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CORPORATE GOVERNANCE

Trusts' corporate governance scores 'have stagnated or regressed'

Raised standards partly to blame; NetLink NBN Trust retains top spot in Governance Index for Trusts

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NETLINK NBN Trust has retained its No.1 spot in the Governance Index for Trusts (GIFT) 2020, although the overall average score for the sector has dropped, partly due to a raising of standards.

The GIFT ranking, a study of Singapore-listed trusts, was produced by Mak Yuen Teen, associate professor of accounting at the NUS Business School, and Chew Yi Hong, an active investor and keen observer of the corporate governance scene. The ranking debuted in 2017, and is supported by the Singapore Exchange (SGX).

The index assesses the governance and business risks of 45 out of the 50 real estate investment trusts (Reits) and business trusts (BTs) listed in Singapore. It excludes Eagle Hospitality Trust (EHT) because the Reit is suspended and its annual report was issued after the study's cut-off date.

Besides Netlink NBN Trust, the other top-ranked trusts in GIFT 2020 are Keppel DC Reit, Aims Apac Reit, CapitaLand Commercial Trust, Manulife US Reit and Mapletree North Asia Commercial Trust.

At the other end, the six lowest-ranked trusts are Asian Pay Television Trust, First Reit, Lippo Malls Indonesia Retail Trust, Accordia Golf Trust, Dasin Retail Trust and Hutchison Port Holdings Trust.

This year, GIFT 2020 introduced new merit and demerit items, and made adjustments to the scorecard, taking into account changes in regulation and the impact of Covid-19 on meetings. Given this, the scores for this year are not directly comparable to those in previous years.

"The raising of the bar contributed to the average combined governance and business risk score falling from 68 in 2019 to 64.3 this year," it said.

Prof Mak noted that while there are

some areas of improvement such as in the areas of posting of annual general meeting (AGM) minutes and disclosure of the exact remuneration of non-executive directors, standards have, on the whole, "somewhat stagnated, regressed or not met expectations".

For instance, he noted that it was "disappointing" that only six trusts – Keppel DC Reit, Keppel Infrastructure Trust, Keppel Reit, Netlink NBN Trust, Parkway Life Reit and Starhill Global Reit – allow unitholders to endorse directors at the AGM.

"Given the fact that all directors of Reit managers and trustee-managers are appointed by the shareholders of the managers and not the unitholders of the trust, it is difficult for independent directors (IDs) to be perceived to be truly independent.

"The issue of independence of IDs has arisen in several cases during the past year, and becomes particularly contentious in merger and privatisation situations."

He added that the regulations for Reits and BTs specify a list of criteria for determining independence, but allow the board to determine whether a director is independent even if they do not meet the criteria. "It is not uncommon for trusts to use this flexibility given by the regulations."

He also observed that a third of the managers collected higher fees while delivering lower distribution per unit (DPU). Another 40 per cent raised their fees more quickly than the increase in DPU, or lowered their fees less than the drop in DPU.

Other areas that the authors felt trusts could do better include improving the diversity of boards, having nominating and remuneration committees, continuing with quarterly reporting or at least informative quarterly updates, and avoiding holding meetings on peak days of the AGM season.

The authors also noted that al-

Top 10 scoring

Governance index for trusts

RANKING	REIT/BT	GOVERNANCE RISK SCORE	BUSINESS RISK SCORE	GIFT 2020
1	NetLink NBN Trust	71	19	90
2	Keppel DC Reit	57	18.5	75.5
3	Aims Apac Reit	53	22	75
4	CapitaLand Commercial Trust	52	22	74
	Manulife US Reit	54	20	74
	Mapletree North Asia Commercial Trust	56.5	17.5	74
7	CapitaLand Mall Trust	52.5	21	73.5
	Far East Hospitality Trust	56.5	17	73.5
	Parkway Life Reit	52.5	21	73.5
10	Cromwell European Reit	55	18	73
	Keppel Pacific Oak US Reit	51	22	73
	Prime US Reit	51	22	73

Source: GIFT 2020

though on average, Singapore-listed trusts are still well financed, investors should watch indicators of business risks such as leverage, interest coverage, foreign currency exposure, lease expiry and use of hybrid securities, as the sector moves from a focus on stability and income generation to a focus on growth.

Prof Mak said: "With the sector having matured, increasing consolidation, more trusts venturing overseas and the debacle involving EHT, it is important that corporate governance standards be raised and changing risks be adequately recognised so that the good work done by (the Mon-

etary Authority of Singapore) and SGX in building up the sector in the past decade is not undone."

Mr Chew also encouraged investors to be more discerning and to examine the track record of the managers and trustee-managers in creating value for unitholders.

"The incentives for the managers may not be aligned with the interests of unitholders, although Reit managers and their directors have a legal obligation to act in the best interests of unitholders," he said.

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