



**QUARZ CAPITAL MANAGEMENT ISSUES OPEN LETTER TO THE MANAGEMENT
AND BOARD OF SABANA REIT (SGX: M1GU)**

ALL RECIPIENTS ARE ADVISED TO READ
"IMPORTANT DISCLOSURE INFORMATION"
AT THE END OF THE ATTACHED LETTER

**DETERIORATION OF SABANA REIT'S OPERATIONS IS HIGHLY CONCERNING
AND MAY FURTHER REDUCE DPU**

**URGES SABANA DIRECTORS NOT TO WASTE UNITHOLDERS' MONIES BY
APPOINTING AN INDEPENDENT FINANCIAL ADVISOR**

VISIT AND REGISTER AT WWW.SAVESABANAREIT.COM FOR MORE
INFORMATION

Tuesday, 21 February 2023

Dear Mr. Han and Members of the Board of Sabana REIT Manager,

Sabana Industrial REIT's (the "Trust", "Sabana REIT", "Sabana" or "SSREIT SP") 2H2022's performance is highly concerning.

Despite the favorable operating conditions in 2H2022, **Sabana's DPU plunged 7% YoY, sharply underperforming its S-REIT peers which saw flat or increasing DPU YoY.**

It is also concerning that **the occupancy rate has significantly decreased in several key buildings which command higher rental rates. This may further reduce Sabana REIT's DPU going forward.**

8 Commonwealth Lane and Frontech Centre's occupancy rates fell sharply from 100% and 94% to 82% and 66% respectively. 10 Changi South St 2 and NTP+ also saw occupancy rates fall to 74 and 77%. 1 Tuas Avenue 4 has now been vacant for more than 6 years (since 2016).

It is highly concerning that an asset has been vacant for 6 years and the building where the REIT manager has its main office in is almost a quarter empty, this despite the scarcity of land in Singapore and the manager's annual fees of ~S\$4.5 million to manage just 18 properties.

The underwhelming financial result is also in sharp contrast to the manager's often seemingly upbeat comments about its own performance.

As interest rates increase and economic conditions weaken, companies in Singapore are beginning to reduce expenses and floor space, which may result in an additional weakening of Sabana's DPU and share price going forward.

Despite the REIT manager's seeming operating failures, **the manager seems to be more interested in increasing its own management and acquisitions fees instead of improving DPU and unit price by continuing to reiterate its intention to acquire assets. These potential acquisitions could potentially be funded by rights and placements at discount to market price and can have a significantly negative impact on Sabana REIT's unit price.**

The critical overlapping investment mandate problem due to ESR Group's ownership of Sabana and ESR Logos REIT managers which can potentially cause severe **conflicts of interest and damage minority unitholders' value, continues to exist even after 2.5 years.**

ESR Group (1821 HK Equity) has so far shown zero interest in resolving this issue despite this continuing critical and apparent corporate governance failure. It remains to be seen how ESR's 'ESG hungry' capital partners such as GIC and OMERS can continue to stand by and tolerate ESR Group's potential 'double standard' of committing to ESG while solely causing and not resolving critical corporate governance issues in its own portfolio investments.

In view of the poor results, we urge the directors of Sabana REIT not to unnecessarily and additionally waste unitholders' monies by appointing an Independent Financial Advisor ("IFA") to assist the independent directors in evaluating a partial offer which is more than 50% above the previous offer (by ESR REIT) which the directors already have unanimously recommended as "Fair and Reasonable".

As specified in Note 4 on Rule 7.1 of the Takeover Code; "there is no requirement for the directors to obtain competent independent advice if a partial offer does not result in the offeror and its concert parties holding 30% or more in the offeree."

The need to hire an IFA is highly questionable as it was just 2 years ago that the REIT manager spent more than ~S\$2.1million of unitholder's capital (>15% of half yearly DPU) with the **Directors recommending what we consider a low ball and value destructive merger offer at an implied price of ~S\$0.31¹ from its affiliate, ESR Logos REIT ("EREIT SP Equity" or "ESR REIT") as both Fair and Reasonable (1 Sabana unit for 0.94x ESR REIT unit).**

Both Tan Cheong Hin and Wong Heng Tew were the directors who have recommended and promoted the implied offer of ~S\$0.31 from ESR REIT as both Fair and Reasonable.

To put things into perspective: the Partial Offer Price at S\$0.465 is:

- **Near the highest price Sabana REIT has traded in the last 5 years**
- **At a substantial ~50% premium over the merger offer price from ESR Logos REIT which had been actively recommended and promoted by the directors as both fair and reasonable.**
- **At a premium of more than ~10% to the current market price²**

We would be very surprised to see a truly independent board deem the current offer to be "unfair/unreasonable" after the last offer. IFAs in Singapore are increasingly coming under scrutiny as well for the work they provide.

As can be seen in the merger offer in 2020 which was comprehensively voted down, unitholders are astute enough to evaluate offers and act in their best interest.

¹ ESR-Logos REIT unit price (at closing) of S\$0.33 on 20 February 2023

² Sabana Industrial REIT unit price (at closing) of S\$0.42 on 20 February 2023



Quarz's interest is fully aligned with all independent unitholders of Sabana REIT. We urge all unitholders to work together to ensure that all our interests are protected.

VISIT AND REGISTER AT WWW.SAVESABANAREIT.COM FOR MORE INFORMATION

Sincerely yours,

Jan F. Moermann
Chief Investment Officer

Havard Chi
Head of Research

For further information, please contact:
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SPECIAL NOTE REGARDING THIS LETTER

THIS LETTER CONTAINS OUR CURRENT VIEWS ON THE VALUE OF SABANA REIT'S (SSREIT SP EQUITY) SECURITIES AND ACTION THAT SABANA REIT'S BOARD MAY TAKE TO ENHANCE THE VALUE OF SABANA REIT'S SECURITIES. OUR VIEWS ARE BASED ON OUR ANALYSIS OF PUBLICLY AVAILABLE INFORMATION AND ASSUMPTIONS WE BELIEVE TO BE REASONABLE. THERE CAN BE NO ASSURANCE THAT THE INFORMATION WE CONSIDERED IS ACCURATE OR COMPLETE, NOR CAN THERE BE ANY ASSURANCE THAT OUR ASSUMPTIONS ARE CORRECT. SABANA REIT'S ACTUAL PERFORMANCE AND RESULTS MAY DIFFER MATERIALLY FROM OUR ASSUMPTIONS AND ANALYSIS. WE HAVE NOT SOUGHT, NOR HAVE WE RECEIVED, PERMISSION FROM ANY THIRD-PARTY TO INCLUDE THEIR INFORMATION IN THIS LETTER. ANY SUCH INFORMATION SHOULD NOT BE VIEWED AS INDICATING THE SUPPORT OF SUCH THIRD PARTY FOR THE VIEWS EXPRESSED HEREIN. WE DO NOT RECOMMEND OR ADVISE, NOR DO WE INTEND TO RECOMMEND OR ADVISE, ANY PERSON TO PURCHASE OR SELL SECURITIES AND NO ONE SHOULD RELY ON THIS LETTER OR ANY ASPECT OF THIS LETTER TO PURCHASE OR SELL SECURITIES OR CONSIDER PURCHASING OR SELLING SECURITIES. NOTHING HEREIN SHALL CONSTITUTE OR BE REGARDED AS INVESTMENT ADVICE. ALTHOUGH WE STATE IN THIS LETTER WHAT WE BELIEVE SHOULD BE THE VALUE OF SABANA REIT'S SECURITIES, THIS LETTER DOES NOT PURPORT TO BE, NOR SHOULD IT BE READ, AS AN EXPRESSION OF ANY PROJECTION, FORECAST OR PREDICTION AS TO THE PRICE AT WHICH SABANA REIT'S SECURITIES MAY TRADE OR MAY BE LIKELY TO TRADE AT ANY TIME. AS NOTED, THIS LETTER EXPRESSES OUR CURRENT VIEWS ON SABANA REIT. IT ALSO DISCLOSES OUR CURRENT HOLDINGS OF SABANA REIT SECURITIES. OUR VIEWS AND OUR HOLDINGS COULD CHANGE AT ANY TIME. WE MAY SELL ANY OR ALL OF OUR HOLDINGS OR INCREASE OUR HOLDINGS BY PURCHASING ADDITIONAL SECURITIES. WE MAY TAKE ANY OF THESE OR OTHER ACTIONS REGARDING SABANA REIT WITHOUT UPDATING THIS LETTER OR PROVIDING ANY NOTICE WHATSOEVER OF ANY SUCH CHANGES. INVESTORS SHOULD MAKE THEIR OWN DECISIONS REGARDING SABANA REIT AND ITS PROSPECTS WITHOUT RELYING ON, OR EVEN CONSIDERING, ANY OF THE INFORMATION CONTAINED IN THIS LETTER.

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