

Quarz and Black Crane Reply to Sabana REIT Manager's Questions (dated 20 Nov 2020)

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"IMPORTANT DISCLOSURE INFORMATION"
AT THE END OF THE ATTACHED LETTER

27 Nov 2020

We refer to the Sabana REIT Manager's press release on 20 November 2020 and their various questions directed to us in Appendix 1 of the said press release.

Many questions were asked on various issues which we had previously raised, but it is clear that these questions are intended to deflect attention from the main issues at hand, which are:

- **The conflicts of interest of the Sabana REIT Manager and ESR**
- **The substantial undervaluation of Sabana REIT implied by the terms of the proposed merger with ESR.**
- **The consistent poor performance of the Sabana REIT as compared to larger industrial peers and therefore, the questionable competence of the Sabana REIT Manager**

None of the above issues were satisfactorily addressed by the Sabana REIT Manager to date.

Do not be fooled by Sabana REIT Manger's claim that this is not an asset sale and hence the discount to NAV does not matter. As ESR REIT is much larger than Sabana REIT, Sabana unitholders will only retain a 23% interest in the Sabana properties, so this is 77% an asset sale.

The Sabana REIT Manager appears to be replicating their past strategy from 2017 to employ scare tactics, highlight their 'poison pill' strategy, so as to intimidate unitholders and distract unitholders from the main issues raised by us above.

It is all the more pertinent for unitholders to exercise their voting rights to vote down the unmeritorious merger with ESR as a first step and to remove the underperforming Sabana REIT Manager as a second step.

Minority unitholders who account for over ~70% of total unitholders must band together to remove an underperforming REIT manager who no longer safeguards the unitholders' best interests.

We will touch on some of the matters and concerns raised in the said press release below to illustrate that none of such matters or concerns raised pose any real hurdle to removing the Sabana REIT Manager despite their skilled employment of the poison pill strategy.

Internalized REIT Manager

Sabana Manager had questioned the likelihood of whether our proposal to internalize the REIT will succeed given that all unitholders (including ESR and their affiliates) will be entitled to vote on the removal of the Sabana Manager. Is the Sabana Manager implying that the main safeguard for minority unitholders imposed by MAS in the Code on Collective Investment Schemes is useless due to the intention of ESR and their affiliates to block any such proposal and to cement their position in order to protect their own Manager's fee income?

WE BELIEVE THAT IF MINORITY AND INDEPENDENT UNITHOLDERS TURN UP IN FULL FORCE TO EXERCISE THEIR RIGHTFUL VOTE, THERE IS A GOOD CHANCE OF SUCH AN INTERNALIZATION PROPOSAL SUCCEEDING.

There are many good reasons (as elaborated on below) to remove the current REIT Manager and approve to form an internalized REIT Manager.

- 1. ESR and Sabana REITs whose managers are majority owned by ESR Cayman are the WORST PERFORMING REITs YTD among their SGX-listed industrial peers.**

While both ESR and Sabana REIT managers emphasize size benefits as the key reason for the proposed merger, **ESR REIT is the worst performing REIT YTD and has even underperformed its smaller industrial peers** (such as AIMS APAC, Soilbuild, ARA Logos and even Sabana REIT).

It is evident from the above that the REIT managers lack competence and execution capability.

- 2. By removing the underperforming REIT Manager, all unitholders will no longer need to pay the hefty management fees.**

All the profits of the current REIT manager will be directed back to unitholders. The cost savings from the management fees will potentially increase DPU to all unitholders by ~7.5%.

The ~S\$2million cost savings is estimated from Sabana REIT Manager's Profit from Operating Activities of ~S\$2.6million in Financial Year End 30 April 2019 (Financial Statement available from ACRA).

3. **The potential conflict of interest between ESR REIT and Sabana REIT** (due to same ownership of the REIT Managers) **will be immediately resolved**. Sabana unitholders will have no worry about overlapping investment mandates and whether the manager's interest is fully aligned with theirs.
4. **The current REIT manager endlessly “whines”** about the difficulties and constraints due to the small asset base of Sabana REIT. The current REIT Manager has clearly run out of ideas to help Sabana unitholders besides the value destructive merger proposal.

Given their own admissions of their limitations, **they should be replaced with competent professionals with expertise to develop and execute on value creating strategies for the REIT.**

5. ESR Cayman has repeatedly claimed that Sabana REIT Manager is “completely independent” and it does not interfere in any strategic decisions or operations. If it is indeed true that ESR does not exert any control on Sabana REIT Manager, **there is no reason why ESR should be against an internalized REIT Manager owned by all unitholders and for all unitholders.**

If ESR does not agree to the internalization, will it be a clear admission that ESR obviously wants the benefit of control that ownership of the REIT manager confers?

If so, this will fully contradict the “independence over Sabana REIT Manager” that ESR has consistently claimed.

Further, **we do not intend to buy or acquire the current Sabana REIT Manager** which ESR possibly purchased for ~S\$40million.

Our proposal is for Sabana REIT through its trustee to set up a new internal REIT Manager with the necessary regulatory approval. Sabana REIT with one of the lowest leverage levels among SGX-listed REITs can easily finance the low setup cost and the minimum S\$1million in capitalization. We have already commenced initial steps towards this end with a view to a smooth transition to the new internalized REIT Manager.

We are highly confident that the regulatory authorities will approve and support an internalized REIT Manager and grant the necessary licenses/approvals, **if the majority of unitholders support this.**

The internal manager setup will be similar to that of NetLink Trust which is highly reputable and has consistently ranked No. 1 in the Governance Index for Trusts (GIFT). This is in contrast to the current Sabana REIT which has consistently ranked among the bottom in the 2019 and 2020 Governance Index for Trusts and the Singapore Governance

and Transparency Index for Trusts in 2018, 2019 and 2020. **This has been done before and can also be done for Sabana REIT.**

There is also no question of lack of suitable persons to helm the internal REIT Manager as Singapore is the 3rd largest listed REIT market in Asia Pacific, with a ready and deep talent pool of professionals with REIT management expertise. Again, we have already identified several possible candidates with strong credentials, experience and track record in the commercial and industrial real estate sector both in Singapore and regionally.

IT IS VITAL THAT THE UNITHOLDERS VOTE TO REMOVE THE SABANA MANAGER FIRST. We intend to propose that the trustee to be instructed to make necessary arrangements to set up the new Manager, and for the Sabana Manager be removed with effect from the time when the new Manager is set up and appropriately licensed.

We are also confident that ESR, as the biggest unitholder, will cooperate with the new internalized REIT manager to ensure the smooth transition. After all, ESR Cayman and its affiliates collectively own ~23% of Sabana REIT and will be the biggest loser should any issues occur during the transition.

As ESR Cayman is a public listed company, it is answerable to its shareholders, that after losing ~S\$40million through the removal of the REIT manager, it will potentially lose even more of its investments in Sabana REIT if a changeover is not executed properly.

If ESR Cayman intends to write-off another more than ~S\$85million investment in Sabana REIT units through a 'botched handover', we advise the board and management of ESR Cayman to promptly inform and disclose their intentions to their shareholders.

Poison Pill strategies: Change of control provisions

The Sabana Manager has repeatedly stressed that a change of manager will result in defaults on existing financing of Sabana REIT, including in 2017 when a proposal was made to remove them. Is Sabana Manager saying that there will be undesirable consequences if they are removed as manager? Is this not a veiled threat to unitholders? Are they saying that unitholders will never be able to remove the Sabana Manager as a result?

We point out that there is no way of verifying whether such claim is valid given that the relevant financing documents are not made public. Even assuming that such a claim is true, we are confident that the banks will support (and they have good reason to support) the thousands of Sabana unitholders instead of a 'selfish' underperforming manager who is now resorting to 'scare tactics' of 'triggering change of control provisions' to preserve its self-interest out of fear of being removed.

- Sabana REIT has one of the lowest leverage level at ~33.6% among SGX-listed REITs. The loans are substantially backed by the strong rental income and property NAVs and not by an underperforming REIT Manager.
- The entire property portfolio is in Singapore which is a highly transparent and attractive market, governed by the highest standard of regulation and globally considered as a 'safe haven'.

The removal of an underperforming REIT Manager should therefore have no implication on the ability to obtain or retain debt finance. We are confident that the requisite change of control approvals from bank for existing facilities can be obtained and if not, fresh financing can be readily obtained on terms which are on par with, if not better than existing facilities.

Based on discussions with a number of financial institutions and investors, we have received strong and serious indicative interest in financing Sabana REIT given the portfolio's strong rental cashflow and that its assets are entirely in Singapore. **However, all these are irrelevant until and unless unitholders take the first step of voting to remove the Sabana Manager.**

Forecasts

We have already elaborated on the basis of the forecasts made in our previous letters based on what is readily available in the public domain. A qualified professional with REIT management expertise will be able to easily understand the constructed forecast.

Again, all of these questions are designed to distract unitholders from the fact that the Sabana Manager has serious potential conflicts of interest issues and a history of poor performance.

We also highlight that the board and Sabana REIT Manager had acknowledged and reported the following:

- 1) Rental contribution from the retail component of 151 Lorong Chuan in 2021E;
- 2) Decrease in financing cost from 3.8% in 2Q2020 to 3.2% in 3Q2020;
- 3) Increase in occupancy rate from 77% in 2Q2020 to 80% in 3Q2020

Given the substantial improvement in the above metrics and additional rental income, 2021E DPU (and even 2H2020 DPU) will naturally be much higher than the 1H2020 DPU which Sabana REIT Manager originally used in the proposed merger calculation. **Why were these figures not included and adjusted accordingly in the proposed merger calculation to provide more information and transparency to Sabana unitholders?**

The above metrics and additional rental income would have potentially made the proposed merger no longer DPU accretive in FY2021. Consequently, Sabana



unitholders would have received less DPU in 2021E in your proposed merger entity than on a standalone basis.

WOULD YOU NOT AGREE THAT THE PROPOSED MERGER IS THEN VALUE DESTRUCTIVE TO SABANA UNITHOLDERS (INCLUDING THE UNPRECEDENTED DISCOUNT TO BOOK VALUE)?

If the Sabana REIT Manager is aware of any pertinent fact or matter which is not publicly available and which is likely to affect our forecast or any assumptions made, we urge the disclosure of such information so that unitholders can make their own independent assessment on the financials.

We call on Sabana REIT Manager to fulfill your fiduciary duties and provide all unitholders with clear and transparent figures which will show an improvement in DPU in 2021E such that unitholders have all the information to consider the proposed merger.

Quarz and Black Crane HAVE VOTED AGAINST the ESR-Sabana REITs proposed merger.

Please visit our website at WWW.SAVESABANAREIT.COM for more information.

We look forward to a conflict free, re-energized Sabana REIT with strong prospects to create unitholder value!

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