

**QUARZ CAPITAL ISSUES OPEN LETTER TO THE MANAGEMENT AND BOARD OF  
SABANA REIT (SGX: M1GU) AND ESR GROUP (HKG: 1821)**

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**QUARZ CAPITAL'S RESPONSE TO THE SABANA REIT MANAGER'S  
PRESENTATION AND ANNOUNCEMENT DATED 22 JUNE 2023 AND ESR  
GROUP'S OPEN LETTER DATED 25 JUNE 2023**

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INFORMATION**

Wednesday, 28 June 2023

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

Quarz Capital is a unitholder holding more than 10% of the total units of SGX-listed Sabana Industrial Trust ("Sabana REIT", "Sabana" or "Trust") managed by Sabana Real Estate Investment Management Pte Ltd ("Sabana External Manager", "External Manager", or "Sabana Manager").

We refer to our Requisition Notice dated 7 June 2023 ("Requisition Notice" or "Our Notice").

In this open letter, we set out our replies to false assumptions and statements made regarding our Requisition Notice in:

- ESR Group Limited's ("ESR") latest open letter to unitholders dated 25 June 2023 ("Open Letter"); and
- the Sabana Manager's presentation titled "Important Clarifications to EGM Requisition Letter by Quarz Capital ASIA (Singapore) Pte. Ltd." (the "Presentation"); and
- the Sabana Manager's announcement titled "RESPONSE TO REQUISITION NOTICE FROM QUARZ CAPITAL ASIA (SINGAPORE) PTE. LTD." (the "Announcement") that was published via SGX on 22 June 2023.

**Resolution 1 to remove the Sabana External Manager is a fully independent and standalone Ordinary Resolution with no connection to Resolution 2**

We hereby state in the clearest terms that the main intention of our Requisition Notice for an EGM is Resolution 1, which is to remove the current ESR-owned External Manager.

Despite more than 4 years of ownership, there has not been any material action taken by ESR until today to resolve the overlapping investment mandate, which can potentially cause serious conflicts of interest and corporate governance flaws that might in turn depress Sabana unitholders' DPU and unit price.

This is unlike local sponsors such as Mapletree and CapitalLand who have demonstrated top class corporate governance and the prioritization of unitholders' rights by providing a fair solution to fully resolve the overlapping investment mandate and corporate governance flaws.

ESR's Open Letter, which sets out in no uncertain terms as to how, in ESR's view, the EGM resolutions should be amended and voted on – a function which is reserved for the Sabana Manager to carry out, not ESR – coupled with the External Manager's eagerness to immediately upload ESR's Open Letter on SGX Announcements and its website after that, clearly demonstrate to us the strong influence that ESR holds over the External Manager. This is no longer surprising to us if we consider the inherent flaws of an overlapping investment mandate, despite their empty protests of apparent independence.

As another illustration, one might recall that back in the April 2023 AGM, the External Manager utilized a convoluted process to appoint Mrs Elaine Lim as a 'non-independent' director who exercises all the powers of the independent director, even though close to 90% of all unitholders overwhelmingly voting against her appointment.

This example again shows that, unfortunately, this is not the first time that unitholders have been sidelined by the External Manager in its decision-making.

As such, Resolution 1 in our Requisition Notice is intended to remove the External Manager in order to immediately resolve these potentially serious corporate governance and accountability concerns caused by ESR's ownership in the External Manager.

Resolution 1, which is critical for investors' protection, is thus an independent resolution and stands alone and apart from Resolution 2.

In fact, we wish to point out that a similar resolution for the removal of the External Manager, without an internalization proposal, was also previously tabled for a vote at the April 2017 EGM at Sabana REIT.

There is therefore a strong and historical basis for Resolution 1 – the removal of the Manager – to stand independently, and stand first in line, for voting at the EGM as requisitioned in Our Notice.

### **Removal of REIT Manager by a simple majority is a key pillar of unitholder protection in Singapore**

The option for minority unitholders to requisition an extraordinary general meeting to vote on the removal of an under-performing and potentially-conflicted Manager by a simple majority of unitholders is one of the key pillars of unitholder protection in Singapore.

In fact, the option of voting out the Manager by a simple majority is clearly catered for in Clause 24.1 of the REIT's Second Amending and Restating Deed dated 24 March 2016 ("Trust Deed").

However, ESR in its Open Letter conveniently ignores this option and instead makes a long and convoluted argument about why the removal of the Manager requires a super-majority of 75% unitholders' approval instead. Their arguments serves only to confuse and mislead unitholders and the public at large and appears to us to be an attempt to sway the voting thresholds and procedures of the requisitioned EGM in their favor.

Furthermore, we wish to point out that even the regulatory authorities have historically recognized that a simple majority of unitholders' votes would be sufficient to remove a REIT manager as a form of accountability.

In a Consultation Paper published in June 2005, the Monetary Authority of Singapore (the "MAS") requested for comments of whether the removal of a REIT manager should require a 75% majority (with the manager's related parties such as ESR not being able to vote) or whether a 50% threshold should be sufficient (with all parties being entitled to vote on the removal). After debate, a 50% voting threshold was chosen for removal of the REIT manager.

This is a high threshold, as related parties such as ESR typically hold large stakes of the REITs whose managers they own. Naturally, such related parties would not vote for the removal of a manager in which it has ownership. It is therefore of utmost importance that the threshold of removing a REIT manager by a simple majority is not further diluted.

Separately, in October 2014, the MAS published another Consultation Paper titled "Enhancements to the Regulatory Regime Governing REITs and REIT Managers", during which the MAS sought feedback on whether the accountability of REIT Managers required improvement, among other things.

Under the section "Accountability of REIT Managers", the MAS explained: "The REIT manager is accountable to unitholders for the management of the REIT's assets and the performance of the REIT. Currently, unitholders can hold the REIT manager to account by exercising their rights under the REIT's trust deed to call for a general meeting to vote on the removal of the REIT manager... MAS would like to seek views on whether the current approach is effective in ensuring accountability of REIT managers to unitholders."

After receiving feedback from respondents, including feedback from the Sabana Manager itself, the MAS concluded: "Respondents were of the view that it is currently not difficult for unitholders to convene an extraordinary general meeting to obtain a simple majority approval that is needed to remove a REIT manager."

The above excerpts show that there is a prevailing consensus by both the regulatory authorities and stakeholders in the industry that removal of a REIT manager by a simple majority is and remains one of the key tenets of accountability by REIT managers to ensure that they always act in the best interests of unitholders.

We therefore do not understand, nor do we agree at all, with ESR's open attempt to challenge this method of accountability towards unitholders.

We also categorically reject the misleading picture painted by ESR that the resolutions in our Requisition Notice – including our proposed Resolution 1 to remove the External Manager – requires any threshold higher than a simple-majority vote.

### **ESR's open attempt to influence the voting thresholds and procedures at the EGM**

Instead of taking active actions to resolve the overlapping investment mandate, ESR in its Open Letter seems to be indirectly urging the Sabana External Manager to upset the conduct of the EGM and the resolutions to be tabled thereat in the following ways.

First, they are alleging unstable transition and value destruction to scare unitholders. They are using the empty threat of change of control clauses even though Sabana REIT's leverage at 33% is the 6<sup>th</sup> lowest among ~40 SGX-listed REITs. Sabana's existing loans, contrary to what ESR claims, are also fully backed by its all-Singapore property portfolio with a strong and recurring cashflow.

In the entire S-REIT history, there have been multiple change of control episodes due to mergers, privatizations and sale of managers. However, the banks have NEVER triggered the change of control provision in any of these cases as the loans are backed by their respective portfolios, and MAS also takes prudent measures to ensure that the leverage levels of REITs are below 50% to facilitate such changes if necessary.

In fact, the new Internal Manager, once appointed, will have even stronger credibility and mandate as it will be backed by all unitholders, including significant institutional investors and individual unitholders, who voted in its favor at the requisitioned EGM.

Secondly, if the External Manager follows ESR's proposals in its Open Letter to drastically amend the resolutions (such as by tabling them as extraordinary resolutions, by re-ordering the resolutions, or both), this is an obvious demonstration of the significant influence that ESR wields over the External Manager. It would also be clear to us that the directors of the External Manager are acting in the interest of the Sponsor (namely, ESR) to increase the voting hurdle in a bid to disenfranchise unitholders' rights and entrench the Manager's position to the sole advantage of ESR. These would in turn raise significant questions about whether or not the directors have complied or have failed to comply with their legal and statutory obligations, including those under the *Securities and Futures Act 2001*.

Nevertheless, we believe that unitholders will remain unfazed in the face of such desperate scare tactics. We believe in Singapore's legal framework, and we also believe that its institutions will step in at the appropriate juncture if and when unitholders and their rights are threatened.

### **Unfounded allegations and irrelevant assumptions in ESR' letter**

ESR alleges in paragraph 2.1 of its Open Letter that, essentially, HSBC Institutional Trust Services (Singapore) Limited (the "Sabana Trustee") may not have the capability and resources to undertake the internalization after the Sabana Manager has been removed, such as the "onerous duties" that might be imposed on the Sabana Trustee or the "difficulties" that might be faced by a new Internal Manager.

The External Manager also makes similar points in its Presentation to scare and threaten unitholders into not voting for the internalization. Some of the keywords used by the External Manager in the Presentation include:

*DESTRUCTION OF VALUE FOR UNITHOLDERS*

*NO CERTAINTY OF REIT'S CONTINUITY*

*UNSTABLE TRANSITION*

*POTENTIAL TRIGGERING OF LOAN CLAUSES*

*UNTESTED*

## *MAJOR DISRUPTIONS*

We strongly disagree with the above statements and words made by ESR and the External Manager.

Effecting the internalization is the job of the Sabana Trustee as part of the bigger role that it has been entrusted with, namely to safeguard the interests of unitholders. That is precisely why Resolution 2 of our Requisition Notice is phrased as such – namely, to “direct” the Trustee to carry out the various proposals that we seek as part of the internalization process, such as incorporating a wholly-owned subsidiary as the new Internal Manager, hiring and appointing qualified candidates to staff the new Internal Manager, considering the retention of Sabana REIT’s existing staff for a smoother transition, and so on. Ultimately however, it is for the Sabana Trustee to consider what the best approach and necessary steps to take would be to carry out the internalization process in accordance with the spirit of the proposed Resolution 2 for internalization, in a manner that does not prejudice the unitholders’ interests and ensures a smooth continuity of the REIT’s operations.

We oppose ESR's views that the Sabana Trustee may not have the capabilities or resources to undertake the internalization. Clause 18.15 of the Trust Deed, for instance, allows the Sabana Trustee to appoint experts to assist with the internalization process and we would fully expect the Sabana Trustee to make use of all available resources, including the sourcing of qualified external advisors where needed, to carry out the internalization.

In the unlikely event that the Sabana Trustee would not be willing to fulfil its duties to protect unitholders' interests after the removal of Sabana Manager, Quarz Capital is ready to fill the resulting gap by assisting the Sabana Trustee in the setup and licensing of the new Internal REIT Manager.

However, this still requires an affirmative vote for the removal of the Sabana Manager first via the proposed Resolution 1. Unless and until there is certainty that the existing External Manager is removed, it is not the duty of any minority unitholder to take steps to help the Sabana Trustee setup a new entity, hire qualified staff, obtain a MAS license for a replacement REIT manager and take all other necessary steps required for the internalization.

### **The 2 EGM resolutions are to be tabled in the order as set out in our Requisition Notice**

Finally, Quarz Capital's hereby reiterates that the 2 EGM resolutions are independent and standalone ordinary resolutions. They are also to be tabled in the order as set out in our Requisition Notice – namely Resolution 1 for the removal of the External Manager first, and then Resolution 2 to direct the Sabana Trustee to effect the internalization.

We restate our absolute rejection to ESR's wrong and misleading interpretation of our Requisition Notice that our proposed resolutions are interconnected. Quarz Capital is fully prepared to move ahead with the removal of the External Manager via Resolution 1, even if Resolution 2 regarding the internalization is not tabled or passed.

ESR's and the Sabana Manager's attempt to change the 'rules of the game' is clear as day to us: they want a 75% super-majority threshold on the resolutions, and they also want to table the resolution on internalization first, in the hope that their votes combined with the inflated and higher hurdle will further shift the balance of power to themselves and the External Manager to overrule

independent unitholders and thereby circumvent the other resolution for the removal of the External Manager.

However, we believe that unitholders will not allow this to happen. We demand for the EGM requisition resolutions to be tabled in the exact same order and as standalone resolutions as stated in the Requisition Notice.

We put both the Sabana External Manager and ESR on notice in this regard.

We also do not share ESR's view that a 75% majority is required for our proposed resolution regarding the internalization for the reasons earlier stated in this letter. We are currently not proposing any amendments to the Trust Deed, but simply directing the Sabana Trustee to consider and take additional steps to do so if and when required. Such amendments may or may not be required at a later stage, but this is not the main subject of the requisitioned EGM.

### **The way forward**

In light of the above, we demand that the Sabana Manager table our resolutions as set out in our Requisition Notice, and not in the manner as suggested by ESR in its Open Letter.

We further call upon the Sabana Manager to respect Singapore's legal framework for minority unitholder protection by permitting a fair vote on the removal of the Sabana Manager.

Finally, we urge unitholders to stand firm and not to be intimidated by the Sabana External Manager's scare tactics. Quarz Capital remains committed to ensure and assist the Sabana Trustee with an orderly transition once the Sabana External Manager has been removed.

**Quarz will hold a webinar for all unitholders on Thursday 6th of July 2023 at 8.00pm**

Link to webinars is: <https://us02web.zoom.us/j/88970799227>

(Meeting ID 889 7079 9227)

Join Telegram Group: <https://t.me/savesabanareit> for more updates and information.

YouTube link to video: <https://youtu.be/ASC7VqiAo6>

Please contact us: +65 8684 6968 for any assistance.

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