

6 July 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 4 JULY 2023

1. We refer to the open letter to unitholders published by Quarz Capital dated 4 July 2023 (the "**4 July Letter**").
2. We reiterate that as the largest unitholder in the Sabana REIT, our interests are aligned with all unitholders. In this regard, all unitholders should be apprised of the 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 4 July Letter. We would be grateful if you could publish a copy of the enclosed letter as an announcement via SGXNET.

Yours faithfully



ESR GROUP LIMITED

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To: Unitholders of Sabana Industrial Real Investment Trust

QUARZ'S DRASTIC DEPARTURE FROM THEIR ORIGINAL REQUISITION

1. We refer to the open letter dated 4 July 2023 (the "**4 July Letter**") released by Quarz Capital Management Limited ("**Quarz Capital**") via SGX. The 4 July Letter was 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**". Capitalised terms used herein but are not defined shall have the meanings ascribed to them in our open letter to Unitholders dated 25 June 2023.
2. Quarz has simply doubled down on the flawed and misguided arguments made in its letter dated 28 June 2023, which fails to substantively address any of the points made in our letter to Unitholders dated 30 June 2023.

A. Quarz's continued U-turn and inconsistent position in relation to their proposed resolutions

3. Quarz has continued to back-pedal on its flawed proposed resolutions by asserting that "**Resolution 2 is not seeking approval for any Trust Deed amendment** but a direction from Unitholders to the Trustee to effect the internalisation and **simply directing the Sabana Trustee to consider and take additional steps to propose amendments** to the Trust Deeds... The specific amendments may need to be proposed and approved later but are not the subject of the current requisitioned EGM". (emphasis in bold and underline)
4. This is false and is a blatant attempt by Quarz to retrospectively add the words "**to consider and take additional steps to propose amendments**" to Sub-Resolutions (iv) to (vi) to change the original meaning of those sub-resolutions. They further attempt to show a distinction between the wording of Sub-Resolutions (iv) to (vi), and selective examples of other resolutions for trust deed amendments. There is no real difference. Asking the Unitholders to vote to "*direct the Trustee to amend*" the Trust Deed in Sub-Resolutions (iv) to (vi) is the same as asking Unitholders to vote to "*approve*" the amendments of the Trust Deed.
5. In fact, the internalisation of the REIT represents such a fundamental change that the Trust Deed must be examined to consider if any other provisions ought to be amended to implement the internalisation. In the face of the clear requirement that amendments to Trust Deed require a 75% threshold (which we have highlighted), Quarz is now back-peddalling by trying to re-characterise Resolution 2 as one where "*Unitholders merely provide guidance to the Trustee to act in Unitholders' best interests*". This argument does not hold water.
6. To justify that only an Ordinary Resolution is required, Quarz has compared their Resolution 2 of the Requisition to the resolution that was tabled in Croesus Retail Trust's 2016 EGM. This is a misleading comparison. Croesus Retail Trust is structured as a business trust, which operates under a completely different regulatory framework from REITs. Unlike a REIT, a business trust is not required to ensure that its trustee and its manager are independent of each other. Thus, the implementation of internalisation in the case of Croesus Retail Trust did not involve any amendments of the trust deed. In the case of Sabana REIT, internalisation would bring about a fundamental change in the relationship between the Sabana Trustee and the manager (which would

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now be its own subsidiary), thereby warranting substantive amendments to the trust arrangement. Quarz had earlier made this misleading comparison using Croesus Retail Trust and NetLink Trust, which are both business trusts. Quarz's inability or unwillingness to appreciate the difference between the structure that they have proposed and the way in which the Croesus Retail Trust was internalised serves to show their naivety and/or recklessness, because in failing or refusing to recognise that internalisation needs to be carefully planned and structured, there is a real risk of destruction to the Sabana REIT.

7. Quarz has also referred to the 2017 EGM. This is another misleading comparison. The manner in which the resolutions at the 2017 EGM were crafted was such that there was a separate resolution (Resolution 3) which specifically provided for the winding up of Sabana REIT in the event that the internalisation was not approved by the authorities. The 2017 requisition had therefore considered and provided for contingencies that might happen. In contrast, in our present case, quite apart from the highly flawed plan for internalisation, there has been no such contingency provided for in the event that approval of the authorities is not obtained or if the internalisation cannot be implemented for any other reason. It would be dangerous to follow precedents blindly, without regard to the specific context in which such resolutions were tabled.
8. Quarz is claiming that the Sabana Manager is somehow bound to table the current resolutions in the exact same manner as the 2017 EGM, even though Quarz appears to be selectively picking, choosing and modifying resolutions from the 2017 EGM to suit their own purposes. This cannot be the case. The Sabana Manager must exercise their discretion in an appropriate manner based on the situation at hand.
9. Quarz has further alleged that we are "*stripping away all accountability and Unitholders' rights and protection*" by "*increasing the voting hurdle to 75%*" for the removal of the Sabana Manager. This is yet another misleading statement. We had already addressed this allegation in our letter to Unitholders dated 30 June 2023 and repeat here that we did not say that Resolution 1 is subject to a 75% threshold. As Quarz has proposed internalisation of the management function, with the removal of the Sabana Manager *as a means to that end*, it must follow that a vote on Resolution 1 should be consequential to the passing of Resolution 2 and voted on only if Resolution 2 is passed.
10. Quarz has also asserted that we are "*potentially 'conveniently' [ignoring] the above fundamental rights of Unitholders*" by "*indirectly [asking] the External Manager to potentially change the conduct of the EGM*". This is completely untrue. We are simply asking the Sabana Manager to table it in accordance with the provisions of the Trust Deed and take into account the original purport of the internalisation requisition as well as the commercial realities of such a proposal. On the contrary, it is Quarz's arguments that "*serve to potentially confuse and mislead Unitholders and the public at large*". We urge all Unitholders to carefully scrutinise Quarz's arguments and make a considered and informed decision on the resolutions.

B. Quarz is making belated attempts to repair its flawed resolutions

11. It continues to be patently clear that Quarz's own Requisition and proposed resolutions are crippled by Quarz's own failure to put forth any concrete plan for internalisation.
12. Quarz has made a sweeping assertion that "*the banks have NEVER triggered the change of control provision*". They have not substantiated this assertion, and there is no basis for it. Indeed, we

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understand from the Sabana Manager's presentation at their Investor Day on 5 July 2023 that they have written to the relevant lenders to seek a waiver from the review event **and the banks have replied to state that they are unable to grant the waiver at this juncture**, pending more information including on the replacement manager and its personnel. It should be emphasised that contrary to Quarz's assertion that the loans are "*backed by the REITs' [...] portfolios*", Sabana REIT's debts are mainly unsecured. Thus, the fact that change of control provisions may be triggered by the removal of the Sabana Manager, especially when not accompanied by a concrete and commercially viable financing plan, remains a real fundamental risk that may result in the destruction of unitholder value and bring about other serious consequences for the REIT. This had also been confirmed by the Sabana Manager in their 22 June Response at paragraph 7. We would add that there might be increased financing costs depending on the profile of the new Internal Manager and its standing with the banks.

13. Quarz would be well aware of the change of control provisions and the consequences of such provisions being triggered, since around November 2020, when they had first raised the possibility of internalisation. Quarz's failure to address these risks in a tangible manner once again reveals how their proposal is entirely lacking in any concrete details.
14. Like most other REITs in Singapore, the Sabana REIT is obliged to pay out at least 90% of its cashflows to its Unitholders as dividends. Following the vote at the AGM on 24 April 2023, the Sabana Manager has no general mandate to issue any new units for the purpose of raising funds for working capital and the repayment of loans. Internalisation and the potential triggering of change of control provisions would jeopardise the only significant source of financing available to Sabana REIT and puts the going concern of Sabana REIT at stake. Alternative financing options such as selling off assets are both unsustainable in the long term and pose significant risks to the value of Sabana REIT. Quarz's push for a vote on internalisation without first securing the in-principle consent of lenders to continue with current financing arrangements or ensuring that standby facilities are in place is irresponsible and reckless. It speaks volumes about Quarz's lack of operational knowledge of the Singapore REIT market. We ask the Sabana Manager to consider whether allowing a vote to proceed in these circumstances is truly in the best interests of the Unitholders, and to exercise their discretion judiciously.
15. Quarz's only solution has been to redirect responsibility of managing the negative consequence of the resolutions solely to the Sabana Trustee, without consulting on its willingness or capability to take up such a role. They have continued to reiterate that "*effecting internalisation is the job of the Sabana Trustee*" and that "*it is for the Sabana Trustee to consider the best approach and necessary steps to carry out the internalisation process*". Its only basis to assert that the Sabana Trustee must have the capabilities or resources to undertake the internalisation is that it is "*an entity licensed by the MAS*". That is plainly a leap of logic. What is pertinent is whether it has the relevant expertise to manage a REIT.
16. Quarz is simply passing the buck to the Trustee. Internalisation is Quarz's resolution. It is Quarz's responsibility to make sure they put up a requisition that contains a robust and workable plan for internalisation.

C. Allegations of conflicts of interest have already been debunked

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17. Quarz has also doubled down on the Sabana Manager as being “*conflicted*” by virtue of their relationship with us. As mentioned in our letters of 25 June 2023 and 30 June 2023, Quarz’s various allegations relating to conflicts of interests have already been long debunked, not merely by the Sabana Manager or ourselves but also the authorities. We once again point to MAS’s press release dated 28 August 2020 wherein they publicly accepted that their “*regulatory framework does not prohibit a shareholder group from owning substantial stakes in two REIT managers managing REITs invested in the same property class*”, and that there are “*regulatory safeguards to mitigate potential conflicts of interest*”.
18. We strenuously deny any allegations that we are attempting to influence the EGM in a manner that “*shift[s] the balance of power to the Sponsor and the External Manager and result in the complete absence of oversight and accountability*” and “*pursue strategies that are in their interest*”. We reiterate that as the single largest Unitholder, we are aligned with the interests of all Unitholders in achieving the best possible performance for Sabana REIT. In the face of Quarz’s incomplete and unclear proposals for internalisation, which would upend the operations of Sabana REIT and result in destruction of value for all Unitholders, we take the view that we are justified in expressing these grave concerns. We note that the Sabana Manager has, by way of their 22 June Response, expressed their own concerns about the proposed internalisation, to which Quarz has yet to respond.
19. It is evident from the 28 June Letter and now the 4 July Letter that Quarz’s true intention is to be involved in the management function of Sabana REIT themselves. Having failed in their previous attempt to achieve the appointment of Quarz’s own Mr Jan F. Moermann as a non-independent, non-executive director of the Sabana Manager, Quarz has now embarked on this course of action which, at best, reflects their lack of understanding of the Singapore REIT market and, at worst, demonstrates their willingness to recklessly jeopardise the Sabana REIT’s ability to carry on business as a going concern to achieve their own ends. Such behaviour should not be condoned by Unitholders.

D. Sabana Manager must make all efforts to resolve the present uncertainty on the resolutions

20. We are of the view that it would not be constructive to Sabana REIT and to the interests of all Unitholders for there to be prolonged public discourse on this issue without end. Quarz has persistently refused to engage substantively with any of our concerns, and has instead resorted to false and misleading statements to bolster their call for internalisation. We call on the Sabana Manager to take the appropriate actions to resolve this dispute in a conclusive manner without further delay, so as to safeguard the interests of Sabana REIT’s Unitholders.