that Sabana REIT's internalization could have on improving corporate governance, enhancing investor protection, and increasing the accountability of REIT managers, unitholders seek the support of MAS in expediting the licensing of the new Internal Manager.

With the backing of unitholders, MAS, other key stakeholders and our strong commitment to support this process, we believe that the entire internalization process could potentially be streamlined to approximately six months.

### **Sabana External Manager 'scare tactics' and 'empty threats' is a repeat from the 2020 merger**

The potentially false and 'dire picture' which Sabana External Manager is alleging reminds unitholders of how the manager had also actively recommended unitholders to accept the value destructive merger offer from ESR Logos REIT.

The Manager, in actively recommending the merger, had said that, "*Sabana faced challenges such as (a) Limited financing resources to fund growth (b) Higher cost of funds due to higher credit and portfolio risk (c) Lower development limit to undertake more frequent and larger AEs to rejuvenate the portfolio (d) Higher vacancy rate and financial impact from loss of revenue due to downtime from AEs and/or redevelopments*", "*sub-scale*", and "*challenging environment*". The Manager also said that Sabana REIT will face "*more difficulties and constraints*"

Today, the unit price of Sabana REIT is significantly higher than ESR Logos REIT. The manager had then recommended unitholders to exchange 1 Sabana unit for only 0.94x ESR Logos REIT unit.

If unitholders had followed Sabana External Manager's recommendation and exchanged their units for ESR Logos REIT units, their units would only be worth S\$0.324 now. This would have resulted in the substantial destructive of unitholders' investment as the price is more than ~20% lower below Sabana REIT's current price of S\$0.415.

As clearly stated in the EGM circular, "Unitholders should note that as the Manager is the subject of Resolution 1 and Resolution 2, the Directors of the Manager may be affected by the outcome of the Resolutions as the passing of the Resolutions could result in the removal of the Manager, which may then result in the cessation of their appointments as Directors of the Manager"

If the External Manager is truly worried about the stability of Sabana REIT and unitholders, it can offer the External Manager to be given for free to unitholders as the Internal Manager once unitholders pass the resolutions 1 and 2. This is as the External Manager will probably be worth zero once it is removed by the Trustee when the new Internal Manager is ready to take over. This is as all of its revenue is derived from unitholders and Sabana REIT.

By gifting the External manager to be the new Internal Manager which will be owned by and fully aligned with all unitholders, this will immediately solve all the 'potential issues' that the External Manager is highlighting.

The fact that it chooses not to do that demonstrates that the manager potentially might be more concerned with its own interest and benefits instead of unitholders.

### **Main goal of the new Internal Manager is to increase DPU and Unit price above S\$0.53 (NAV)**

The new Internal Manager will work for the benefit of all unitholders by promptly executing on the following key strategies to potentially increase DPU and unit price by ~30% to more than ~S\$0.55 (potential dividend yield of >9.5% at current price):

1. Immediate cost savings of ~S\$2.4<sup>3</sup> million per year through the internalization of the REIT manager (Additional DPU of S\$0.0022 with upside of ~7.2%);
2. Complete the asset enhancement of 1 Tuas Ave 4 and rent out ~90% of the asset at net rent of at least S\$1.45psf/month (Additional DPU of S\$0.0017 with upside of ~5.4%);
3. Increase occupancy rate at NTP+ to ~92% by capitalizing on excellent location (next to MRT) and innovative space usage e.g., subdividing space to increase rentability to technology (software development, electronics) and E-Commerce clients (Additional DPU of S\$0.0030<sup>4</sup> with upside of ~10%); and
4. Undertaking S\$~85m of acquisitions with yield of ~7.2% fully funded by debt (Additional DPU S\$0.002 with upside of ~6.7%).

In addition, the Internal Manager can execute on other attractive and executable mid-term strategies which can potentially further drive Sabana REIT's unit price beyond S\$0.55, such as:

5. Develop ~200,000 square feet of new space at NTP+ (Additional DPU of S\$0.0048<sup>5</sup> with upside of ~15.7%); and

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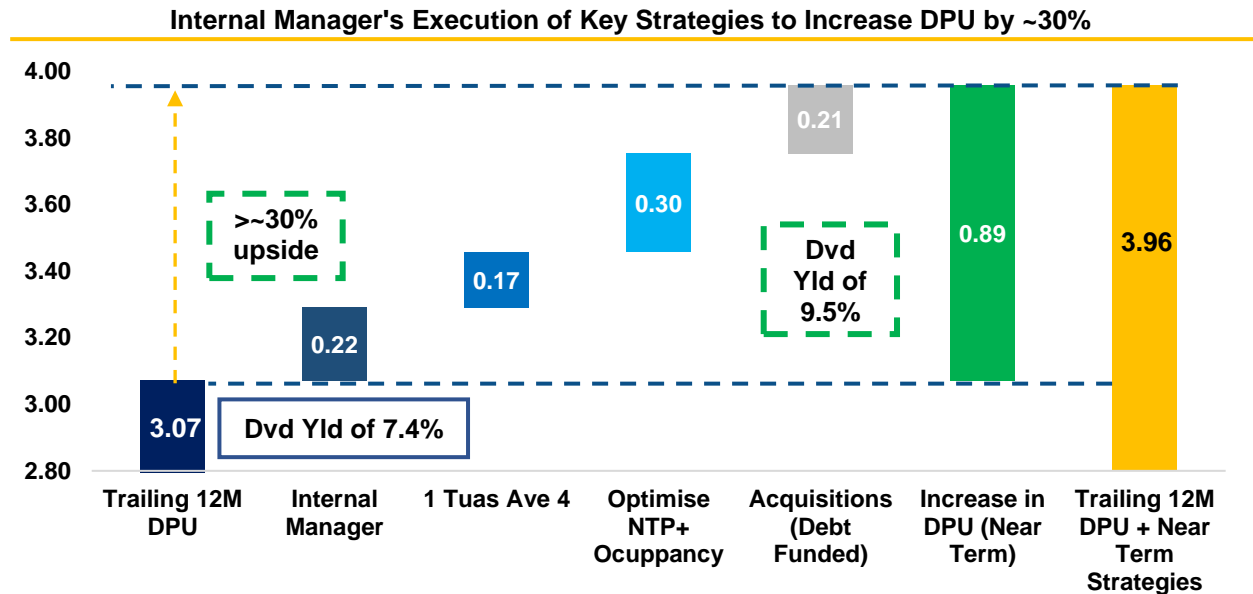
<sup>3</sup> Assume Internal manager's cost structure is equivalent to External Manager with Operating Profit Margin of ~55% (Average Operating Profit Margin of ~64% achieved by comparable External Managers)

<sup>4</sup> Assume net rent of at least ~S\$3.3/psf/month

<sup>5</sup> Assume construction cost of ~\$300psf and net rent of at least ~\$3.5psf/month with occupancy rate of ~90%

- Develop more than 1 million square feet of untapped GFA/landbank with focus on sizeable key assets such as 33&35 Penjurong Lane, 26 Loyang Drive which can be transformed into New Economy ramp up logistic hubs or data centres (Additional DPU of S\$0.0039<sup>6</sup> with upside of ~12.9%).

The Internal Manager's complete execution of all the above catalysts in the short and mid-term can deliver a potential total DPU upside of almost ~60% to S\$0.0483 (potential dividend yield of ~11.6%).



Similar to the merger vote in 2020, we urge unitholders to stand firm and not to be intimidated by the Sabana External Manager's 'empty threats'. Quarz Capital is committed to supporting the Trustee in the execution of the resolutions. We intend to work with all unitholders who support internalization, Sabana's bankers, MAS, SGX RegCo as well as other corporate governance experts to assist the Trustee in the formation of the new Internal Manager to ensure swift implementation.

Both the legal and regulatory framework provide for strong safeguards and protection of unitholders' interest in the entire process.

**By removing the current External Manager and appointing an Internal Manager, unitholders will finally benefit from a "win-win" solution which potentially results in higher DPU, unit price and better corporate governance.**

**Quarz invite all unitholders to its webinar on Monday 31<sup>st</sup> of July 2023 at 7.30pm**  
 Link to webinar: <https://us02web.zoom.us/j/88970799227>  
 (Meeting ID 889 7079 9227)  
 Join Telegram Group: <https://t.me/savesabanareit> for more updates and information.  
 YouTube link to video: <https://youtu.be/ASC7VqiAo6>  
 Please contact us: +65 8684 6968 for any assistance.

**VOTE FOR THE REMOVAL OF THE CURRENT EXTERNAL MANAGER**

**VOTE FOR THE SETUP OF A NEW INTERNAL MANAGER THAT IS ALIGNED WITH ALL UNITHOLDERS' INTERESTS TO INCREASE DPU, UNIT PRICE AND CORPORATE GOVERNANCE**

VISIT AND REGISTER AT [WWW.SAVESABANAREIT.COM](http://WWW.SAVESABANAREIT.COM) FOR MORE INFORMATION

Sincerely yours,

<sup>6</sup> Assume construction cost of ~\$180psf and net rent of at least ~\$1.4psf/month with occupancy rate of ~90%



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**For further information, please contact:**  
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**IMPORTANT DISCLOSURE INFORMATION  
SPECIAL NOTE REGARDING THIS LETTER**

THIS LETTER CONTAINS OUR CURRENT VIEWS ON THE VALUE OF SABANA REIT'S (SSREIT SP EQUITY) SECURITIES AND ACTION THAT SABANA REIT'S BOARD MAY TAKE TO ENHANCE THE VALUE OF SABANA REIT'S SECURITIES. OUR VIEWS ARE BASED ON OUR ANALYSIS OF PUBLICLY AVAILABLE INFORMATION AND ASSUMPTIONS WE BELIEVE TO BE REASONABLE. THERE CAN BE NO ASSURANCE THAT THE INFORMATION WE CONSIDERED IS ACCURATE OR COMPLETE, NOR CAN THERE BE ANY ASSURANCE THAT OUR ASSUMPTIONS ARE CORRECT. SABANA REIT'S ACTUAL PERFORMANCE AND RESULTS MAY DIFFER MATERIALLY FROM OUR ASSUMPTIONS AND ANALYSIS. WE HAVE NOT SOUGHT, NOR HAVE WE RECEIVED, PERMISSION FROM ANY THIRD-PARTY TO INCLUDE THEIR INFORMATION IN THIS LETTER. ANY SUCH INFORMATION SHOULD NOT BE VIEWED AS INDICATING THE SUPPORT OF SUCH THIRD PARTY FOR THE VIEWS EXPRESSED HEREIN. WE DO NOT RECOMMEND OR ADVISE, NOR DO WE INTEND TO RECOMMEND OR ADVISE, ANY PERSON TO PURCHASE OR SELL SECURITIES AND NO ONE SHOULD RELY ON THIS LETTER OR ANY ASPECT OF THIS LETTER TO PURCHASE OR SELL SECURITIES OR CONSIDER PURCHASING OR SELLING SECURITIES. NOTHING HEREIN SHALL CONSTITUTE OR BE REGARDED AS INVESTMENT ADVICE. ALTHOUGH WE STATE IN THIS LETTER WHAT WE BELIEVE SHOULD BE THE VALUE OF SABANA REIT'S SECURITIES, THIS LETTER DOES NOT PURPORT TO BE, NOR SHOULD IT BE READ, AS AN EXPRESSION OF ANY PROJECTION, FORECAST OR PREDICTION AS TO THE PRICE AT WHICH SABANA REIT'S SECURITIES MAY TRADE OR MAY BE LIKELY TO TRADE AT ANY TIME. AS NOTED, THIS LETTER EXPRESSES OUR CURRENT VIEWS ON SABANA REIT. IT ALSO DISCLOSES OUR CURRENT HOLDINGS OF SABANA REIT SECURITIES. OUR VIEWS AND OUR HOLDINGS COULD CHANGE AT ANY TIME. WE MAY SELL ANY OR ALL OF OUR HOLDINGS OR INCREASE OUR HOLDINGS BY PURCHASING ADDITIONAL SECURITIES. WE MAY TAKE ANY OF THESE OR OTHER ACTIONS REGARDING SABANA REIT WITHOUT UPDATING THIS LETTER OR PROVIDING ANY NOTICE WHATSOEVER OF ANY SUCH CHANGES. INVESTORS SHOULD MAKE THEIR OWN DECISIONS REGARDING SABANA REIT AND ITS PROSPECTS WITHOUT RELYING ON, OR EVEN CONSIDERING, ANY OF THE INFORMATION CONTAINED IN THIS LETTER.

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The information contained in this letter may include, or incorporate by reference, forward-looking statements, which would include any statements that are not statements of historical fact. Any or all of the Authors' forward-looking assumptions, expectations, projections, intentions or beliefs about future events may turn out to be wrong. These forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and other factors, most of which are beyond the Authors' control. Investors should conduct independent due diligence, with assistance from professional financial, legal and tax experts, on all securities, companies, and commodities discussed in this letter and develop a stand-alone judgment of the relevant markets prior to making any investment decision.

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IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE EXPECTATIONS SET FORTH IN THIS LETTER INCLUDE, AMONG OTHER THINGS, THE FACTORS IDENTIFIED IN THE RISK SECTIONS IN SABANA REIT'S ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31ST, 2022 AND PROSPECTUS. SUCH FORWARD-LOOKING STATEMENTS SHOULD THEREFORE BE CONSIDERED IN LIGHT OF SUCH FACTORS, AND QUARZ CAPITAL IS UNDER NO OBLIGATION, AND EXPRESSLY DISCLAIMS ANY INTENTION OR OBLIGATION, TO UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE, EXCEPT AS REQUIRED BY LAW.