



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: YTL Starhill Global REIT Management Limited

Security: Starhill Global Real Estate Investment Trust

Meeting details:

Date: 30 October 2018

Time: 11.00 a.m.

Venue: Mandarin Ballroom 1, Level 6, Mandarin Orchard Singapore, 333 Orchard Road, Singapore 238867

Company Description

Starhill Global REIT is a Singapore-based real estate investment trust investing primarily in real estate used for retail and office purposes, both in Singapore and overseas. Since its listing on the Mainboard of the Singapore Exchange Securities Trading Limited (the "SGX-ST") on 20 September 2005, Starhill Global REIT has grown its initial portfolio from interests in two landmark properties on Orchard Road in Singapore to 10 properties in Singapore, Australia, Malaysia, China, and Japan, valued at about S\$3.1 billion. These comprise interests in Wisma Atria and Ngee Ann City on Orchard Road in Singapore, Myer Centre Adelaide, David Jones Building and Plaza Arcade in Adelaide and Perth, Australia, Starhill Gallery and Lot 10 in Kuala Lumpur, Malaysia, a retail property in Chengdu, China, and two properties in Tokyo, Japan. Starhill Global REIT remains focused on sourcing attractive property assets in Singapore and overseas, while driving organic growth from its existing portfolio, through proactive leasing efforts and creative asset enhancements. Starhill Global REIT is managed by an external manager, YTL Starhill Global REIT Management Limited. The Manager is a wholly-owned subsidiary of YTL Starhill Global REIT Management Holdings Pte. Ltd. which is in turn an indirect wholly-owned subsidiary of YTL Corporation Berhad.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=P40U)

1. As disclosed in the Financial review (pages 54 to 5s7 of the annual report), the management fees paid to the manager remained steady at \$16.1 million in FY17/18 (FY16/17: \$16.2 million, down 0.6%) even as revenue, net property income, distributable income and distribution per unit (DPU) dropped by 3.5%, 2.8%, 6.6% and 7.5% respectively.

The management fees paid to the manager comprise the base fees the manager is entitled to under the Trust Deed and the performance fees, if any. As the valuation of the properties remained steady, management's base fees, being 0.5% per annum of the value of the trust property, has remained steady as well.

Further, as disclosed in Note 18 (page 129 - Management fees and performance fees), the manager has not earned its performance fees which is only awarded when the accumulated return (comprising capital gains and accumulated distributions and assuming all distributions are re-invested in the Trust) of the units in any financial year exceeds the accumulated return (comprising capital gains and accumulated distributions and assuming re-investment of all distributions) of a benchmark index for the years ended 30 June 2018 and 30 June 2017.

In fact, the manager has not earned any performance fees in the last five financial years as it has under-performed the benchmark:

FY2013 (12 months): 6% below the Benchmark Index as at 31 December 2013

FY2015 (18 months): 1% below the Benchmark Index as at 30 June 2015

FY2016 (12 months): 13% below the Benchmark Index as at 30 June 2016

FY2017 (12 months): 33% below the Benchmark Index as at 30 June 2017

FY2018 (12 months): 72% below the Benchmark Index as at 30 June 2018

Over the same period, unitholders' funds has stagnated at approximately \$1.99 billion from 31 December 2013 to 30 June 2018; the net asset value has fluctuated between \$0.90/unit and 0.93/unit while its gearing has increased from 29.0% (as at 31 December 2013) to 35.5% as at 31 June 2018.

DPU over the years has showed the following trend:

FY2013: 5.00 cents (12 months)

FY2014/15: 7.60 cents (18 months)

FY2015/16: 5.18 cents (12 months)

FY2016/17: 4.92 cents (12 months)

FY2017/18: 4.55 cents (12 months)

As shown on page 15, the total return of the REIT has been (12)% for FY2017/18.

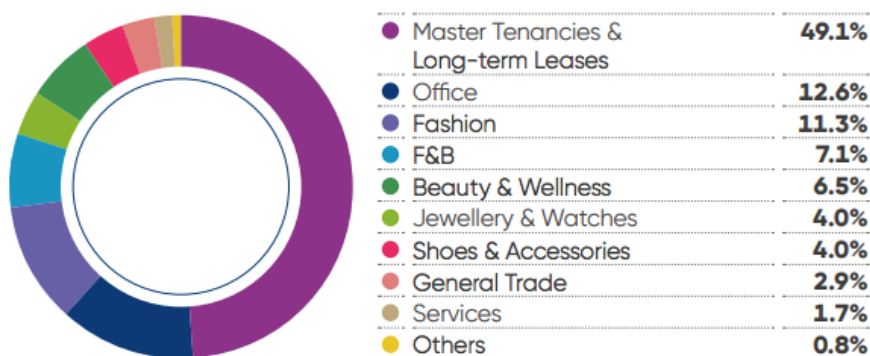
- (i) Would management be able to elaborate (and quantify where possible) the value-add generated by its proactive leasing efforts and its asset enhancement initiatives?**

- (ii) The REIT acquired Myer Centre Adelaide on 18 May 2015 (based on the exchange rate of A\$0.95:S\$1 at acquisition) and Plaza Arcade was acquired on 1 March 2013 (based on the exchange rate of A\$0.79:S\$1 at acquisition). **Has the last two investments made by the REIT to expand in its portfolio in Australia performed up to management’s expectations? What has been the return on investment for the two assets (on a SGD term basis)?**
- (iii) **Given the under-performance of the REIT in the past five years, does the board consider it timely to carry out a strategic review of the performance of the REIT to assess the core competencies of the trust, its management (including its capital allocation and hedging policies) and its financial strength and to fine-tune its strategy so as to create long-term sustainable value for all unitholders?**

2. Would the board/management elaborate further on the following operational and financial matters to provide shareholders with better clarity? Specifically:

- (i) **Revenue:** The group receives nearly half of its revenue (approximately 49.1% of the portfolio’s gross rent) from master leases and long-term leases which provide the REIT with stability in its rental income. The periodic rent reviews (some leases having upward-only reviews) help the trust to steadily grow its revenue over the years while the manager actively manages the remaining leases of the portfolio, which are on a short- to medium-term basis.

PORTFOLIO TRADE MIX
By Gross Rental Contribution
 (As at 30 Jun 2018)



(Source: Annual report)

Despite the master leases/long term leases accounting for half the REIT’s revenue, total revenue for the trust still dropped by 3.5%. **Would management elaborate further on the specific reasons for the 3.5% drop in revenue?**

- (ii) **Please quantify the impact due to the weaker office portfolio, Myer Centre Adelaide (Retail) and Plaza Arcade’s asset enhancement initiatives.**

- (iii) **Can management also provide shareholders with better visibility of the “one-off rental compensation for a retail lease at Wisma Atria Property” which cost the trust approximately 1% of its revenue and net property income for the year?**
- (iv) **Can management state its key priorities in FY2018/19?**
- (v) The REIT has 31% of its assets (by valuation) overseas and receives 38% of its total revenue from such assets. The manager has also stated that it “actively hedges its exposure using foreign currency denominated borrowings (natural hedge) and short-term foreign exchange forward contracts. **Can the manager elaborate in greater detail its hedging strategies? What is the extent of its forward hedging? How effective has the manager been in hedging the REIT’s foreign currency exposure over a 5-year period?**
- (vi) In the Letter to Unitholders, it was said that the REIT will “take this opportunity at this stage in the retail cycle to rebalance our assets and be ready to capitalise on the next upturn” (page 18). The REIT has also been seeking new opportunities both in and outside Singapore. **Can the manager elaborate further on what it means to “rebalance” the assets? Which countries/cities outside of Singapore are being considered?**

3. The current board comprises six members, three of whom are independent directors, two non-executive directors and an executive director.

The three independent directors are Mr Tan Bong Lin, Mr Ching Yew Chye and Mr Tan Woon Hum who were appointed on 1 January 2018, 1 November 2016 and 1 August 2017 respectively. With the cessation Dr Michael Hwang, all the independent directors have been appointed to the board in the past two years.

As disclosed in the REIT’s Corporate Governance report, all three directors were assessed to be independent despite the following:

- Mr Ching Yew Chye being the independent chairman of AIA Berhad, a wholly-owned subsidiary of AIA Group Limited, a substantial Unitholder of Starhill Global REIT
- Mr Tan Woon Hum being a partner in a law firm which provides legal services to the REIT
- Mr Tan Bong Lin being an independent director of real estate brokerage services firm which provides leasing/training services to the REIT

- (i) **Would the board help shareholders understand the search and nomination process for directors, especially independent directors?**

Separately, Dato' Yeoh Seok Kian, as non-executive non-independent director, attend just two of the four board meetings held in the year (page 82).

- (ii) **Would Dato' Yeoh Seok Kian help shareholders understand if there were extenuating circumstances that led him to miss the two board meetings?**



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(iii) How can the REIT, the company secretary and the directors improve the scheduling of board meetings so that all directors can be present?

A copy of the questions for the Annual Report for the financial year ended 30 June 2017 and 30 June 2016 could be found here:

<https://sias.org.sg/qa-on-annualreports/?company=Starhill%20Global%20Real%20Estate%20Investment%20Trust>

The company's response could be found here:

FY2016:

https://sias.org.sg/media/qareport/1478154865_Starhill_Response_to_Questions_raised_by_SIAS.pdf