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Monetary Authority of Singapore
10 Shenton Way MAS Building
Singapore 079117

Unitholders of Sabana Industrial REIT
Sabana Real Estate Investment Management Pte. Ltd.
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4th of July 2023

Dear Sir, Mdm,

Unitholders seek SGX RegCo's and MAS' support to safeguard the legal framework for minority unitholders protection by ensuring a fair vote on the removal of the Sabana External Manager

An increase in the voting hurdle and re-ordering of EGM resolutions would undermine the fundamental pillars of regulatory protection for unitholders with negative and implications on the S-REIT sector

Unitholders of Sabana Industrial REIT (the "Trust" or "Sabana REIT") managed by Sabana Real Estate Investment Management Pte. Ltd. ("Sabana External Manager", "External Manager", or "Sabana Manager") have requisitioned an EGM on 7 June 2023 to vote on 2 independent and standalone Ordinary Resolutions in the order below:

RESOLUTION 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.

RESOLUTION 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 *Securities and Futures Act 2001*;
- 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.

Ordinary Resolution 1 to remove the current Sabana External Manager is independent and stands first in line in unitholders' Requisition Notice

A similar standalone ordinary resolution for the removal of the External Manager has previously been tabled for a vote at the April 2017 EGM at Sabana REIT.

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

The rights of minority unitholders to requisition an extraordinary general meeting to vote on the removal of a REIT Manager by a simple majority of unitholders is one of the key pillars of unitholder protection in Singapore.

The rights to vote out the Manager by a simple majority is clearly catered for in Clause 24.1.4 of Sabana REIT's Second Amending and Restated Deed dated 24 March 2016 ("Trust Deed").

Regulatory authorities have historically recognized that a simple majority of unitholders' votes (50%) 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 whether the removal of a REIT manager should require a 75% majority (with the manager's related parties 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 typically hold large stakes of the REITs whose managers they own. Naturally, such related parties would vote against the removal of a manager in which they have 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". 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.

The proposal to re-order the resolutions, raise the voting hurdle for the 1st resolution to 75% and then make the 2nd resolution (Removal of Manager) condition on the 1st resolution passing, seems to openly challenge the regulators’ key pillar of unitholder protection in Singapore (rights of unitholders to remove REIT Manager by a simple majority as a form of accountability and corporate governance).

However, the sponsor in its letters dated 25 and 30 of June 2023 indirectly asks the External Manager to potentially change the conduct of the EGM by amending the resolutions (such as by tabling them as extraordinary resolutions, by re-ordering the resolutions, or both) and seems to potentially “conveniently” ignore the above fundamental rights of unitholders.

The Sponsor makes a long argument about why the removal of the Manager requires a super-majority of 75% unitholders’ approval instead. Their arguments serve to potentially confuse and mislead unitholders and the public at large and appear to unitholders to be an attempt to sway the voting thresholds and procedures of the requisitioned EGM in their favor.

The Sponsor and its affiliates hold ~24% of Sabana unitholdings and are expected to vote against the resolutions to protect their 100% ownership of the External Manager.

By increasing the voting hurdle to 75%, this will mean that more than 94% of the remaining total unitholdings of Sabana REIT (almost all unitholders) have to vote “for” the resolution for it be passed.

The Sponsor’s proposal to amend the voting threshold will therefore potentially strip away all accountability and unitholders’ rights and protection as it makes it nearly impossible for the Sabana External Manager to be removed.

The Sponsor’s proposal if carried out would also potentially result in the complete circumvention of MAS’ fundamental pillar of investor protection, resulting in zero accountability and bringing corporate governance in the S-REIT sector to a new low.

If allowed, this sets a dangerous precedence for External Managers to similarly increase their stake to 20+% and potentially use convoluted reasonings to increase the voting threshold so that they can never be removed by unitholders despite potential suboptimal performance and/or potential conflicts of interest.

This will destroy investors’ confidence due to the lack of accountability and recourse resulting in a serious and irreversible long-term negative impact on the S-REIT market.

If the Sabana External Manager follows the Sponsor’s proposals in its open letter to drastically amend the resolutions to potentially prioritize their interests, this would be a potentially obvious demonstration of the significant influence that the Sponsor has. It would also be seemingly clear

to unitholders that the directors of the External Manager are potentially acting in the interest of the Sponsor to potentially increase the voting hurdle in a bid to potentially disenfranchise unitholders' rights and entrench the Manager's position to advantage of the Sponsor.

These would in turn also raise significant questions about whether or not the directors have complied with their legal and statutory obligations, including those under the *Securities and Futures Act 2001*.

Ordinary Resolution 2 directs Sabana's Trustee to setup a new Internal Manager which will be fully owned and aligned with unitholders to substantially increase accountability and corporate governance

Ordinary Resolution 2 directs Sabana's Trustee to effect the internalization through the setup of a new Internal Manager fully owned and aligned with unitholders.

Resolution 2 also has precedence as it was before tabled as an ordinary resolution in Croesus 2016 EGM to internalize the Manager.

It has also been tabled as an ordinary resolution in Sabana REIT's 2017 EGM.

The Sponsor's potential misinterpretation of unitholders intentions increases the voting threshold of Ordinary Resolution 2

The Sponsor uses complex arguments to potentially misinterpret unitholders' intentions to argue that Sabana External Manager should increase the voting hurdle of Resolution 2 – directing the Trustee to effect the internalization of the REIT Management function, to 75%.

The increased threshold makes it impossible for unitholders to put in place a new internal manager as the sponsor and its affiliates with their 24% stake will likely vote against this resolution. This would mean that more than 94% of all remaining unitholders will have to vote "for" the resolution for it to be passed (which is almost impossible).

The Sponsor then makes even more surprising comments about unitholders' intentions in its attempt to direct Sabana External Manager to re-order the resolutions by putting Resolution 2 – directing Trustee to effect the internalization (with the increased voting hurdle of 75%) to be voted first and make Resolution 1 – removal of the External Manager, condition upon the prior success of vote in Resolution 2.

This is despite unitholders having repeatedly reiterated that Ordinary Resolution 1 stands first in line to remove the current External Manager.

There is also legal precedence that Resolution 1 is independent and stands first in line.

Resolution 2 must only come after Resolution 1 once the removal of Sabana External Manager has been voted on and passed through.

Therefore, it is illogical and far-fetched to propose that Resolution 2 should be voted first.

The Sponsor further comments in its open letter dated 25 June 2023 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.

We categorically question the logic of the above statement.

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 all 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 as well as best in class corporate governance practices and so on.

Ultimately however, it is for the Sabana Trustee to consider the best approach and necessary steps to take 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.

It is obvious from the above that Resolution 2 is not seeking approval for any Trust Deed amendment but a direction from unitholders to the Trustee to effect the internalization and simply directing the Sabana Trustee to consider and take additional steps to propose amendments to the Trust Deeds, particularly those which can bring best-in-class corporate governance and accountability to Sabana REIT. The specific amendments may need to be proposed and approved later but are not the subject of the current requisitioned EGM.

Even if unitholders merely tabled resolution 1 for removal of the Sabana Manager, the Trustee would have had to take the necessary steps to find a replacement, with one possible and preferred solution being the internalization. By tabling resolution 2, unitholders merely provide guidance to the Trustee to act in unitholders' best interests.

The Sponsor in its open letter has also acknowledged that Resolution 2 is in effect directing the Trustee to consider amending the Trust Deed (the Resolution is not to amend the Trust Deed and hence is not a special resolution requiring a 75% vote to pass).

For clarity, the following are actual examples from Sabana, ARA Logos Logistic Trust and Ascendas-Hospitality Trust on Extraordinary Resolutions to amend the Trust Deed (i.e., approve the amendments) which is clearly different from the current Ordinary Resolution set out in the Requisition Notice:

Extraordinary Resolution 1: To approve the Sabana Trust Deed Amendments (Sabana REIT EGM 4 December 2020)¹

Extraordinary Resolution 1: To approve the ALOG Trust Deed Amendments (ARA Logos Logistic Trust EGM 21 March 2022)²

¹ https://sabana.listedcompany.com/newsroom/20201204_140731_M1GU_BLOG1D7MANL5WULW.2.pdf

² <https://links.sgq.com/FileOpen/ALOG%20-%20Proxy%20Form%20A%20EGM.ashx?App=Announcement&FileID=703682>

Extraordinary Resolution 1: To approve the Ascendas- Hospitality Trust Deed Amendments (Ascendas Hospitality Trust EGM 21 Oct 2019)³

We also oppose the Sponsor's views that the Sabana Trustee as an entity licensed by the MAS, may not have the capabilities or resources to undertake the internalization. Clause 18.15 of the Trust Deed, for instance, clearly 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.

MAS in its August 2015 Feedback on Enhancement to REIT Regulatory Regime has also clearly reiterated that the 'change of control' covenant can be waived with the lender's consent.

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

Sabana's loans are from heavy weight banks based in Singapore such as UOB, HSBC and Maybank who understand the strong value and attractiveness of the Singapore industrial real estate sector and have reiterated their support for improvement in corporate governance, which the internalization vote will deliver.

In fact, the new Internal Manager, once appointed, would have an even stronger credibility and mandate as it will be backed by all unitholders, including significant institutional investors and individual unitholders. The past Sponsor themselves will also indirectly own 20.6% of the new Internal manager as a unitholder of Sabana REIT.

There is also precedence in the case of Eagle Hospitality Trust that while MAS directed the removal of the REIT Manager, it also made sure the Manager was removed only when a new Manager is voted in or steps up.

As such, the Sponsor's comment that "...Sabana REIT may be left without a manager if the Removal Resolution is approved but the Internalization Resolution fails to pass" may not be accurate. MAS has already established a strong process to safeguard unitholders against such risks.

It is clear that Resolution 2 to direct the Sabana Trustee to perform its role to effect the internalization of the REIT Management function is essentially an ordinary resolution after Resolution 1.

Unitholders seek the SGX RegCo's and MAS support to ensure that the conduct of the EGM is done in a fair manner to safeguard the interest of all unitholders and to ensure Sabana External Manager adheres to the legal framework of Singapore.

³https://links.sgx.com/FileOpen/3.%20Proxy%20Forms_EGM%20and%20Scheme%20Meeting.ashx?App=Announcement&FileID=579622

Unitholders seek SGX RegCo's and MAS support to ensure the Sabana External Manager respects Singapore's legal framework

In summary unitholders have requisitioned 2 independent and standalone Ordinary Resolutions. MAS Consultation Papers and the Sabana's Trust Deed have repeatedly confirmed the rights of unitholders to vote out the External Manager by a majority vote.

Given that these 2 ordinary resolutions have already been tabled in the same order in Sabana REIT's EGM in 2017, there is a strong historical and logical basis that the Ordinary Resolutions should also be tabled in the same order as setup in the current 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.

If the Sabana External Manager is allowed to raise the voting hurdle to 75% and re-order the resolutions, this will potentially circumvent SGX RegCo's and MAS' key pillars of investors' protection and make it nearly impossible for unitholders to remove any External Managers where their Sponsors and affiliates have more than a 20% stake in the respective REITs as almost all remaining unitholders will have to vote 'for' the removal for it to be effected.

With unitholders having no right to remove any underperforming and conflicted External Manager, this will completely shift the balance of power to the Sponsor and External Manager and result in the complete absence of oversight and accountability. Sponsors and External Managers can pursue strategies that are in their interest, but which put unitholders at risks with the full understanding that unitholders have little to no recourse to mitigate the situation. This will in turn bring corporate governance in the S-REIT sector to a fresh low and will draw international attention.

It would also send a chilling signal with lasting negative consequences to the local and global investment community that there is essentially no accountability, recourse and protection for investors in the Singapore REIT sector, *"Whatever the External Manager does, they can never be removed"*.

It is also in direct conflict with MAS who has previously 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".

Sabana unitholders are urgently seeking the support of SGX RegCo and MAS to safeguard the fundamental pillars of regulatory protection (removal of REIT Manager by a simple majority vote) and ensure that the Sabana External Manager adheres to the rules and regulation to conduct the EGM in a fair manner to unitholders.

In doing so, SGX RegCo and MAS will reaffirm their strong commitment towards corporate governance and accountability, which already has transformed Singapore into the global financial hub it is today.

Yours faithfully,

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