

# Reits, trusts under scrutiny with new governance index

## Keppel DC Reit tops maiden index, which ranks 43 Reits and business trusts

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### Singapore

A NEW set of corporate governance rankings has been launched, officially putting Singapore's real estate investment trusts (Reits) and business trusts (BTs) on notice: their corporate governance practices have been and will henceforth be scrutinised, assessed and tabulated for the investing public and wider market to see.

The Governance Index For Trusts (GIFT), unveiled on Thursday, represents the first time such a comprehensive scoring has been published for the Reits and BTs listed in Singapore.

The index was developed by well-known corporate governance advocate Mak Yuen Teen, who also came up with the Governance and Transparency Index (GTI) and the Governance Evaluation for Mid- and Small-Caps (GEMS), in collaboration with active investor Chew Yi Hong, and with the support of professional body CPA

Australia.

Grabbing the top spot in the inaugural GIFT was a Reit which has already chalked up a first in its lifetime: Keppel DC Reit, the first data-centre Reit to be listed in Asia.

It scored a total of 76.5 points to top the table of 43 Reits and BTs assessed in this year's index; those that had not published an annual report or were suspended were excluded from this ranking.

Parkway Life Reit and Soilbuild Business Space Reit shared the No. 2 spot; AIMS AMP Capital Industrial Reit and Starhill Global Reit took fourth and fifth places respectively.

Professor Mak of the National University of Singapore Business School explained that GIFT was developed specifically for listed Reits and BTs – now an important feature of Singapore's capital market as the city-state aspires to be a hub for such listings – and recognises their unique features.

"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," he said.

For example, with just one current exception (Croesus Retail Trust), Reits and BTs are externally managed by a manager or trustee-manager, and the board of directors resides with the manager, rather than with the Reit itself.

The board is appointed by the manager's shareholders, rather than by the unitholders of the trust.

This results in a wedge between the board of directors and unitholders, leading to potentially reduced accountability compared to a listed company, Prof Mak said.

Such differences from listed companies compelled the corporate governance guru to develop a standalone index, instead of merely including Reits and BTs in existing governance indices here.

He said: "In developing the index, we did not try to modify existing indices designed for listed companies. Instead, we basically designed it from a blank piece of paper, by thinking about what are really fundamental to the governance of Reits and BTs – their different business models and regulatory requirements, for example. Therefore, this is really quite different from other governance rank-

## Governance Index For Trusts 2017

RANKING	REIT/BT	MAIN SCORE	TOTAL
1	Keppel DC Reit	74.5	<b>76.5</b>
2	Parkway Life Reit	71.5	<b>74.5</b>
2	Soilbuild Business Space Reit	76.5	<b>74.5</b>
4	AIMS AMP Capital Industrial Reit	75.0	<b>73.0</b>
5	Starhill Global Reit	69.5	<b>72.5</b>
6	Cambridge Industrial Trust	74.5	<b>71.5</b>
7	Keppel Infrastructure Trust	70.0	<b>71.0</b>
8	CapitaLand Commercial Trust	68.5	<b>70.5</b>
9	lReit Global	71.0	<b>70.0</b>
10	Ascendas India Trust	70.5	<b>69.5</b>

Source: Mak Yuen Teen/Chew Yi Hong

ings and indices."

He and Mr Chew awarded points to the Reits and BTs in areas of governance such as board matters, remuneration of directors and key management, alignment of incentives and interests, internal and external audit, and communication with unitholders.

Points were also allocated to business risk, assessed using leverage-related factors and other factors such as lease expiry and income-support arrangements.

These criteria made up the main score for each Reit or BT.

Merit and demerit points were then awarded, creating the total score. Merit points were given for practices that Prof Mak and Mr Chew believe Reits and BTs should aspire to adopt, for example, putting trust deeds and loan agreements on their websites.

Demerit points were imposed on Reits where independent directors served on boards of a related Reit/BT or on an excessive number of boards.

So, for example, Keppel DC Reit had scored lower (74.5 points) than Soilbuild Business Space Reit (76.5 points) in its main score, but Keppel DC Reit came out ahead (76.5 points) after the merit and demerit stage; while Soilbuild Business Space Reit fell back after that stage (74.5 points).

In general, Prof Mak and Mr Chew found that Singapore-listed Reits and BTs scored well in:

- Having at least 50 per cent of independent directors on the board;
- Having reputable external auditors and unmodified audit opinions; and

- Communicating well with unitholders.

But they did less well in areas such as board independence and competencies, remuneration, and alignment of incentives and interests with unitholders; many trusts still link performance fees to net property income, rather than unitholder return or distribution per unit.

**GIFT was developed specifically for listed Reits and Business Trusts – which have become an important feature of Singapore's capital market as the city-state aspires to be a hub for such listings – and recognises their unique features as compared to listed companies, said Prof Mak.**

Prof Mak also cited the one practice not adopted by any Reit or BT here – 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 ... Perhaps giving unitholders a right to endorse the re-appointment periodically – effectively an advisory rather than a binding vote – would be a good way to gauge the satisfaction of unitholders with the performance of the manager or trustee-manager."

Tan Boon Gin, chief executive of Singapore Exchange Regulation Pte Ltd (SGX RegCo), SGX's independent regulatory subsidiary, said at the launch of GIFT: "It is my hope that the index will not only increase transparency in this space, but also act as a catalyst for Reits and BTs to benchmark themselves against one another and to raise overall corporate governance standards in the sector."

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