

25 June 2023

**To: Unitholders of Sabana Industrial Real Estate Investment Trust**  
**c/o Sabana Real Estate Investment Management Pte. Ltd.**  
151 Lorong Chuan  
#02-03 New Tech Park  
Singapore 556741

Dear Unitholders

**OPEN LETTER TO THE UNITHOLDERS OF SABANA INDUSTRIAL REAL ESTATE INVESTMENT TRUST REGARDING OUR CONCERNS OVER THE REQUISITION NOTICE FROM QUARZ CAPITAL ASIA (SINGAPORE) PTE. LTD. IN RELATION TO THE PROPOSED INTERNALISATION OF THE MANAGEMENT FUNCTION OF SABANA REIT**

We, ESR Group Limited ("**ESR**"), are a unitholder of Sabana Industrial Real Estate Investment Trust ("**Sabana REIT**"), with a total (direct and deemed) interest in approximately 20.6% of the total issued units of Sabana REIT, which is managed by Sabana Real Estate Investment Management Pte. Ltd. ("**SREIM**" or the "**Sabana Manager**").

We refer to the letter dated 7 June 2023 from Quarz Capital ASIA (Singapore) Pte. Ltd. ("**Quarz**") to the board of directors of the Sabana Manager in relation to the requisition to convene an extraordinary general meeting (the "**Proposed EGM**") for the proposed internalisation of the management function (the "**Proposed Internalisation**") by way of removal of the Sabana Manager as the manager of Sabana REIT (the "**Proposed Removal**") and amendments to the trust deed (collectively, the "**Proposed Actions**"), as published on [www.savesabanareit.com](http://www.savesabanareit.com) (the "**Requisition Letter**").

As a fellow unitholder of Sabana REIT (a "**Unitholder**"), we are writing to the Unitholders to share a number of grave concerns we have with regard to the Proposed Actions.

**1. PROPOSED RESOLUTIONS**

1.1 We note that Quarz has in the Requisition Letter proposed to table the following resolutions as ordinary resolutions (the "**Resolutions**"):

- (a) the removal of SREIM as the manager of Sabana REIT as soon as practicable after such resolution has been passed (the "**Removal Resolution**"); and
- (b) HSBC Institutional Trust Services (Singapore) Limited (in its capacity as trustee of Sabana REIT) (the "**Sabana Trustee**") be directed to:
  - (i) effect the internalisation of the real estate investment trust ("**REIT**") management function by incorporating a subsidiary (the "**Internal**")

**ESR Group Limited**

**Manager**") wholly owned by the Sabana Trustee and appointing such a subsidiary to act as the manager of Sabana REIT;

- (ii) hire and appoint qualified candidates as directors and staff of the Internal Manager in accordance with the applicable requirements of the Securities and Futures Act 2001 ("**SFA**");
- (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 trust deed constituting Sabana REIT (as amended and supplemented from time to time) (the "**Trust 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 Trust Deed such that each director of the Internal Manager must be endorsed or re-endorsed by Unitholders at every third (3<sup>rd</sup>) annual general meeting of Sabana REIT; and
- (vi) amend the provisions of the Trust Deed such that any change of control in the Internal Manager may only be effected upon approval of a simple majority of Unitholders (the proposed amendments to the Trust Deed set out in sub-paragraphs (iv) to (vi) above referred to as the "**Proposed Trust Deed Amendments**"),

(collectively, the "**Internalisation Resolution**", and each of the above sub-paragraphs 1.1(b)(i) to 1.1(b)(vi), a "**Sub-Resolution**").

1.2 For the present purpose, we do not propose to comment in this letter on the motivation of Quarz in the requisition of the Proposed EGM to table the Resolutions, save to say that the Requisition Letter contains, *inter alia*, numerous false and inaccurate statements. We reserve our position on those issues. **However, at this juncture, we must clarify that while much ado has been made about our interest in the Sabana Manager, ESR is the single largest Unitholder holding a substantial interest in Sabana REIT, and the value of our Sabana REIT unitholdings far outweighs the value of our investment in the Sabana Manager. As such, there is no reason for ESR to prioritise and protect the value of our stake in the Sabana Manager, at the expense of or to the detriment of Sabana REIT.**

1.3 For the purposes of this letter, we only seek to raise the concerns that we, as a Unitholder, have identified with regards to the Proposed Actions, which we believe all Unitholders should be aware of in order to make an informed decision on the

**ESR Group Limited**

Suite 2905-06, Two Exchange Square, 8 Connaught Place, Central, Hong Kong  
T +852 2376 9600 | [www.esr.com](http://www.esr.com)

Resolutions.

- 1.4 It bears noting at the outset that the Proposed Internalisation is unprecedented for a Singapore REIT and is not without risks to Unitholders, and should therefore be proceeded with caution.

## 2. **MATERIAL DESTRUCTION OF UNITHOLDER VALUE**

- 2.1 **First**, we are of the view that if the Resolutions are carried, Sabana REIT would be seen to be cast adrift in a potentially prolonged period of uncertainty, for the reasons elaborated below. We would caution that such uncertainty will inevitably result in the loss of confidence in Sabana REIT by investors and lenders, and in turn, cause massive destruction of value for Unitholders.

(a) Onerous duties, beyond the usual scope of work, imposed on the Sabana Trustee

In the event the Removal Resolution is approved, there will obviously be no incentive for the Sabana Manager's board, management and staff to continue in their office and/or employment. In addition, Sub-Resolutions (i) to (iii) make clear that the Sabana Trustee is expected, and will be compelled, to undertake the active management of Sabana REIT for a potentially protracted period. In this regard, we are mindful of Quarz's history of publicly criticising and challenging the competence, eligibility and independence of directors appointed to the board of the Sabana Manager, which has made it highly challenging for the Sabana Manager to attract and retain talent in recent years. We are extremely concerned that the responsibilities that will fall on the Sabana Trustee (which includes making staffing and commercial decisions) extend beyond any scope of work that a trustee of a REIT is generally equipped or prepared to do in the Singapore REIT context. The Sabana Trustee must provide its views to the Sabana Manager and Unitholders as to whether it has the capability and resources to undertake such scope of work.

(b) Difficulties in obtaining a capital markets services licence

We also wish to highlight that the Internal Manager to be incorporated by the Sabana Trustee would have to be a holder of a capital markets services licence (a "**CMS Licence**") for the regulated activity of REIT management under the SFA. In this regard, it bears emphasis that the Monetary Authority of Singapore's (the "**MAS**") licensing regime is highly rigorous and factors such as: (i) the fitness and propriety of the applicant, its shareholders and directors,

(ii) the track record and management expertise of the applicant and its parent company, and (iii) the business model / plans and projections and associated risks, would be taken into consideration. Based on the above, there is a real risk that a newly-incorporated Internal Manager without any prior track record and without necessarily having the relevant experienced personnel (see subparagraph (a) above) may not be able to fulfil the licensing requirements.

It is also noteworthy that based on the MAS' website<sup>1</sup>, it is stated that the MAS "expects to take up to six (6) months to review [CMS Licence] applications which are complete and by applicants that meet all admission criteria. Applications may take longer if the applicant does not fully meet relevant admission criteria, has unique and complex business models, or does not submit all necessary forms, information and documents in the initial application." From a corporate governance perspective, such a timing gap will be problematic for Sabana REIT. Any interim manager in a similar situation would justifiably be concerned that its actions and decisions may subsequently be scrutinised and even subject to criticism by Quarz and/or any other Unitholders, or the Internal Manager (if it ever succeeds in obtaining a CMS Licence).

A removal of the existing manager without a proper transition plan (as is the case with the Proposed Actions put forth by Quarz) will only destroy the value of the REIT. There must be a comprehensive plan to recruit, appoint and put in place a qualified, competent and licensed Internal Manager before the Removal Resolution can be passed. It is worth noting that even in the example of Eagle Hospitality Real Estate Investment Trust ("**EH-REIT**"), the MAS' own notice to the trustee of EH-REIT to remove the manager of EH-REIT within one (1) month was linked to there being a replacement manager being appointed<sup>2</sup>.

(c) Breach of loan covenants

We further note that Sabana REIT has entered into facilities or financing agreements which contain restrictions on the change of the manager of Sabana REIT (including the cessation of the Sabana Manager as the manager of Sabana REIT). The Proposed Actions are likely to trigger such restrictions in respect of Sabana REIT's existing loans and may result in consequences such as credit review, cross default, acceleration of repayment and/or higher loan pricing. We respectfully suggest that the lenders of Sabana REIT be invited to provide their views on this issue so that all Unitholders are aware of the

---

<sup>1</sup> MAS Website, Capital Markets Services (CMS) Licence <<https://www.mas.gov.sg/regulation/capital-markets/capital-markets-services-cms-licence>> (accessed on 25 June 2023).

<sup>2</sup> SGXNet, Eagle Hospitality Trust General Announcement: Trustee Statement released on 1 December 2020 <<https://links.sgx.com/FileOpen/Trustee%20Statement.ashx?App=Announcement&FileID=641016>> (accessed on 25 June 2023)

potential consequences of the Resolutions being passed, especially since the requisition for the Proposed Actions are not accompanied by a comprehensive and credible refinancing plan.

We would further like to highlight that based on the publicly available financial results of Sabana REIT, Sabana REIT does not appear to be under any financial duress or at any risk of loan default. On the contrary, without a comprehensive and credible refinancing plan, the Proposed Actions would very likely put Sabana REIT's financial viability and cash flow at undue risk.

In this connection, we also note that the resolution to provide the Sabana Manager with the general mandate to issue units in Sabana REIT and to make or grant convertible instruments was not passed at the annual general meeting of Sabana REIT held on 25 April 2023. **As such, Sabana REIT would not even be able to rely on its general mandate to undertake any equity fund-raising activities to refinance and/or repay its existing loans if required to.**

2.2 In light of the serious adverse consequences of the Proposed Actions that would result in value destruction for Unitholders, the following ought to be properly put in place before even putting the Resolutions to Unitholders to vote:

- (a) the proposed new management team and board of directors of the Internal Manager;
- (b) CMS Licence approval from the MAS for the Internal Manager, including the new management team and board of directors;
- (c) a committed refinancing plan that is comprehensive and credible; and
- (d) full and proper disclosures on the potential risks, considerations and implications of the Proposed Actions (after taking into account the input from the Sabana Trustee and Sabana REIT's lenders), in order for (i) Unitholders to make an informed decision, and (ii) the management team and board of directors of the Sabana Manager to discharge their fiduciary duties per the SFA.

### 3. **THE INTERNALISATION RESOLUTION MUST BE TABLED AS AN EXTRAORDINARY RESOLUTION**

3.1 **Second**, although Quarz has requisitioned the Internalisation Resolution to be an ordinary resolution, it should be noted that all of Sub-Resolutions (i) to (vi) of the

**ESR Group Limited**

Requisition Letter relate to the Proposed Internalisation, which would represent a fundamental change to the relationship between the Sabana Manager, the Sabana Trustee and the Unitholders. Sub-Resolutions (iv) to (vi) of the Requisition Letter expressly relate to the amendment of the Trust Deed. As for the proposal for the Sabana Trustee to consider internalisation of the REIT management function (as set out in Sub-Resolution (i) of the Requisition Letter) as well as the issues relating to hiring of appropriate and qualified staff for the Internal Manager (as set out in Sub-Resolutions (ii) and (iii) of the Requisition Letter), each of these proposals plainly arise out of the Proposed Internalisation, and are also closely intertwined with Sub-Resolutions (iv) to (vi) of the Requisition Letter. As the Sub-Resolutions, both on their own and when read together, reflect significant modifications in the business and operations of Sabana REIT as a result of the Proposed Internalisation, it is clear that the entirety of the Internalisation Resolution effectively amounts to an amendment to the Trust Deed.

- 3.2 Under Clause 28.2 of the Trust Deed, any modification, alteration or addition to the Trust Deed can only be made with the sanction of an Extraordinary Resolution (as defined in the Trust Deed to require 75.0% or more of the total number of votes cast for and against such resolution) of a meeting of the Unitholders duly convened and held in accordance with the Trust Deed, unless the Sabana Trustee certifies in writing that, in its opinion, such modification, alteration or addition does not materially prejudice the interests of the Unitholders and does not operate to release to any material extent the Sabana Trustee or the Sabana Manager from any responsibility to the Unitholders. This is also required under paragraph 3.2(f)(i) of the Code on Collective Investment Schemes.
- 3.3 As such, unless the Sabana Trustee is prepared to provide such certification, an Extraordinary Resolution will be required. It should also be noted that the Trust Deed does not provide for a direction to be given to the Sabana Trustee to amend the Trust Deed pursuant to an ordinary resolution.
- 3.4 Given that (a) the Proposed Internalisation is a fundamental change to what Unitholders signed up for; and (b) the Proposed Trust Deed Amendments (including any other ancillary amendments required to the Trust Deed to effect the Proposed Internalisation) would substantively and thoroughly change the complexion of the Trust Deed, we do not believe that such amendments to the Trust Deed can qualify under the exemption for trustee certification.
- 3.5 **If the Sabana Trustee is not prepared to provide such written certification (and justifiably so), we would reiterate that the Internalisation Resolution in its entirety must, in our view, be approved as an Extraordinary Resolution, and tabling the Internalisation Resolution as an ordinary resolution (as set out in the Requisition**

Letter) would amount to a breach and circumvention of the provisions of the Trust Deed.

4. **INTERNALISATION RESOLUTION MUST BE VOTED ON FIRST; REMOVAL RESOLUTION TO BE CONDITIONAL ON THE PASSING OF INTERNALISATION RESOLUTION**

4.1 **Third**, it is clear from the Requisition Letter that Quarz's main objective is to internalise the management function of Sabana REIT. The removal of the Sabana Manager as the manager of Sabana REIT is a means to that end. That the resolutions are inter-connected and inextricably linked, is evident from Quarz's own words in their explanation in the Requisition Letter (emphasis added in **bold**):

(a) on the very first page of the Requisition Letter, Quarz has urged Unitholders to "VOTE FOR THE ADOPTION OF **ALL THE RESOLUTIONS**" where the decision is "A **BINARY DECISION**"; and

(b) on the last page of the Requisition Letter, Quarz ends off by encouraging Unitholders to "VOTE FOR Resolutions 1 and 2 at the EGM" in order to "**make sure internalization happens**".

4.2 From the approach taken in the rest of the Requisition Letter, it is clear that Quarz in their own mind had envisioned the Resolutions to be inter-connected. Quarz was steadfast in its criticisms of the external management model, while touting the benefits of internalisation. **There is also absolutely no provision made in the Requisition Letter for the scenario where only the Removal Resolution is voted through.**

4.3 This being the case, the Internalisation Resolution must surely be the first proposal that is put forth to Unitholders for approval. The Removal Resolution should be consequential to the passing of the Internalisation Resolution and voted on only if the Internalisation Resolution is passed.

4.4 Structuring the Resolutions in the way put forth by Quarz, without regard to the actual purport underlying the Resolutions, carries the risk that Sabana REIT may be left without a manager if the Removal Resolution is approved but the Internalisation Resolution fails to pass. It would necessarily fall upon the Sabana Trustee to look for an external replacement manager for the REIT. As mentioned above, the Requisition Letter makes it clear that Quarz is not in favour of an external manager model. Such a situation is hence untenable for the Sabana Trustee as it is unclear whether Unitholders would be supportive of the Sabana Trustee looking for an external

replacement manager when the only proposal put forth for Unitholders' consideration in the Requisition Letter is internalisation.

- 4.5 In addition, if the Removal Resolution is passed without the Internalisation Resolution being passed, the serious adverse consequences which we highlighted in paragraph 2 above (such as the triggering of the loan covenants, and the breakdown in the day-to-day management of the REIT) will occur. **In short, the REIT cannot be left without a manager.**

## 5. CONCLUSION

- 5.1 In conclusion, the Proposed Actions set out in the Requisition Letter from Quarz have raised a number of grave concerns on our part as the largest Unitholder. For the reasons we have stated above, and in particular, the fact that Sabana REIT's financial viability and cash flow might be put at undue risk as a result of the Proposed Actions, it would appear to us that the Proposed Actions and the Resolutions are completely untenable.
- 5.2 Without prejudice to our position on the commercial viability and implementation risks of the Proposed Actions as set out in paragraph 2 above, in order for the Resolutions to be even tabled at the Proposed EGM, this would require, at a minimum:
- (a) the Internalisation Resolution to require the sanction of an Extraordinary Resolution, in light of the fundamental amendments required to the Trust Deed; and
  - (b) the Internalisation Resolution to be voted on first and the Removal Resolution being put to vote only on the passing of the Internalisation Resolution.
- 5.3 We thank you for your kind consideration of this letter. We strongly urge all Unitholders to carefully consider the concerns that we have raised in this letter, and make a considered and informed decision on the Resolutions.

Yours faithfully



**ESR GROUP LIMITED**

**ESR Group Limited**

Suite 2905-06, Two Exchange Square, 8 Connaught Place, Central, Hong Kong  
T +852 2376 9600 | [www.esr.com](http://www.esr.com)