

30 June 2023

Sabana Real Estate Investment Management Pte. Ltd.

151 Lorong Chuan
#02-03 New Tech Park
Singapore 556741

Attention: Mr Tan Cheong Hin, Chairman
Mr Donald Han, Chief Executive Officer

Dear Sirs,

ESR'S RESPONSE TO QUARZ CAPITAL'S OPEN LETTER DATED 28 JUNE 2023

1. We refer to the open letter to unitholders published by Quarz Capital dated 28 June 2023 (the "**28 June Letter**").
2. As the largest unitholder in the Sabana REIT, our interests are aligned with all unitholders. In this vein, it is imperative that all unitholders are furnished with relevant facts and accurate information to enable them to understand the issues and to make an informed and considered decision.
3. We have prepared a short response dealing with certain allegations and/or assertions raised by Quarz Capital in the 28 June Letter. We would be grateful if you could publish a copy of the enclosed letter as an announcement via SGXNET.

Yours faithfully



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To: Unitholders of Sabana Industrial Real Estate Investment Trust

QUARZ CONTRADICTS INITIAL POSITIONS WITH SUDDEN U-TURN FROM SEEKING INTERNALISATION; SEEKS TO RE-CHARACTERISE FLAWED RESOLUTIONS

Summary

ESR notes the open letter to unitholders released by Quarz dated 28 June 2023, and wants to highlight that **Quarz has made a fundamental and sudden U-turn** on its original stated intention of internalising Sabana REIT to its current intention of removing the existing Sabana REIT Manager. This is a drastic change and detracts from Quarz's credibility and calls into question their good faith.

The U-turns taken by Quarz include, but are not limited to:

- **Changing the intention of the Requisition and stating that it is always aimed at removing "the current ESR-owned External Manager"** (and not internalisation). Previously Quarz clearly stated that the purpose of the resolutions is to make sure **internalisation happens**.
- That Quarz is **"not proposing any amendments to the Trust Deed"**. **This plainly contradicts Quarz's earlier position and statements.**
- That Quarz's **true intention is now to be involved in the management function of Sabana REIT themselves.**

Looking forward, Quarz has provided **no plans** regarding the management of Sabana Industrial REIT should the resolutions contained in their requisition get passed (partly or in full). **Its one and only proposed course of action is to redirect the responsibility of managing the negative consequences of their resolutions solely to HSBC Trustee**, without consulting with HSBC Trustee on their willingness or their ability to take up such a role.

This is **highly reckless and irresponsible**. This effectively calls on unitholders to take a leap of faith with no concrete plan on the future of Sabana REIT. **This only raises more alarm bells from a unitholder point of view and calls into question their true motivations for tabling the resolutions in the first place.**

Their **offer of assistance to HSBC Trustee is also hollow** given that Quarz is an "Activist Investment Manager" with **zero experience** in REIT management and whose objectives may differ from that of the minority Sabana REIT unitholders.

As previously stated, ESR's interests are aligned with all unitholders. As the largest unitholder in Sabana REIT, **we have grave concerns about the resolutions tabled by Quarz because they will cause significant value destruction for all unitholders.**

We strongly urge all unitholders to carefully weigh the points that we have raised and make a considered and informed decision on the resolutions.

As mentioned in paragraph 1.2 of ESR's letter to the unitholders dated 25 June 2023, there are various false and inaccurate statements in Quarz's Requisition (and indeed in the subsequent statements it has made). We have since issued letters of demand against Quarz and the relevant individuals for claims arising from such statements which contain false and defamatory allegations against us. We

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are also in the midst of considering our position in respect of Quarz's continued perpetuation of falsehoods in Quarz's open letter dated 28 June 2023. We note that despite the Sabana Manager (by way of its response dated 22 June 2023) having already debunked various falsehoods and misleading statements published by Quarz in the Requisition, Quarz has taken no steps to rectify their position. Quarz has also made no attempt to refute the points in any substantive manner raised in the Sabana Manager's response, except to allege that ESR and the Sabana Manager are issuing "empty threats". Evidently, Quarz has no substantive or meaningful response to the points raised.

ESR's full rebuttal of Quarz's letter dated 28 June 2023 follows below:

1. We refer to the open letter dated 28 June 2023 (the "**28 June Letter**") published by Quarz Capital Management Ltd ("**Quarz Capital**"), and signed off by Mr Jan F. Moermann and Mr Havard Chi Cher Pan who are directors of Quarz Capital and Quarz Capital Asia (Singapore) Pte Ltd ("**Quarz Asia**"). We refer to Quarz Capital and Quarz Asia as "**Quarz**".

A. Quarz's about turn and inconsistent positions in relation to their proposed resolutions

2. Quarz has now made an about turn on the tabling of the resolutions. As pointed out at paragraphs 4.1 and 4.2 of ESR's letter dated 25 June 2023 (announced by the Sabana Manager on 26 June 2023) (the "**25 June Letter**"), Quarz had clearly stated that the purpose of the resolutions is to make sure **internalisation** happens, and that unitholders are being called to make a "binary" decision.

Now that Quarz realises that their resolutions crafted in their own words are flawed and misconceived (further to our 25 June Letter), Quarz is seeking to re-characterise their Requisition, that "*the main intention of our Requisition Notice for an EGM is Resolution 1, which is to remove the current ESR-owned External Manager*". This detracts from Quarz's credibility and indeed, points to their lack of good faith in this matter.

It is not for unitholders and the Sabana Manager to read Quarz's mind. The requisition was drafted in a manner which called for internalisation of the management function and the removal of the Sabana Manager was merely a means to an end.

3. In the same vein, Quarz now says it is "*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*". This is plainly contradicted by the express wording of Resolutions 2(iv) to (vi).

Quarz also now claims that, Resolution 2 is only "*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.*" (emphasis added)

We reiterate that to direct the Trustee to consider an amendment without the terms of the proposed amendments is vague and provides no guidance to unitholders as to how such a resolution is to be voted on.

B. Quarz's has no substantive or meaningful response to points raised by the Sabana Manager and by us

4. The Sabana Manager had released its response to Quarz's Requisition on 22 June 2023, pointing out various *"inaccuracies, financial projections and assumptions listed in the Requisition Notice"*. Despite having published at least two posts / letters since, Quarz has made no attempt to refute the points raised in the Sabana Manager's response in any substantive manner except to allege that ESR and the Sabana Manager are issuing "empty threats". The only reasonable inference is that Quarz has no substantive or meaningful response to the points raised.
5. In the 28 June Letter, it has also been made patently clear that Quarz's true intention is to be involved in the management function of Sabana REIT themselves. ESR had set out four points at paragraph 2.2 of our 25 June Letter which should be considered before resolutions are put to a vote. Quarz has not provided any substantive response, save to state that Quarz is ready to assist. Even putting aside its motivation, Quarz itself has no REIT management experience. ESR questions what assistance it can even meaningfully put forward.
6. This is not the first time that Quarz has sought to be involved. Sometime in or around June 2021, Quarz had proposed by way of a requisition dated 25 June 2021 for resolutions to, among other things, appoint Quarz's own Mr Jan F. Moermann as a non-independent, non-executive director of Sabana Manager.

C. The existence of "change of control" provisions is a fact and unitholders should be allowed to make an informed decision

7. In Quarz's 28 June Letter, Quarz has continued to make false and defamatory statements alleging that ESR is making empty threats and resorting to scare tactics. This is false.
8. Sabana REIT has entered into facilities or financing arrangements which contain restrictions on the change of the manager of Sabana REIT. This is a matter of fact. ESR had pointed this out so that all unitholders are apprised of the repercussions in order to make an informed decision. Simply pointing out material risks to unitholders is far from engaging in any "scare tactics" or "empty threats". We vehemently deny such allegations.
9. Quarz's response to this fact is to assert that, *"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."*

This is unsubstantiated. It is also not clear what forms the basis of this sweeping assertion. Quarz is not and cannot be in the position to state whether or not any change of control provisions will be triggered. These are contractual undertakings and/or obligations owed by Sabana REIT, and should be fulfilled.
10. However this proceeds, it is in every unitholders' interest to understand the underlying implications of internalisation. Activism for the sake of change without considering the commercial and financial impacts threatens the foundations of Sabana REIT.

D. Quarz's allegations of conflict of interest had already been addressed

11. We categorically reject Quarz's allegations of conflict of interest arising from ESR's ownership of the Sabana Manager and ESR's "strong influence" over the Sabana Manager. These allegations

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have been previously addressed in an announcement from the Monetary Authority of Singapore (“MAS”), and letters from the Sabana Manager and the Sabana Trustee, as detailed below:

- (i) First, in response to allegations of conflict of interest raised by Quarz, the MAS had previously issued a press release dated 28 August 2020 that *“our regulatory framework does not prohibit a shareholder group from owning substantial stakes in two REIT managers managing REITs invested in the same property class”*. MAS further noted that *“there are regulatory safeguards to mitigate potential conflicts of interest”*.
 - (ii) Second, the Sabana Manager had explained by way of a clarification dated 28 August 2020 that there are *“strict controls in place to mitigate against any potential conflict of interest resulting from [our Client’s] interest in Sabana REIT and ESR-REIT and their respective managers.”* Such measures include ensuring that *“[a]ll decision-making for the business strategy and operations of Sabana REIT is made solely by the Board and the management team of the Sabana Manager, and the Sabana Manager has its own decision-making process which is independent of ESR Cayman or ESR-REIT.”*
 - (iii) Third, the Sabana Trustee had issued a clarification on 28 August 2020 to address, among other things, the allegations of conflict of interest. The Sabana Trustee explained, among other things, that:
 - a) the structure of ESR’s interest in the Sabana Manager is held through an independent trustee with full discretion to make all decisions;
 - b) the Sabana Manager and the Sabana Trustee are independent;
 - c) the management of the Sabana Manager is separate and distinct from the management of ESR Logos REIT; and
 - d) ESR does not and had not received any information regarding the day-to-day management of Sabana REIT.
12. We reiterate that ESR does not have any nominee director on the Board of the Sabana Manager. Sabana REIT also has a conflict of interest policy (easily accessible via Sabana REIT’s website), which amongst others, states that the manager will ensure that the REIT does not transact (i.e. acquire or divest properties) with ESR-REIT, and for any potential transaction with the Sponsor or its related entities (excluding transactions with ESR-REIT), the Manager’s IPT procedures as disclosed on pages 118 to 119 of the Annual Report for the financial year 2022 shall apply.
13. On 24 April 2023, the Manager made a clarification announcement to refute certain false, misleading and/or baseless statements in relation to statements in Quarz’s open letter dated 14 April 2023:
- (i) It has provided responses to claims that *“The REIT Manager of Sabana Industrial REIT has gained certain ‘notoriety’ for its weak corporate governance practices”*, with clear and quantifiable data which reflects the significant improvements in the REIT’s corporate governance practices and disclosures (at page 1).
 - (ii) Corporate governance considerations relating to the appointment of directors and the alleged involvements with ESR have also been clearly outlined in pages 3-4 of the clarification announcement.
14. In any case, as the largest unitholder, it is in the interests of ESR to preserve the value of Sabana REIT and ensure that Sabana REIT is successful. The value of ESR’s unitholding in Sabana REIT

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far outweighs the value of ESR's investment in the Sabana Manager. As such, there is no reason for ESR to prioritise and protect the Sabana Manager at the expense of or to the detriment of Sabana REIT. To this end, there is alignment of interests between the Sabana Manager, ESR, and indeed all unitholders.

E. *Quarz's baseless allegations of the Sabana Manager's lack of independence*

15. Quarz says that the Sabana 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."
16. This is plainly disingenuous. Quarz's Requisition and 28 June Letter were both published by the Sabana Manager as well.
17. As the largest unitholder, ESR is also well entitled to write to other unitholders to share their concerns with regard to the proposed actions. This does not in any way demonstrate any "strong influence" it may hold over the Sabana Manager. The fundamental issue here is the risk to unitholder value. ESR holds the view that all unitholders must be apprised of the facts underlying the call for votes. The flawed factual premise presented by Quarz must be corrected so that all unitholders are able to make a considered and informed decision. What is telling from Quarz's response is the complete lack of substantive response to defend their factual premise.

F. *Quarz misrepresents the reasons for an extraordinary resolution – it is the Internalisation Resolution which should be tabled as an extraordinary resolution*

18. Quarz says, "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."
19. We are not saying the removal of the Sabana Manager should, contrary to clause 24.1.4 of the Trust Deed, be by way of extraordinary resolution. The argument for an extraordinary resolution was raised specifically in relation to the Proposed Internalisation, which has been clearly explained in paragraph 3 of our 25 June Letter.
20. In this regard, our 25 June Letter pointed out the fundamental changes to the business and operations of Sabana REIT arising from an internalisation. The Internalisation Resolution should thus be tabled as an Extraordinary Resolution.

Conclusion

21. The latest statements published by Quarz demonstrate their attempts to drum up votes for internalisation on false premises. To-date, Quarz has also not identified a single instance of actual conflict of interests despite making various attempts to leverage off such spurious allegations. Clearly, this is a concerted effort by Quarz to deliberately malign the Sabana Manager and ESR in order to push their own agenda.