(a real estate investment trust constituted on 28 January 2019
under the laws of the Republic of Singapore)

(Managed by Lendlease Global Commercial Trust Management Pte. Ltd.)

Responses to Questions from Unitholders and SIAS for Lendlease Global Commercial REIT's Annual General Meeting on 25 October 2022

Lendlease Global Commercial Trust Management Pte. Ltd., in its capacity as manager of Lendlease Global Commercial REIT ("**LREIT**", and the manager of LREIT, the "**Manager**"), would like to thank Unitholders and the Securities Investors Association (Singapore) ("**SIAS**") for submitting their questions in advance of LREIT's Annual General Meeting ("**AGM**") to be held by electronic means at 2.00 p.m. on 25 October 2022.

The Manager has grouped related and similar questions into key topics and provided its corresponding responses to them. Please refer to the Manager's responses to these questions in the following pages.

By Order of the Board
Kelvin Chow
Chief Executive Officer

Lendlease Global Commercial Trust Management Pte. Ltd.
(Registration Number: 201902535N)
(as Manager of Lendlease Global Commercial REIT)

20 October 2022

<u>Performance of LREIT post the acquisition of Jem</u>

1. **In the interview with the CEO (pages 8 and 9 of the annual report), Mr Kelvin Chow (CEO) said that the REIT had "succeed[ed] in generating sustainable value" and had built up the financial strength and resilience. It was also noted by the CEO that distributable income increased by 29.7% and DPU rose by 3.7%.**

   With the acquisition of Jem, the REIT's portfolio valuation also grew to $3.6 million. The key highlights are also shown on page 3 of the annual report.

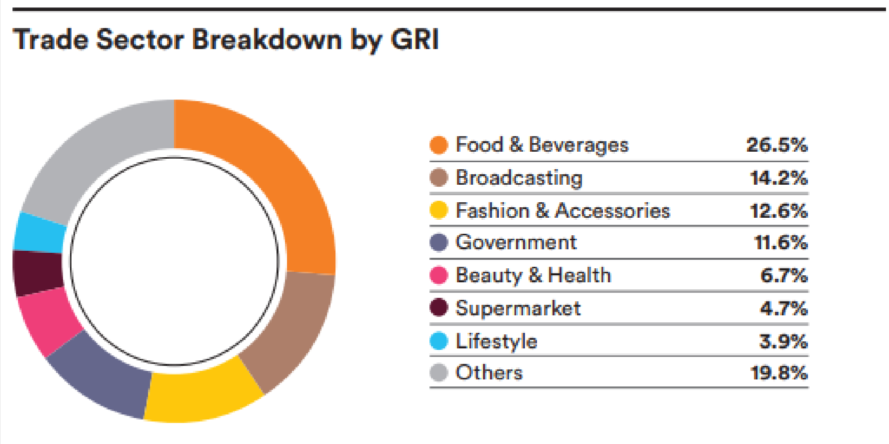
   a. **Can the manager elaborate further on the performance of Jem since the REIT obtained full direct ownership of the property? In the REIT's announcements in February 2022 relating to the proposed acquisition of Jem, the manager had stated (as the first bullet point in its presentation slides under key highlights) that the DPU accretion was 10.5%. Has Jem performed up to the manager's expectations? What are the AEI opportunities for Jem?**

- LREIT's second-half and full-year FY2022 financial results as at 30 June 2022 was the first set of financial results following the completion of the acquisition on 22 April 2022. Overall performance was boosted by the enlarged portfolio that has further strengthened LREIT's cashflow.

- Its retail portfolio occupancy continued to remain strong at 99.6%. LREIT's portfolio was also strengthened with an increased exposure in the suburban retail segment and the high concentration in essential services trades of 57% (by gross rental income ("GRI")).

- The office component of Jem is fully leased to Singapore's Ministry of National Development till 2044, providing a steady and sustainable stream of income for LREIT's unitholders.

- As at the end of FY2022, government and supermarket sectors accounted for 16.3% of the portfolio GRI (vs. NIL in FY2021)



- In regard to AEI opportunities in Jem, we are continuously looking to convert under-utilised spaces into leasable units. Flash Coffee at level one and the conversion of the B1 seating area into two leasable units are very good examples on how additional revenues could be generated for unitholders.

- We are currently exploring AEI opportunities to generate more revenue. More details will be shared at an appropriate juncture.

b. Can the CEO help unitholders better understand how the REIT had "succeed[ed] in generating sustainable value" when the net asset value per unit of the REIT had in fact dropped from $0.81 to $0.78 (as shown on page 3 – Key highlights)?

- In addition to our response in question 1a, the year-on-year ("YoY") increases in LREIT's FY2022 distributable income, gross revenue and net property income were largely attributable to the acquisition of Jem. Distribution per unit ("DPU") took into account the enlarged total unit base in the relevant periods as detailed below.

Period	1 July to 31 December	1 January to 30 March	31 March to 30 June
FY2022	2.40	1.14	1.31
	1 July to 31 December	1 January to 30 June	
FY2021	2.34	2.34	

- The net asset value ("NAV") per unit of S$0.78 was due to the enlarged total unit base from the issuance of 551,723,000 new units via a private placement, 345,577,449 new units through preferential offering and 162,867,300 new units as Consideration Units to a subsidiary of LREIT's Sponsor in March and April 2022 to finance the acquisition of Jem.

- In the longer term, we believe that our strategy in proactive asset management and prudent capital management will result in improved portfolio of assets and DPU growth prospects that will benefit all unitholders.

<u>Growth strategy</u>

2. The portfolio has grown substantially from $1.43 billion in FY2021 to $3.60 billion as at 30 June 2022. The gearing ratio has reached 40.0%. Adjusted interest coverage ratio (Adjusted ICR) is at 2.5 times in accordance with the Property Funds Appendix of the Code on Collective Investment Schemes. Can the manager provide unitholders greater clarity on the pace of acquisitions going forward, following the acquisition of Jem and considering the interest rate trends and uncertainties in the global economy?

3. Any upcoming acquisition to grow this REIT?

- We are monitoring the interest rate movement very closely. Our key focus is really to maintain a prudent capital management and hedging strategies to navigate the current market volatility.

- A good example is the sustainability-linked loan that we obtained in the acquisition of Jem early this year. Over 60% of our debts are sustainable financing, which is expected to generate net interest savings to our unitholders as we meet our sustainability performance targets.

- On pace of acquisition, it depends very much on timing, market conditions and quality of the potential asset. Our principal investment strategy to invest in stabilised income-producing real estate assets located globally is unchanged. Each potential asset that LREIT may look at acquiring has to meet the following criteria and be assessed stringently to ensure that it brings value to LREIT's unitholders:

i. Achieved a minimum occupancy of at least 80%
ii. Achieved an average rental rate comparable to the market rental rate for similar assets as determined by the valuer commissioned for the latest valuation of the relevant asset
iii. (If the asset is being acquired from the Lendlease Group) LREIT being satisfied that there are no material asset enhancement initiatives required within two years of the acquisition of such asset
iv. Is suitable for acquisition by LREIT taking into account market conditions at the time of the proposed offer

<u>Capital management</u>

4. **The Monetary Authority of Singapore has set a minimum threshold of 2.5 times for a REIT's adjusted ICR if the REIT were to increase its leverage limit from 45% to 50%. How will the adjusted ICR of 2.5 times impact the REIT's leverage limit?**

5. **Debt maturity profile looks worrisome for the FY2024 and FY2025. How will the management manage this, given the high interest rate environment?**

- As at 30 June 2022, LREIT has maintained a healthy liquidity position to meet current financial and operational obligations. It has a high interest coverage ratio of 9.2 times in accordance with requirements in its debt agreements, and 4.2 times in accordance with the Property Funds Appendix of the Code on Collective Investment Schemes. The adjusted interest coverage ratio was 2.5 times. The current levels of the interest rate coverage ratios continue to provide ample buffer from its debt covenant of 2.0 times.

- LREIT's gearing ratio was 40.0% as at 30 June 2022. Its debt is fully unsecured, ensuring that it has balance sheet flexibility. LREIT also has undrawn debt facilities of S$257.7 million to fund its working capital. Its weighted average debt maturity was 2.8 years.

- Debt maturity in FY2024 mainly relates to a €285 million Euro term loan facility established at IPO for the financing of the acquisition of Sky Complex. We have commenced early discussions with banks and investors on possible refinancing options, including loan and/or bond refinancing. In addition, we have a diverse group of lenders and bank partners, including European banks, that have expressed early interest in being involved in the refinancing.

6. **As noted in the REIT's announcement on 14 February 2022, the net property income yield of Jem without the effects of COVID-19 related one-off rental abatements and expected credit loss was 4.4%. In fact, the overall net property income yield of the portfolio was just 4.2% after adjusting for COVID-19 related one-off rental abatements and expected credit loss. Nevertheless, the REIT issued $200 million each in June 2021 and April 2022 at 4.20% per annum and 5.25% per annum respectively. The perpetual securities are classified as equity.**

   a. **With already $400 million issued as perpetual securities, can the REIT manager provide unitholders greater clarity on its capital management strategy, especially the use of perpetual securities?**

   b. **In particular, the Series 002 Perpetual Securities that was raised to partially fund the acquisition of the remaining interest in Jem cost more than the adjusted net property**

income of Jem (5.25% vs 4.4%). Can the independent directors help unitholders better understand the commercial rationale of issuing 5.25% perpetual securities to (partially) finance the acquisition of Jem which only yielded 4.4% (after adjustment)?

c. **Compared to the average cost of debt of 0.88% p.a. as at 30 June 2021 and 1.69% p.a. as at 30 June 2022 (page 38), why does the REIT need to issue perpetual securities at such high costs?**

d. **Did the independent directors and/or manager consider the perpetual securities to be expensive sources of financing and have the potential to (negatively) impact the distributions to unitholders? How is the REIT mitigating such risks?**

- Any equity fund raisings are evaluated carefully to ensure that it aligns with LREIT's stated purpose to deliver stable and growing distributions, long-term DPU and NAV per unit growth. We also consider the quality of the asset, stability of its cashflow, credibility of tenants, location, surrounding population catchment and transportation accessibility, strength of the economy, the prevailing capital markets, cost of credit and LREIT's unit price, all of which must deliver value to unitholders.

- Within the borrowing limits set out in the Property Funds Appendix, we will endeavour to employ a prudent capital structure, comprising an appropriate mix of debt and equity in financing its acquisitions. Our capital management strategy involves adopting and maintaining aggregate leverage levels and debt maturities that we believe will provide optimal risk-adjusted returns to unitholders.

- Perpetual securities are treated as equity instead of debt. It is considered an efficient form of hybrid equity and priced between LREIT's cost of debt and its cost of equity at the time it was transacted.

- When LREIT acquired additional stake of up to 31.8% in Jem in June 2021, it had employed the use of perpetual securities as it had offered an attractive funding option without an immediate need for equity fund raising.

- In March and April 2022, we launched an equity fund raising exercise to finance the acquisition of the remaining interest in Jem. Against the backdrop of rising interest rates and the Russia-Ukraine conflict, a combination of private placement, preferential offering and perpetual securities were adopted taking into consideration the amount of gross proceeds required, timing and the speed of execution within the narrow window of opportunity.

- We would like to highlight that the evaluation of which method to use for raising funds, be it through a private placement, preferential offering or perpetual securities, is dependent on various factors including macroeconomic conditions.

7. **Without considering the perpetual securities, the REIT (at 40% gearing) is one of the most leveraged REITs on SGX. Given the interest rate trend, what is the manager's strategy to minimise its financing costs and to maintain/increase its DPU to unitholders when interest rates increase?**

8. **With Series 002 having a reset as soon as 11 April 2025 (and in fact ahead of Series 001's reset date of 4 June 2026) and having just 59% of its borrowings hedged to fixed rates,**

has the manager assessed the risks that there will be a significant increase in financing costs and thus impacting DPU?

9. Please provide impact of the interest rate increase on earnings and the distributions to unitholders.

- Our near-term focus remains on active capital management to manage cost and gearing ratio. On interest rates, we have been watching the market closely and may take the opportunity to hedge when there is opportunity.

- We implement appropriate interest rates management and hedging strategies to manage exposure to market volatility. As at 30 June 2022, approximately 59% of LREIT's borrowings is hedged to fixed rates. Over 60% of our debts are sustainable financing, which is expected to generate net interest savings to our unitholders as we meet our sustainability performance targets.

- LREIT's debt is fully unsecured, ensuring that it has balance sheet flexibility. As at 30 June 2022, LREIT has undrawn debt facilities of S$257.7 million to fund its working capital.

- DPU is expected to move by approximately -0.6% per annum for every 10-basis point rise in interest rates, on a pro forma basis.

Corporate governance

10. Resolution 2 in the notice of annual general meeting is for unitholders to approve the re-appointment of KPMG LLP as the independent auditors of the REIT. As disclosed on page 115, the auditors received non-audit service fees of $900,500 and audit service fees of $283,900.

a. What was the reason for the significant non-audit fees of $900,500?

b. How did the audit and risk committee (ARC) determine that the provision of non-audit services did not impair or threaten auditor independence?

c. The Code of Professional Conduct and Ethics for public accountants, under the purview of the Accounting and Corporate Regulatory Authority, sets a 50 per cent threshold for the percentage of non-audit fees to audit fees for public company clients. Under the Code, additional safeguards by the audit firm must be considered and applied as necessary. What are the steps that have been taken by the ARC and by the auditor to safeguard the independence of the auditors?

- The non-audit fee of S$900.5k includes fees mainly relates to the acquisition of Jem. KPMG has disclosed this fact to the ARC and discussed the safeguards applied to reduce the threat to an acceptable level. The nature of the work is services related to a proposed acquisition and assurance services. The above-mentioned services are not prohibited services.

- The auditor has confirmed to the ARC that they have not identified any threats to their independence or objectivity, regardless of the non-audit work performed by other parts of the audit firm, and that they have complied with relevant ethical requirements regarding independence.

- The steps put in place to safeguard the independence of the auditors include ensuring that advisory services were performed by separate engagement teams and were led by partners from the accounting advisory services practices. The audit work and conclusion were also reviewed by the firm's engagement quality control reviewer.

- The Manager has also put in place a policy governing the services to be provided by the auditor to ensure that it is independent and perceived to be independent. Approval of the ARC is required in the event the total annual fees payable for non-audit services exceeds 50% of the total annual fees for audit services, and both the auditor and Executive General Manager, Finance of the Manager are required to confirm to the ARC that the provision of the non-audit service will not impair the auditor's independence.

<u>Others</u>

11. Sky Italia as the top tenant takes up 45.4% of the NLA but only contributes to 14.2% of the GRI, this pales in comparison to the 2nd top tenant, MND. Are there are plans to increase the GRI from Sky Italia?

- Sky Complex has a first mover advantage and signed a long lease of 12 +12 years since 2008. While its rental is currently under market rent, it has an annual rental escalation based on 75% of ISTAT Consumer Price Index ("CPI") variation. The rental will only remain at floor in the event of a negative CPI, which is projected to provide stable income stream to LREIT's portfolio.

- The three Grade-A office buildings operate on a triple-net lease structure minimises operating risks for LREIT. With a long lease term until 2032 (a break clause option in 2026), this will ensure that the asset continues to deliver steady returns.

12. In the event of a downturn, what are the management plans to ensure that the REIT stays resilient, since revenue from retail rental will most likely be affected.

- Visitor experience is always a priority at our malls. As consumer trends and preferences change, we evolve in tandem.

- LREIT's portfolio was also strengthened with an increased exposure in the suburban retail segment and the high concentration in essential services trades of 57% (by GRI). In addition, we are also looking to increase non-rental revenue, unlock savings through the adoption of smart technologies to improve the efficiency of the assets and reduce non-core expenses.

- We work closely with our sponsor, Lendlease Group, to leverage digital tools, embrace smart technologies, harness data to strengthen our customer engagement and enhance user experience at our malls. We also continuously source new brands and retail concepts to introduce in the malls to cater to evolving trends and consumer demands.

- These in-app offerings and campaigns are well received by shoppers as well as our tenants. In 2022, the number of Lendlease Plus memberships increased approximately 20% over the year.

- In addition, office component is an important contributor to LREIT's portfolio. It accounted for approximately 60% of NLA and 26% of GRI as at 30 June 2022. Given the long weighted average lease expiry of approximately 13 years, it will ensure strong and stable cashflow contribution to LREIT's portfolio.

13. What was the total unitholder return in the past 1 year, 2 years and since its listing in October 2019? Can the manager include the total unitholder return as a metric in the key highlights section in future annual reports?

- There are various metrics to benchmark unit price performance. For LREIT, we benchmark its unit price performance against major indices such as FTSE Nareit Index, FTSE ST REIT Index and FTSE ST Real Estate Index (page 62 of the annual report).

ENDS

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