

**DRAFT AMENDMENTS TO THE CODE ON COLLECTIVE
INVESTMENT SCHEMES**

DISCLAIMER: This version of the Code is in draft form and is subject to change.

CHAPTER 6

6.4 Valuation

d) Chapter 6.4(a) does not apply:

i) during the initial offer period of ~~the~~ a scheme; or

ii) to a closed-ended scheme that is listed on a securities exchange provided that the issuance, redemption or repurchase of units in the scheme complies with the applicable listing requirements of the securities exchange.

APPENDIX 6

INVESTMENT: PROPERTY FUNDS

1 Scope and Definitions

1.1 This Appendix applies to a scheme which invests or proposes to invest primarily in real estate and real estate-related assets (“property fund”). The property fund may or may not be listed on a securities exchange.

1.2 For the purposes of this Appendix:

a) **Associate:**

i) in relation to any director, chief executive officer, or controlling shareholder of the manager, or controlling unitholder of the property fund (being an individual), means:

A) his spouse, child, adopted child, stepchild, sibling or parent;

B) the trustees of any trust of which he or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object; or

C) any company in which he and his family together (directly or indirectly) have an interest of 30% or more; or

ii) in relation to the controlling shareholder of the manager, or the manager, the trustee or controlling unitholder of the property fund (being a company) means any other company which is its subsidiary or holding company, or is a subsidiary of such holding company, or one in the equity of which it or such other company or companies taken together (directly or indirectly) have an interest of 30% or more.

b) **Cash equivalent items** means instruments or investments of such high liquidity and safety that they are as good as cash.

c) **Controlling unitholder** means a person who:

i) holds directly or indirectly 15% or more of the nominal amount of all voting units in the property fund. The Authority may determine that such a person is not a controlling unitholder; or

ii) in fact exercises control over the property fund.

d) **Deposited property** means the value of the property fund’s total assets based on the latest valuation, or in the case of a stapled securities structure, the value of the stapled group’s total assets based on the latest valuation.

e) **Desktop valuation** means a valuation based on transacted prices or yields of similar real estate assets, without a physical inspection of the property.

f) **Interested party** means:

i) a director, chief executive officer or controlling shareholder of the manager, or the manager, the trustee or controlling unitholder of the property fund; or

ii) an associate of any director, chief executive officer or controlling shareholder of the manager, or an associate of the manager, the trustee or any controlling unitholder of the property fund.

- g) **Real estate-related assets** means listed or unlisted debt securities and listed shares of or issued by property corporations, mortgage-backed securities, other property funds, and assets incidental to the ownership of real estate (e.g. furniture).

2 The Manager of a Property Fund¹

~~2.1 The manager of a listed property fund should be a corporation with a physical office in Singapore, and have minimum shareholders' funds of S\$1 million. The manager in Singapore should have:~~

- ~~a) a resident chief executive officer; and~~
- ~~b) at least two full-time professional employees.~~

Guidance

Professional employees include employees who are engaged in the investment management, asset management, financing, marketing and investor relations functions on behalf of the manager.

~~2.2 The manager, as well as its chief executive officer, directors and professional employees should meet the fit and proper criteria as set out in the Guidelines on Fit and Proper Criteria (Guideline No: FSG-G01) issued by the Authority. In addition, the manager should:~~

- ~~a) have at least five years of experience in managing property funds;~~
- ~~b) appoint, with the approval of the trustee, an adviser who has at least five years of experience in investing in or advising on real estate; or~~
- ~~c) employ persons who have at least five years of experience in investing in or advising on real estate.~~

~~2.3 Where the manager has appointed an adviser pursuant to paragraph 2.2(b), that adviser need not be independent of the manager, and may act as agent in seeking out buyers or sellers of real estate or in managing the property fund's real estate assets. However, where the adviser has been appointed as the marketing agent for a property, that adviser may recommend the property fund to purchase that property only if:~~

- ~~a) the adviser has disclosed to the manager that it is the marketing agent for that property; and~~
- ~~b) the adviser is not an associate of the manager.~~

~~2.4 Commissions or fees paid by the property fund to the adviser should not be higher than market rates.~~

~~2.5 The Singapore office should play a meaningful role in the business activities of the manager. In the Authority's assessment of the role of the Singapore office, the following factors are relevant, but not exhaustive:~~

- ~~a) the composition and mandates of the board of directors and management committees; and~~
- ~~b) the extent to which the chief executive officer and directors based in Singapore participate in the formulation of investment strategies and financing activities.~~

~~2.6 The manager of a listed property fund should perform the following activities in Singapore:~~

- ~~a) accounting;~~

¹ Paragraphs 2.1 to 2.6 have been removed as these provisions will be set out in the draft Guidelines to REIT managers.

- b) ~~compliance; and~~
- c) ~~investor relations.~~

2.71 The manager may choose to enter into a management agreement with the property fund at the time of listing of the property fund on a securities exchange. Where the management agreement contains a compensation provision for early termination of the management agreement, the compensation provision should:

- a) be clearly related to commercial services provided in the performance by the manager of its duties and the compensation amount should be determined on an objective basis. Any such arrangements need to be carefully considered by the manager in the context of the manager's responsibilities to act in the interests of participants;
- b) not be more than five years and the compensation amount payable to the manager should not exceed the sum of the fixed component of unearned management fees (excluding variable and performance fees) over the remaining term of the provision; and
- c) not be payable to the manager if the manager's services are terminated for just cause such as fraud, insolvency or negligence.

A management agreement with other terms and compensation provisions may in exceptional circumstances be allowed if it can be clearly demonstrated to be in the interest of participants and does not materially restrict the ability of participants to remove the manager. In such cases, prior consent from the Authority should be sought.

2.2 Performance fee payable to the manager should meet the following requirements:

- a) crystallisation of the performance fee should be no more frequent than once a year;
- b) the performance fee should be linked to an appropriate metric which takes into account the long-term interest of the property fund and its participants such as net asset value per unit or distribution per unit; and
- c) the performance fee should not be linked to the property fund's gross revenue.

2.3 A manager may receive a fee when the property fund acquires or disposes of real estate assets provided that such a fee is determined based on a 'cost-recovery' basis and the trustee certifies that this basis has been adhered to. This fee may include the costs and out-of-pocket expenses incurred by the manager in connection with the acquisition or disposal of real estate assets of the property fund.

3 The Trustee of a Property Fund

3.1 The trustee should exercise due care and diligence in discharging its functions and duties, including safeguarding the rights and interests of participants.

3.2 The trustee should exercise reasonable care in ensuring, amongst others, that:

- a) the property fund has proper legal and good marketable titles to the real estate assets owned by the property fund;
- b) material contracts (such as rental agreements) entered into on behalf of the property fund are legal, valid, binding and enforceable by or on behalf of the property fund in accordance with its terms. Material contracts include contracts which constitute 5% or more of the revenue of the property fund or which are not entered into in the ordinary course of business of the property fund; and

- c) the manager arranges adequate insurance coverage in relation to the real estate assets of the property fund.

4 Trust Deed Provisions for Removal of Manager and Convening of Meetings

4.1 The trust deed of a property fund should contain the following provisions:

- a) the manager may be removed by way of a resolution passed by a simple majority of participants present and voting at a general meeting, with no participant being disenfranchised;
- b) a general meeting may be convened at the request in writing of not less than 50 participants or participants representing not less than 10% of the issued units in the property fund.
- c) a general meeting to be called the “annual general meeting” should, in addition to any other meeting, be held once in every calendar year and not more than 15 months after the holding of the last preceding annual general meeting, but so long as a property fund holds its first annual general meeting within 18 months of its constitution, it need not hold it in the year of its constitution or in the following year;
- d) the statement of total return for the period since the preceding account (or in the case of the first account, since the constitution of the property fund) made up to a date not more than four months before the date of the meeting should be laid before the annual general meeting, accompanied by a balance sheet as at the date to which the statement of total return is made up, being a balance sheet that gives a true and fair view of the state of affairs of the property fund as at the end of the period to which it relates;
- e) the statement of total return and balance sheet presented at the annual general meeting should be accompanied by a statement signed by the manager stating whether in its opinion the statement of total return gives a true and fair view of the results of the business of the property fund for the period covered, whether the balance sheet exhibits a true and fair view of the state of affairs of the property fund as at the end of that period, and whether at the date of the statement there are reasonable grounds to believe that the property fund will be able to pay its debts as and when they fall due;
- f) at each annual general meeting, a person or persons should be appointed to be the auditor or auditors of the fund, and any auditor or auditors so appointed should hold office until the conclusion of the next annual general meeting, unless he resigns or is removed by a resolution passed at a general meeting, and a new auditor or auditors are appointed in his place; and
- g) the fees and expenses of the auditor or auditors should be fixed by the general meeting or, if so authorised by participants at the last preceding annual general meeting, by the manager.

4.2 In the convening and conduct of general meetings, regard should be had where appropriate to the relevant provisions of the Companies Act (Cap. 50) and principles in the Code of Corporate Governance 2005.

4.3 The statement of total return and balance sheet presented at the annual general meeting should comply with the requirements on financial statements in chapter 5.1.1 of this Code, and be duly audited and accompanied by the auditor's report to the manager.

4.4 For the purposes of paragraph 4.1(a) of this Appendix, there should not be any arrangement that materially restricts the ability of participants to remove the manager, at the time of listing of the property fund on a securities exchange. Such an arrangement may be introduced after the listing of the property fund subject to the following conditions:

- a) the arrangement should be specifically approved by way of a resolution passed by a simple majority of participants present and voting at a general meeting. The manager, its associates and other interested parties should not vote on the resolution; and
- b) there should be an opinion from an independent financial adviser, appointed by the trustee, stating whether the arrangement is on normal commercial terms and is prejudicial to the interests of participants.

5 Interested Party Transactions

5.1 A property fund may acquire assets from or sell assets to interested parties, or invest in securities of or issued by interested parties, if:

- a) adequate disclosures are made in the prospectus (if it is at the first launch or offer of the property fund) or circular (if it is during the life of the property fund), stating:
 - i) the identity of the interested parties and their relationships with the property fund;
 - ii) the details of the assets to be acquired or sold, including a description of these assets and their location;
 - iii) the prices at which these assets are to be acquired or sold;
 - iv) the details of the valuations performed (including the names of the valuers, the methods used to value these assets and the dates of the valuations) and their assessed values;
 - v) the current or expected rental yield;
 - vi) the minimum amount of subscriptions to be received, if the transactions are conditional upon the property fund receiving the stated amount of subscriptions; and
 - vii) any other matters that may be relevant to a prospective investor in deciding whether or not to invest in the property fund or that may be relevant to a participant in deciding whether or not to approve the proposed transactions;
- b) for transactions entered into at the first launch or offer of the property fund, the property fund has entered into agreements to buy those assets at the prices specified in sub-paragraph (a)(iii) from the interested parties. If the transactions are conditional upon the property fund receiving a stated minimum amount of subscriptions, the agreements should reflect this fact;
- c) two independent valuations of each of those real estate assets, with one of the valuers commissioned independently by the trustee, have been conducted in accordance with paragraph 8;
- d) each of those assets is acquired from the interested parties at a price not more than the higher of the two assessed values, or sold to interested parties at a price not less than the lower of the two assessed values; and
- e) the trustee provides written confirmation that it is of the view that the transaction is on normal commercial terms and not prejudicial to the interests of participants where participants' approval for the transaction is not required and:
 - i) in the case of an acquisition, the transaction price is more than the average of the two valuations; or
 - ii) in the case of a disposal, the transaction price is less than the average of the two valuations.

- f) [in the case of a disposal, the audit committee of the manager provides written confirmation that it is not aware of any other offer with terms that are more favourable, and has no reason to believe that the disposal can be made on terms that are more favourable, than those offered by the interested party.](#)

For the avoidance of doubt, a mortgage-backed security issued by a special purpose vehicle does not fall within the ambit of this paragraph.

5.2 A property fund should:

- a) where a proposed transaction is equal to or greater than 3% of the property fund's NAV, announce the transaction immediately; or
- b) where a proposed transaction is equal to or greater than 5% of the property fund's NAV, announce the transaction immediately and obtain a majority vote at a participants' meeting. A person who has an interest, whether commercial, financial or personal, in the outcome of the transaction, other than in his capacity as a participant, will not be allowed to vote on the resolution to approve the transaction.

Guidance

For property funds listed on a securities exchange, announcements should be made to the exchange for public release as stated in the exchange's listing requirements. For unlisted property funds, announcements should be made either through paid advertisements in at least one newspaper that is circulated widely in Singapore, or by sending a circular to participants.

5.3 For the purposes of paragraph 5.2 of this Appendix, the value of all transactions with the same interested party during the current financial year should be aggregated. However, a transaction which has been approved by participants, or is the subject of aggregation with another transaction that has been approved by participants, need not be included in any subsequent aggregation.

Guidance

Transactions between the property fund and interested parties who are members of the same group are deemed to be transactions with the same interested party.

5.4 For the purposes of paragraphs 5.1 to 5.3 of this Appendix, the agreement to buy or sell the assets should be completed:

- a) where the interested party transaction is entered into at the first launch or offer of the property fund, within six months of the close of the first launch or offer;
- b) where the interested party transaction is entered into after the first launch or offer and:
 - i) the transaction is less than 5% of the property fund's NAV, within six months of the date of the agreement; or
 - ii) the transaction is equal to or greater than 5% of the property fund's NAV, within six months of the date of the participants' approval referred to in paragraph 5.2(b); or
- c) where there is more than one interested party transaction entered into during the current financial year and the latest transaction results in the 5% threshold referred to in paragraph 5.2(b) being exceeded, within six months of the date of participants' approval in respect of that latest transaction.

5.5 A property fund is not prohibited from engaging an interested party as property management agent or marketing agent for the property fund's properties provided that any fees or commissions paid to the interested party are at not more than market rates. [The agreement with the interested party should not contain any term that materially restricts the ability of the property fund to remove the agent. The audit committee of the manager should review the compliance of the agent with the terms of the agency agreement at least once every two years and take remedial actions where necessary.](#)

~~5.6 Where the manager receives a percentage-based fee when the property fund acquires and disposes of real estate assets from or to interested parties, such a fee should be in the form of units issued by the property fund at the prevailing market price. The units should not be sold within one year from their date of issuance.~~

6 Permissible Investments

6.1 Subject to the restrictions and requirements in paragraph 7, a property fund may only invest in:

- a) real estate, whether freehold or leasehold, in or outside Singapore. An investment in real estate may be by way of direct ownership or a shareholding in an unlisted special purpose vehicle (“SPV”) constituted to hold or own real estate. An investment in another property fund that is authorised under section 286(1) of the Securities and Futures Act (Cap. 289) and this Appendix will be considered as an investment in real estate;
- b) real estate-related assets, wherever the issuers/assets/securities are incorporated/located/issued/traded;
- c) listed or unlisted debt securities and listed shares of, or issued, by local or foreign non-property corporations;
- d) government securities (issued on behalf of the Singapore Government or governments of other countries) and securities issued by a supranational agency or a Singapore statutory board; and
- e) cash and cash equivalent items.

6.2 A property fund may invest in local or foreign assets, subject to the terms of its trust deed. Where an investment in a foreign real estate asset is made, the manager should ensure that the investment complies with all the applicable laws and requirements in that foreign country, for example, those relating to foreign ownership and good title to that real estate.

6.3 When investing in leasehold properties, the manager should consider the remaining term of the lease, the objectives of the property fund, and the lease profile of the property fund’s existing property portfolio.

6.4 When investing in real estate as a joint owner, the property fund should make such investment by:

- a) investing directly in the real estate as a tenant-in-common, or
- b) by acquiring shares or interests in an unlisted SPV constituted to hold or own the real estate.

The property fund should have freedom to dispose of such investment. Other ownership arrangements may be allowed if the arrangements are necessary for the purposes of meeting legal or regulatory requirements in a foreign jurisdiction, or when there are other valid justifications. In such cases, prior consent from the Authority should be sought.

6.5 For the purposes of paragraph 6.4 of this Appendix, the joint venture agreement, memorandum and articles of association or other constitutive documents should include:

- a) a specified minimum percentage of distributable profits that will be distributed. The property fund should be entitled to receive its *pro rata* share of such distributions;
- b) veto rights over key operational issues, including:
 - i) amendment of the joint venture agreement, memorandum and articles of association or other constitutive documents;

- ii) cessation or change of the business;
 - iii) winding up or dissolution;
 - iv) changes to the equity capital structure;
 - v) changes to the dividend distribution policy;
 - vi) issue of securities;
 - vii) incurring of borrowings;
 - viii) creation of security over the assets;
 - ix) transfer or disposal of the assets;
 - x) approval of asset enhancement and capital expenditure plans for the assets;
 - xi) entry into interested party transactions;
- c) a mode for the resolution of disputes between the property fund and joint venture partners.

6.6 Financial derivatives may only be used for the purpose of:

- a) hedging existing positions in a portfolio; or
- b) EPM provided that the financial derivatives are not used to gear the overall portfolio.

7 Restrictions and Requirements on Investments and Activities

7.1 A property fund should comply with the following restrictions and requirements:

- a) subject to paragraph 7.5, at least 75% of the property fund's deposited property should be invested in income-producing real estate;
- b) a property fund should not undertake property development activities whether on its own, in a joint venture with others, or by investing in unlisted property development companies, unless the property fund intends to hold the developed property upon completion. For this purpose, property development activities do not include refurbishment, retrofitting and renovations.
- c) a property fund should not invest in vacant land and mortgages (except for mortgage-backed securities). This prohibition does not prevent a property fund from investing in real estate to be built on vacant land that has been approved for development or other uncompleted property developments.

Guidance

An uncompleted property is one that has not been granted a Temporary Occupation Permit or equivalent by the relevant authorities.

- d) the total contract value of property development activities undertaken and investments in uncompleted property developments should not exceed 10% of the property fund's deposited property. [The total contract value of property development activities may exceed 10% of the property fund's deposited property \(subject to a maximum of 25% of the property fund's deposited property\) only if:](#)
 - (i) [the additional allowance of up to 15% of the property fund's deposited property is utilised solely for the redevelopment of an existing property that has been held by the](#)

property fund for at least 3 years and which the property fund will continue to hold for at least three years after the completion of the redevelopment; and

(ii) the property fund obtains the specific approval of the participants' at a general meeting for the redevelopment of the property.

For the purpose of this paragraph, the value of the investment refers to the contracted purchase price and not the value of progress payments made to date; and

- e) for investments in permissible investments under paragraph 6.1(c), (d) or (e) (except for deposits placed with eligible financial institutions and investments in high-quality money market instruments or debt securities), not more than 5% of the property fund's deposited property may be invested in any one issuer's securities or any one manager's funds. A corporation and its subsidiary companies are regarded as one issuer or manager. Investments in other property funds should not be made with a view to circumvent the letter or spirit of the prohibition on interested party transactions set out in paragraph 5.

Guidance

"Eligible financial institutions" and "high-quality money market instruments or debt security" have the same meaning as in Appendix 2: Money Market Funds.

7.2 A property fund should not derive more than 10% of its revenue from sources other than:

- a) rental payments from the tenants of the real estate held by the property fund; or

Guidance

Rental payments include income that is ancillary or incidental to the leasing of real estate such as income from use of signage space and advertising contributions by tenants.

- b) interest, dividends, and other similar payments from SPVs and other permissible investments of the property fund.

The expected proportion of revenue from these sources should be fairly stable and not subject to significant fluctuations. If this requirement is breached, the manager should not take any action that would increase the extent of the breach.

7.3 The manager may declare a distribution to the participants of the property fund. If the manager declares a distribution that is in excess of profits, the manager should certify, in consultation with the trustee, that it is satisfied on reasonable grounds that, immediately after making the distribution, the property fund will be able to fulfil, from the deposited property of the property fund, the liabilities of the property fund as they fall due. The certification by the manager should include a description of the distribution policy and the measures and assumptions for deriving the amount available to be distributed from the deposited property of the property fund. The certification should be made at the time the distribution is declared.

7.4 The investment restrictions and requirements in paragraphs 7.1(d) and (e) are applicable at the time the transactions are entered into. A property fund is not required to divest any assets that breach the restrictions or requirements if such breaches were a result of:

- a) the appreciation or depreciation of the value of the property fund's assets;
- b) any redemption of units or distributions made from the property fund; or
- c) in respect of investments in listed shares of or issued by property and non-property corporations (local or foreign), any changes in the total issued nominal amount of securities arising from rights, bonuses or other benefits that are capital in nature.

7.5 Where as a result of divestment or new issue of units by the property fund, a property fund's investments in real estate fall below 75% of its deposited property, the property fund should increase the proportion of its real estate investments to 75% within:

- a) 12 months if the real estate investments fall to a level between 50% and 75% of the property fund's deposited property; or
- b) 24 months if the real estate investments fall below 50% of the property fund's deposited property.

7.6 Paragraph 7.5 would not apply if:

- a) in the case of divestment, the property fund offers to return (by way of redemption) or distributes at least 70% of the proceeds of the divestment in cash within 12 months (in the case of paragraph 7.5(a)) or 24 months (in the case of paragraph 7.5(b));
- b) in the case of a new issue of units, the property fund offers to return at least 70% of the subscription moneys received from such new issue within 12 months (in the case of paragraph 7.5(a)) or 24 months (in the case of paragraph 7.5(b)); or
- c) in the case of either divestment or new issue of units, the property fund is in the process of being wound up.

8 Valuation of the Property Fund's Real Estate Investments

8.1 A full valuation of each of the property fund's real estate assets should be conducted by a valuer at least once a financial year, in accordance with any applicable code of practice for such valuations.

8.2 Where the manager proposes to issue new units for subscription or redeem existing units, and the property fund's real estate assets were valued more than six months ago, the manager should exercise discretion in deciding whether to conduct a desktop valuation of the real estate assets, especially when market conditions indicate that real estate values have changed materially.

8.3 A valuer for the purpose of paragraph 8, be it for a full or desktop valuation, should:

- a) not be a related corporation of or have a relationship with the manager, ~~adviser~~ or any other party whom the property fund is contracting with which, in the opinion of the trustee, would interfere with the valuer's ability to give an independent and professional valuation of the property;
- b) disclose to the trustee any pending business transactions, contracts under negotiation, other arrangements with the manager, ~~adviser~~ or any other party whom the property fund is contracting with and other factors that would interfere with the valuer's ability to give an independent and professional valuation of the property. The trustee should then take such disclosure into account when deciding whether the person concerned is sufficiently independent to act as the valuer for the property fund;
- c) be authorised under any law of the state or country where the valuation takes place to practise as a valuer;
- d) have the necessary expertise and experience in valuing properties of the type in question and in the relevant area; and
- e) not value the same property for more than two consecutive financial years.

~~8.4 For the avoidance of doubt, an adviser appointed by the manager pursuant to paragraph 2.2(b) should not value the properties that it recommends to be bought or sold by the property fund. However, that adviser may value the property after it has been acquired by the property fund.~~

~~8.58.4~~ Subject to paragraph 5.1(d) in respect of interested party transactions, a property fund should purchase or sell real estate assets at a reasonable price. A "reasonable price" means:

- a) in the case of acquisitions, a price not more than 110% of the assessed value (valuer to be commissioned by the property fund) and which assessment is not more than six months old; or
- b) in the case of disposals, a price not less than 90% of the assessed value assessed (valuer to be commissioned by the property fund) and which assessment is not more than six months old.

8-68.5 For the purpose of paragraph 8.54, the date of acquisition or disposal means the date of the sale and purchase agreement. Where there is more than one valuation conducted by more than one valuer for the same real estate asset, the manager should use the average of the assessed values.

8-78.6 Where a real estate asset is to be bought or sold at a price other than that specified in paragraph 8.54, prior approval should be obtained from the trustee.

8-88.7 Notwithstanding paragraphs 8.1 and 8.2, a valuation of the property fund's real estate assets may be conducted if the trustee or manager is of the opinion that it is in the best interest of participants to do so.

9 Aggregate Leverage Limit

9.1 Borrowings may be used for investment or redemption purposes. A property fund may mortgage its assets to secure such borrowings.

Guidance 1

Borrowings include bonds, notes, syndicated loans, bilateral loans or other debt.

Guidance 2

Bonds or notes may be issued, directly by the fund or indirectly via an SPV.

Guidance 3

A loan agreement may contain 'change of control' covenant if (a) the covenant is required solely by lenders; (b) the covenant can be waived with the consent of lenders; and (c) the covenant is disclosed in accordance with the listing requirements of a securities exchange. A 'change of control' covenant refers to a condition in a loan agreement which makes reference to the interests of any controlling unitholder or place restrictions on any change of control of the property fund and the breach of such a condition or restriction will cause a default in respect of the loan agreement.

9.2 The total borrowings and deferred payments (collectively, the "aggregate leverage") of a property fund should not exceed ~~3545%~~ of the fund's deposited property. ~~The aggregate leverage of a property fund may exceed 35% of the fund's deposited property (up to a maximum of 60%) only if a credit rating of the property fund from Fitch, Moody's or Standard and Poor's is obtained and disclosed to the public. The property fund should continue to maintain and disclose a credit rating so long as its aggregate leverage exceeds 35% of the fund's deposited property.~~

Guidance 1

Deferred payments include deferred payments for assets whether to be settled in cash or in units in the property fund.

Guidance 2

Hybrid securities may be excluded from the calculation of aggregate leverage for the purpose of paragraph 9.2 if:

- a) the securities have a perpetual term;*
- b) the redemption is at the sole discretion of the property fund;*
- c) the distributions are non-cumulative;*
- d) there are no features that will have the effect of incentivising the property fund to redeem its units (e.g. step-up in interest rates); and*
- e) the securities are deeply subordinated in the event of liquidation.*

9.3 If borrowings are to be used to fund partly or wholly the purchase of a new property, the value of the deposited property used for determining the aggregate leverage may include the value of the new property that is being purchased, provided that:

- a) the borrowings are incurred on the same day as that on which the purchase of the property is completed; or if the borrowings are incurred before the purchase of the property is completed, those borrowings are kept in a separate bank account that is established and kept by the property fund solely for the purpose of depositing such monies;
- b) the monies raised by such borrowings are utilised solely for the purchase of the property including related expenses such as stamp duties, legal fees and fees of experts and advisers (all of which should be determined on an arm's length basis) and for no other purpose; and
- c) if borrowings are incurred before the new property is purchased and the manager subsequently becomes aware or ought reasonably to have become aware that the purchase will not take place, the manager should return the monies raised by such borrowings as soon as practicable.

9.4 The aggregate leverage limit is not considered to be breached if due to circumstances beyond the control of the manager the following occurs:

- a) a depreciation in the asset value of the property fund; or
- b) any redemption of units or payments made from the property fund.

If the aggregate leverage limit is exceeded as a result of (a) or (b) above, the manager should not incur additional borrowings or enter into further deferred payment arrangements.

9.5 For the purpose of calculating the aggregate leverage to determine compliance with the aggregate leverage limit, if a property fund invests in real estate through shareholdings in unlisted SPVs, the aggregate leverage of all SPVs held by the property fund should be aggregated on a proportionate basis based on the property fund's share of each SPV. For the avoidance of doubt, the assets of such SPVs should also be aggregated on a proportionate basis based on the property fund's share of each SPV.

10 Redemption Requirements for Unlisted Property Funds

10.1 In the case of unlisted property funds, the manager should offer to redeem units at least once a year in accordance with paragraphs 10.2 and 10.3.

10.2 Any offer to redeem units pursuant to paragraph 10.1 should be sent to participants with adequate notice, and should state:

- a) the indicative price at which each unit will be redeemed;
- b) the period during which the offer will remain open (this period should last for at least 21 calendar days, but in no case should it remain open for more than 35 calendar days, after the offer is made);
- c) the assets or borrowings that will be used to satisfy the minimum amount of redemption requests stipulated in paragraph 10.3 or a greater amount proposed by the manager, as the case may be. In the case of non-cash assets, the amount of money that is expected to be available from the sale of such assets should be stated;
- d) subject to the minimum amount stipulated in paragraph 10.3, that if the money available (from cash, sale of non-cash assets or borrowings earmarked in sub-paragraph (c)), is insufficient to satisfy all redemption requests, the requests are to be satisfied on a *pro rata* basis. For this

purpose, no redemption requests made pursuant to the offer may be satisfied until after the close of the offer period;

- e) that the actual price at which the units will eventually be redeemed (as determined by reference to the latest valuations available of the property fund's portfolio of assets after deducting appropriate transaction costs) may differ from the indicative price in sub-paragraph (a) due to changes in the values of the property fund's assets during the offer period;
- f) that the participant should elect, at the same time, whether or not he wishes to proceed with the redemption if his entire redemption request cannot be met; and
- g) that redemption requests made pursuant to the offer will be satisfied within 30 calendar days after the closing date of the offer. Such period may be extended to 60 calendar days after the closing date of the offer if the manager satisfies the trustee that such extension is in the best interest of the property fund. The redemption period may be extended beyond 60 calendar days after the closing date of the offer if such extension is approved by participants.

10.3 In respect of any offer to redeem units pursuant to paragraph 10.1, at least 10% of the property fund's deposited property should be offered. Where the total amount of redemption requests received by the manager is for less than 10%, all redemption requests should be met in full.

11 Disclosure Requirements

11.1 An annual report should be prepared by the manager at the end of each financial year, disclosing:

- a) details of all real estate transactions entered into during the financial year, including the identity of the buyers or sellers, purchase or sale prices, and their valuations (including the methods used to value the assets);
- b) details of all the property fund's real estate assets, including the location of such assets, their purchase prices and latest valuations, rentals received and occupancy rates, or the remaining terms of the property fund's leasehold properties, where applicable;

Guidance

In order to facilitate more meaningful comparisons between different property funds, the annual report should disclose details of the property fund's investments in leasehold properties. The disclosure should be informative and meaningful, so that participants are provided details of the unexpired lease terms of leasehold properties. One approach would be to provide the proportion of the property fund invested in leasehold properties and the weighted average unexpired lease term of these assets.

- c) the tenant profile of the property fund's real estate assets, including the:
 - i) total number of tenants;
 - ii) top 10 tenants, and the percentage of total gross rental income attributable to each of these top 10 tenants;
 - iii) trade sector mix of tenants, in terms of the percentage of total gross rental income attributable to major trade sectors; ~~and~~
 - iv) lease maturity profile, in terms of the percentage of total gross rental income, for each of the next five years; and
 - v) the weighted average lease expiry of new leases entered into during the year (and the proportion of revenue attributed to these leases).
- d) in respect of the other assets of a property fund, details of the:

- i) 10 most significant holdings (including the amount and percentage of fund size at market valuation); and
- ii) distribution of investments in dollar and percentage terms by country, asset class (e.g. equities, mortgage-backed securities, bonds, etc.) and by credit rating of all debt securities (e.g. “AAA”, “AA”, etc.);
- e) details of the property fund’s exposure to financial derivatives, including the amount (i.e. net total aggregate value of contract prices) and percentage of derivatives investment of total fund size and at market valuation;
- f) details of the property fund’s investment in other property funds, including the amount and percentage of total fund size invested in;
- g) details of borrowings of the property fund including the maturity profile of the borrowings;
- h) details of deferred payment arrangements entered into by the property fund, if applicable;
- i) the total operating expenses of the property fund, including all fees and charges paid to the manager, ~~adviser~~ and interested parties, ~~if any,~~ (in both absolute terms, and as a percentage of the property fund’s net asset value as at the end of the financial year) and taxation incurred in relation to the property fund’s real estate assets;
- j) the distributions declared by the property fund for the financial year;
- k) the performance of the property fund in a consistent format, covering various periods of time (e.g. 1-year, 3-year, 5-year or 10-year) whereby:
 - i) in the case of an unlisted property fund, such performance is calculated on an “offer to bid” basis over the period; or

Guidance

For the purpose of comparing the property trust’s performance with an index or other property funds, such comparisons should be made based on the requirements set out in Regulation 26 of the SFR.

- ii) in the case of a listed property fund, such performance is calculated on the change in the unit price transacted on the stock exchange over the period.

Guidance

The calculation should be based on the closing price on the last day of the preceding reporting period (or in the case of a new fund, the opening price on the first day of trading) compared with the closing price on the last day of the current period.

Calculation of fund performance should include any dividends or distributions made assuming that they were reinvested into the property fund on the day they were paid out;

Guidance

The price at which dividends or distributions are assumed to be reinvested should be the bid price (in the case of an unlisted property fund) or the closing price of the unit traded on a securities exchange (in the case of a listed property fund) on the ex-dividend or ex-distribution date.

- l) its NAV per unit at the beginning and end of the financial year; ~~and~~
- m) where the property fund is listed, the unit price quoted on the exchange at the beginning and end of the financial year, the highest and lowest unit price and the volume traded during the financial year;
- n) the amount of income support payments received by the property fund during the financial year;

- o) where the income support arrangement is embedded in a master lease arrangement, the difference between the amount of rents derived under the master lease arrangement and the actual amount of rents from the underlying leases during the financial year;

Guidance

A master lease arrangement will be considered to have an embedded income support arrangement if the rent under the master lease arrangement is higher than the passing rents of the underlying sub-leases.

- p) any material deviation of actual distribution per unit (“DPU”) from forecast DPU, together with detailed explanations for the deviation;
- q) the remuneration policies, level and mix of remuneration, and the procedures for setting the remuneration of the directors and executive officers of the manager;
- r) the remuneration of each individual director and chief executive officer of the manager on a named basis; and
- s) the remuneration of at least the top five key executive officers of the manager in bands of S\$250,000, on a named basis.

11.2 The Third Schedule of the SFR requires the prospectus to disclose the risks specific to investing in property funds. Examples of such risks include, but are not limited to, the following:

- Diversification
- a) property funds tend to be less diversified than general securities funds.
- High gearing
- b) property funds may be highly geared. This could be risky if interest rates rise sharply.
- Valuation
- c) property valuation, which affects the offer price of units in a property fund, is subjective.
- Illiquidity of properties
- d) the underlying assets in a property fund are often illiquid. Properties may have to be sold to make distributions if market conditions change, or to meet redemptions if the fund is unlisted or delisted. The property fund may be unable to sell properties expediently where the need arises.

11.3 Where the manager intends to charge or has received a fee upon the property fund's acquisition of real estate assets, the following should be disclosed, in percentage terms or dollar value and in tabular form, in the prospectus, circular to participants or other relevant reports or documents to participants:

- a) acquisition fee payable to the manager; and
- b) if a profit forecast is made:
- i) the expected incremental income to the property fund; and
- ii) the expected incremental base and performance fee payable to the manager.

11.4 Where the manager intends to charge or has received a fee upon the property fund's disposal of real estate assets, such fee (in percentage terms or dollar value) should be disclosed in the prospectus, circular to participants or other relevant reports or documents to participants. An explanation of how the disposal would be in the interests of participants should also be included.

11.5 Where forecasts of distribution yields are provided in prospectuses, circulars, announcements, marketing materials or other relevant reports or documents to participants of a property fund, there should be clear and prominent disclosure of any existing or proposed arrangement that materially enhances short-term yields while potentially diluting long-term yields. In the case of prospectuses and

circulars, disclosures should include the risks associated with such arrangements and an analysis of how the arrangements may affect current and future yields. The analysis should include a computation of the forecast distribution yield assuming that the arrangements are not in place. For the avoidance of doubt, the requirements in this paragraph do not apply to arrangements that are entered into purely for hedging purposes.

11.6 Where there is a management agreement between the property fund and the manager, there should be clear and prominent disclosure of the terms of the management agreement and the basis for computing the compensation, if any, due to the manager for termination of services during the term of the management agreement. Such disclosure should be made in prospectuses, circulars or other relevant reports or documents to participants.

12 Discounts

Discounts should not be offered to any institutional investor for subscribing for units in the property fund at the time of listing of the property fund. Where subscriptions by the institutional investors are made prior to the listing and such investors assume risks of non-completion of the listing or have to pay for the units regardless of whether the property fund is subsequently listed, this prohibition will not apply.

13 Stapled Securities Structure

13.1 A property fund may, in connection with its listing on a securities exchange, staple its units with the securities of an entity with active operations (“stapled group”) only if that entity:

- a) is the sponsor or a related entity of the sponsor;
- b) has business operations that are in the same industry segment as the property fund; and
- c) is operating a business or providing a service that is ancillary to the assets held by the property fund.

13.2 The stapled group should comply with the following restrictions and requirements:

- a) at least 65% of the stapled group’s deposited property should be invested in income-producing real estate;
- b) the aggregate leverage of the stapled group should not exceed 60% of the stapled group’s deposited property; and
- c) the total contract value of property development activities undertaken and investments in uncompleted property developments should not exceed 35% of the stapled group’s deposited property.

For the avoidance of doubt, the property fund component of the stapled group should also comply with the limits in paragraphs 7.1 and 9.2 of this Appendix.

13.14 Consultation with Authority

Where the manager intends to incorporate features which may be inconsistent with the principle that all participants should be treated fairly and equitably or which may make less apparent the value of a proposed transaction, the Authority should be consulted in advance.