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: Keppel REIT Management Limited

Security: Keppel REIT

Meeting details:
Date: 23 April 2019
Time: 10.30 a.m.
Venue: Suntec Singapore Convention and Exhibition Centre, Nicoll 1-3, Level 3, 1 Raffles Boulevard Suntec City, Singapore 039593

Company Description

Keppel REIT was listed by way of an introduction on 28 April 2006. It is one of Asia's leading REITs with a young and large portfolio of premium Grade A commercial assets in Singapore's prime business and financial districts. Keppel REIT's objective is to generate stable income and long-term growth for Unitholders by owning and investing in a portfolio of quality income-producing commercial real estate and real estate-related assets in Singapore and pan-Asia. The REIT has assets under management of over $8 billion in Singapore as well as key Australian cities of Sydney, Melbourne, Brisbane and Perth. Keppel REIT is sponsored by Keppel Land Limited, one of Asia's leading property companies. It is managed by Keppel REIT Management Limited, a wholly-owned subsidiary of Keppel Capital Holdings Pte. Ltd. (Keppel Capital). Keppel Capital is a premier asset manager in Asia with a diversified portfolio in real estate, infrastructure and data centre properties in key global markets.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=K71U)

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1. On 2 April 2019, the REIT announced a proposed issue of $200 million of convertible bonds due 2024, with an additional $50 million upsize option. The bonds were priced at the least favourable end of the indicative range at the close.

The bond will bear interest at 1.90% per annum semi-annually in arrear and a conversion price of $1.4625 per unit. The indicative range had been an interest rate of between 1.70% and 1.90% and a conversion price of between $1.4625 and S$1.5275 for each new unit. The bond size remained at $200 million, with the $50 million upsize option not taken up.

(i) **Would the manager help unitholders understand if it was expecting to price the bond issue more favourably for the REIT?**

(ii) **Has the manager reviewed the feedback from the market over the attractiveness of the bond issue?**

(iii) **Can the board/manager help unitholders understand why it had structured the bond this way (i.e. a 5-year convertible bond)? How did the manager price the optionality that is embedded in the convertible bond?**

(iv) **What is the REIT's average cost of capital?**

2. In the chairman's statement, it was highlighted the REIT was the first Singapore REIT to initiate a unit buy-back programme in 2018 as part of its proactive capital management strategy.

In 2018, the manager purchased and cancelled approximately 28.3 million units. As the units were bought below the net-asset-value (NAV) per unit, the unit buy-back programme had the effect of increasing NAV per unit. This was also DPU accretive.

(i) **Can the manager quantify the impact of its buy-back programme, in terms of the accretion to NAV?**

(ii) **How did the manager decide on a 1.5% limit over a rolling six-month period?**

(iii) **Given that the REIT still trades at about a 10% discount to NAV, would the board/management consider buying back units to be the most efficient way to improve the performance of the REIT (in terms of NAV per unit, return on equity etc)?** Buying back unit avoids the common risks associated with a major acquisition of assets that includes execution risks, and the risk of overpaying.

(iv) The chairman has stressed that the REIT was the first to conduct a buy-back as part of its proactive capital management strategy. One of the reasons could be other similar REITs (i.e. REIT with most of its portfolio consisting of premium office assets in Singapore, of similar market capitalisation) trade at a premium as high as 1.05-1.07x of NAV. **Has the manager reviewed the reasons that the**

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REIT consistently trades at a larger discount? What is the manager doing to close the discount?

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

(i) **311 Spencer Street, Melbourne:** The 50%-owned freehold asset was bought in July 2017 for $362.4 million. As at 31 December 2018, the valuation was $233.8 million based on the "as-is" valuation (page 31). **Would the manager help unitholders understand the reason for the drop? What is the expected rental income when the asset is completed?**

(ii) **Rental support:** In FY 2018, total rental support received amounted to $8.6 million ($7.2 million, net of tax) which translated to distribution per Unit of approximately 0.21 cents. Rental support accounted for 3.78% of the FY2018 DPU of 5.56 cents. The REIT purchased MBFC Tower 3 and OFC with rental support. **Did the net property income of Ocean Financial Centre catch up as projected by the manager during its acquisition? Has the board evaluated the REIT's practice of making acquisitions with rental support?**

(iii) **Perpetual securities:** On 2 November 2015, the trust issued $150,000,000 of subordinated perpetual securities at a fixed rate of 4.98% per annum, or a total of $7.47 million each year for the holders of the perpetual securities. The perpetual securities have no fixed redemption date and redemption is at the option of the trust in accordance with the terms of issue of the securities. As such, these perpetual securities are classified as equity instruments and recorded as equity in the Statements of Movements in Unitholders' Funds. **Can the manager clarify if there would be circumstances that would require the perpetual securities to be classified as liabilities? Will the REIT be prudent and limit any new issuance of perpetual securities even though they may be classified as equity?**