Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y0Y

REIT: Mapletree Pan Asia Commercial Trust
(Manager: MPACT Management Ltd.)

Stock code: N2IU

Meeting details:
Date: 28 July 2023
Time: 2.30 p.m.
Venue: 20 Pasir Panjang Road, Mapletree Business City, Town Hall – Auditorium, Singapore 117439 and by way of electronic means

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Q1. Following the acquisition of Mapletree North Asia Commercial Trust, the REIT underwent a name change to become Mapletree Pan Asia Commercial Trust ("MPACT"). With this expansion, the portfolio now comprises 18 commercial properties not only in Singapore but across four other key gateway markets in Hong Kong, China, Japan, and South Korea.

As mentioned in the letter to unitholders, the Singapore assets played a crucial role in driving the REIT's performance in the year. Despite increases in utility and financing costs, the Singapore assets provided a $33.0 million boost in net property income (NPI).

(i) **Office/business park: Could the manager share insights on the current extent of work-from-home and hybrid work arrangements in the key cities within its portfolio? What are some of proactive or innovative strategies the manager has implemented to address and adapt to this evolving work landscape?**

(ii) **Mapletree Business City (MBC):** As disclosed by the REIT, significant portions of Google's leases at MBC have been renewed over the last two financial years. **Could the manager provide clarification on whether they are currently in discussions with Google to renew the leases for the remaining one-fifth of the space that is set to expire in FY24/25? Considering that MBC achieved a rental reversion of 8% and that the occupancy rate is 95.4%, what is the manager's strategy to fill up the remaining 4.6%?**

(iii) **VivoCity:** VivoCity generated $220.2 million in gross revenue and $165.9 million in NPI. The 22% increase in NPI could be partly attributed to higher tenant sales which exceeded $1 billion, setting a new record and well surpassing pre-COVID levels. **How significant are gross turnover rentals for the REIT's retail properties, specifically VivoCity? In addition, how does the REIT manager address possible revenue leakages such as when stores offer "click & collect" services that bypass the point-of-sale system?**

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Q2. As at 31 March 2023, the REIT's aggregate leverage stood at 40.9%.

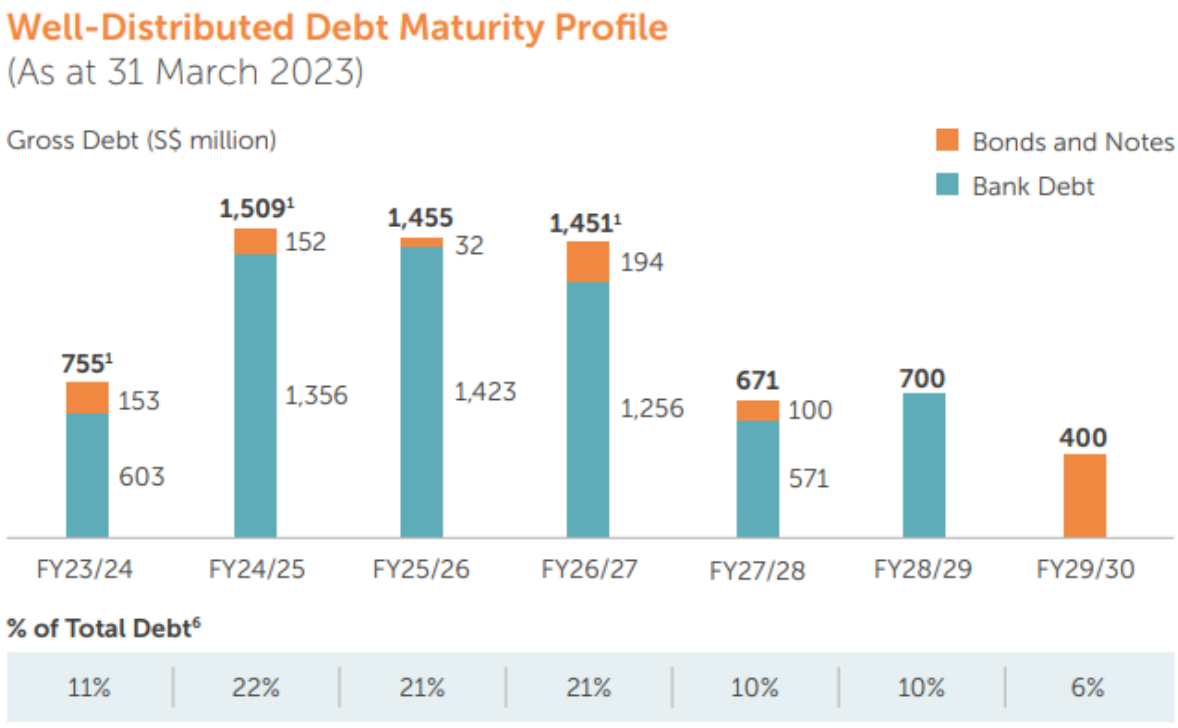
Key Financial Indicators

As at 31 March	2019	2020	2021	2022	2023
% of Fixed Rate Debt	85.0	78.9	70.7	80.3	**75.5**
Aggregate Leverage Ratio (%)	33.1	33.3	33.9	33.5	**40.9**
Adjusted Interest Coverage Ratio (times)	4.5	4.3	4.4	4.8	**3.5**
Average Term to Maturity of Debt (years)	3.6	4.2	4.2	3.3	**3.0**
Weighted Average All-in Cost of Debt (per annum) (%)	2.97	2.94	2.48	2.40	**2.68**

(Source: annual report)

(i) **Does the REIT manager have any plans to undertake equity fundraising in order to reduce its leverage, considering that historically, the REIT maintained a leverage of 33%-34% when the portfolio was focused on Singapore (which may have been less risky)?**

The manager has also stated that as the older fixed rate debts and interest rate swaps progressively mature, the overall cost of financing is expected to increase if interest rates remain elevated.



(Source: annual report)

A third of the borrowings will mature in FY23/24 and FY24/25.

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(ii) **What is the manager's view on the current and future interest rate environment? Considering that the percentage of fixed-rate debt has decreased from 80.3% to 75.5%, could the manager shed light on how the REIT is optimising its hedges to mitigate interest rate risks? In addition, when do the interest rate swaps reach their expiration dates, and what is the average duration of these swaps?**

(iii) **What is the level of natural hedging achieved, and does the REIT still face significant residual net investment risk?**

(iv) **Given the current interest rate trends, how challenging would it be for the REIT to make value-accretive acquisitions? Are the REIT's acquisition plans put on hold for the time being? Following the acquisition of MNACT, is the manager contemplating further additions to the Singapore portfolio, or is the focus still on expanding overseas?**

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Q3. The REIT first requested a trading halt on 28 December 2021 and announced the proposed merger with MNACT on 31 December 2021. The transaction was completed on 21 July 2022.

With the expansion into international markets, the REIT has since taken on significant foreign currency risks, amongst others.

As shown on page 34, the Singapore properties gained $58 million in valuation while the acquired foreign properties showed declines of $(101) million (based on valuation) and $(355) million (due to foreign exchange impact). The foreign portfolio saw total valuation losses of $(456) million or 5.6%, from $8.15 billion as at the effective date of the merger to $7.70 billion as at 31 March 2023.

A chart of the trading price of the REIT is shown below.



(Source: https://sg.finance.yahoo.com/quote/N2IU.SI/chart?p=N2IU.SI)

(i) **With the acquisition completed a year ago, can the manager help unitholders better understand the realised benefits of increasing the portfolio size and overseas expansion as compared to being Singapore-centric, especially given the strength of the Singapore dollar and the stability of the Singapore real estate market?**

(ii) **What is the total unitholder return since 27 December 2021, the day before the trading halt?**

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On page 2 of the annual report, the REIT showed its competitive advantages including its foothold in five key market. The core assets referred to are VivoCity and Mapletree Business City, assets which were already owned by the REIT prior to the acquisition of MNACT.



(Source: annual report; emphasis added)

Festival Walk, even after a $271 million decline in valuation, remains the REIT's largest asset, with a valuation of $4.57 billion (or 26% of the total portfolio).

(iii) **Can the manager clarify why Festival Walk is not considered a core asset, despite it being the REIT's largest holding? Are there plans to divest Festival Walk to reallocate capital into core assets?** Rental reversion for Festival Walk was -21% in FY20/21, -27% in FY21/22 and -13% in FY22/23.

In the corporate governance report, it was stated that employee remuneration of the external manager comprises fixed pay, variable incentive, allowances and benefits. Variable incentive, which is a material component of total remuneration, comprises Performance Target Bonus, Variable Bonus ("VB") and Long-term Incentive ("LTI") award. Specifically, the VB amount is assessed based on the achievement of financial KPIs such as NPI, DPU, and NAV, which measure the financial metrics essential to unitholders. The LTI award is a form of unit-linked incentive plan and represents conditional rights to receive a cash sum based on the achievement of MPACT's Total Shareholder Return ("TSR") targets.

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Total Remuneration Bands of CEO and Key Management Personnel for FY22/23

	Salary, Allowances and Statutory Contributions	Bonus[1]	Long-term Incentives[2]	Benefits	Total
Above S$1,500,000 to S$1,750,000					
Ms Sharon Lim	28%	46%	26%	N.M.[4]	100%
Other Key Management Personnel					
Ms Janica Tan	38%	41%	21%	N.M.[4]	100%
Mr Chow Mun Leong	49%	35%	16%	N.M.[4]	100%
Mr Koh Wee Leong	46%	37%	17%	N.M.[4]	100%
Ms Charissa Wong[3]	52%	36%	12%	N.M.[4]	100%
Ms Wendy Lee[3]	73%	27%	–	N.M.[4]	100%

Notes:
1 The amounts disclosed are bonuses declared during the financial year.
2 The amounts disclosed include the grant of the LTI award. The LTI award is a form of unit-linked incentive plan and represents conditional rights to receive a cash sum based on the achievement of MPACT's TSR targets and fulfillment of vesting period of up to five years.
3 Ms Charissa Wong and Ms Wendy Lee are employees of the Property Managers and are deemed key management personnel who have responsibility for the management of VivoCity and Festival Walk, respectively, which are material to the performance of MPACT.
4 Not meaningful.

Key management personnel received bonuses ranging from 27% to 46%, and long-term incentives of 12% to 26% (for all but one KMP). The nominating and remuneration committee (NRC), after its review of the performance of the manager for FY22/23, is satisfied that all KPIs have been achieved.

(iv) **How strong is the link between pay, performance and value creation? Could the NRC provide insights into how remuneration is affected by factors such as portfolio size, management fees, and total unitholder returns? How are the weightages for different KPIs determined?**

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

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