



Securities Investors Association (Singapore)

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Issuer: Parkway Life REIT
(Manager: Parkway Trust Management Limited)

Stock code: C2PU

Meeting details:

Date: 22 April 2021

Time: 9.00 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. As noted in the message to unitholders, the REIT showed its resilience despite the extreme uncertainties that enshrouded 2020. Distribution per unit increased to 13.79 Singapore cents. Net asset value increased to \$1.96 per unit as at 31 December 2020, from \$1.95 per unit a year ago.

The REIT continues to offer one of the strongest earnings visibility among the REITs due to:

- A diverse portfolio of 54 properties valued at approximately \$2.02 billion
- 95% of its portfolio having downside revenue protection
- CPI-linked revision formula pegged to 58% of its portfolio
- Portfolio WALE at 5.74 years

The lease expiry profile of the portfolio is shown on page 30 and reproduced below:



(Source: annual report)

The Singapore hospital properties contribute close to 60% of the REIT's gross revenue and the leases are expiring in August 2022. The long-term master leases with Parkway Hospitals Singapore Pte. Ltd. (for Mount Elizabeth Hospital, Gleneagles Hospital and Parkway East Hospital) commenced on 23 August 2007 under a 15 + 15 year term.

Following the expiry of the initial 15-year term of the master lease agreement ("MLA"), the leases are subject to an option to extend for another 15 years based on the terms and conditions of the MLA.

The group has disclosed that it began reviewing the terms of the lease renewal in 2019.

- (i) **Can the manager elaborate further on the progress made so far?**
- (ii) **Who is leading the negotiation with the lessee? What are the salient terms and conditions in the MLA with regard to the renewal?**
- (iii) **What is the level of oversight and involvement by the board, if any, on the negotiation?** This is a major uncertainty for the trust due to the relative size of the three Singapore hospitals.

- (iv) **Has the pandemic affected the balance in the negotiation between the REIT and the lessee? What is the REIT manager's strategy to achieve a win-win outcome with the lessee so that the REIT continues to deliver regular and stable distributions and achieve long-term growth for unitholders while the operator continues to run the hospitals smoothly?**

Q2. As at 31 December 2020, the REIT has a weighted average debt term to maturity at 3.5 years. The current effective all-in cost of debt was approximately 0.53% per annum.

The manager has disclosed that it prudently manages the group's exposure to interest rate and foreign currency risks by utilising various financial instruments, such as interest rate swaps, interest rate caps and fixed rate cross currency swaps to hedge against market fluctuations (page 60 – Enterprise risk management report).

The group adopts a natural hedge strategy for its Japanese investments to maintain a stable net asset value and has also entered into foreign currency forward contracts to hedge the net foreign income from Japan. The REIT uses cross currency interest rate swaps ("CCIRS") to manage its foreign currency risk and interest rate risk arising from the financing of Japan properties using Singapore dollar loan facilities (page 145).

- (i) **Can the manager clarify the extent of its natural hedge for its Japanese assets?** As at 31 December 2020, the portfolio of healthcare properties in Japan amounted to \$799.8 million.
- (ii) **Is there significant currency mismatch between the assets and the sources of funds?**

The REIT has a policy to hedge at least 50% (up to 100%) of all financial risks. As of 31 December 2020, about 87% of interest rate exposure is hedged and the group has put in place JPY forward contracts till 2Q 2025.

- (iii) **Can the manager help unitholders understand if a stronger Japanese Yen is positive/neutral/negative for the REIT after accounting for the financial hedges that have been put in place?**

Q3. As noted in the Corporate governance report, the internal audit function of the manager is outsourced to an independent assurance service provider and the audit committee (AC) reviews the adequacy and effectiveness of the internal auditor at least once a year.

For FY2020, the AC is satisfied that the internal auditor has the relevant qualifications and experience and has met the standards established by internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

- (i) **Would the board identify the service provider of the internal audit function?**
- (ii) **Does the scope of the internal audit cover the REIT's foreign operations in Japan and Malaysia?**
- (iii) **What are some of the key findings from the internal audit?**

^On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

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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^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation
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