Issuer: ESR Funds Management (S) Limited

Security: ESR-REIT

Meeting details:
Date: 20 April 2018
Time: 10.00 a.m.
Venue: Mochtar Riady Auditorium, SMU Administration Building, Level 5, Singapore Management University, 81 Victoria Street, Singapore 188065

Company Description

ESR-REIT has been listed on the Singapore Exchange Securities Trading Limited since 25 July 2006. ESR-REIT invests in quality income-producing industrial properties and as at 31 December 2017 has a diversified portfolio of 48 properties located across Singapore, with a total gross floor area of approximately 9.9 million sq ft and a property value of S$1.68 billion2. The properties are in the following business sectors: Logistics/Warehouse, Hi-Specs Industrial, Light Industrial, General Industrial and Business Parks, and are located close to major transportation hubs and key industrial zones island-wide.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=J91U)

1. In January 2017, there was a change in the majority shareholder of the manager of the REIT, which has since been renamed to ESR Fund Management (S) Limited. In the Letter to Unitholders, it was also mentioned that the new sponsor, ESR Cayman Limited, is a leading Pan-Asian logistics developer, owner and operator with over US$10.0 billion of assets under management. The sponsor has a 12.4% stake in the REIT.

Following the corporate-level changes, the REIT's vision has been refreshed to the following:

> "*To be a leading Real Estate Investment Trust with a portfolio of quality industrial assets across the Asia Pacific region*" (page 1 of the annual report)

The new board and the new management team were largely in placed since early 2017.

With its current portfolio of 48 properties in Singapore, the REIT is a Singapore pure-play. Even with the ongoing discussion with Viva Industrial Trust, the combined entity will still consists of assets in Singapore only.

(i) Can the board elaborate further on the REIT's regional ambitions?

(ii) Has the board expanded the REIT's mandate to include investments in other Asia Pacific markets, such as Australia, China, Japan and Korea?

(iii) What target has the board set for the REIT in terms of its geographical diversification? Please also discuss the capital allocation for various markets and the timeline to achieve them.

2. The new board and management have rebalanced the REIT's capital structure with a few significant transactions.

The inaugural issue of a S$150.0 million subordinated perpetual securities at 4.6% coupon in November 2017 and the subsequent equity fund raising through a non-renounceable preferential offering to existing unitholders would potentially improve the REIT's debt to total assets ratio to approximately 32.5%.

(i) Can the board discuss in greater depth its targets for the REIT's optimal capital structure to support the REIT's growth plans?

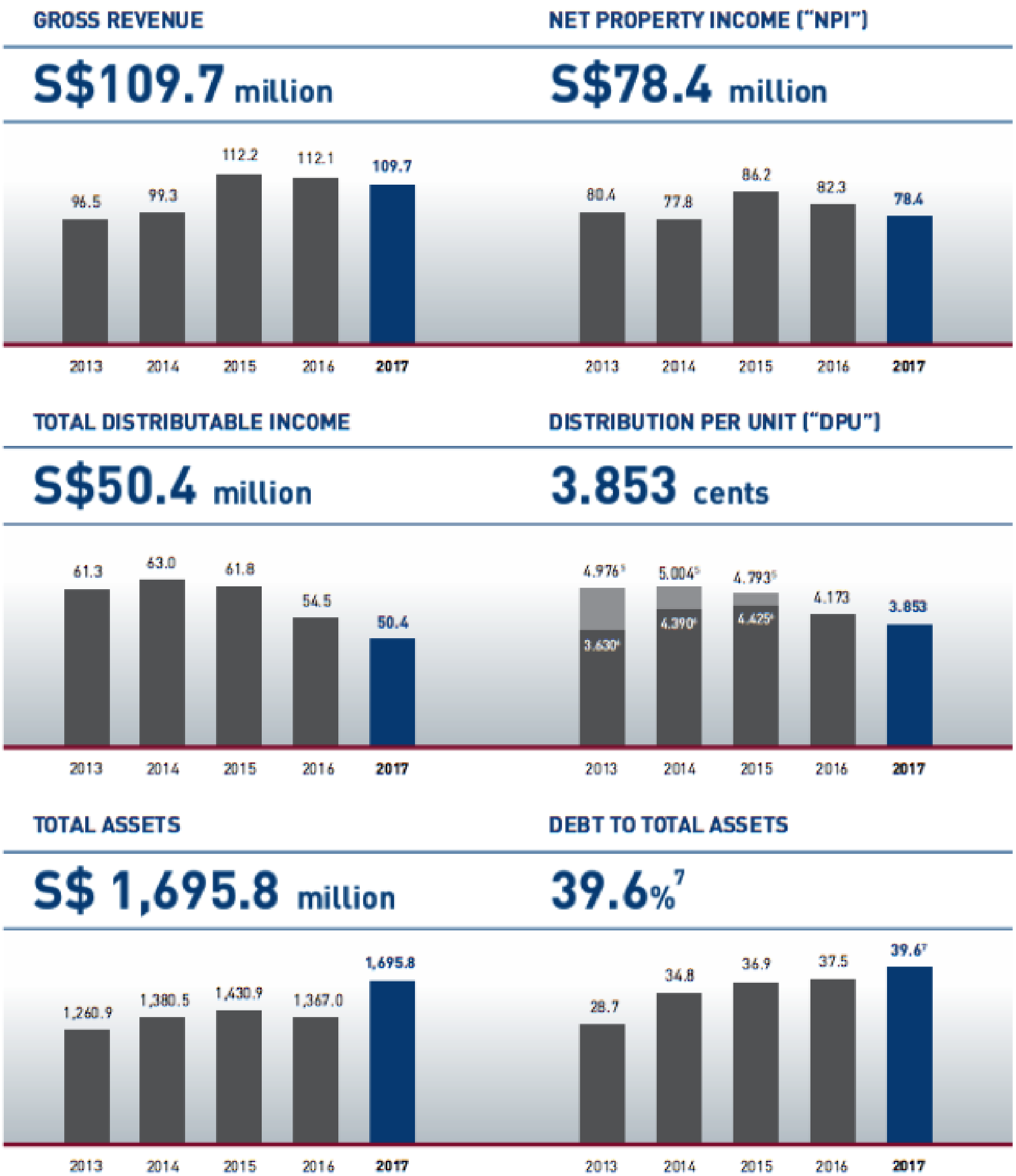
The weighted average all-in cost of debt has dropped from 3.71% to 3.55% as at 31 December 2017 while the weighted average debt expiry has slipped from 3.1 years to 2.4 years as at 31 December 2017. The portion of borrowings with fixed interest rate has decreased from 90.7% to 69.2% as at 31 December 2017.

(ii) What are the manager's plans to further leverage the strength of the sponsor to help the group achieve better financing terms?

(iii) Is it part of the manager's strategy to reduce the weighted average debt maturity and increase the portion of borrowings exposed to interest rate fluctuations?

3. The five-year financial summary is shown on page 7 and reproduced below:

FIVE-YEAR FINANCIAL SUMMARY



5 Includes capital/capital gains and management fees paid out in Units
6 DPU excluding capital/capital gains and management fees paid out in Units
7 On 27 February 2018, the Manager announced an EFR on the basis of 199 New Units for every 1,000 existing Units in ESR-REIT to raise gross proceeds of up to c.S$141.9 million. The higher debt to total assets at end of FY2017 is due to short-term debt drawn down to fund the two acquisitions in December 2017, and the proceeds of the EFR will be used to substantially repay this debt. In the circular dated 2 February 2018, the illustrative pro forma aggregate leverage as at 31 December 2017 post equity fund raising (based on Sponsor Undertaking) is expected to be c.32.5%

(Source: Annual report)

The REIT has increased its leverage from 28.7% to 39.6% while the REIT's distributable income dropped from a high of $63.0 million in FY2014 to $50.4 million in FY2017. While gross revenue has increased, the net property income has been flat and DPU to unitholders has dropped in the past three years.

(i) **Would the board provide unitholders with its assessment of the REIT's performance in the past three years? Has the board compared and benchmarked the REIT to other listed industrial REITs?**

(ii) **Under the new sponsor and the new management team, what changes have the board made to drive better performance of the REIT?**

The REIT has recently completed two yield-accretive acquisitions in December 2017 along with the divestment of non-core properties in FY2017.

(iii) **As the REIT executes on its new strategy under the new team, can the board re-affirm its commitment to provide unitholders with stable/increasing distributions and address the issue of declining DPU?**

(iv) **How strategic is the proposed transaction with Viva Industrial Trust to achieve its vision?**