



Securities Investors Association (Singapore)

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REIT: SPH REIT

(Manager: SPH REIT Management Pte. Ltd.)

Stock code: SK6U

Meeting details:

Date: 26 November 2020

Time: 2.30 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. As noted in the statement by the chairman and CEO, the trust acquired a 50% interest in Westfield Marion Shopping Centre (“Westfield Marion”), the largest shopping centre in South Australia on 6 December 2019.

It was further disclosed that the acquisition of Westfield Marion is in line with the trust’s long-term strategy to diversify its asset base and income stream geographically.

- (i) **With unprecedented disruption caused by the pandemic, would the board (re)state the trust’s targeted capital allocation by geography?**
- (ii) **In particular, what adjustment has the board made to the pace and timing of its acquisitions?**
- (iii) **Can the board help unitholders understand if the manager (especially the CEO) and the board of directors have recent and relevant experience in real estate investing in Australia, in particular, retail malls in Australia? If not, is the REIT’s expansion into Australia extending beyond the trust’s circle of competence/ experience?**

In addition, the trust has disclosed that the new Australian assets, Westfield Marion and Figtree Grove Shopping Centre (“Figtree Grove”), have contributed to REIT’s performance in FY2020 (page 9). Westfield Marion generated S\$26.3 million in NPI while Figtree Grove contributed S\$12.5 million in NPI.

- (iv) **Can the manager confirm that the new Australians assets have contributed to the REIT’s performance positively on a DPU basis (i.e. DPU accretive)?**
The trust was successful in tapping the equity market and raised \$164.5 million in December 2019 from a private placement of 156.6 million new units to partially finance the Westfield Marion acquisition.

In addition, the group’s main asset, Paragon, has been adversely affected by the lack of tourists due to border restrictions. Tenant sales declined by 28.3% to \$507.8 million on a year-on-year basis while footfall declined by 27.4% to 13.8 million. The Clementi Mall, despite it being a mall in the heartlands, also saw its footfall decline by 27.8% while tenant sales declined by 12.7% to \$206.6 million (page 9).

- (v) **What are the innovative and creative marketing efforts by the manager to help the tenants, especially the tenants in Paragon?**
- (vi) **Is the manager taking the opportunity to carry out asset enhancement initiatives or to reposition certain sections of the malls to cater to the changes in consumption patterns?**

- (vii) Does the board have sufficient clarity on the financial position of the trust to release the sum of \$14.5 million in distributable income which has been deferred (amounting to distribution per unit of 0.52 Singapore cents) to unitholders?

Q2. The trust structure is shown on page 14 of the annual report. In particular, the manager of the REIT relies on the appointed investment and property managers for the day-to-day running of Westfield Marion Shopping Centre and Figtree Grove Shopping Centre (page 95).



(Source: annual report)

- (i) What is the level of influence and control of the operations of the two assets in Australia? Would the REIT manager elaborate further on its ability to value-add to the Australian assets given its lack of familiarity of the markets and the reliance on third party managers?
- (ii) Is the REIT acting like a "financial" investor in its overseas expansion with little/no ability to value-add?

- (iii) The REIT further disclosed that fees payable to the outsourced parties include performance bonuses. **Are unitholders paying two levels of management and performance fees to the outsourced parties and to the REIT manager (SPH REIT Management Pte. Ltd.)?**
- (iv) **Can the manager clarify if the current structure for the Australian assets would afford the REIT and ultimate the unitholders tax transparency in terms of the profit, especially for Westfield Marion Shopping Centre? In other words, would income be taxed in Australia before it reaches the REIT?**

Q3. As noted in the corporate governance report (page 107), under 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), the trust is required to disclose the following:

- (a) the remuneration of each individual director and the CEO on a named basis with a breakdown (in percentage or dollar terms) of each director's and the CEO's remuneration earned through base/fixed salary, variable or performance-related income/ bonuses, benefits-in-kind, stock options granted, share-based incentives and awards, and other long-term incentives;
- (b) the remuneration of at least the top five key executive officers (who are neither directors nor the CEO) in bands of \$250,000, with a breakdown (in percentage or dollar terms) of each key executive officer's remuneration earned through base/fixed salary, variable or performance related income/bonuses, benefits-in-kind, stock options granted, share-based incentives and awards, and other long-term incentives; and
- (c) the aggregate total remuneration paid to the top five key executive officers (who are neither directors nor the CEO).

The manager has reviewed, assessed and decided against such disclosure on the following grounds (page 107):

"the remuneration of the directors and employees of the manager are not paid out of the deposited property of SPH REIT (listed issuer). Instead, they are remunerated directly by the manager, which is a private company..... there is no misalignment between the remuneration of the directors and the key management personnel of the manager and the interests of the Unitholders given that their remuneration is not linked to the gross revenue of SPH REIT and is paid out of the assets of the manager and not out of SPH REIT"

The Monetary Authority of Singapore issued a guideline (No: SFA04-G07 dated 1 January 2016) which explicitly stated that *“a statement to the effect that the remuneration of the CEO, directors and executive officers of the REIT manager is payable out of the assets of the REIT manager and not out of the deposited property of the REIT would not be considered a satisfactory explanation”* (paragraph 4.2) for the non-disclosure of remuneration.

- (i) **Would the board help shareholders understand if they are familiar with the relevant regulations for REITs? How does the board ensure that the REIT/ manager complied with the relevant regulations and Code?**
- (ii) **In particular, given that MAS has specifically stated what is not considered a “satisfactory explanation” for the non-disclosure of remuneration in its guideline (No: SFA04-G07 dated 1 January 2016), would the board help unitholders understand why it had used the same justification (which has been deemed a non-satisfactory explanation) for the non-disclosure of remuneration?**
- (iii) **Would the board reconsider its disclosure practices and disclose the remuneration of the CEO and executive officers in accordance to the requirements of the CG Code 2018 and 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>)