Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Ascott Residence Trust Management Limited

Security: Ascott Residence Trust

Meeting details:
Date: 10 April 2019
Time: 3.30 p.m.
Venue: The Star Gallery, Level 3, The Star Performing Arts Centre, 1 Vista Exchange Green, Singapore 138617

Company Description

Ascott Reit was established with the objective of investing primarily in real estate and real estate-related assets which are income-producing and which are used or predominantly used, as serviced residences, rental housing properties and other hospitality assets. Ascott Reit's asset size has grown to S$5.3 billion since it was listed on the Singapore Exchange Securities Trading Limited (SGX-ST) in March 2006. Ascott Reit's international portfolio comprises 73 properties with 11,430 units in 37 cities across 14 countries in the Americas, Asia Pacific and Europe (as at 31 December 2018). Ascott Reit's serviced residences are mostly operated under the Ascott, Citadines and Somerset brands. They are mainly located in key gateway cities such as Barcelona, Berlin, Brussels, Frankfurt, Guangzhou, Hanoi, Ho Chi Minh City, Jakarta, Kuala Lumpur, London, Manila, Melbourne, Munich, New York, Paris, Perth, Shanghai, Singapore and Tokyo. Ascott Reit is managed by Ascott Residence Trust Management Limited, an indirect wholly owned subsidiary of CapitaLand Limited, one of Asia's largest real estate companies.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=A68U)

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1. As shown in the section titled "Overview - 2018 Highlights", the REIT is the largest hospitality REIT listed on the SGX-ST, with total assets amounting to $5.3 billion as at 31 December 2018. The REIT has grown its assets by nearly 30% from 2014, up from $4.12 billion in FY2014.

As seen in the table below, the distribution per unit (DPU) has been on a downward trend since FY2014. Even adjusting for rights issue or for one-off items, the DPU in 2017 was the lowest in the 5 year period and the REIT has improved slightly in 2018.

FINANCIAL HIGHLIGHTS

For the Financial Year	2014	2015	2016	2017	2018
Gross Revenue (S$ million)	357.2	421.1	475.6	496.3	**514.3**
Gross Profit (S$ million)	180.2	204.6	222.4	226.9	**239.4**
Unitholders' Distribution (S$ million)	125.6	123.3	135.0	152.2	**154.8**
Distribution Per Unit (DPU) (cents)	8.20	7.99	8.27	7.09	**7.16**
Distribution Yield[1] (%)	6.46	6.71	7.32	5.81	**6.63**
DPU (adjusted for Rights Issue)[2] (cents)	7.96	7.75	8.03	7.09	**7.16**
DPU (adjusted for one-off items) (cents)	7.61	8.06	7.59	6.23	**6.79**

(Source: Annual report)

Although the total borrowings have also increased, the REIT's leverage has eased marginally from as high as 39.8% to 36.7% as at 31 December 2018. However, the net asset value (NAV) per unit has been on a downward trend:

- $1.37 (FY2014)
- $1.41
- $1.33
- $1.25
- $1.22 (FY2018)

In FY2018, the manager's management fees amounted to $23.9 million, up from $17.2 million in FY2014, a compound annual growth rate of 8.57%.

(i) Would the board help unitholders understand if the acquisitions and the corporate actions (including private placements) over the years by the manager have created value for unitholders?

(ii) Given that DPU and NAV have decreased over the years, has the board evaluated if the acquisitions and corporate actions have been accretive to unitholders? If so, how does that value manifest itself as the DPU has been decreasing and the NAV per unit has slipped as well?

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(iii) Would the board consider if there is a need to review the incentive system as the REIT manager currently receives a "base" performance fee of 4% per annum of the group's *gross* profit? Would the use of "gross profit" be the most appropriate? Has the board considered a performance metric that is linked to DPU or net-asset-value per unit to better align the interests of the REIT manager with that of the unitholders?

Ms Beh Siew Kim was only recently appointed as the Chief Executive Officer and Executive Director of Ascott Residence Trust Management Limited (ARTML), the manager of Ascott Residence Trust in April 2017.

(iv) As the new CEO and ED of the REIT manager, could Ms Beh update unitholders on the future direction of the REIT under her leadership and elaborate further on how the team will deliver tangible value and performance for the unitholders?

(v) What are the key priorities in the next 1-2 years?

(vi) What are the core strengths of the REIT/manager that would allow the REIT to compete in a crowded market place and deliver value to unitholders?

(vii) In addition, how does the board/REIT strike a balance between the need to grow/seize opportunities and taking a more conservative approach to avoid overextending the balance sheet and the team?

2. Could the board/REIT manager provide unitholders with better clarity on the following operational and financial issues related to the REIT? Specifically:

(i) Master lease agreements: As noted in the Business review, six master leases in France were renewed at lower aggregated rates. **How was the negotiation for master lease carried out? Did the board, especially the independent directors on the audit committee, review the process, including the selection of the independent consultant? Did the board deliberate on the potential benefits, if any, of hiring other master lessee?**

(ii) MCMGI: The REIT has seven properties on management contracts with minimum guaranteed income. The gross profit for the REIT has fluctuated at around the same level, suggesting that the assets are performing at a sub-par level and the REIT is receiving the minimum guaranteed income. The assets are in Belgium, Spain and the United Kingdom, as shown below:

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	Local Currency	FY 2018 Revenue million	FY 2018 Gross Profit million	FY 2017 Revenue million	FY 2017 Gross Profit million
Management Contracts with Minimum Guaranteed Income					
Belgium	EUR	9.3	2.7	8.5	2.7
Spain	EUR	5.3	2.6	5.5	2.8
The United Kingdom	GBP	29.9	12.8	27.8	12.4

(Source: Annual report)

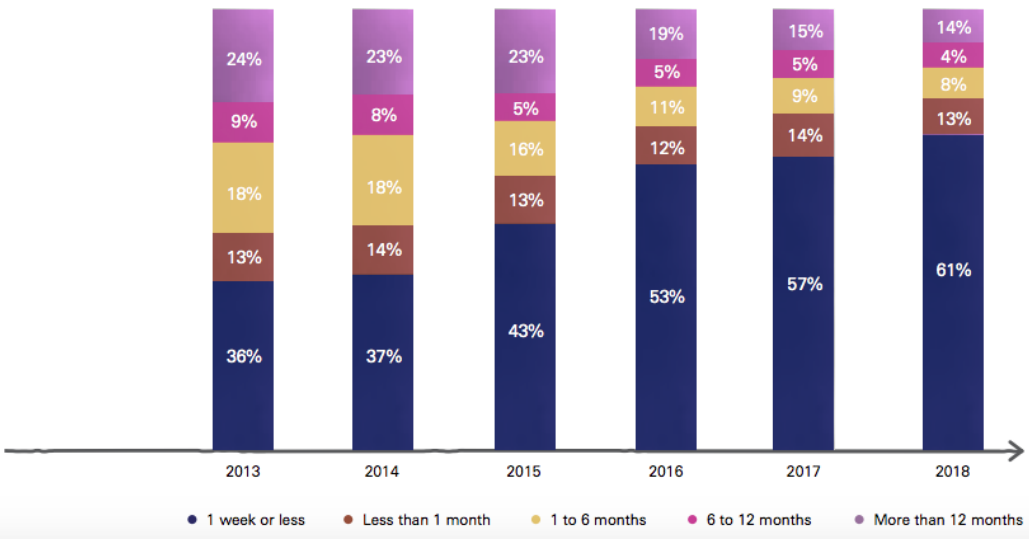
What is the expected time frame for an asset to mature? How is the manager working with the operators to improve the operational and financial performance of these assets? What are the REIT's options to maximise the value of these assets?

(iii) **Quarterly distribution:** The REIT currently makes distribution to unitholders on a semi-annual basis. **Has the board deliberated if the REIT can support quarterly distributions?**

(iv) **Length of stay:** As shown on page 104 of the annual report, the length of stay of the REIT has been decreasing. This is expected as the REIT has added hotels in the US.

Portfolio Information by Length of Stay[1]
(Portfolio Apartment Rental Income)

	2013	2014	2015	2016	2017	2018[2]
Average Length of stay	5 Months	4 Months	4 Months	3 Months	3 Months	3 Months



The percentage of stays that are longer than 6 months has decreased from 33% in 2013 to just 18% in 2018. Stays 1 week or less increased from 36% to 61%. **Has the manager/board evaluated the impact of the changes in the customer profile on the REIT? Have the investments into (short-stay) hotels altered the risk profile of the REIT?**

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3. On 4 January 2019, the trust took possession of the land for the development of lyf-one north Singapore.

(i) What is the manager's experience and track record in developing a greenfield site from scratch?

(ii) What is the total investment earmarked for the development project?

(iii) Did the board/manager evaluate if it would be relatively high risk for the REIT to develop its first property and brand it under a new brand (lyf) that is largely untested in the market?