Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

REIT: Keppel Pacific Oak US REIT
(Manager: Keppel Pacific Oak US REIT Management Pte. Ltd)

Stock code: CMOU

Meeting details:
Date: 3 June 2020
Time: 9.30 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. As at 31 December 2019, the REIT's portfolio comprised a balanced mix of 13 freehold office buildings and business campuses across eight key growth markets in the US. At the IPO, the REIT comprised 11 office properties valued at US$829 million. The portfolio value has increased to US$1.26 billion and an aggregate net lettable area of over 4.7 million square feet.

As part of the REIT's growth strategy, it completed two acquisitions in 2019 – Maitland Promenade I in Orlando, Florida, and One Twenty Five in Dallas, Texas. Dallas, Texas is also a new key growth market for the REIT.

In the chairman's statement was dated 20 February 2020, it was disclosed that the manager "will continue to selectively acquire and deepen [the REIT's] footprint in key growth markets where key metrics, including economic, population and employment growth, generally outpace that of the US national average, as well as the average of the gateway cities".

(i) Since then, the global economy has been severely disrupted by the COVID-19 pandemic. **Is the manager making changes to the pace of its acquisitions?**

(ii) **Has the REIT experienced any significant increase in payment delays or rental defaults? How is the REIT helping its tenants who may be facing cash flow issues?**

(iii) **In addition, can the manager let unitholders know if the cities in its portfolio have been impacted differently by the pandemic? If so, how so?**

(iv) The Monetary Authority of Singapore has raised the aggregate leverage to 50%. As at 31 December 2019, the REIT has an aggregate leverage of 36.9%. **Will the manager be utilising the higher aggregate leverage as a buffer or would the manager be making use of the higher limit to acquire new assets?**

(v) Specifically, for 1800 West Loop South, the occupancy has remained at the ~75% level in the past two years. **What are the challenges to raising the occupancy rates?**

Q2. On 5 September 2019, the REIT announced that it will be changing its name from "Keppel-KBS US REIT" to "Keppel Pacific Oak US REIT".

In addition, it was announced that the Pacific Oak Companies comprising Pacific Oak Capital Advisors LLC (the "new US Asset Manager"), Pacific Oak Capital Markets Group LLC and Pacific Oak Holdings Inc have been formed upon the conclusion of the re-organisation of the US asset manager.

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The new US asset manager would still be led by Mr Peter McMillan III and Mr Keith D. Hall, who used to oversee the asset management services provided via KBS Capital Advisors LLC at the IPO. It would be the same Core Plus Team who would be exclusively sourcing and managing the core real estate for the REIT.

As a result, the REIT manager entered into a new outsourcing management agreement with the new US asset manager. It was disclosed that the Pacific Oak Management Agreement will be **<u>substantially on the same terms</u>** [emphasis added] as the existing outsourcing agreement with KBS which will terminate and be replaced by the Pacific Oak Management Agreement.

(i) **Can the REIT manager point out the differences between the Pacific Oak Management Agreement and the former agreement with KBS?**

Q3. On page 2 of the annual report, the manager provided an overview of the Key figures for 2019, including Growth in Distributable Income and Increase in Distribution Per Unit (DPU).

Growth in Distributable Income

31.4%

Contributions from the newly acquired properties, strong leasing momentum, rental escalations and positive rental reversions saw year-on-year growth in distributable income to US$50.8 million, 31.4% above that of 2018.

Increase in Distribution Per Unit (DPU)

31.2%[1]

Achieved DPU of 6.01 US cents in 2019, 31.2% above 2018's adjusted DPU[1] and 26.0% above adjusted DPU for the initial public offering (IPO) forecast[2] respectively.

[1] Adjusted DPU for Actual FY2018 and Forecast FY2019 were calculated based on the weighted average number of Units for FY2019 of 843,917,481 Units to remove the effects of the enlarged Unit base in FY2019 for comparison purpose.
[2] Forecast FY2019 was derived from the Projection Year 2019 as disclosed in the Prospectus.

(Source: adapted from annual report)

Distributable income has increased by 31.4% mainly due to income contributions from newly acquired properties. However, the REIT has stated that DPU increased by 31.2%, with an explanation in the footnote that the increase in DPU was calculated based on the adjusted DPU for actual FY2018.

DPU for the FY2018 was 6.22 US cents while DPU for FY2019 is 6.01 US cents.

(i) **Would the manager think that it would be more balanced if it had included a comparison to the actual DPU as well to give unitholders a more holistic understanding of the "31.2% increase in DPU"? Would the manager be able to provide a breakdown to show how much of the "31.2% increase in DPU" was due to better performance of the core assets on a year-to-year basis (for assets held in both years) and how much was due to acquisitions and the enlarged unit base?**

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(ii) **Would the manager clarify how the adjustment has been made? Was the FY2018 DPU recalculated using the enlarged unit base (keeping the distributed amount constant)?** Mathematically speaking, any increase in the number of units will "dilute" the prior year DPU. Any such year-on-year comparison may not be meaningful. **If so, would the independent directors consider the current approach a fair and balanced way to make adjustments to prior-year DPU and to state that DPU increased by 31.2%?**

Pursuant to the Trust Deed, the manager is entitled to an annual performance fee of 25% per annum of the difference in DPU in a period with the DPU in the preceding period (calculated before accounting for performance fee but after accounting for the base fee in each period) multiplied by the weighted average number of Units in issue for such period.

(iii) **Would the manager help unitholders understand if the DPU used in the calculation for performance fees is on a realised basis or on an adjusted basis?**

^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings)