Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

REIT: Cromwell European Real Estate Investment Trust
(Manager: Cromwell EREIT Management Pte. Ltd.)

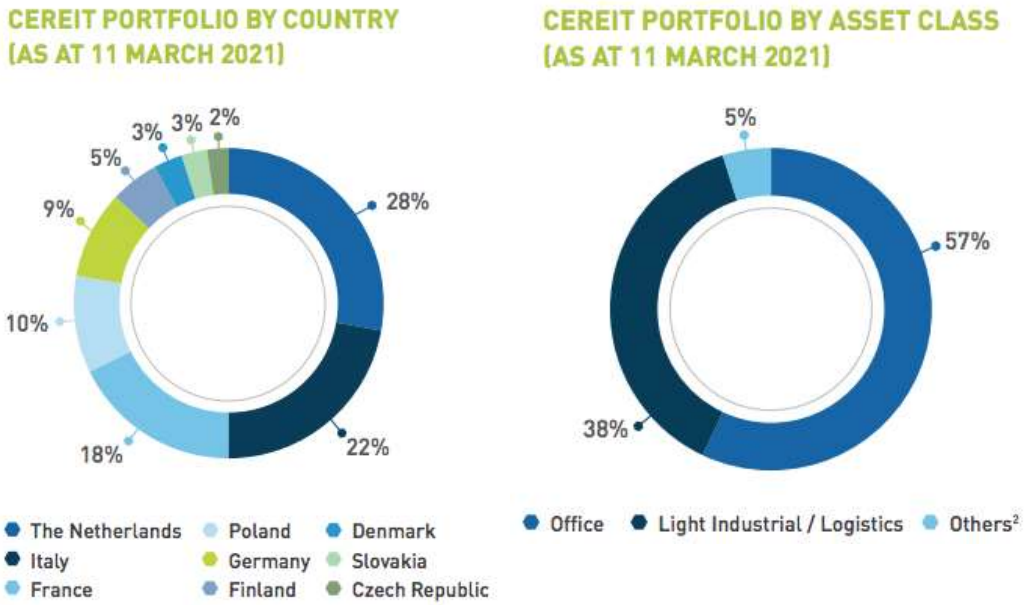
Stock code: CNNU

Meeting details:
Date: 27 April 2021
Time: 3.00 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.

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Q1. In the annual report, the manager provided unitholders with greater clarity of its investment strategy, which is to focus the portfolio to achieve a long-term target of at least 75% or more within Western Europe and of at least 75% or more in office and light industrial/logistics (page 2). This was also disclosed in the prospectus dated 22 November 2017.



(Source: adapted from annual report)

As at 11 March 2021, the REIT's portfolio comprises 107 properties with an appraised value of approximately €2,291 million in or close to major gateway cities in the Netherlands, Italy, France, Poland, Germany, Finland, Denmark, the Czech Republic and Slovakia. The portfolio has an aggregate lettable area of approximately 1.7 million square metres, 800+ tenant-customers and a WALE profile of approximately 4.9 years.

From the acquisitions made in the year, the REIT now has a bigger footprint in Germany and Italy and a new presence in two attractive "high-growth" markets – the Czech Republic and Slovakia.

(i) **Can the manager elaborate further on the attractiveness and the risks of the Czech Republic and Slovakia markets?**

(ii) **Did the REIT manager think that the reward/risk ratio for these high-growth markets is more attractive than the investments opportunities found in more established key European cities?**

(iii) **What are the synergies and/or network effect, if any, for the REIT to expand to the Czech Republic and Slovakia?**

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In FY2020, the REIT's DPU was €3.484 cents, or 14.6% lower than FY 2019, but 3.0% lower on a like-for-like basis as the manager and the property manager were paid fully in cash (instead of a mix of cash and units as in previous years).

The board has stated that doing so "*preserves unitholder value because the continuing practice of issuing units in payment for fees means that more than 100% of earnings is paid out, diluting DPU and NAV per Unit over the long term*" (page 7).

(iv) **Has the board considered if the quantum of fees payable to the managers and property managers could be lowered if the board's goal is to "preserve unitholder value"?**

Has the board considered if paying fees in cash significantly reduces the alignment of interests the manager/sponsor has with unitholders?

How does the manager allay concerns of some unitholders that the move to take fees fully in cash is a signal that the manager does not believe (or have lower confidence) in the long-term prospects of the REIT?

Q2. In the chair's letter to unitholders, it was stated that the board recognised that it had carried out the February 2021 private placement at below NAV due to "unfavourable market conditions". The unit price of the REIT for the past year is shown below:



(Source: https://www.sgx.com/securities/equities/CNNU)

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Prior to the private placement, when the full year results were announced on 23 February 2021, the REIT reported a net asset value of €0.509 per unit for the financial year ended 31 December 2020.

Based on the unit price movement of the REIT (shown above), the manager would have known that the units were trading at below NAV for the past year hence any private placement would likely be NAV-dilutive to then-existing unitholders. It was not a sudden unfavourable change in the market conditions that "*necessitated an issue price below NAV*" (page 9; emphasis added).

(i) **How does the board, especially the independent directors, determine the optimal way to raise fund for the REIT's acquisitions?** The board had decided against using debt to finance the portfolio to be acquired which was said to be high-yielding (page 9). **Why was a rights issue not considered?**

(ii) **Did the board deliberated on and quantify the (negative) NAV-impact of carrying out a private placement at a price below the NAV per unit for the then-existing unitholders?**

(iii) **By placing out new units at an issue price of €0.430 (vs NAV of €0.509 per unit, or a discount of 15.5%) to fund the acquisition, did the manager evaluate the cost (including dilution) to the then-existing unitholders? Would the proposed acquisition of the assets still be accretive for the then-existing unitholders?**

(iv) **What was the REIT's cost of this additional capital if the dilutive effects are considered?** Then-existing unitholders would have suffered negatively as the original portfolio, valued at €0.509 per unit, was "sold" at €0.430 per unit so that the REIT could use the proceeds to pay for the new "high-yielding" assets.

Q3. On 27 April 2021, at the EGM scheduled to be held following the conclusion of the AGM, the REIT is proposing to consolidate every five existing units into one consolidated unit.

The rationale given by the manager includes (pages 5 and 6 of the EGM circular):

Increase in the market interest and attractiveness of CEREIT and its Consolidated Units	The Manager believes the Proposed Unit Consolidation will generally be beneficial to CEREIT and its Unitholders as it would improve the attractiveness of CEREIT and the Units. The Unit Consolidation will rationalise the capital of CEREIT by reducing the large number of Units in issue from 2,796,650,416 Existing Units in issue as at the Latest Practicable Date to 559,330,083 Consolidated Units following the completion of the Proposed Unit Consolidation… … The Manager believes that, immediately following the Proposed Unit Consolidation, with the reduction in the number of Existing Units in issue

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	and the resulting increase in the theoretical trading price of each Consolidated Unit, the Proposed Unit Consolidation is likely to improve the attractiveness of CEREIT and the Units, particularly among institutional investors, research houses and fund managers.

(i) **What is the manager's understanding of the trading conditions and norms relating to corporate actions (such as a share/unit consolidation) on SGX?**

(ii) **Did the manager conduct extensive due diligence to understand the impact on the trading price and trading volume of share/unit consolidation carried out by other issuers?**

(iii) **On what basis does the manager believe that the proposed unit consolidation will increase the market interest and attractiveness of the REIT and its consolidated units? Is this belief backed by historical data of prior share/unit consolidations carried out by other issuers?**

(iv) **What is the total cost (such as professional fees) for the proposed unit consolidation exercise?**

^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

Join our mailing list here to receive latest news and upcoming events.

^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation)

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