



Securities Investors Association (Singapore)

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REIT: Sasseur Real Estate Investment Trust
(Manager: Sasseur Asset Management Pte. Ltd.)

Stock code: CRPU

Meeting details:

Date: 22 April 2021

Time: 10.30 a.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. The REIT has just crossed its third year of listing on the Singapore Exchange. As at 31 December 2020, Sasseur REIT's portfolio comprises four outlet malls located in Chongqing, Bishan, Hefei and Kunming, with a total asset value of RMB 8.1 billion.

It was disclosed that the REIT's sponsor had added three new projects (Suzhou, Nanjing II and Shijiazhuang), bringing the number of pipeline projects to 12, a significant increase from 3 pipeline properties during IPO. Hefei and Kunming were acquired within 2 years of their opening.

- (i) **Given the pandemic, how has the REIT manager finetuned its pace of growth (via acquisition)?**
- (ii) **Does the REIT have the mandate to source for third-party assets?**
- (iii) **Has the manager carried out due diligence on the outlet malls in the sponsor's portfolio?**
- (iv) **Can the REIT manager help unitholders understand the REIT's investment criteria if/when it were to make an acquisition?**
- (v) **What is the available debt headroom for the REIT?** With effect from 16 April 2020, the aggregate leverage limit was increased by the Monetary Authority of Singapore ("MAS") from 45.0% to 50.0% to provide REITs with greater flexibility to manage their capital structure amid the challenging environment created by the COVID-19 pandemic. As of 31 December 2020, the aggregate leverage of the group was 27.9% (2019: 27.8%).

Q2. The REIT has reported the following operating performance as at the end of the financial year since FY2018:

	Committed occupancy	Weighted average lease expiry (WALE)		Contribution of top tenant/top 10 tenants
		By Net Lettable area	By Gross Revenue	
FY2018	95.1%	3.0 years	1.3 years	5.18% / 17.0%
FY2019	96.0%	3.0 years	1.1 years	7.45% / 18.0%
FY2020	93.5%	2.6 years	1.1 years	5.11% / 15.5%

(Source: company annual reports)

The REIT has a WALE by gross revenue of 1.1 years as at 31 December 2020. On page 72, the manager explained that it has intentionally opted for a shorter lease period to allow it to discontinue under-performing brands, replacing them with brands that are better suited to consumers' trends and renew leases at higher rates for brands that perform well.

- (i) **How does the manager balance rental rates/outlet sales and income stability?** Short WALE is a double-edged sword that benefits unitholders in times of rising rental rates but introduces significant volatility especially during weaker market.
- (ii) **Can the manager also help unitholders understand the reasons for the significant differences in WALE by GR and by NLA?**
- (iii) **Would the manager elaborate further on the challenges faced by the Bishan Outlets?** The occupancy rate at Bishan has fallen from 92.5% to 81.4%.

As of 31 December 2020, the top three trade sectors of apparels, international brands and sports sectors contributed 44.1%, 22.8% and 12.4% respectively.

- (iv) **Has the REIT manager evaluated the risks of changing consumer taste and preferences (including brand boycott) to the REIT's business model?**

Q3. On page 125, the audit and risk committee (ARC) has disclosed that it reviewed the nature and extent of non-audit services provided by the external auditors in FY2020 and the fees paid for such services. The non-audit fees incurred was a one-time non-recurring tax advisory fee, and do not affect the independence and the objectivity of EY.

The audit and non-audit fees paid to the external auditor in the past 3 years is shown below:

	Audit fees	Non-audit fees	Total
FY2018	\$428,600	\$215,800 (and IPO fees of \$748,000)	\$644,400 (and IPO fees of \$748,000)
FY2019	\$440,800	\$312,300	\$753,100
FY2020	\$374,815	\$503,651	\$878,466

(Source: annual reports)

- (i) **What was the nature and range of non-audit services provided by the external auditors in FY2019?**
- (ii) **Can the ARC explain how it carried out the review of the external auditors?**
- (iii) **On what basis did it determine that the independence and the objectivity of the external auditor was not affected?**

Without considering the IPO fees, the non-audit fees as a percentage of audit fees paid to the external auditors averaged 82% for the past 3 years. 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.

- (iv) **Given that the percentage of non-audit fees to audit fees exceeds 80% and is beyond the threshold recommended by the Code, can the ARC elaborate further on the extra steps taken by the ARC 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.

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](http://www.sias.org.sg)

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^ 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>)