



SABANA INDUSTRIAL REAL ESTATE INVESTMENT TRUST

(a real estate investment trust constituted on 29 October 2010 under the laws of the Republic of Singapore)

LETTER FROM QUARZ CAPITAL ASIA (SINGAPORE) PTE LTD REGARDING UPCOMING ISSUANCE OF SGD100 MILLION SUSTAINABILITY-LINKED GUARANTEED BONDS DUE 2029 (“BOND ISSUANCE”)

Sabana Real Estate Investment Management Pte. Ltd., as manager of Sabana Industrial Real Estate Investment Trust (as the “**Manager**” and “**Sabana Industrial REIT**” respectively), refers to its announcement dated 17 June 2024 in relation to the Bond Issuance.

The Manager wishes to inform Unitholders that on 18 June 2024, HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of Sabana Industrial REIT (the “**Trustee**”), received a further letter from Quarz Capital Asia (Singapore) Pte Ltd (“**Quarz**”), a unitholder of Sabana Industrial REIT, concerning the Bond Issuance. A copy of the letter from Quarz dated 18 June 2024 is annexed to this announcement.

As to the matters raised by Quarz in relation to the Bond Issuance in its letter dated 18 June 2024, the Manager’s position is set out in its announcement dated 17 June 2024 and Appendix 1 thereto and the Trustee’s position is set out in its Trustee’s statement of 18 June 2024, as released on SGXNet.

Unitholders and investors are advised to refrain from taking any action in respect of their Units which may be prejudicial to their interests, and to exercise caution when dealing in the Units.

By Order of the Board

Sabana Real Estate Investment Management Pte. Ltd.

(Company Registration No: 201005493K, Capital Markets Services Licence No:
CMS100169)

As Manager of Sabana Industrial Real Estate Investment Trust

Han Yong Lee (Donald)

Chief Executive Officer

19 June 2024

For enquiries, please contact:

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Sabana Industrial REIT

Sabana Industrial REIT was listed on the SGX-ST on 26 November 2010. As at 31 December 2023, Sabana Industrial REIT has a diversified portfolio of 18 quality properties in Singapore, in the high-tech industrial, warehouse and logistics, chemical warehouse and logistics, as well as general industrial sectors. The total assets of the Group amount to more than S\$1.0 billion as at 31 December 2023. Sabana Industrial REIT is a constituent of the SGX S-REIT Index and MSCI Singapore Micro Cap Index.

Sabana Industrial REIT is managed by Sabana Real Estate Investment Management Pte. Ltd. (in its capacity as the Manager of Sabana Industrial REIT) in accordance with the terms of the trust deed dated 29 October 2010 (as amended, varied or supplemented from time to time). Sabana Industrial REIT is a real estate investment trust constituted on 29 October 2010 under the laws of Singapore.

For further information on Sabana Industrial REIT, please visit www.sabana-reit.com.

Important Notice

The value of units in Sabana Industrial REIT (“**Units**”) and the income derived from them may fall as well as rise. Units are not obligations of, deposits in, or guaranteed by, the Manager, HSBC Institutional Trust Services (Singapore) Limited, as trustee of Sabana Industrial REIT, or any of their respective affiliates.

An investment in Units is subject to investment risks, including the possible loss of the principal amount invested. Investors have no right to request that the Manager redeem or purchase their Units while the Units are listed. It is intended that unitholders may only deal in their Units through trading on the SGX-ST. Listing of the Units on the SGX-ST does not guarantee a liquid market for the Units.



Date: Tuesday 18th June 2024

Attention: Ms Jacqueline Liau
CEO and Head of Securities Services, ASEAN, Markets & Securities Services

Mr Rahul Desousa
Head of Trustee & Fiduciary Services – Singapore

HSBC Institutional Trust Services (Singapore) Limited
(in its capacity as trustee of Sabana Industrial REIT)
10 Marina Boulevard
48-01 Marina Bay Financial Centre
Singapore 018983

Ms Ho Hern Shin
Deputy Managing Director

Mr Lim Tuang Lee
Assistant Managing Director

Mr Teo Kok Ming
Executive Director

Monetary Authority of Singapore
10 Shenton Way MAS Building
Singapore 079117

Dear Ms Ho, Mr Lim, Mr Teo, Mr Desousa and Ms Liau,

The Statements by the Trustee and the Manager Confirm that Change of Control Clauses are Embedded in the Long Term (5-year) S\$100m Bond, which Might Complicate and Impede the Internalisation Process and Potentially Entrench the Current REIT Manager

Given that the Singapore High Court has Brought Forward the Appeal Hearing to July 2024 to Protect Sabana Unitholders and that the Trustee has Already Incorporated the New Internal Manager, Unitholders Urge the Trustee to Postpone this Substantial High Fixed Interest Rate Long-Tenure Bond to Carefully Consider the Implications of the Issuance on Internalisation

Sabana Unitholders Respectfully Request MAS to Ensure that the REIT Manager and the Trustee Fulfill their Fiduciary Duties to Act in the Best Interest of All Sabana Unitholders to Ensure that this Unnecessary and Substantial Financing Measure is not Conducted as it could Potentially Stop and Delay the Internalisation as well as Entrench the REIT Manager to the Severe Detriment of Sabana Unitholders.

1. We refer to the:
 - Trustee's statement dated 18 June 2024
 - Sabana Manager's statement dated 17 June 2024

2. Both the Trustee and Sabana Manager have confirmed that there are Change of Control Clauses incorporated in the Bond documents such that if ESR Cayman ceases to be a 50.1% shareholder in the REIT manager, it would trigger review events both under the Reimbursement and Indemnity Agreement ("**RIA**") and the SBLC Facility Agreement, which would create issues for the new Internal Manager. The Trustee and Sabana Manager have embedded this clause in the bond terms although they are fully aware that the ongoing Internalisation process and its success of it will result in the Change of Control Clauses to be triggered.

Review Event under the Reimbursement and Indemnity Agreement ("**RIA**")

3. **As clearly admitted by the REIT Manager in its own statement, if ESR Cayman ceases to be the 50.1% owner of the REIT manager (if Internalisation occurs), this will trigger a review event under the RIA. Sabana REIT and the Credit Guarantee & Investment Facility ("**CGIF**") will have to enter into discussions on the Change of Control Event.**

4. The REIT Manager itself states that if CGIF is not agreeable to the removal of the REIT Manager, the RIA gives CGIF the right to impose additional conditions such as undertakings which the REIT has to comply with, such as allowing CGIF to enforce any of the security interest granted by the REIT in favour of CGIF, requiring the REIT to pay an increased guarantee fee, require the REIT to provide or procure the provision in favour of the CGIF of additional credit support in the form of guarantees, standby letters of credit, security, additional cash or other forms of collateral acceptable to CGIF. All these will place additional financial constraints and risks on the REIT.

5. **Both the REIT manager and the Trustee have still not informed unitholders about what is the possible substantial increase in financing cost over the already high fixed interest of 4.2% if the Change of Control Clause is triggered in the Reimbursement and Indemnity Agreement and if the additional conditions will result in serious and negative implications for the Sabana unitholders and Internalisation.**

6. If the REIT is unable to provide these additional guarantees, collaterals or pay the increased fees, it would have to delay the Internalisation so as not to breach the Change of Control Clause. This Change of Control Clause is incorporated although the Trustee and REIT Manager know that the REIT might adopt an internal manager model if the necessary Trust Deed amendment is passed.

Review Event under the SBLC Facility Agreement

7. The REIT manager has admitted that Change of Control provisions are embedded in the SBLC Facility Agreement stating that ESR Cayman must own at least 50.1% of the manager as otherwise a mandatory prepayment event will be triggered.
8. The Trustee's additional term that in a Change of Control situation, consent from the lender should not be unreasonably withheld or delayed still means that the lenders can mandate a prepayment of the facility in a Change of Control situation.
9. This will again still potentially endanger and stop the Internalisation process so as not to breach this Change of Control provision if Sabana REIT is unable to provide such prepayment. This Change of Control Clause is incorporated although the Trustee and REIT Manager know that the REIT might adopt an internal manager model if the necessary Trust Deed amendment vote is passed.

Sabana unitholders seriously doubt the rationale behind issuing a long-term bond (5-year) to refinance a loan which is only maturing close to 1.5 years from now (Oct/Nov 2025) at an 1) even higher interest rate than Sabana REIT's current financing cost and 2) at a time when the interest rate is also at its highest.

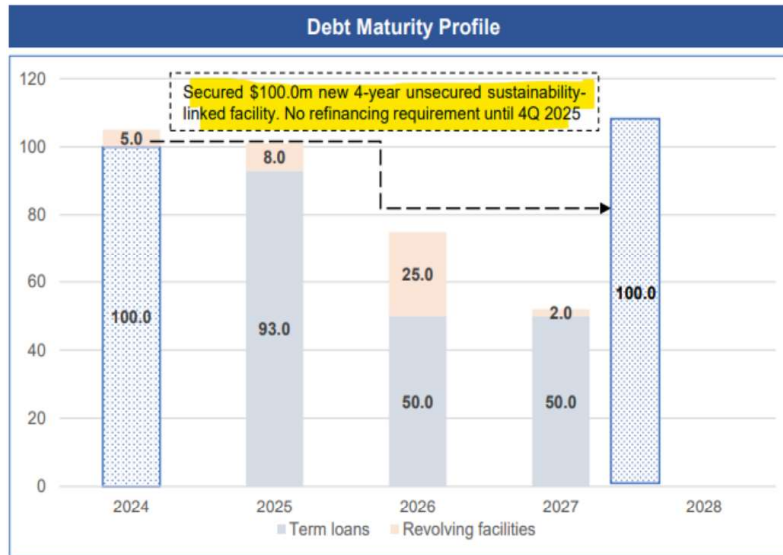
10. **In addition to the Change of Controls embedded in the bond agreement, Sabana unitholders also question the financial logic of the Sabana Manager and Trustee in issuing a costly long-term fixed rate bond when interest rate is at its highest. This will result in all unitholders being locked up in elevated rates (bond is issued at 4.2% and does not include the cost of guarantee, which will increase the all-in interest rate even more!), which are even higher than the REIT's current financing rate (4.01%).**
11. This is as current interest rates are at an all-time high with interest rates all but sure to be reduced going forward as can be seen by the rate reduction already conducted by several central banks such as the European Central Bank ("ECB"), Swiss National Bank ("SNB"), and Bank of Canada ("BoC"). The US Federal Reserve ("FED") has also guided that it will do 2 rate reductions in 2H2024.

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Key Credit Metrics		
	As at 31 March 2024	As at 31 December 2023
Total borrowings	\$333.0m ⁽¹⁾	\$318.0m
- Term loans	\$293.0m	\$293.0m
- Revolving facilities	\$40.0m	\$25.0m
Aggregate leverage⁽²⁾	35.6%	34.3%
Interest coverage ratio ⁽³⁾	3.4x	3.5x
Weighted average tenor of borrowings	2.7 years	2.9 years
Average all-in financing cost	4.01%	3.89%
Proportion of total borrowings on fixed rates ⁽⁴⁾	51.8%	76.3%
Weighted average fixed debt expiry	1.2 years	1.0 years
Debt Headroom⁽⁵⁾	\$134.9m	\$145.7m
Unencumbered assets	100%	100%

12. In June 2020, Sabana unitholders questioned the REIT manager's and its board's logic in recommending the merger transaction with ESR Logos REIT at a 26% discount to Sabana NAV by asking "Are the Sabana REIT management teams and directors willing to sell their personal properties at a 26% discount to NAV given that they are recommending unitholders to merge at a 26% discount to NAV?"
13. **Sabana unitholders now ask the REIT management team and directors whether they are willing to lock up the mortgage of their own properties at a high fixed rate of more than 4.2% (including credit guarantee cost and change of control increases) for the next 5 years (till 4Q2029) when it is already clear that interest rates will come down.**
14. This high interest rate will cost unitholders more than S\$4.2million yearly, which is more than 10% of the REIT's current distributable income of S\$33million in 2023 and 2022.
15. It is also clear that given that the next loan maturity is in Oct/ Nov 2025 (see charts below), there is also no urgency to refinance close to 1.5 years in advance.

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10. BORROWINGS (CONTINUED)

Terms and borrowings repayment schedule (continued)

(a) Unsecured Term Loan Facility

As of 31 December 2023, the outstanding unsecured Term Loan Facility consisted of:

- (i) 3-year term loan facilities of \$100.0 million maturing in October 2024. (On 30 June 2023, the REIT has entered into a new 4-year term and revolving loan facilities of \$100.0 million to refinance this facility)
- (ii) 4-year term loan facilities of \$75.0 million maturing in October 2025.
- (iii) 4-year term loan facilities of \$18.0 million maturing in November 2025.
- (iv) 4-year term loan facilities of \$50.0 million maturing in March 2026.
- (v) 5-year term loan facilities of \$50.0 million maturing in March 2027.

Singapore High Court has Expedited the Appeal Process

- 16. As the Trustee is aware, the Singapore High Court has expedited the appeal hearing from potentially Sept/Oct 2024 to July 2024, about 2 months earlier, to safeguard the interest of unitholders.
- 17. The Trustee has also stated in its 12 June 2024 statement that it has already established an entity to act as the New Internal Manager and is now progressing with the remaining workstream.
- 18. **Given the above, we believe that Sabana unitholders would be better served if the Trustee stops or postpones the bond issuance process and carefully considers the terms and the timing of the issuance to ensure that the issuance will not jeopardize or stop the internalisation nor substantially increase its cost and hurdles. It is also clear**



that the bond issuance is highly unnecessary given that the next loan maturity is close to 1.5 years later.

19. This is as once the Trustee signs and approves the bond issuance, it will potentially not be able to undo its action.
20. As mentioned above, the Trustee is the issuer of this bond. The Trustee is also executing on the Internalisation, which would result in the removal of the current REIT manager if the necessary amendment of the Trust Deed for Internalisation is voted through by unitholders.
21. As such, if the bond potentially results in significant complications or impediments to the Internalisation, and potentially entrenches the current REIT manager to the detriment of Sabana Unitholders, and puts the REIT in financial jeopardy, the fault will fall squarely on the Trustee. This is as the Trustee is the party which signs off, approves and undertakes the bond issuance.
22. We are highly surprised that the Trustee now tries to 'pass the buck' to scrutinize the bond issuance to the Internalisation Committee ("IC"). It is the responsibility and the fiduciary duty of the Trustee to scrutinize the REIT manager to ensure that its recommendations and actions prioritize the interest of unitholders over the managers' shareholders. The IC has sought on multiple occasions to have a candid discussion with the Trustee on a without prejudice basis, which was declined by the Trustee. The IC still wants to engage with the Trustee to ensure the expeditious completion of the Internalisation for the benefit of all unitholders.
23. Sabana unitholders respectfully request MAS to ensure that the REIT manager and the Trustee fulfill their fiduciary duties to act in the best interest of all Sabana unitholders to ensure that the unnecessary and substantial financing is not conducted which can potentially stop and delay internalisation to potentially entrench the REIT manager to the severe detriment of Sabana unitholders.

Thank you.

Yours Faithfully,

Quarz Capital