

# SABANA INDUSTRIAL REIT

**Increase Sabana REIT's DPU, Unit Price and  
Corporate Governance through:**  
**VOTE FOR the Removal of The Current Manager**  
**VOTE FOR the Setup of An Internal Manager**

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# VOTE FOR the below resolutions at EGM

ORDINARY RESOLUTIONS	FOR	AGAINST
1 That Sabana Real Estate Investment Management Pte. Ltd. be removed as the manager of Sabana Industrial REIT as soon as practicable after this resolution is passed		
2 That the Trustee of Sabana Industrial REIT, HSBC Institutional Trust Services (Singapore) Limited, be directed to:  i. effect the internalization of the REIT Management function by incorporating a subsidiary (“Internal Manager”) wholly owned by the Trustee and appointing such a subsidiary to act as the manager of Sabana Industrial REIT (the “Management Subsidiary”);  ii. hire and appoint qualified candidates as directors and staff of the Internal Manager in accordance with the applicable requirements of the <i>Securities and Futures Act 2001</i> ;  iii. consider the retention of Sabana REIT’s existing staff in order to maintain the continuity of Sabana REIT’s operations;  iv. amend the provisions of the Deed such that each director of the Internal Manager may be appointed and/or removed by a simple majority of unitholders;  v. amend the provisions of the Deed such that each director of the Internal Manager must be endorsed or re-endorsed by unitholders at every 3rd annual general meeting of Sabana REIT; and  vi. amend the provisions of the Deed such that any change of control in the Internal Manager may only be effected upon approval of a simple majority of unitholders.		



# Join to receive updates and information

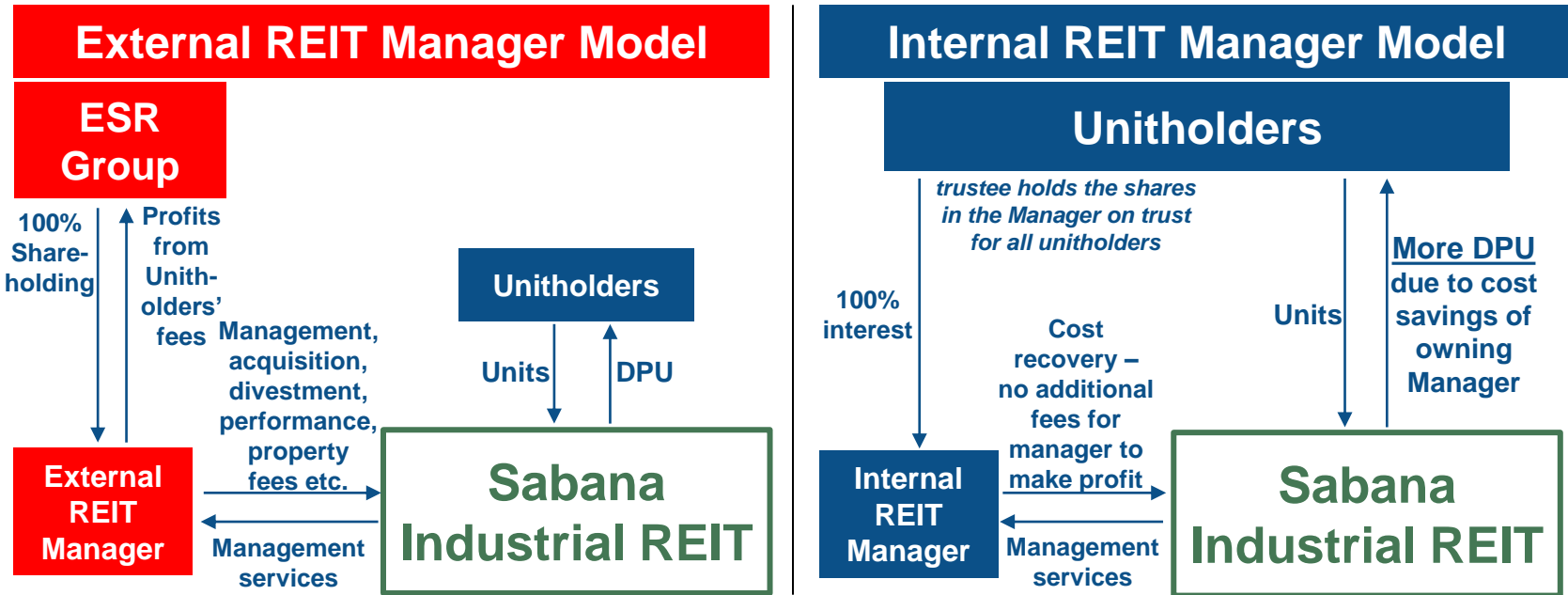
**Join to receive information on how to take action and vote to improve the DPU, unit price and corporate governance at Sabana REIT**

<b>Register at website</b>	<b><u><a href="http://WWW.SAVESABANAREIT.COM">WWW.SAVESABANAREIT.COM</a></u></b>
<b>Join Telegram Group</b>	<b><u><a href="https://t.me/savesabanareit">https://t.me/savesabanareit</a></u></b>
<b>Zoom Webinars Timings, Links and ID</b>	<b>Thursday 6<sup>th</sup> of July 2023 at 8.00pm <u><a href="https://us02web.zoom.us/j/88970799227">https://us02web.zoom.us/j/88970799227</a></u> (meeting ID 889 7079 922)</b>
<b>Youtube Video</b>	<b><u><a href="https://youtube.com/@quarzcapi2614">https://youtube.com/@quarzcapi2614</a></u></b>
<b>Contact No.</b>	<b>+65 8684 6968</b>



# Benefits and upside from internalization – (1/2)

## Unitholders will own 100% of the newly set-up Internal REIT Manager



Unitholders are proposing to remove the current External REIT Manager (“External Manager”) and to replace it with a newly set-up Internal REIT Manager (“Internal Manager”) owned by all unitholders (referred to as “internalization”)

DPU will increase mainly from cost savings of eliminating ~S\$7.25 million of fees (S\$4.4 million management fees, ~14% of distributable income) and net profit which unitholders currently pay to the External Manager owned by ESR

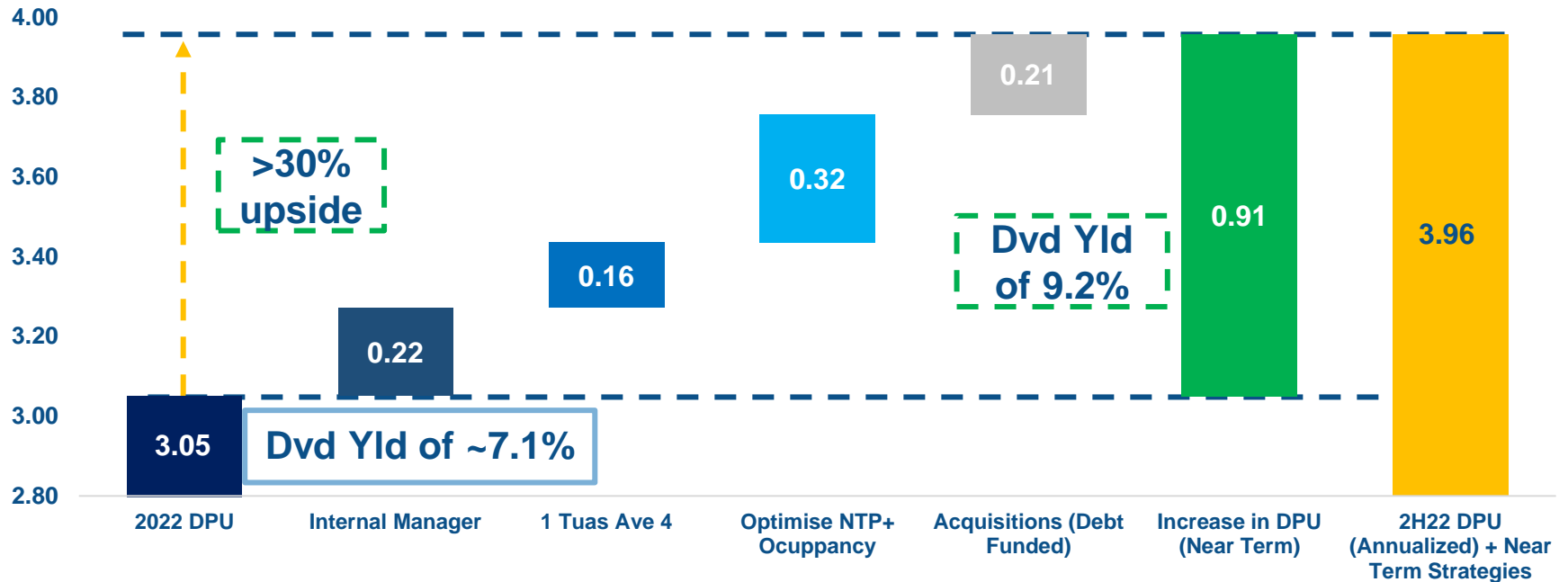
Removal of the External Manager will also eliminate all other fees (e.g. performance, acquisition, divestment, lease and management fees) paid by unitholders to the External Manager.

**The internalization is projected to increase the DPU to unitholders by more than ~7.2% to S\$0.0327 per unit (~7.6% Dividend Yield) once the External Manager is removed.**



# Benefits and upside from internalization – (2/2)

## Internalization can potentially increase DPU and unit price by ~30%



1. Cost savings of ~S\$2.4million p.a. through elimination of fees charged by current manager (+DPU of S\$0.0022, upside of ~7.2%)
2. Complete the asset enhancement of 1 Tuas Ave 4 and rent out 90% of the asset at net rent of S\$1.45psf/mth (+DPU of S\$0.0017, upside of ~5.4%)
3. Increase occupancy rate at NTP+ to ~90% through innovative space usage (+DPU of S\$0.0032, upside of ~10.5%)
4. Undertaking ~ S\$85m of acquisition funded with yield of 7.2% fully by debt (+DPU of S\$0.002, upside of ~6.7%)

**Cost savings & Internal Manager's prompt execution of key strategies can potentially increase DPU and unit price by ~30% to more than ~S\$0.55 (potential dividend yield of >9.2%)**



# Current Manager Should Be Removed

## Sabana External REIT Manager is the worst performing among peers

Name	Occupancy Rate %					NAV Per Unit	Price	Premium to NAV %	Change in DPU 2H22 YoY %	Change in DPU 2H22 HoH %
	4Q18	4Q19	4Q20	4Q21	4Q22					
JTC National Average	89.3	89.2	89.9	90.2	89.4					
AIMS APAC REIT	93.9	89.4	95.7	97.6	97.8	1.35	1.24	-7.9	11.3	11.6
CapL Ascendas REIT (SG)	87.3	87.2	88.4	90.2	92.1	2.37	2.69	13.5	4.3	0.7
ESR Logos REIT	93.0	90.5	91.0	93.7	92.7	0.35	0.32	-8.0	7.5	5.5
Mapletree Ind Trust (SG)	87.7	90.5	92.2	93.7	96.9	1.85	2.22	20.0	-3.7	-1.9
Mapletree Log Trust (SG)	97.0	97.2	98.1	98.1	98.3	1.44	1.68	16.7	0.9	-0.5
Average of Peers	91.8	91.0	93.1	94.7	95.6			6.8	4.1	3.1
Sabana REIT	84.4	75.4	76.5	85.4	88.2	0.53	0.43	-18.9	-7.0	-8.2

Since ESR took over Sabana External Manager in 3Q2019, Sabana REIT's occupancy rate & discount to NAV at -19% has been the worst among its listed S-REIT peers

NAV per unit fell ~8% from S\$0.57 in 2019 to S\$0.53, 2H2022 DPU suffered largest YoY/HoH decline

Occupancy rate in key assets plummeted in 4Q2022: Frontech Centre 94%→66%, 8 Commonwealth Lane 100%→82%, 10 Changi South St 2 80%→74% and NTP+ (81%→77%)

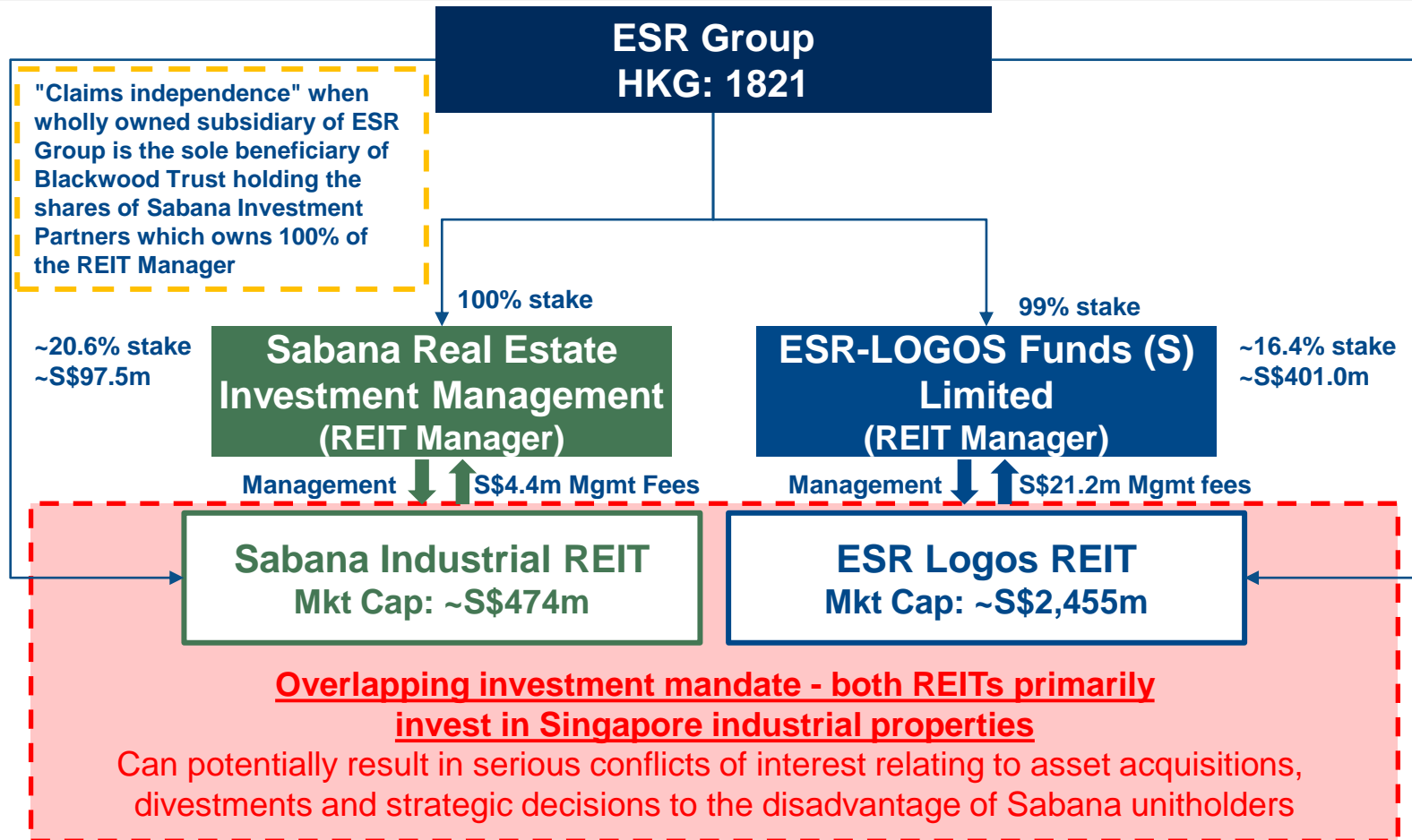
**If substantial unitholders did not increase their stakes, Sabana REIT unit price could have potentially decreased to <S\$0.40 given the worsening performance of the External Manager**

*\*(SG) – occupancy rate of Singapore portfolio of the respective REITs/Trust*

*Occupancy rate of Sabana REIT includes 1 Tuas Ave 4 which is vacant & under AEI. While some peer REITs/Trust exclude properties under AEI when calculating occupancy rate, these are insignificant omissions (<1.5%) vs Sabana REIT where 1 Tuas Ave 4 is ~3.8% of total GFA*



# Current manager continues to underperform – (1/2)



After nearly ~4 years, ESR Group continues to show ZERO INTEREST in resolving the potential serious conflicts of interest issues which can depress Sabana unitholders' DPU and unit price

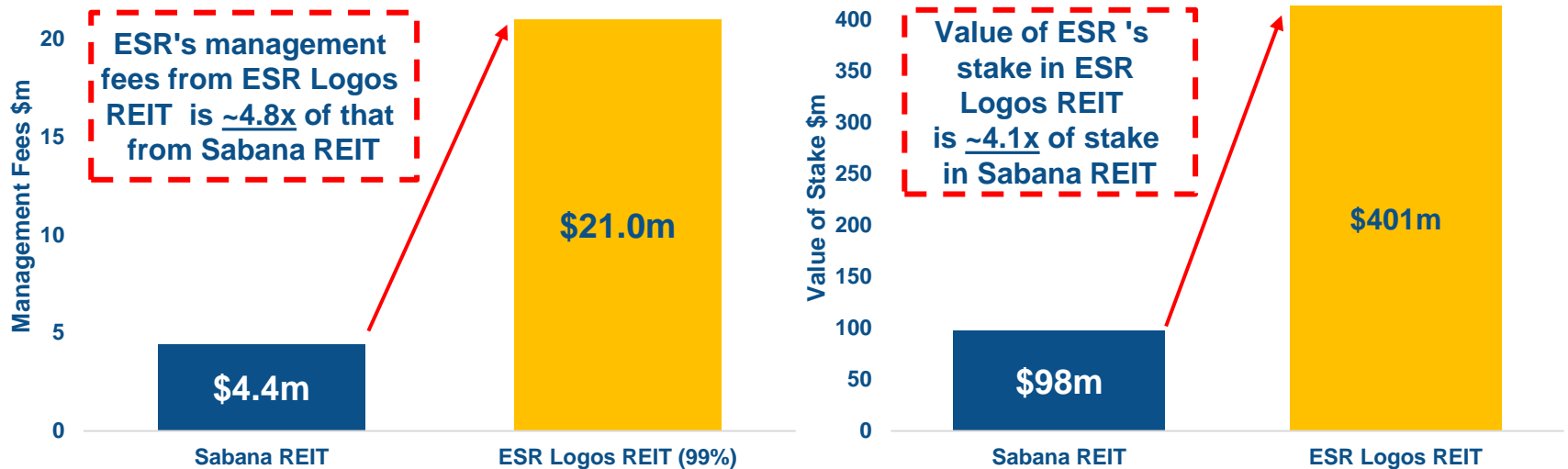
\* Management fees from ESR Logos REIT and Sabana REIT 2022 Annual Reports





# Current manager continues to underperform – (2/2)

## ESR Group prioritizing ESR Logos REIT due to larger stake and fees?



ESR Group's management fees and value of its stake in ESR Logos REIT is ~4.8x and ~4.1x larger than its management fees and value of stake in Sabana REIT

As a Hong Kong listed company with fiduciary duties towards its investors, ESR Group will potentially prioritize ESR Logos REIT over Sabana REIT due to the above

This could be seen in 2020 when the directors of the External Manager of Sabana REIT recommended a lowball merger at implied price of S\$0.30 a discount of >40% to NAV

Offer was potentially beneficial to ESR REIT & ESR and disadvantageous to Sabana unitholders

**As a result of the above corporate governance flaws, Sabana REIT's DPU and unit price can continue to potentially stay depressed or even fall further**

\* Management fees from ESR Logos REIT and Sabana REIT 2022 Annual Reports, merger offer of 0.94x ESR Logos REIT (current price of S\$0.32) unit for 1 Sabana REIT Unit. ESR Logos REIT unit price of S\$0.32 on 5 June 2023



# Misalignment of interest of Sabana External Manager

## Misalignment of interests between External Manager and unitholders?

<b>Sabana REIT External Manager</b>	<b>New Internal REIT Manager</b>
<p>Owned By ESR Group</p> <p>Works for ESR Group</p> <p>'Board' Claims it Appoints Directors and not ESR Group</p> <p>Earn Fees and Profits from Unitholders</p> <p><u>Increase Profit for ESR by:</u></p> <ul style="list-style-type: none"><li>• Increasing Acquisitions Fees</li><li>• Increasing Management Fees</li><li>• Buying Sponsor's assets at a profit for Sponsor</li></ul> <p>Lack Alignment of Interest with Unitholders</p> <p>Weak Corporate Governance</p> <p>Overlapping Investment Mandate</p> <p>Potential Conflicts of Interest</p>	<p>Owned by All Unitholders</p> <p>Works for the Unitholders</p> <p>Unitholders Appoint Directors</p> <p>Cost Recovery – Cost Savings Pass Back to Unitholders</p> <p><u>Increase Profit for Unitholders by:</u></p> <ul style="list-style-type: none"><li>• Increase in DPU (dividend)</li><li>• Increase in Unit Price</li></ul> <p>Full Alignment of Interest with Unitholders</p> <p>Strong Corporate Governance</p>

New Internal Manager-  
Unitholders Are the  
No. 1 Priority

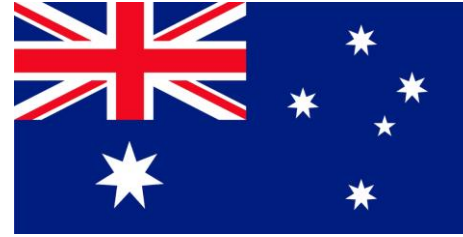


The replacement of the ESR Group owned External Manager by an Internal Manager will resolve the potential corporate governance flaws and can potentially result in higher DPU and unit price to Sabana unitholders in the future



# Internally managed REITs - the norm

## Internally managed REIT is the norm in developed REIT markets



- Market capitalization of REIT sector in US and Australia (“AU”) exceeds ~S\$1.4 trillion vs (~S\$100 billion for Singapore ), REIT markets in existence since 1970s vs 2002 in Singapore
- ~97% and ~90% of REITs in US and AU managed by internal managers
- While Internal Managers works to increase the DPU and unit price of unitholders, External Managers also works for its owner, the sponsor, by increasing its profitability where possible.
- **An External Manager can increase the profitability of its sponsor by:**
  - A. Increasing acquisition fees from doing more acquisitions;
  - B. Increasing management fees by acquiring and enlarging the portfolio; and/or
  - C. Acquiring the sponsor’s properties at a profit for the sponsor’s benefit

**Unitholders in Australia and US have strong preference for Internal Manager Model due to its complete alignment of interests with unitholders, better performance and stronger corporate governance**

**As such, most of the REITs converted to the Internal Manager Model to benefit unitholders**



# External REIT managers performing badly – (1/2)



- IPOed in May 2019 at USD 0.78 and suspended in March 2020 (-100%)
- Sponsor who also owns and controls REIT manager injected hotel assets at inflated valuation using master leases with sponsor
- Sponsor stopped paying leases in 2020 resulting in loans to default
- Unitholders' investment completely wiped out
- Sponsor 'walked away' with hundreds of millions of unitholders' monies used to purchase the properties from sponsor

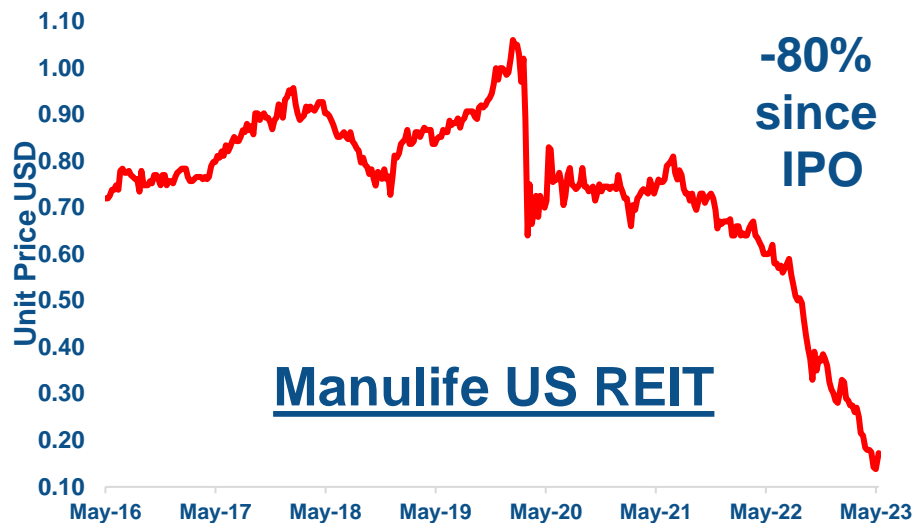


- IPOed in Jan 2017 at S\$0.80 vs current price of S\$0.127
- Acquired ~S\$375m of mall assets from then sponsor and raised leverage level from ~33% in June 2019 to 38.5% in sept 2020
- Sino Ocean Capital became new sponsor of REIT after purchasing units and stake in manager from previous sponsor
- From 2021, REIT faced refinancing issues due to leverage and cashflow issues
- Ex sponsor alleged that independent director pushed for a legally binding MOU for REIT to buy assets in China on terms that disadvantage unitholders

\*Unit prices as of 1 June 2023



# External REIT Managers performing badly – (2/2)



- IPOed in May 2016 at USD 0.83 vs current price of USD 0.170 (-80%)
- Sponsor sold more than ~USD 1.4billion of assets to the REIT
- External Manager also collected more than ~\$80million of fees from unitholders since IPO.
- Despite already high leverage of ~41% in 2021, External Manager continued acquiring assets
- When unit price collapsed in 2022, sponsor started discussion with Mirae to sell External REIT Manager at a potentially substantial profit

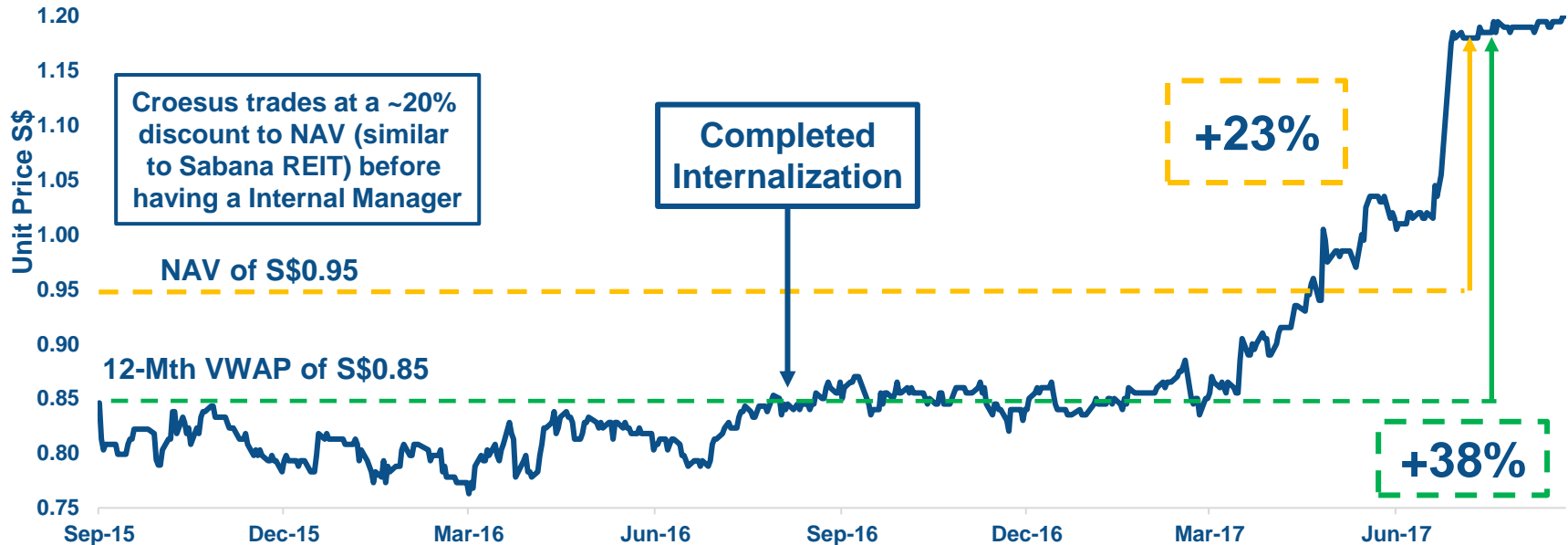
**Manulife US REIT, Eagle Hospitality Trust and Dasin Retail Trust are three examples of how misaligned interests between External Managers and unitholders can substantially negatively impact unit prices and DPU**

*Unit prices as of 1 June 2023*



# Successful examples of Internal Managers – (1/2)

## Takeover by Blackstone at 23% above NAV after Croesus' internalization

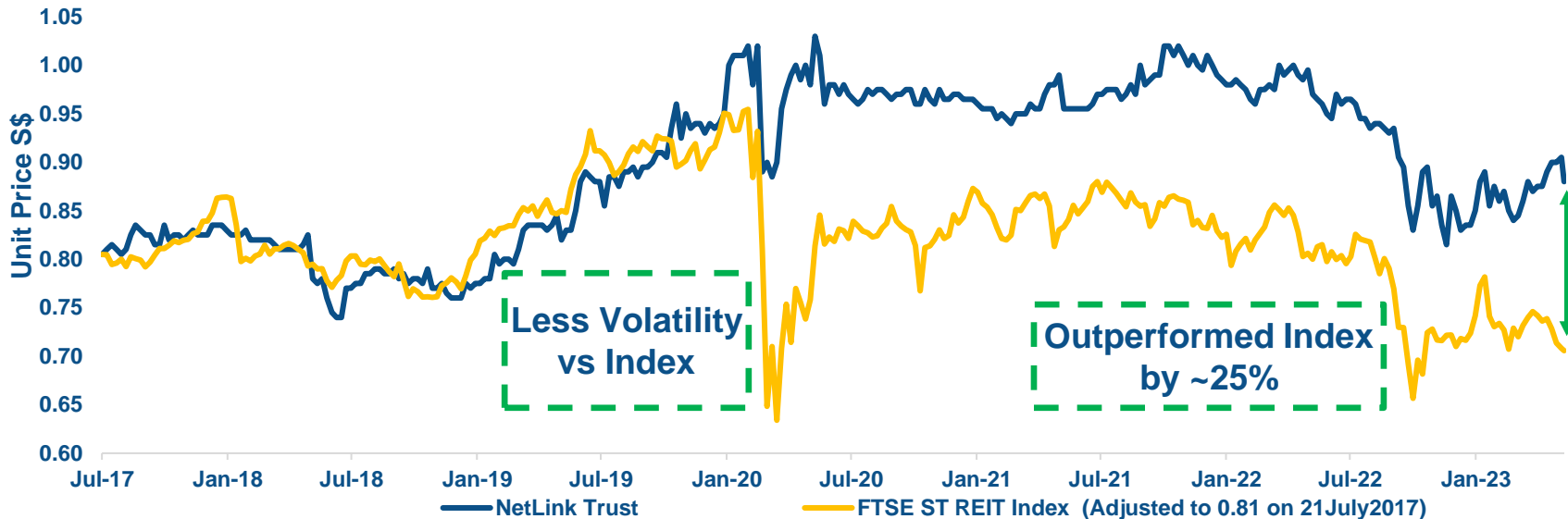


- Croesus Retail Trust's unit price had consistently traded at a sharp discount of 20% to its book value of ~S\$0.95 (similar to the situation at Sabana REIT)
- Trust conducted the internalization of its manager in August 2016 to align the manager's interest with unitholders and focus on increasing DPU, unit price and corporate governance
- DPU increase by more than 15% YoY in 3Q2017 as the Internal Manager worked hard to reduce interest cost by 12% to 1.69% and increase rental income
- In less than 10 months after the manager was internalized, Croesus Trust sold itself to Blackstone at a premium of ~23% to its book value and a premium of ~38% to its VWAP in the last 12 months



## Successful examples of Internal Managers – (2/2)

### NetLink Trust has outperformed its benchmark index by 25% since IPO



- NetLink Trust has delivered a total return (including dividend) of 44% since IPO
- DPU increased by ~8% without any need for acquisitions
- Unit price has outperformed index (REITs/Trusts with External Managers) with low net gearing of ~20%
- Complete alignment of interest with unitholders
- Best in class corporate governance – appointment and re-election of directors (every 3 years) are all subjected to unitholders' approval
- Ranked No 1 in ASEAN Corporate Governance Scorecard, Governance Index for Trusts



# Fabricated "scare tactics" – (1/2)

## Sabana REIT has the 6<sup>th</sup> lowest leverage among SGX-listed REITs

SGX REITs with Lowest Leverage			
Rank	Name	Leverage (%)	Fixed Rate Debt (%)
1	Sasseur REIT	25.7	77.2
2	Fraser Log Trust	27.8	76.2
3	Paragon REIT	29.8	84.0
4	Far East Hosp Trust	32.0	47.3
5	IREIT Global	32.3	96.9
6	Sabana REIT	33.1	82.8
7	Digital Core	34.4	74.0
8	Fraser Hospitality Trust	35.2	86.5

SGX REITs with Highest Leverage			
Rank	Name	Leverage (%)	Fixed Rate Debt (%)
33	Mapletree PanAsia Trust	40.9	75.5
34	CapLand Int Trust	40.9	77.0
35	ESR Logos REIT	41.6	72.7
36	Suntec REIT	42.8	72.0
37	Lippo Malls	42.9	38.7
38	Prime US REIT	43.7	79.0
39	Elite Comm REIT	46.6	68.0
40	Manulife US REIT	49.5	80.2

\*Leverage in 1Q2023

- External Manager might use "change of control provisions" as "scare tactics" to make unitholders continue paying fees (manager can generate profit for ESR Group, CEO and directors can continue to be paid one of the highest salaries and fees among SGX-listed REITs)
- Sabana has the 6<sup>th</sup> lowest leverage and strong cashflow - takes less than 6 years to pay off its entire loan from Net property income (vs >11 years for Keppel and Suntec REITs)
- Property portfolio entirely in Singapore –transparent, stable and attractive market where institutional investors/sovereigns fund are looking to invest in attractive and high yielding industrial properties

**Sabana REIT's low leverage is backed by its strong cashflow (<6 years to pay off loan from property income) and high quality "Singapore only" property portfolio**

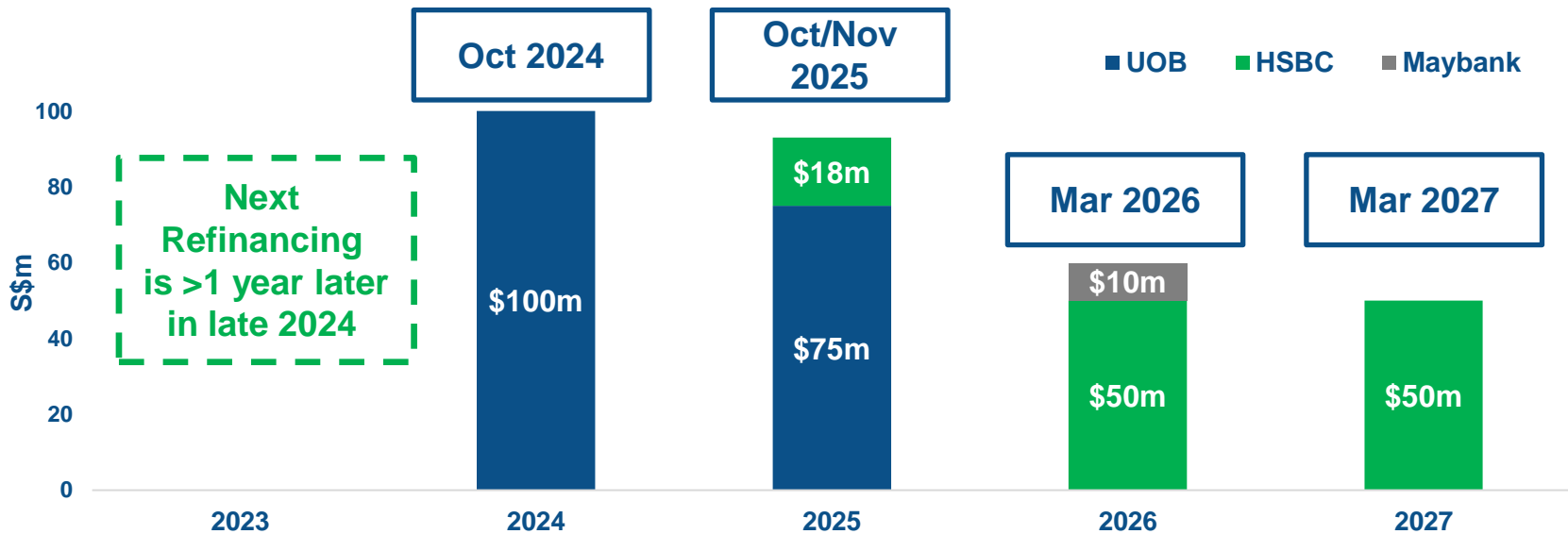
\*as of 31<sup>st</sup> March 2023





# Fabricated "scare tactics" – (2/2)

Leverage of only 33.1% with next refinancing >1 year later



- Internal Manager will focus on quickly improving occupancy rate and dividend per unit above all else
- Win-Win for main financiers as they will be supporting a REIT with even stronger portfolio and cashflow

Confident that Sabana REIT's current bankers (UOB, HSBC, Maybank) will choose to support corporate governance and >10,000 Sabana unitholders many of whom are Singaporeans and also their clients over an External Manager which has been removed by unitholders due to potential conflict of interest, corporate governance concerns and severe underperformance



# ESR loses the most from "change of control" issue

## ESR Group would be "biggest loser" in a "change of control" situation

- ESR Group's investment in Sabana REIT ~21% stake (valued at ~S\$98million), External Manager (purchased for >\$30million)
- Stand to lose entire investment if there is any change of control provision issue
- Potential loss may cast serious doubts on ESR Group's entire REIT management business model where it and its associates own more than 13 REIT managers.
- May potentially result in ESR Group 'ESG hungry' capital partners such as GIC, OMERS and APG to reconsider and/or stop new and existing investments with the firm given the negative corporate governance implications
- This can potentially result in the further substantial loss of ESR Group's market capitalization and valuation. ESR Group's share price has already collapsed nearly -30% and -55% since its IPO and late 2021

**If ESR's share price was to correct severely due to the above, it could expose the board of directors to potential lawsuits from its shareholders.**

*ESR Group's share price of HKD11.94 on 5th of June 2023, IPO price of HKD16.8 and 31st Dec 2021 price of HKD 26.35*



# Hire best team for Internal Manager

## 1) retaining existing staff & 2) hire best candidates in the market

### Retain existing staff from External Manager:

- 100% of revenue and profit of External Manager from Sabana REIT and unitholders – fees will cease once External Manager is removed
- External Manager will likely terminate most employees
- Welcome all management and staffs who prioritize the interests of and are aligned with unitholders to join the new Internal Manager

### Hire "best and brightest" candidates in the market:

- Singapore is the 3rd largest listed REIT market in Asia Pacific with a ready and deep talent pool of professionals.
- ongoing consolidation in the SGX-listed REIT market with more than 10 mergers and the privatization acquisitions in the SGX-listed REIT space over the last 7 years have resulted in highly qualified personnel being let go due to duplicity, despite their substantial REIT expertise.

**By hiring the best and the brightest from market to complement hires from the old External Manager, the Internal Manager is potentially the best placed to achieve the goal of increasing DPU and unit price to at least S\$0.53**



# Regulators should support internalization at Sabana

**MAS has affirmed that “*high standards of corporate governance, characterized by strong accountability and transparency, are critical in upholding investor confidence in our Singapore’s capital markets*”**

- ESR Group has had nearly 4 years to resolve the potentially critical overlapping investment mandate which leads to conflicts of interest issues.
- Seem to have shown little to no interest in resolving these issues besides a ‘lowball’ merger offer from ESR Logos REIT at an implied price of S\$0.30 at a 40% discount to the NAV of Sabana REIT.
- The External Manager passed on the entire cost of the failed merger to unitholders.
- In April 2022, the board of the External Manager attempted to appoint Mr. Charlie Chan as an ‘independent director’ despite him receiving a substantial premium of ~S\$22 million over market price from ESR Group. This appointment was rejected by more than 77% of unitholders.
- In April 2023, even though ~90% of all unitholders rejected the endorsement of Ms. Elaine Lim, instead of respecting the votes of unitholders and corporate governance, the board went through convoluted process to continue appointing her as a director.

**Internalization of the Sabana REIT manager will once and for all resolve the above corporate governance issues. It will also substantially improve accountability and corporate governance at Sabana REIT.**

**The regulators, by supporting this internalization proposal, may also clearly demonstrate to existing External Managers of REITs listed on SGX that actions which damage unitholders’ interest and confidence of investors, as well as lower the corporate governance standards and the reputation of Singapore’s financial market, will no longer be tolerated**



# VOTE FOR both resolutions at the upcoming EGM

**VOTE FOR THE REMOVAL OF THE CURRENT  
EXTERNAL MANAGER**

**VOTE FOR THE SETUP OF A NEW INTERNAL  
MANAGER THAT IS ALIGNED WITH ALL  
UNITHOLDERS' INTERESTS TO INCREASE DPU, UNIT  
PRICE AND CORPORATE GOVERNANCE**

Register at website	<a href="http://WWW.SAVESABANAREIT.COM">WWW.SAVESABANAREIT.COM</a>
Join Telegram Group	<a href="https://t.me/savesabanareit">https://t.me/savesabanareit</a>
Zoom Webinars Timings, Links and ID	Thursday 6 <sup>th</sup> of July 2023 at 8.00pm <a href="https://us02web.zoom.us/j/88970799227">https://us02web.zoom.us/j/88970799227</a> (Meeting ID: 889 7079 9227)
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