Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Frasers Commercial Asset Management Ltd.

Security: Frasers Commercial Trust

Meeting details:
Date: 18 January 2019
Time: 10.00 a.m.
Venue: Level 2, Alexandra Point, 438 Alexandra Road, Singapore 119958

Company Description

Frasers Commercial Trust (FCOT) is a commercial real estate investment trust (REIT) focused on growing shareholder value for its unitholders through active asset management, sound financial management and strategic investments. FCOT is sponsored by Frasers Property Limited (Frasers Property). FCOT invests primarily in quality income-producing commercial properties. As at 30 September 2018, its portfolio includes six quality commercial buildings located in Singapore, Australia and the United Kingdom, representing a combined appraised value of approximately S$2.1 billion.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=ND8U)

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1. The REIT diversified into the United Kingdom with the acquisition of a 50% interest in Farnborough Business Park, UK on 29 January 2018. This is held as a joint venture and equity-accounted in the financial statements. Attributable gross revenue of S$9.8 million and net property income of S$7.0 million were recognised in FY2018.

(i) **Would the REIT manager help unitholders understand if the newly acquired business park in the UK has performed up to expectations?**

(ii) The occupancy rate as at 30 September 2018 remains at 98.1% and has not increased since the acquisition was announced (occupancy rate of 98.1% as at 30 September 2017, adjusted for leases which tenants have exercised their rights to break). **Would the REIT management elaborate further on its efforts to lease out the vacant units to further improve the occupancy rate?**

(iii) **In addition, can the REIT manager provide unitholders with an update of the ground sentiments and business confidence in the UK as the Brexit deadline draws closer?**

In the REIT's announcement of the proposed acquisition of Farnborough Business Park (dated 17 December 2017), the acquisition was referred to as "DPU-accretive". In the annual report, the acquisition is now being referred to as "income-accretive" (page 24 of the annual report). Distribution per unit (DPU) slipped from 9.82 cents in FY2017 to 9.6 cents in FY2018.

(iv) **Can the board confirm that the Farnborough Business Park acquisition has indeed been DPU-accretive?**

The REIT has stated that it benefits from "natural hedging" of the foreign exchange risks due to borrowings denominated in foreign currencies and it hedges anticipated net cash flow from the overseas properties generally around six to nine months forward to help provide certainty of the anticipated net cash flow from overseas in Singapore Dollar terms. In addition, it was disclosed that the net position of the foreign exchange risk of the investments in overseas assets are not hedged as such investments are long term in nature. In the past financial year, the foreign currency translation differences have slipped from $16.1 million, as at 30 September 2017, to $(59.2) million at the end of the financial year.

(v) **Is it opportune for the board/manager to consider how the REIT may want to pro-actively manage its net foreign currency exposure given the recent trends?**

2. Would the board/REIT manager provide unitholders with better clarity on the following operational and financial matters? Specifically:

(i) **Portfolio occupancy:** As mentioned in the Operational overview (page 28), the REIT was negatively affected by the high vacancy rates in Alexandra Technopark and Central Park with the lease expiries of key tenants that included Hewlett-Packard Singapore Pte Ltd, Hewlett-Packard Enterprise Singapore Pte Ltd and BHP Billiton Iron Ore Pty Ltd. For instance, as at 30 September 2018, the

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committed and actual occupancy rates at Alexandra Technopark were 70.2% and 60.8% respectively. **Can the REIT manager help unitholders understand its strategy to improve the occupancy rates to a normalised level at these two properties? Specifically, following the $45 million asset enhancement initiative for Alexandra Technopark, what is the positioning and the value proposition of the property to tenants? In addition, given the market trends in Perth, what is the manager's strategy to raise the net property income and occupancy rate at Central Park which saw its occupancy dip to just 70% as at 30 September 2018?**

(ii) China Square Central: Can the REIT update unitholders on the level of pre-commitment at the rejuvenated retail podium? What is the average rental reversion of the leases that were due to expire in FY2019 but have been renewed in advance?

(iii) Distribution per unit (DPU): DPU has slipped to 9.60 cents per unit in FY2018 from 9.82 cents per unit in the preceding year. Included in the distribution was an amount of $12.8 million (or 1.46 cents per unit) from the one-off gain on disposal of hotel development rights in respect of China Square Central. **Given the leasing headwinds in the major properties, how sustainable is the distribution if the occupancy rates do not normalise in the near term?**

3. In Note 1 of the financial statements (page 159 – General: Manager's fees: Management fees), it was disclosed that, for the financial year ended 30 September 2018, the manager opted to receive 100% (2017:7.5%) of the management fees in the form of units. In 2017, 92.5% of the management fees was received in cash.

(i) Can the board/manager help unitholders understand how it arrived at the decision to receive management fees in the form of units or in cash?

(ii) Had the manager received the management fees in cash, what would be the impact on the REIT's DPU?

In addition, the REIT has a Distribution Reinvestment Plan (DRP) that was applied to the distributions declared in FY2018. In FY2018, 7.7 million new units with an aggregate value of S$10.7 million were issued pursuant to the DRP.

(iii) How does the manager determine the unit price/discount to be issued as new units under the DRP?

A copy of the questions for the Annual Report for the financial year ended 30 September 2016 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=Frasers%20Commercial%20Trust

The company's response could be found here:

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https://sias.org.sg/media/qareport/1486097698_Frasers-Commercial-Trust-Questions-raised-by-SIAS-FINAL.pdf