Newer trusts on SGX show good governance

Issues such as directors' independence, remuneration disclosure still remain for some

The Village Residence Clarke Quay, part of the Far East Hospitality Trust portfolio. The real estate investment company was among those that made the best improvements in governance, according to the annual report. PHOTO: FEH

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Newer listings on the Singapore Exchange (SGX) performed credibly on an index assessing how trusts managed governance and business risks, but there are still issues that need to be tackled.

The annual report card out yesterday looked at 46 out of 50 real estate investment trusts (Reits) and business trusts on the SGX this year.

Reits and trusts account for over 10 per cent of total market capitalisation of the Singapore stock market.

Concerns flagged in the report – the 2019 Governance Index for Trusts (Gift) – include the way that some trusts justify the independence of directors.

"Some independent directors, who retire from a trust after serving for nine years, promptly joined another related trust as independent directors.

"Hypothetically, if there are four related trusts, such directors can still be independent after 36 years," said Gift authors, corporate governance Professor Mak Yuen Teen and active investor Chew Yi Hong, in the SGX-supported report released yesterday.

"While extensive justifications are given for such cases, we believe these trusts should just cast their net wider when appointing independent directors," they added.

There were also other instances where standards regressed.

In one case, a trust stopped allowing unit holders to endorse the appointment of directors, as it deemed it had complied with the requirements for half of the board to be independent, and that endorsement was no longer required by the rules.

"This suggests a minimum compliance mindset," said the report.

In another instance, a trust stopped disclosing the remuneration of individual directors, the chief executive and the top five executive officers on a named basis.

It claimed this would not be in the best interests of the manager, the Reit or its unit holders – but was penalised in the ranking.

There were, however, bright spots in the third edition of Gift.

It found that the average combined governance and business risk score has continued to improve, from 62.2 in 2017 to 68.0 this year.

SGX Regulation (SGX RegCo) chief executive Tan Boon Gin said: "Newer trusts performed credibly, testament to the rigour of the listing process in which all market participants play their part."

Singapore Reits now hold more geographically diversified assets as well, with over 80 per cent of Reits and property trusts having properties overseas, he added.

The exchange is also attracting more Reits and trusts holding wholly offshore assets, said Mr Tan, who added that a growing profile of overseas assets offers diversification opportunities to unitholders.

Yet, changing consumer trends mean that new sub-classes of real estate, such as co-working and co-living spaces, will rise in demand.

Such developments call for the industry to be more proactive in managing risks, he said.

"The industry can expect SGX RegCo to pay close attention to how the management of the trust, board of its manager, and its auditors disclose the financials, explain risks and implement internal controls," he said.

"In particular, the use of debt instruments, such as perpetual securities, will have to be clearly explained, and its impact on cash flow and bottom line clearly illustrated."

Among those that made the greatest improvements was Far East Hospitality Trust, which improved the way it appointed independent directors. It was also more prompt in releasing financial results, and put up minutes of its annual general meeting, which improve engagement with unit holders.

The posting of detailed meeting minutes online proved to be the greatest area of improvement in Gift 2019 – 29 out of 46 trusts did so.

Trusts were also found to have reduced their refinancing risks.

More of them have an average debt maturity of more than three years, and fewer have more than 25 per cent of their debt expiring in 12 months.

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Top performers

The latest Governance Index for Trusts assesses the governance and business risk of real estate investment trusts (Reits) and business trusts listed on the Singapore Exchange.

Ranking	REIT or business trust	Market capitalisation ($ billion)
1	NetLink NBN Trust	3.410
2	Mapletree Commercial Trust	5.818
3	Keppel DC REIT	2.285
4	AIMS APAC REIT	1.021
	Mapletree North Asia Commercial Trust	4.454
6	Far East Hospitality Trust	1.316
	Keppel-KBS US REIT	0.651
	Manulife US REIT	1.230
9	CapitaLand Mall Trust	9.443
10	CapitaLand Commercial Trust	7.941

Source: GIFT 2019 STRAITS TIMES GRAPHICS