

Quarz Responses to Questions from Unitholders and SIAS

We Await ESR's Answers to Questions from Unitholders and SIAS (last page)

- 1. While there are benefits to the internalisation of the manager, there are undoubtedly real risks and uncertainties involved. Is Quarz, who is spearheading the internalisation, both willing and capable of providing financial support to the REIT in order to reassure the bankers who might perceive the internalisation as a risky and uncertain act?**

Quarz is a significant unitholder with 14% of Sabana REIT vs the directors and CEO of the Sabana REIT manager which own a combined stake of 0.02%. Our interest is fully aligned with all unitholders.

It is very clear that internalisation is highly beneficial and value accretive for all unitholders.

ESR bought Sabana REIT's manager for more than S\$35million. Croesus Retail Trust bought its manager for S\$50million. Sabana unitholders will now be able to fully own their internal manager with a projected setup cost of only S\$3-5million and benefit from a potential S\$2.4million of cost savings per year which can increase unitholders' DPU by more than 7%.

This cost savings is from redirecting the profit before tax currently earned by Sabana manager back to all unitholders. The profit before tax is after paying for staff and operating cost of managing the REIT. The cost savings potentially provide a return of more than 50% p.a. on the investment of setting up the manager!

In comparison, the \$20million AEI at 1 Tuas Ave 4 is forecasted to generate a net rental income of S\$1.9million p.a. Essentially, the cost of the AEI is more than 5x as compared to the projected cost of setting up the new internal manager, but the return is even less than the cost savings from the internal manager.

The cost savings can be potentially more than S\$40million over the next 10 years if Sabana is to grow its portfolio by just 50%. With an internal manager setup, unitholders will no longer have to pay any acquisition, divestment and incremental management fees that are currently paid to the external manager.

The true cost savings is the complete alignment of interest of unitholders with its 100% owned internal manager. This ensures that no placements and rights will be wasted in potentially value destructive acquisitions done solely to boost fees for the external manager. The fully aligned internal manager will also focus on increasing DPU and unit price for its owner, the unitholders, above all else.

While the manager keeps repeating the same 'scare tactic' of change of control clause of loans and interest rate hedges, the manager till date has not been able to provide even a single example that such clause and amendment of interest rate hedge was triggered in the more than 10 cases of change of control of the manager in the 21-year S-REIT history. This is the key reason why we categorize their statements as potentially 'empty threats' and 'fear-mongering'.

Moreover, our research has shown that banks have consistently extended support in loans and interest rate hedges in all cases of REIT manager and/or management ownership changes. This is because the bank loans are backed by the REIT's portfolio and MAS also takes prudent measures to ensure that the leverage levels of REITs are below 50% to facilitate such changes if necessary.

Till date, none of Sabana's bankers have publicly stated that the internalization is a risky and uncertain act. 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. ESR will indirectly own 20.6% of the new Internal manager as a unitholder

Snapshot of Change of Control of REIT Managers

REIT	Date	Change of Control of REIT Manager
IREIT	Apr-20	Purchase of 50% of Manager by Tikehau and City Development
Sabana REIT	Jun-19	Purchase of 51% of Manager by ESR Group
IREIT	Apr-19	Purchase of 50% of Manager by Tikehau and City Development
First REIT	Sep-18	Purchase of Manager by OUE and OUE Lippo Healthcare
Viva Industrial Trust	May-18	Purchase of manager by ESR Group
Cambridge REIT	Jan-17	Purchase of manager by ESR Group
Croesus Retail Trust	Jun-16	Internalisation of Manager of Croesus
Starhill Global REIT	May-10	Purchase of 75% of Manager by YTL
Macarthurcook Ind REIT	Dec-09	Purchase of 50% interest in Manager by AMP Capital

Sabana's leverage level of ~32.5% is one of the lowest among SGX-listed REITs. It takes Sabana less than 6 years to fully pay off its entire loans due to the strong recurring net property income. The Bank loans are strongly backed by Sabana's ~S\$900 million All-Singapore portfolio.

Sabana REIT has the 6th Lowest Leverage Among SGX-listed REITs

SGX REITs with Lowest Leverage				SGX REITs with Highest Leverage			
Rank	Name	Leverage (%)	Fixed Rate Debt	Rank	Name	Leverage (%)	Fixed Rate Debt
1	Sasseur REIT	25.7	77.2	33	Mapletree PanAsia Trust	40.9	75.5
2	Fraser Log Trust	27.8	76.2	34	CapLand Int Trust	40.9	77.0
3	Paragon REIT	29.8	84.0	35	ESR Logos REIT	41.6	72.7
4	Far East Hosp Trust	32.0	47.3	36	Suntec REIT	42.8	72.0
5	IREIT Global	32.3	96.9	37	Lippo Malls	42.9	38.7
6	Sabana REIT	32.5	82.2	38	Prime US REIT	43.7	79.0
7	Digital Core	34.4	74.0	39	Elite Comm REIT	46.6	68.0
8	Fraser Hospitality Trust	35.2	86.5	40	Manulife US REIT	49.5	80.2

**Leverage in 1Q2023 (2Q2023 for Sabana REIT)*

With only S\$5.3 million in equity, the External Manager's stake is modest compared to Sabana REIT's nearly S\$900 million all-Singapore property portfolio. Hence, it's illogical to assert that the External Manager determines the bank loans. Clearly, it's Sabana's property portfolio, owned collectively by unitholders, that truly underpins these loans.

MAS has specifically put in place a comprehensive regulatory framework to ensure stability, continuity, and protection to safeguard unitholders in the removal of manager and internalization process.

We firmly believe in the banks' commitment to support Sabana REIT's over 10,000 unitholders. Many of these unitholders are not only Singaporeans but also valued customers of the banks. This relationship, coupled with significantly improved corporate governance in Sabana REIT, forms the basis of our confidence.

As a substantial unitholder, Quarz will indirectly bear the proportional costs of the internalization which is estimated at S\$3-5million which will be potentially fully recovered in less than 2 years from the cost savings of removing the External Manager. Quarz is also fully committed to support the internalization process.

If the current External Manager is truly concerned about the interest of unitholders, it can recommend gifting the manager to all unitholders once the External Manager is removed. This is as the External Manager will potentially be worth nothing as 100% of its revenue are currently derived from Sabana REIT and its unitholders which will cease once the manager is removed. The fact that the current External Manager shows no intention of doing this is a potential sign that 'the threats' are not real

and the External Manager seems to have no true desire in creating a structure which is fully aligned with the interests of all unitholders.

2. If the internalisation proceeds, what role, if any, will Quarz play in effecting the internalisation? Has the trustee engaged with Quarz since the requisition notice was issued? Likewise, has Quarz engaged with MAS and SGX RegCo?

If Sabana REIT manager is independent and works in the best interest of unitholders, they would have also supported internalisation due to the substantial benefits it confers on unitholders.

However, the Sabana manager has actively recommended unitholders to vote against the resolutions which will make unitholders continue paying fees and enabling the REIT manager to make profit for its sole shareholder.

In the recent case where ESR's injunction to stop the EGM was entirely dismissed by the Court which called it "misconceived" and "without merits", the Court ruling has provided us great confidence that the process of internalization is entirely executable with strong legal and regulatory frameworks to safeguard unitholders.

Quarz is fully committed and prepared to support the Trustee in establishing the new Internal Manager, which will be fully owned by all unitholders. Upon the passage of the two resolutions, we will move swiftly to collaborate with all Sabana unitholders who wish to support this internalization process.

In this endeavour, we have been actively engaging with various key stakeholders and will continue our engagement, including with MAS, SGX RegCo, bankers and corporate governance experts. We want to ensure that the Trustee is well supported in creating the new Internal Manager, with best-in-class corporate governance practices, systems, and incentive structures in place to maximize benefits for all Sabana unitholders.

In light of the significant positive impact that Sabana REIT's internalization could have on improving corporate governance, enhancing investor protection, and increasing the accountability of REIT managers, unitholders seek the support of MAS in expediting the licensing of the new Internal Manager.

With the backing of unitholders, MAS, other key stakeholders and our strong commitment to support this process, we believe that the entire internalization process could potentially be streamlined to approximately six months.

3. Has Quarz considered the risks and potential impact if the Sabana external manager fails to fulfil their obligations in the event that unitholders vote to remove them? What would be the worst-case scenario in such a situation, even if there might be potential legal and regulatory consequences against the manager and its directors?

The Trust Deed does not provide for the External Manager to 'resign' unless approved by MAS or the Trustee. The Trustee has also stated that it expects the External Manager to continue until the Internal or Replacement Manager is appointed.

Singapore is a global financial hub with strong legal and regulatory protection. As such, the regulators can impose steep and recurring legal and regulatory penalties and potentially even prosecute any directors and personnels who does not comply with regulations. Given the above, we do not see the possibility of the manager and its directors deviating from their duties if they still want to have a career in Singapore.

The Trust Deed also clearly states that the Trustee can appoint a replacement manager and the removed manager shall surrender all books, documents, records, any other property held and take all steps necessary to facilitate the change of Manager.

As mentioned, Quarz is fully committed to support the internalisation process to ensure it is a success and help safeguard all unitholders' interest.

4. Internalisation is neither tested nor proven in Singapore. What makes Quarz so confident that by internalizing the management of Sabana Industrial Reit, it will be value-accretive for unitholders, especially under the Singapore Laws the REIT will have to have a board of directors and a CEO?

More than ~97% and ~90% of REITs in the US and Australia with market capitalizations exceeding ~S\$1.4 trillion¹ are managed by Internal Managers. By comparison, the Singapore-listed REIT market only started in 2002² and has a total market capitalization of ~S\$100 billion³.

As the REIT market in US and Australia have been in existence since 1970s, the general investors' sentiments backed by numerous academic studies is that the External Manager Model tends to underperform the Internal Manager Model, especially in terms of DPU and unit price.

This is because the External Manager Model suffers from a misalignment of interests between the External Manager in question and unitholders of a REIT.

While an Internal Manager works to increase the DPU and unit price of unitholders, an External Manager tends to serve the interests of its owner, namely the Sponsor, by increasing its profitability where possible.

We are highly confident that internalisation will potentially be highly value accretive to Sabana unitholders as the current external manager already generates a profit before tax of ~\$2.4 million in 2022 for its sole shareholder, ESR after paying all staff and operating cost. The substantial profit after tax is even after paying its CEO and directors one of the highest fees and salaries among SGX-listed REITs (when adjusted for market cap).

This profit before tax will now be redirected back to all unitholders as cost savings and potentially increase unitholders' DPU by more than 7.2%. As mentioned, the cost savings can be more than S\$40million over the next 10 years if Sabana is to just grow by 50%.

Setting up a new internal manager is similar to setting up a new REIT manager. With more than 50 REIT management and 1000 CMS fund management licenses being approved by MAS, we are highly confident that there is more than sufficient expertise to support the Trustee to set up the new internal manager.

Internalization and having an Internal Manager is nothing new in Singapore

Croesus Retail Trust successfully internalized its Manager in August 2016.

Croesus Trust saw its 4Q2017 (Quarter end June 2017) DPU increase by more than 18% year-on-year as its Internal Manager worked hard to rental income and reduce interest cost.

In just a short 10 months after internalization, Blackstone offered to buy Croesus Retail REIT at S\$1.17 in cash at a premium of 38% to its 12-month volume average price of S\$0.85. The offer was also at a 23% premium to its NAV of S\$0.95.

This demonstrates the potential benefit that unitholders can stand to gain under an Internal Manager who is fully devoted to increasing the DPU and unit price of unitholders.

Another example is NetLink Trust, which also has an internal Trust Manager since its IPO. NetLink Trust has outperformed the benchmark FTSE ST REIT Index by more than 25% and has also successfully grown DPU without any need for acquisitions and with low net gearing level of ~20%.

The Trust has been ranked No. 1 in ASEAN Corporate Governance Scorecard as well as the Governance Index for Trusts.

¹ NAREIT NYSE listed REITs equity market capitalization in April 2023

² First REIT to list in Singapore was CapitaLand Mall Trust in 2002

³ REITAS Overview of the S-REIT Industry

5. HSBC Trustee, in its Statement to unitholders, had stated that the implementation process at Sabana, if the resolutions are passed:-

- **will take at least 12 months and potentially significantly longer;**
- **and unitholders will have to bear significant additional costs of professional advisors' fees during the interim period as well as capital and set-up costs to establish the internal manager, in addition to continuing to pay the current Sabana manager professional fees as interim manager.**

In view of the above, please explain Quarz's position that unitholders will be able to enjoy higher DPU in the next few years?

We have done rigorous research on the setup cost of REIT manager of the last 10 REIT IPOs as well as consulted with experts and advisors to establish a projected setup cost of S\$3-5million for a new internal manager.

The S\$3-5million includes all the professional advisors cost and capital and set-up costs.

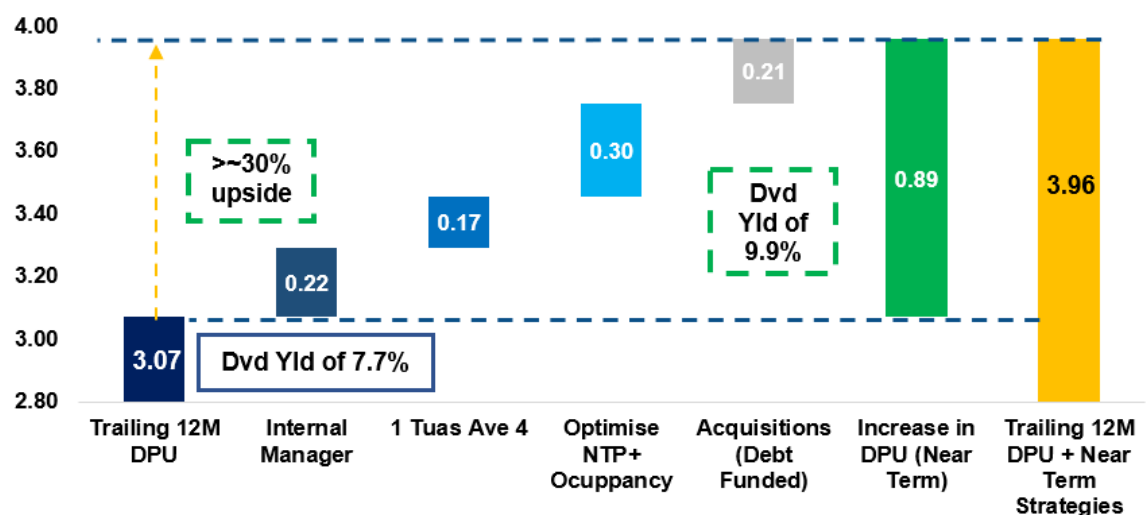
Once the internal manager takes over, the profit before tax of \$2.4 million currently enjoyed by the external manager will be fully directed back to all unitholders. Once the cost is fully recovered in potentially less than 2 years, unitholders will enjoy the potential annual savings of \$2.4 million (increase in DPU of 7.2%). As previously stated, we project a cost savings of more than S\$40 million over the next 10 years if Sabana expands its portfolio by 50%. Note that ESR purchased the manager for S\$35 million.

We have detailed a comprehensive plan that the internal manager can promptly execute on to potentially increase DPU and unit price by ~30% to more than ~S\$0.55 (potential dividend yield of >10% at current price):

1. Immediate cost savings of ~S\$2.43 million per year through the internalization of the REIT manager (Additional DPU of S\$0.0022 with upside of ~7.2%);
2. Complete the asset enhancement of 1 Tuas Ave 4 and rent out ~90% of the asset at net rent of at least S\$1.45psf/month (Additional DPU of S\$0.0017 with upside of ~5.4%);
3. Increase occupancy rate at NTP+ to ~92% by capitalizing on excellent location (next to MRT) and innovative space usage e.g., subdividing space to increase rentability to technology (software development, electronics) and E-Commerce clients (Additional DPU of S\$0.00304 with upside of ~10%); and
4. Undertaking S\$~85m of acquisitions with yield of ~7.2% fully funded by debt (Additional DPU S\$0.002 with upside of ~6.7%).

In addition, the Internal Manager can execute on other attractive and executable mid-term strategies which can potentially further drive Sabana REIT's unit price beyond S\$0.55, such as:

5. Develop ~200,000 square feet of new space at NTP+ (Additional DPU of S\$0.00485 with upside of ~15.7%); and
6. Develop more than 1 million square feet of untapped GFA/landbank with focus on sizeable key assets such as 33&35 Penjuru Lane, 26 Loyang Drive which can be transformed into New Economy ramp up logistic hubs or data centres (Additional DPU of S\$0.00396 with upside of ~12.9%).

Internal Manager's Execution of Key Strategies to Potentially Increase DPU by ~30%


Let's recall that the current manager left 1 Tuas Ave 4 empty for more than 6 years before finally executing on an AEI in 2Q2023. The current manager also recommended unitholders to part with NTP+ in the merger with ESR Logos REIT just 6 months before it was due to start contributing rental income to unitholders.

The last 10 Trust IPOs which are all externally managed are down an average of nearly 50%.

Investors are seriously questioning if the external managed model is indeed working in their best interest vs the 2 internal managed Trusts which have substantially outperformed the entire sector.

- Sabana's approximately S\$300 million loans with bank lenders are totally unsecured. Ernst & Young had issued an Emphasis of Matter with Sabana's 1H FY2023 results, highlighting a material uncertainty that may cast significant doubt on the Reit's ability to continue as a going concern.**

Please explain the basis of Quarz's confidence that this will not be a material issue and that unitholders need not be too concerned.

The External Manager is again trying to confuse unitholders. Sabana's S\$300million unsecured loan is backed by the credit worthiness of Sabana REIT which is in turn backed by the high-quality S\$900million all-Singapore industrial property portfolio.

These are hard assets in Singapore which is one of the most attractive jurisdictions in the world where a substantial number of institutional investors and sovereign funds looking to invest in attractive and high yielding industrial assets with similar attributes to properties owned by Sabana REIT.

In fact, the internalisation, will potentially increase the financial capability of the REIT as it increases the cashflow of the REIT due to the cost savings from diverting all the profit before tax which used to go to the sponsor, back to all unitholders.

Sabana REIT's leverage, at only 32.5%, is the 6th lowest leverage level among ~40 SGX-listed REITs.

In the 21-year history of S-REIT with more than 10 change of control of owners of REIT managers or the REIT managers, the banks have consistently extended their support in the loans and interest rate hedges to the new REIT manager and/or manager ownership changes. MAS also takes prudent measures to ensure that the leverage levels of REITs are below 50% to facilitate such changes if necessary.

The change of control is also a highly coordinated process where the Trustee will ensure that the new internal manager is ready to take over and the banks have extended the loan and interest rate

hedge support before the new internal manager takes over immediately after the external manager is removed.

MAS has specifically put in place a comprehensive regulatory framework to ensure stability, continuity, and protection to safeguard unitholders in the removal of manager and internalization process. This is as removal of the manager and internalization is the fundamental pillar of investor protection and ensuring the accountability of REIT managers in the S-REIT sector.

If the current External Manager is truly concerned about the interest of unitholders, it can recommend gifting the manager to all unitholders once the manager is removed. This is as the manager will potentially be worth nothing as 100% of its revenue are currently derived from Sabana REIT and its unitholders which will cease once the manager is removed. The fact that the current External Manager shows no intention of doing this is a potential sign that ‘the threats’ are not real and the External Manager seems to have no true desire in creating a structure which is fully aligned with the interests of all unitholders.

7. It is heartening to note that Quarz has repeatedly pledged its support to help the Trustee effect the implementation of internalization.

Please give unitholders additional comfort by outlining the areas that Quarz can help to add value and expedite the process so that unitholders can enjoy the benefits of internalization earlier.

As a significant unitholder possessing 14% of Sabana REIT, Quarz has no conflict of interest. Our interests is fully aligned with all unitholders.

In 2020, we successfully united all unitholders to vote against the detrimental merger and we repeated our efforts in 2023 with the vote against the new unit issue mandate, decisions that proved beneficial for everyone involved. We are committed to maintaining this united front for the betterment of all unitholders.

There are 5 key parts of the internalization process which we will focus our support for the Trustee on:

1. Licensing of the REIT manager
2. Retainment of current staff who are interested in working for the best interest of unitholders and hiring the top talent to drive Sabana REIT forward
3. Banks to successfully extend their loan and interest rate hedge support for Sabana REIT
4. Ensuring the new Internal Manager will have best in class corporate governance practices and systems which will align the team with unitholders’ goal of increasing DPU, unit price and corporate governance
5. Ensure that the interim manager fulfils its obligation to all unitholders

Like all unitholders, we aim to establish the new internal manager swiftly, efficiently, and economically, without compromising on quality. As mentioned, we will engage with various key stakeholders such as MAS, SGX RegCo, Sabana’s bankers to ensure the expedited setup of the new internal manager such that all unitholders will be able to benefit from the cost savings and the prompt execution of the key strategies to increase DPU and unit price as soon as possible.

We call on all unitholders to VOTE FOR Resolutions 1 and 2 to build a better and stronger Sabana REIT with higher DPU, unit price and corporate governance!

We await ESR's answers to questions from unitholders and SIAS (below):

- 1. How would ESR respond to Sabana unitholders who believe that a stronger and larger Sabana REIT could potentially become a credible competitor to ESR-LOGOS, and thus it might be in the interest of ESR Group to maintain the status quo?**
- 2. In addition, ESR Group does not seem to play an active role in the management of Sabana REIT, nor does it actively contribute to Sabana's growth, despite identifying as the "sponsor of Sabana REIT." Given the current circumstances, why is ESR Group not supporting the internalisation of Sabana REIT?**

This move would eliminate any operational and governance constraints and establish an internal manager to drive the REIT's growth for the benefit of all unitholders, especially minority shareholders who find themselves caught between the clash of substantial unitholders?

- 3. Can ESR Group explain how it might have directly or indirectly helped Sabana REIT lower its finance costs? Has ESR Group been in contact with Sabana's borrowers to confirm whether borrowing costs will increase and if existing interest rate hedges will be unwound if the manager is removed? Could ESR Group confirm that it will not take any active steps to undermine Sabana REIT if unitholders vote for the internalisation?**
- 4. How much total profit before tax has ESR generated from the ownership of Sabana REIT Manager and its 100% owner property manager since it bought the majority stake of the REIT manager (which wholly owns the property manager)?**
- 5. What is the projected profit ESR expects to earn from Sabana REIT Manager (and its 100% owned property manager) given that it purchased the REIT manager for more than S\$35million?**
- 6. If Resolutions 1 and 2 are voted through, will ESR be aligned with all unitholders and support and ensure that the internalisation process is carried out smoothly?**
- 7. Will ESR consider gifting the manager to all unitholders once Resolutions 1 and 2 are voted through and be aligned with all unitholders?**
- 8. If Resolutions 1 and 2 are not passed, will ESR consider operating the REIT manager at cost recovery basis and not take profit from unitholders?**