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

REIT: Lendlease Global Commercial REIT
(Manager: Lendlease Global Commercial Trust Management Pte. Ltd.)

Stock code: JYEU

Meeting details:
Date: 25 October 2022
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.

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Q1. In the interview with the CEO (pages 8 and 9 of the annual report), Mr Kelvin Chow (CEO) said that the REIT had "succeed[ed] in generating sustainable value" and had built up the financial strength and resilience. It was also noted by the CEO that distributable income increased by 29.7% and DPU rose by 3.7%.

With the acquisition of Jem, the REIT's portfolio valuation also grew to $3.6 million. The key highlights are also shown on page 3 (extract reproduced below).

Key Highlights



(Source: annual report)

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(i) **Can the manager elaborate further on the performance of Jem since the REIT obtained full direct ownership of the property?** In the REIT's announcements in February 2022 relating to the proposed acquisition of Jem, the manager had stated (as the first bullet point in its presentation slides under key highlights) that the DPU accretion was 10.5%. **Has Jem performed up to the manager's expectations? What are the AEI opportunities for Jem?**

(ii) **Can the CEO help unitholders better understand how the REIT had "succeed[ed] in generating sustainable value" when the net asset value per unit of the REIT had in fact dropped from $0.81 to $0.78 (as shown on page 3 – Key highlights)?**

(iii) **What was the total unitholder return in the past 1 year, 2 years and since its listing in October 2019? Can the manager include the total unitholder return as a metric in the key highlights section in future annual reports?**

The portfolio has grown substantially from $1.43 billion in FY2021 to $3.60 billion as at 30 June 2022. The gearing ratio has reached 40.0%. Adjusted interest coverage ratio (Adjusted ICR) is at 2.5 times in accordance with the Property Funds Appendix of the Code on Collective Investment Schemes.

(iv) **Can the manager provide unitholders greater clarity on the pace of acquisitions going forward, following the acquisition of Jem and considering the interest rate trends and uncertainties in the global economy?**

(v) The Monetary Authority of Singapore has set a minimum threshold of 2.5 times for a REIT's adjusted ICR if the REIT were to increase its leverage limit from 45% to 50%. **How will the adjusted ICR of 2.5 times impact the REIT's leverage limit?**

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Q2. As noted in the REIT's announcement on 14 February 2022, the net property income yield of Jem without the effects of COVID-19 related one-off rental abatements and expected credit loss was 4.4%. In fact, the overall net property income yield of the portfolio was just 4.2% after adjusting for COVID-19 related one-off rental abatements and expected credit loss.

Nevertheless, the REIT issued $200 million each in June 2021 and April 2022 at 4.20% per annum and 5.25% per annum respectively. The perpetual securities are classified as equity.

(i) **With already $400 million issued as perpetual securities, can the REIT manager provide unitholders greater clarity on its capital management strategy, especially the use of perpetual securities?**

(ii) Without considering the perpetual securities, the REIT (at 40% gearing) is one of the most leveraged REITs on SGX. **Given the interest rate trend, what is the manager's strategy to minimise its financing costs and to maintain/increase its DPU to unitholders when interest rates increase?**

In particular, the Series 002 Perpetual Securities that was raised to partially fund the acquisition of the remaining interest in JEM cost more than the adjusted net property income of Jem (5.25% vs 4.4%).

(iii) **Can the independent directors help unitholders better understand the commercial rationale of issuing 5.25% perpetual securities to (partially) finance the acquisition of Jem which only yielded 4.4% (after adjustment)?**

(iv) **Compared to the average cost of debt of 0.88% p.a. as at 30 June 2021 and 1.69% p.a. as at 30 June 2022 (page 38), why does the REIT need to issue perpetual securities at such high costs?**

(v) **Did the independent directors and/or manager consider the perpetual securities to be expensive sources of financing and have the potential to (negatively) impact the distributions to unitholders? How is the REIT mitigating such risks?**

(vi) **With Series 002 having a reset as soon as 11 April 2025 (and in fact ahead of Series 001's reset date of 4 June 2026) and having just 59% of its borrowings hedged to fixed rates, has the manager assessed the risks that there will be a significant increase in financing costs and thus impacting DPU?**

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Q3. Resolution 2 in the notice of annual general meeting is for unitholders to approve the re-appointment of KPMG LLP as the independent auditors of the REIT. As disclosed on page 115, the auditors received non-audit service fees of $900,500 and audit service fees of $283,900.

(i) **What was the reason for the significant non-audit fees of $900,500?**

(ii) **How did the audit and risk committee (ARC) determine that the provision of non-audit services did not impair or threaten auditor independence?**

The Code of Professional Conduct and Ethics for public accountants, under the purview of the Accounting and Corporate Regulatory Authority, sets a 50 per cent threshold for the percentage of non-audit fees to audit fees for public company clients. Under the Code, additional safeguards by the audit firm must be considered and applied as necessary.

(iii) **What are the steps that have been taken by the ARC and by the auditor to safeguard the independence of the auditors?**

^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. On 9 April 2021, it was announced that the alternate arrangements for meetings ("Meetings Order") would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

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

^ 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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