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REIT: OUE Commercial Real Estate Investment Trust
(Manager: OUE Commercial REIT Management Pte. Ltd.)

Stock code: TS0U

Meeting details:

Date: 21 May 2020

Time: 2.00 p.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. The REIT completed the merger with OUE Hospitality Trust (“OUE H-Trust”) in September 2019 to become one of the largest diversified Singapore REITs with total assets under management of \$6.8 billion as at 31 December 2019. The portfolio now includes seven properties across the commercial and hospitality segments in Singapore and Shanghai.

The mandate of the REIT is to invest in income-producing real estate used primarily for commercial purposes (including real estate used primarily for office and/or retail purposes) in financial and business hubs, and hospitality and/or hospitality-related purposes, as well as real estate-related assets.

- (i) **Following the merger, what are the capital allocation targets by asset class (commercial, retail, hospitality etc) and by geography (Singapore, China, others)?**
- (ii) **With the leverage limit being raised from 45% to 50% by the Monetary Authority of Singapore, how are the REIT’s plans affected?**

Q2. The REIT’s mission is to deliver stable distributions and provide sustainable long-term growth in returns to unitholders.

OUE C-REIT’s mission is to deliver stable distributions and provide sustainable long-term growth in returns to holders of units in OUE C-REIT (“Unitholders”).

In the “Key highlights” section (page 4 of the annual report), the manager showed the trends in revenue, net property income, distributable amount and the assets under management (reproduced below).

The charts (reproduced below) show the REIT growing the 4 metrics by a compound annual growth rate (“CAGR”) of between 18.8% and 28.3%.



(Source: annual report)

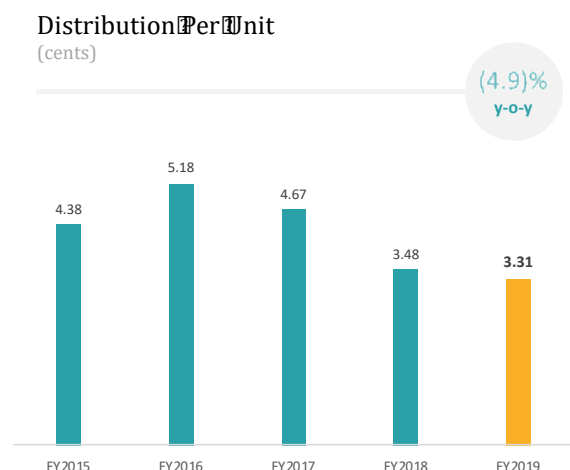
While the REIT's mission is to deliver stable distributions and provide sustainable long-term growth in returns to unitholders, the manager did not track the total unitholder's return ("TUR") nor the distribution per unit ("DPU").

At the bottom of page 4, it was shown that DPU for FY2019 was 3.31 cents per unit while the net asset value was \$0.62 per unit.

Distribution per Unit ("DPU") (FY2019) 3.31 cents	Net Asset Value ("NAV") per Unit (As at 31 December 2019) S\$0.62	Commercial Segment Committed Occupancy (As at 31 December 2019) 95.2%
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(Source: annual report; page 4)

On page 5, unitholders can see that DPU had slipped by 4.9% from 3.48 cents per unit to 3.31 cents per unit. In fact, if the trend of DPU is charted below based on the historical distribution, it would look like this:



(Source: DPU information from FY2015-2019 annual reports; graphics by SIAS)

The chart above shows the unadjusted DPU as announced by the REIT at the end of each of the financial year. For instance, the FY2017 DPU of 4.67 cents was 9.8% lower due to an enlarged unit base from the equity placement completed in March 2017. FY2018 DPU of 3.48 cents was a 25.5% drop due to an enlarged unit base from the rights issue.

The net asset value per unit has decreased from \$0.96 as at 31 December 2015 to \$0.62 as at 31 December 2019. This drop in NAV is partly due to distributions and rights issues at below the NAV.

- (i) **Would the manager consider tracking the DPU, the NAV per unit and the TUR over time?**
- (ii) **Have the independent directors evaluated the performance of the manager to assess how it has delivered on its mission to “deliver stable distributions and provide sustainable long-term growth in returns to unitholders”?**

Q3. In the Corporate governance report, the REIT disclosed its remunerations policies and practices on pages 100 to 102.

The nominating and remuneration committee (“NRC”) comprises three non-executive directors, namely Mr Ong Kian Min (as chairman), Mr Christopher James Williams and Mr Loh Lian Huat.

The fee structure and the exact fees for the directors are shown on page 101 of the annual report. For the key executives of the manager, the remuneration framework comprises monthly salaries, annual bonuses and allowances. The manager links executive

remuneration to corporate and individual performance, based on the performance appraisal of the key executive officers that take into account the following criteria namely (i) leadership, (ii) self-management and effectiveness, (iii) communication and interpersonal skills, (iv) quality management, (v) administration and managerial skills, (vi) human resource management and development, (vii) technical and functional skills, (viii) customer focus; and (ix) value creation.

However, the board has decided not to disclose of the remuneration of the CEO and the top five executive officers on a named basis, whether in exact quantum or in bands of S\$250,000, and the total remuneration paid to the top five key management personnel.

The reason given is as follows (page 102):

In arriving at its decision, the Board had taken into consideration, inter alia, the commercial sensitivity and confidential nature of remuneration matters, the competitive nature of the REIT management industry, the competitive business environment which OUE C-REIT operates in, the importance of ensuring stability and continuity of business operations with a competent and experienced management team in place and the negative impact which such disclosure may have on the Manager in attracting and retaining talent for the Manager (at the Board and Management levels) on a long-term basis.

*Further, such non-disclosure of remuneration does not affect the Manager's level of transparency on its remuneration policies, **level and mix of remuneration** [emphasis added], the procedure for setting remuneration and the **relationships between remuneration, performance and value creation** [emphasis added] as such information have been disclosed in detail in the preceding paragraphs.*

- (i) **Would the NRC help unitholders understand how the non-disclosure of remuneration does not affect the manager's level of transparency on the level and mix of remuneration?** With the current practice of non-disclosure, there is no information on the level and mix of remuneration of the management team.
- (ii) **Would the NRC show unitholders how they could see the relationships between remuneration, performance and value-creation based on the current disclosure on remuneration in the annual report?**
- (iii) With the non-disclosure, the manager has deviated from the Code of Corporate Governance 2018 and the Notice to All Holders of a Capital Markets Services Licence for Real Estate Investment Trust Management (issued pursuant to Section 101 of the Securities and Futures Act). **Would the NRC reconsider how the REIT could better comply with the CG Code 2018 and the SFA?**

^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.

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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^ 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>)