

INSIGHT

New governance index for Reits and trusts gives the big picture

GIFT – Governance Index For Trusts – rates 43 Reits and business trusts on governance and key fundamentals

By Mak Yuen Teen and Chew Yi Hong

Singapore REAL estate investment trusts (Reits) and business trusts (BTs) have become an important feature of our capital market as Singapore aspires to be a hub for such listings.

As at June 1, 2017, there are 45 such issuers with a primary listing trading on the Singapore Exchange (SGX), accounting for a total market capitalisation of S\$85 billion. Of the 45 issuers, six are constituted as stapled securities, nine as pure business trusts and 30 as Reits.

Existing governance indices in the Singapore landscape exclude this important group of issuers because their governance structures and practices, and applicable rules and regulations, are different from companies.

One important difference, for example, is that with one current exception, these trusts are externally managed by a manager or trustee-manager, with the board of directors residing with the latter and appointed by its shareholders, rather than by unitholders of the trust.

This creates a wedge between the board of directors and unitholders, leading to potentially reduced accountability compared to the case of a listed company.

Given the unique features of Reits and BTs, we developed a separate governance index for them, supported by CPA Australia. We call this new index GIFT, which is short for Governance Index For Trusts. GIFT, which was first conceptualised more than two years ago, takes into account the business models of these trusts, regulat-

ory requirements, the Code of Corporate Governance, and the October 2014 MAS consultation paper on proposed enhancements to the regulatory regime governing Reits and Reit managers.

For this inaugural issue, we personally assessed all the Reits and BTs using publicly available information from annual reports, websites, results and other SGXNet announcements, and news media reports. We also used anonymous e-mails to investor relations contacts of these trusts to assess actual responsiveness to investors.

The index includes a main section carrying an overall score of 100 points. Eighty points are allocated to the following areas of governance: board matters (20 points), remuneration of directors and key management (10 points), alignment of incentives and interests (10 points), internal and external audit (10 points), communication with unitholders (15

points) and other governance matters (15 points). 20 points are allocated to business risk, assessed using leverage-related factors and other factors such as lease expiry and income support arrangements.

In addition to the main section, there is a section comprising merit and demerit points. Merit points are given for certain practices that we believe Reits and BTs should aspire to adopt, in order to further improve their governance or to reduce their risks.

Examples include putting trust deeds and loan agreements on their websites, and independent directors being expected to hold some units in the trust until the end of their directorships.

The total maximum number of merit points is 25. Demerit points are imposed for cases such as independent directors serving on boards of a related Reit/BT or on an excessive number of boards, high turnover of key management, and non-compliance with rules and regulations. Demerit points can range from one to 10.

We assessed 43 Reits and BTs in this inaugural issue of the index. Those that have not published an annual report or that are suspended are excluded.

The range of overall scores for the 43 Reits and BTs are from a high of 76.5 for Keppel DC Reit to a low of 38.5 for First Ship Lease Trust. The mean and median score is 62.

Under board matters, 36 trusts have at least 50 per cent of independent directors on the board.

Only 17 trusts have one or more independent directors with both relevant working experience in the industry and in asset/investment management, with another 15 trusts having either of such experience. Thirty-six trusts have an independent audit committee chairman with recent and relevant experience in accounting or financial management and 26 have a majority of audit committee members with such experience.

There were situations where we re-designated independent directors to non-independent directors because they have served more than nine years on the board or because they have significant relationships with the trust, manager or sponsor (even where the nominating committee has deemed the director to be independent). We were also stringent in assessing expertise and experience for the board and audit committee.

For remuneration, only seven trusts disclosed the fee structure for non-executive directors, though 33 disclosed the actual fees for each of these directors on a named basis.

Of the 43 we contacted by e-mail, 34 responded. We would like to encourage Reits and BTs to put other important information, such as trust deeds and loan agreements, in their websites.

Finally, under other governance matters, one of the key areas we as-

sesses the working experience of the chief executive officer (CEO), chief financial officer (CFO) and head of Investment or Asset Management in the industry in which the Reit or BT operates. Thirty-two CEOs have at least 10 years of experience in the industry, with another six having at least five years of experience.

For CFOs, the numbers are 23 and 11, respectively, while for the head of Investment or Asset Management, they are 27 and five, respectively. Disclosures of working experience can be improved for some trusts.

One area that no Reit or BT currently covers is putting the manager or trustee-manager up for appointment periodically to improve their accountability to unitholders.

Managers and trustee-managers are entrenched to some extent, with the extent of entrenchment dependent on the stake held by the sponsor and/or controlling unitholder.

We believe that unitholders recognise the value of retaining an experienced manager or trustee-manager and will not trivialise a decision to change even if they are able to. Perhaps giving unitholders a right to endorse the re-appointment periodically would be a good way to gauge the satisfaction of unitholders with the performance of the manager or trustee-manager.

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Finally, for business risk, 21 trusts have weighted average debt maturing at three years or more, and 35 trusts have less than 10 per cent of debt maturing within the next 12 months. Thirty trusts have at least 70 per cent of their borrowings carrying fixed interest rates.

The full index and a report summarising the key findings are available at www.governanceforstakeholders.com.

Mak Yuen Teen is an associate professor at the NUS Business School who first developed the Governance and Transparency Index (GTI) and the Governance Evaluation for Mid- and Small-Caps (GEMS) and was the Singapore specialist involved in developing the Asean Corporate Governance Scorecard. Chew Yi Hong is an active investor who has been involved in several corporate governance projects in Singapore and the region.

Distribution of scores

	BOARD MATTERS	REMUNERATION OF DIRECTORS & KEY MANAGEMENT	ALIGNMENT OF INCENTIVES AND INTERESTS	INTERNAL AND EXTERNAL AUDIT	COMMUNICATION WITH UNITHOLDERS	OTHER GOVERNANCE MATTERS	BUSINESS RISKS
Points allocation	20	10	10	10	15	15	20
Average score	10	3.1	7.1	9.4	10.5	11.7	13.2
Highest score	16	6.5	10	10	15	15	18
Lowest score	4	0	4	6	5.5	6.5	3

Source: Mak Yuen Teen/Chew Yi Hong

Governance Index For Trusts 2017

RANKING	REIT/BT	MAIN SCORE	TOTAL
1	Keppel DC Reit	74.5	76.5
2	Parkway Life Reit	71.5	74.5
2	Soilbuild Business Space Reit	76.5	74.5
4	AIMS AMP Capital Industrial Reit	75.0	73.0
5	Starhill Global Reit	69.5	72.5
6	Cambridge Industrial Trust	74.5	71.5
7	Keppel Infrastructure Trust	70.0	71.0
8	Capitaland Commercial Trust	68.5	70.5
9	IReit Global	71.0	70.0
10	Ascendas India Trust	70.5	69.5
11	Manulife US Reit	71.0	69.0
11	Mapletree Industrial Trust	72.0	69.0
11	SPH Reit	67.0	69.0
14	Frasers Commercial Trust	65.5	68.5
15	Capitaland Mall Trust	66.5	66.5
15	Mapletree Commercial Trust	69.5	66.5
17	BHG Retail Reit	69.0	66.0
18	Frasers Hospitality Trust	64.5	65.5
19	Ascendas Reit	68.0	65.0
19	Capitaland Retail China Trust	66.0	65.0
21	First Reit	66.0	64.0
22	Ascendas Hospitality Trust	68.0	62.0
22	Ascott Residence Trust	69.0	62.0
22	Keppel Reit	74.0	62.0
22	OUE Commercial Reit	65.0	62.0
26	Mapletree Greater China Commercial Trust	63.0	61.0
27	Croesus Retail Trust	60.0	59.0
28	Far East Hospitality Trust	63.0	58.5
29	CDL Hospitality Trusts	56.5	58.0
29	Frasers Centrepoint Trust	57.0	58.0
29	Suntec Reit	58.0	58.0
32	Viva Industrial Trust	62.5	57.5
33	Cache Logistics Trust	58.5	55.5
34	OUE Hospitality Trust	57.5	54.5
34	Sabana Reit	69.5	54.5
36	Mapletree Logistics Trust	62.0	54.0
37	Accordia Golf Trust	53.5	53.5
38	EC World Reit	65.0	52.0
39	Asian Pay Television Trust	50.5	50.0
40	RHT Health Trust	53.0	49.0
41	Hutchison Port Holdings Trust	49.5	46.5
42	Lippo Malls Indonesia Retail Trust	57.5	45.5
43	First Ship Lease Trust	52.5	38.5

Source: Mak Yuen Teen/Chew Yi Hong

They often announce annual and quarterly results well ahead of the imposed deadlines, provide notice of their meetings with unitholders well in advance, have well-designed websites, and make presentation materials for annual general meetings (AGMs) and investor briefings available on their websites.

They were generally fast and helpful in responding to our anonymous e-mails seeking information that may be useful to investors.

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