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REIT: ESR-REIT
(Manager: ESR Funds Management (S) Limited)

Stock code: J91U

Meeting details:

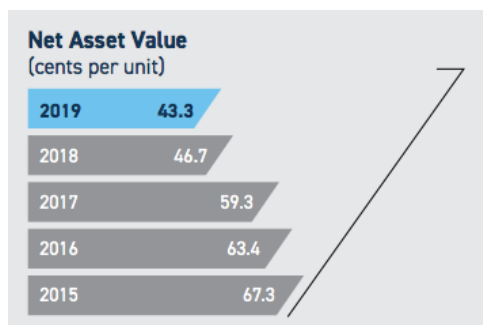
Date: 5 June 2020

Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. Would the board/management provide unitholders with better clarity on the following operational/strategic matters? Specifically:

- (i) **48 Pandan Road:** The REIT entered into a strategic partnership with a large logistics operator to acquire the newly redeveloped 6-storey ramp-up warehouse with rooftop parking and ancillary dormitory and office. The REIT acquired 49% of the partnership interests. **Would the manager help unitholders understand the REIT's value-add to the joint venture other than being a 49% financial investor?**
- (ii) **Aggregate leverage:** With the aggregate leverage increased to 50% by the Monetary Authority of Singapore, will the REIT be utilising the additional headroom to make more acquisitions? Has the board determined the maximum leverage? The REIT is one of few REITs that has aggregate leverage above 40%.
- (iii) **Aggregate leverage:** Can the manager confirm that the total assets of the entity holding 48 Pandan Road are included as "deposited properties" when computing the aggregate leverage but only the REIT's proportionate share of the borrowings is included in the numerator? Would this lead an understatement of the aggregate leverage?
- (iv) **Cost of debt:** As at 31 December 2019, the REIT's average cost of debt stood at 3.9%. With the refinancing, the all-in average cost of debt will be approximately 3.7%. **Has the manager evaluated the REIT's cost of debt given its size and asset base and assessed how it could further lower its financing costs?** In FY2019, the REIT paid more than \$50.7 million in borrowing costs, not considering the \$6.9 million of distribution paid to the perpetual securities holders. Smaller REITs in the same asset class could achieve a lower rate of 3.5% while the all-in cost of debt for a larger industrial REIT is as low as 2.9% (with a long debt expiry of 3.8 years).
- (v) **Viva:** As seen from the five-year financial highlights, the drop in the net asset value per unit of the REIT was due to the Viva transaction (see chart below).



(Source: annual report)

With more than a full year of ownership of the assets acquired from Viva Industrial Trust, can the manager help unitholders if the assets have performed up to management's expectations?

Q2. The manager carried out a pro rata and non-renounceable preferential offering of 29 new units for every 1,000 existing units to entitled unitholders at the issue price of \$0.51 per new unit.

- (i) Did the board consider the impact of the non-renounceable preferential offering on unitholders who are unable or unwilling to subscribe for the preferential offering?**

At the close of the preferential offering, valid acceptances amounted to 50,440,799 or just 51.4%. Without considering the sponsor's undertaking, the valid acceptance was only 46.6%.

- (ii) Did the manager consider the attractiveness of the preferential offering and was it structured in such a way to incentivise unitholders to participate?**
- (iii) Would the board, especially the independent directors, be carrying out an after-action review of the pro rata non-renounceable preferential offering to look at the low acceptance rate by unitholders?**

Q3. The attendance of directors at board and board meetings are shown in the table below:

A total of five Board meetings were held in FY2019. The Board also schedules a Board Strategy meeting once a year to discuss strategic matters. A table showing the attendance record of Directors at Board and Board Committee meetings during FY2019 is set out as follows:

Board Members	Board Meetings ⁽¹⁾		ARCC Meetings		NRC Meetings ⁽²⁾		AGM held on 24 Apr 19	EGM held on 12 Sep 19
	Held	Attended	Held	Attended	Held	Attended		
Mr. Ooi Eng Peng	5	5	4	4	1	1	✓	✓
Mr. Bruce Berry	5	5	4	4	1	N.A.	✓	✓
Mr. Philip Pearce	5	5	4	4 ⁽³⁾	1	N.A.	✓	Absent
Mr. Shen Jinchu ⁽⁴⁾	5	0	4	N.A.	1	N.A.	N.A.	N.A.
Mr. Erle Spratt ⁽⁵⁾	5	2	4	1	1	N.A.	N.A.	N.A.
Dr. Leong Horn Kee	5	5	4	4	1	N.A.	✓	Absent
Mr. Ronald Lim	5	5	4	4	1	1	✓	✓
Ms. Stefanie Yuen Thio ⁽⁶⁾	5	3	4	3	1	N.A.	✓	✓
Mr. Jeffrey Perlman	5	1 ⁽⁷⁾	4	N.A.	1	0 ⁽⁷⁾	Absent	Absent
Mr. Tong Jinquan	5	2 ⁽⁸⁾	4	N.A.	1	N.A.	Absent	Absent
Mr. Wilson Ang	5	5	4	N.A.	1	N.A.	✓	✓
Mr. Adrian Chui	5	5	4	4 ⁽⁹⁾	1	1 ⁽¹⁰⁾	✓	✓

Notes:

⁽¹⁾ Not including other meetings attended by directors with Management.

⁽²⁾ Not including occasions when NRC papers were circulated to the NRC members for approval with no physical meetings held.

⁽³⁾ Mr. Philip Pearce attends the ARCC Meetings via invitation by the ARCC. All directors have open invitation to attend ARCC Meetings.

⁽⁴⁾ Mr. Shen Jinchu resigned as Non-Executive Director with effect from 8 January 2019.

⁽⁵⁾ Mr. Erle Spratt resigned as Independent Non-Executive Director and stepped down from both ARCC and NRC with effect from 29 March 2019.

⁽⁶⁾ Ms. Stefanie Yuen Thio was appointed as Independent Non-Executive Director with effect from 29 March 2019.

⁽⁷⁾ Though Mr. Jeffrey Perlman did not attend majority of the meetings, he had provided his comments and approvals (where relevant) to the papers put up prior to those meetings.

⁽⁸⁾ Mr. Tong Jinquan attended the Board Meetings via teleconference.

⁽⁹⁾ Mr. Adrian Chui attended the ARCC Meetings via invitation by the ARCC.

⁽¹⁰⁾ Mr. Adrian Chui attended the NRC Meetings via invitation by the NRC.

(Source: annual report 2019)

The attendance of the directors at formal meetings for FY2018 shows a similar pattern where certain directors do not attend several of the board meetings.

A total of four Board meetings were held in FY2018. The Board also schedules a Board Strategy meeting once a year to discuss strategic matters. A table showing the attendance record of Directors at Board and Board Committee meetings during FY2018 is set out as follows:

Board Members	Board Meetings ⁽¹⁾		ARCC		NRC		EGM	AGM	EGM
	Held	Attended	Held	Attended	Held	Attended	held on 27 Feb 18	held on 20 Apr 18	held on 31 Aug 18
Mr. Ooi Eng Peng	8	8	7	7	2	2	√	√	√
Mr. Bruce Kendle Berry	8	8	7	7	N.A.	N.A.	√	√	√
Mr. Erle William Spratt	8	8	7	7	2	2	√	√	√
Mr. Phillip John Pearce	8	8	7	7 ⁽³⁾	NA	NA	√	√	√
Mr. Akihiro Noguchi	8	7 ⁽²⁾	NA	NA	NA	NA	√	√	Absent
Mr. Shen Jinchu	8	4	NA	NA	NA	NA	Absent	Absent	Absent
Mr. Jeffrey David Perlman	8	5	NA	NA	2	0 ⁽⁴⁾	√	√	√
Mr. Adrian Chui Wai Yin	8	8	NA	NA	NA	NA	√	√	√

Note 1: Not including other meetings attended by directors with Management

Note 2: Mr. Akihiro Noguchi resigned from the Board with effect from 22 October 2018 in connection with the merger of ESR-REIT and Viva Industrial Trust

Note 3: Mr. Philip John Pearce stepped down from ARCC with effect from 20 July 2018. However, he continues to attend the ARCC via invitation by the ARCC to contribute his valuable experience in the industrial properties area.

Note 4: Though Mr. Jeffrey David Perlman did not attend both meetings, he had provided his comments and approvals (where relevant) to the papers put up prior to both meetings.

(Source: annual report 2018)

It would appear that, in 2019, two directors did not attend the majority of the board meetings and one of the two directors missed 3 of the board meetings in 2018 as well. The director attended just 6 out of 13 board meetings.

- (i) **What are the extenuating circumstances that caused the directors to be absent for the board meetings?**
- (ii) **Has the nominating and remuneration committee ("NRC") evaluated the effectiveness of directors in his/her ability and commitment to discharge his/her duties effectively?**
- (iii) **Other than board meetings, the attendance of directors at shareholder meetings is low. How can the company secretary and the manager work together with the board to improve the attendance of directors at the formal shareholder meetings?**

[^]Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

[^] Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (<https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings>)



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Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on [SIAS website](http://www.sias.org.sg)

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