Date: 3 Sept 2020

To:

HSBC Institutional Trust Services (Singapore) Limited ("**Trustee**")

(in its capacity as trustee of SABANA SHARI'AH COMPLIANT INDUSTRIAL REAL ESTATE INVESTMENT TRUST)

10 Marina Boulevard
Marina Bay Financial Centre Tower 2,
#45-01 Singapore 018983
Phone: (65) 6658 6667

Dear Sirs,

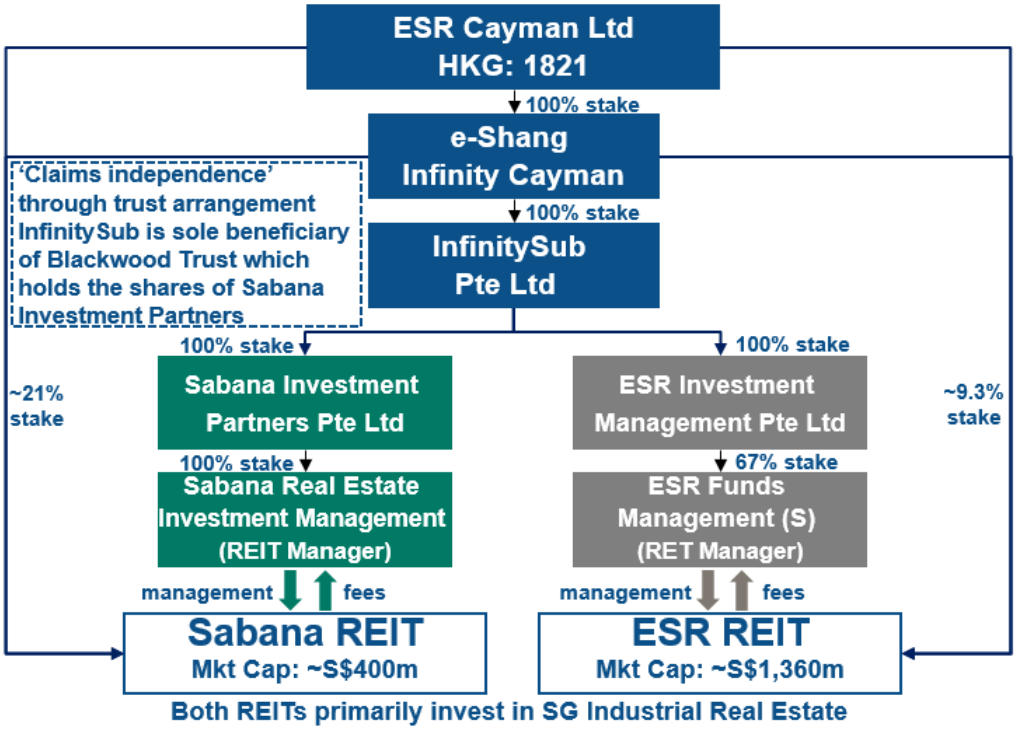
PROPOSED MERGER OF ESR-REIT AND SABANA SHARI'AH COMPLIANT INDUSTRIAL REAL ESTATE INVESTMENT TRUST BY WAY OF A TRUST SCHEME OF ARRANGEMENT (THE "PROPOSED MERGER")

We, the undersigned, are unitholders together representing not less than 10% of the total issued units of Sabana Shari'ah Compliant Industrial Real Estate Investment Trust (the "**Trust**" or "**Sabana REIT**") as at the date of this letter.

We refer to the joint announcement dated 16 July 2020 regarding the Proposed Merger and our open letter in response to the Proposed Merger dated 7 August 2020 to Sabana Real Estate Investment Management Pte. Ltd. (the "**Sabana Manager**"), the manager of Sabana REIT (the "**Open Letter**").

Conflicts of Interest

As raised in the Open Letter, we are deeply concerned about corporate governance and potential conflicts of interests of the Sabana Manager due to: (1) the controlling ownership of ESR in both the Sabana Manager and the manager of ESR-REIT; (2) the overlapping investment mandate of Sabana REIT and ESR REIT; and (3) ESR together with its concert parties being substantial unitholders of both Sabana REIT and ESR REIT. The above is clearly illustrated below.



The above conflict of interests issues had been previously raised via private letter to the Sabana Manager (cced amongst others to the Monetary Authority of Singapore and the Singapore Exchange Regulation) over one year ago, and it had already been suggested, among other things, that a financial advisor should be appointed to explore all possible options to optimize the value of Sabana REIT, given the large valuation gap between its net asset value (NAV) and its unit price at that time, and further, that there could be a merger of ESR REIT and Sabana REIT around book value to resolve the conflicts of interests situation.

However, the Manager had failed to take appropriate actions or measures to close the valuation gap or increase Sabana REIT's normalised DPU or to otherwise obtain the best results for Sabana REIT. As a result, we are of the view that the Manager has not acted diligently or responsibly in its management of the Trust.

Proposed Merger at substantial discount to NAV

The Proposed Merger implies a value of only S$0.377 per Sabana REIT unit and is at a substantial discount of ~26% and ~34% to Sabana REIT's NAV at 30th June 2020 (after COVID-19) and 31st December 2019 respectively. Further, the claim made for the Proposed Merger being DPU accretive for Sabana unitholders is misleading in that a) the 1H20 annualised figures used to support such a claim include material arbitrary provisions for COVID-19 some of which are not publicly disclosed, and b) there is no adjustment made to account for the significantly lower leverage of Sabana REIT versus ESR REIT. If one instead looks at recent financials that are not influenced by COVID-19 accounting treatment (say 4Q19 annualised, or 2H19 annualised), and factor in the DPU benefit to Sabana REIT that would come from having the same gearing level as ESR REIT, then it is clear that the Proposed Merger is actually DPU dilutive for Sabana unitholders instead of being DPU accretive.

Given Sabana's strong balance sheet and the slew of measures which the Manager could take to enhance the DPU of Sabana REIT as detailed in the Open Letter, there is no imperative for Sabana to undertake a merger at this time, and much less at such unattractive terms in relation to both NAV and DPU dilution for Sabana REIT unitholders.

We also highlight that no transparent public sale process was undertaken to seek a better price for Sabana REIT's portfolio.

In the circumstances as outlined above, we are of the view that by putting forward the Proposed Merger (which is at a substantial discount to Sabana REIT's NAV, even taking into account the depressed market after COVID-19), there is serious doubt as to whether the Manager is acting in the best interests of Sabana REIT. As stated in the Open Letter, we intend to vote against the Proposed Merger.

Securities and Futures Act and the Trust Deed

Against the above background, we have been advised that, independent of the provisions of the Trust Deed, a Trustee is compelled, under Section 295(3) of the Securities and Futures Act (Cap. 289) of Singapore ("**SFA**"), to summon a meeting of unitholders to determine a course of action if (a) the Manager is under liquidation or (b) the Trustee forms the opinion that the Manager has ceased to carry on business or **has failed to follow the terms of the trust deed to the prejudice of the participants**.

We highlight that the Second Amending and Restating Deed dated 24 March 2016 (which amends and restates the deed of trust dated 29 October 2010 constituting the Trust, as amended) ("**Trust Deed**") contains, amongst other things, the following provisions:

- **Clause 19.1.11**: requires the Manager to "***act in the best interests of the Trust and provide diligent and responsible management of the assets and liabilities of the Trust***".

- **Clause 20.1.1**: provides for a covenant by the Manager to "***use its best endeavours to carry on and conduct its business in a proper and efficient manner***"; and

- **Clause 20.1.7**: provides for a covenant by the Manager that it will "***use its best endeavours to ensure that its Related Parties will, conduct all transactions with or for the Trust on an arm's length basis and on normal commercial terms***". In this regard, the Trust Deed provides that

"Related Party" refers to an "interested person" as defined in the Listing Rules and/or an "interested party" as defined in the Appendix 2 of the Code of Collective Investment Schemes ("**CIS Code**"). Accordingly, in the case of a REIT, the controlling shareholder of the REIT manager, the REIT manager or controlling unitholders of the REIT and their respective associates are, *inter alia*, deemed to be interested persons.

- **Clause 20.1.9**: provides for a covenant by the Manager to act in accordance with the CIS Code, (including Appendix 2 of the CIS Code) and the SGX Listing Rules for so long as the Trust is listed. In this regard, the CIS Code provides:

    (a) Best interest: Paragraph 3.1aa) provides that "*The manager should at all times act in accordance with the constituent document of a scheme and in the best interest of participants*";

    (b) Duty of best execution: paragraph 3.1d) provides that "*The manager should have arrangements in place to take all reasonable steps to obtain the best possible result for the scheme, taking into account the following execution factors: price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of a trade or transaction."*

We respectfully ask the Trustee to consider the above, to form an opinion as to whether the Manager has failed to follow the terms of the trust deed to the prejudice of the participants and to let us have your reasons for your conclusion.

We are happy to provide you with any further documentation that you may require.

Yours faithfully,

Jan F. Moermann
CIO, Quarz Capital Management

Peter Kennan
CIO, Black Crane Capital

Contact email:
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CC: Unitholders