

QUARZ CAPITAL MANAGEMENT ISSUES OPEN LETTER TO THE MANAGEMENT AND BOARD OF MANULIFE US REIT (SGX: BTOU)

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“IMPORTANT DISCLOSURE INFORMATION”
AT THE END OF THE ATTACHED LETTER

**PREFERRED PLACEMENT SHOULD BE SUBJECTED TO AN INDEPENDENT
UNITHOLDER VOTE AND OFFERED TO ALL UNITHOLDERS**

**SPONSOR SHOULD TAKE RESPONSIBILITY AND NOT BE ALLOWED TO POTENTIALLY
‘CASH OUT’ WITH A ‘GOLDEN PARACHUTE’**

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INFORMATION**

Monday, 20 March 2023

Dear Mr. Blewitt, Mr Gantt and Members of the Board of Manulife US REIT Manager,

We refer to the media articles in Business Times¹, The Edge² and the Manulife US Real Estate Management Pte Ltd (“REIT Manager” or “MUST REIT Manager”) responses to media reports that:

- The REIT manager is currently in discussion with Mirae Asset Global Investments (“Mirae”) to explore a potential transaction which may involve the,
 - A. Acquisition of shares of the REIT Manager
 - B. Subscription of new units in Manulife US Real Estate Investment Trust (“MUST”, “Manulife US REIT”, or the “REIT”)

In the article from The Edge², it is stated that market observers believe that there is likely to be a ‘preferred placement’ to Mirae Asset.

Given the substantial correction in the unit price and the undervaluation, we and other investors have been contemplating investing in the REIT.

However, **we are shocked and highly concerned about the above potential transaction at Manulife US REIT due to its potential poor corporate governance aspects and serious conflicts of interest concerns which can further destroy unitholders’ value to the seemingly sole benefit of the sponsor.**

In a DBS Research Report dated 10 Feb 2023, it was stated that asset disposition was preferred over equity fund raising. It was also stated that the Management is currently in talks with the sponsor on potential disposition.

Is the REIT Manager’s abrupt change in its plan now to potentially undertake the preferred placement (which is the worst alternative for unitholders) due to the fact that the Sponsor under the potential transaction can possibly ‘walk away’ with a ‘Golden Parachute’ through the sale of the REIT Manager at a substantial and sizeable profit when compared to its cost price?

¹ Tay, Vivienne. “Hot stock: Manulife US Reit up as much as 3.8% on report of manager being acquired” *Business Times*, 15 March 2023

² “Manulife US REIT’s manager confirms it is in discussions with Mirae Asset” *THE EDGE Singapore*, 15 March 2023

If this is the case, are the directors of Manulife US REIT potentially in breach of their fiduciary duties and legal obligation to act in the best interest of unitholders, and prioritize unitholders' interest over those of the REIT manager and sponsor?

Any Preferred Placement to Mirae Should be Approved by Unitholders

A preferred placement to a single party is not only highly uncommon, but there is also almost no precedence in the last 10 years of the SGX-listed REIT market unless it has been voted on by unitholders.

Firstly, as **the preferred placement to Mirae is part of the potential transaction to purchase the REIT manager, Mirae should be subjected to SGX Rulebook 812. Approval from independent unitholders must be sought before any placement should be given to Mirae. This is to ensure fair pricing and the size of the placement to protect the rights of independent unitholders.**

Without the approval, **the REIT manager can potentially undertake the preferred placement at a highly discounted price to Mirae in exchange for a higher purchase price for the REIT manager to the sole benefit of the sponsor.** This is as the value of the sponsor's stake in the REIT manager is potentially sizably higher than the value of its unitholdings.

As Manulife only has 9.8% unitholdings in the REIT, **independent unitholders will bear most of the destruction in unitholder value from a dilutive placement to Mirae at a low price.**

Potential Compliance Placement would Result in Unitholders to Suffer 2 Dilutions

If the sponsor were also to sell part or all of its unitholdings to Mirae, this might result in Mirae to potentially own more than 10% of MUST, resulting in the breach of the 10% ownership limit. If this would happen, this might result in the REIT having to undertake another round of 'compliance' placement in order to bring the potential stake of Mirae back to 10% or less after the preferred placement.

As such we struggle to understand the whole purpose of the preferred placement to Mirae. It seems like the entire purpose of this exercise where unitholders will be potentially diluted twice is seemingly just to potential facilitate the sponsor to sell its stake in the REIT manager.

To 'rub salt into the wound', it seems like unitholders are potentially made to bear the entire cost of this strategic review exercise which seems to solely benefit the sponsor to the value destruction of unitholders.

A simpler solution would have been to reduce the leverage by selling 1-2 assets. The sponsor has sold more than USD 1.4 billion of assets to the REIT often citing that these are high quality 'trophy assets' from the sponsor. Surely, it can repurchase 1-2 assets from the REIT given that most of the assets have been valued at an even lower price.

Preferred Placement Should be Subjected to an Independent Unitholder Vote and Offered to All Unitholders

If a preferred placement needs to be done to reduce leverage, it should be sized and priced appropriately and offered to all existing unitholders to enable them to be able to participate and average down their price if they wish to, Mirae can offer to underwrite the placement subjected to a unitholder vote.

REIT Manager Should Take Responsibility for Current Leverage Problem

As mentioned in a BT article by Ben Paul³, the **current high leverage problem seems to have been caused by the manager’s move to further acquire assets in 2021 despite the leverage level already breaching the 40% threshold in 2020.**

Since Manulife’s US REIT’s IPO, the REIT has purchased more than USD 1.4billion of assets from the sponsor. Almost all the assets bought from the sponsor have fallen in value, with the valuation of the Figueroa asset falling by more than 25% from USD 285 million to USD 211 million, resulting in the REIT to lose close to a S\$75million in a single transaction with the sponsor.

Manulife US REIT has fallen by 70% since its IPO in 2016.

Current High Leverage Problem Due to Substantial Reduction in Valuation can be Attributed to Assets injected by the Sponser into the REIT Which Have Lost More than USD ~110m in Value

Asset	City	Year Acquired	Purchase Price (USDm)	Valuation Dec 2022 (USDm)	Change (USDm)	Change (%)
Figueroa	Los Angeles	2016	284.7	211.0	-73.7	-25.9
Michelson	Irvine	2016	317.8	292.0	-25.8	-8.1
Peachtree	Atlanta	2016	175.0	205.0	30.0	17.1
Exchange	New Jersey	2017	313.2	290.0	-23.2	-7.4
Penn	Washington, D.C	2018	182.0	156.0	-26.0	-14.3
Phipps	Atlanta	2018	205.0	210.0	5.0	2.4
Total			1,477.7	1,364.0	-113.7	-7.7
Net Asset attributable to unitholders Dec2021				1,187.7		
Loss Solely from Sponser Assets as % of Dec2021 NAV						-9.6

Sponsor Should Not Be Allowed to ‘Walk Away’ with a Potential ‘Golden Parachute’

It is therefore a travesty that after such a catastrophic performance, the sponsor is now allowed to ‘walk away’ by potentially selling the REIT manager and its stake to another party.

In most developed REIT markets such as US and Australia, transactions in REIT managers in the last 10 years are permitted and conducted mainly due to internalization, mergers of REITs or M&A in the sponsors of the REIT manager.

It is therefore bizarre if MUST’s sponsor is now allowed to ‘cash out’ of the REIT manager after potentially putting the REIT into severe distress.

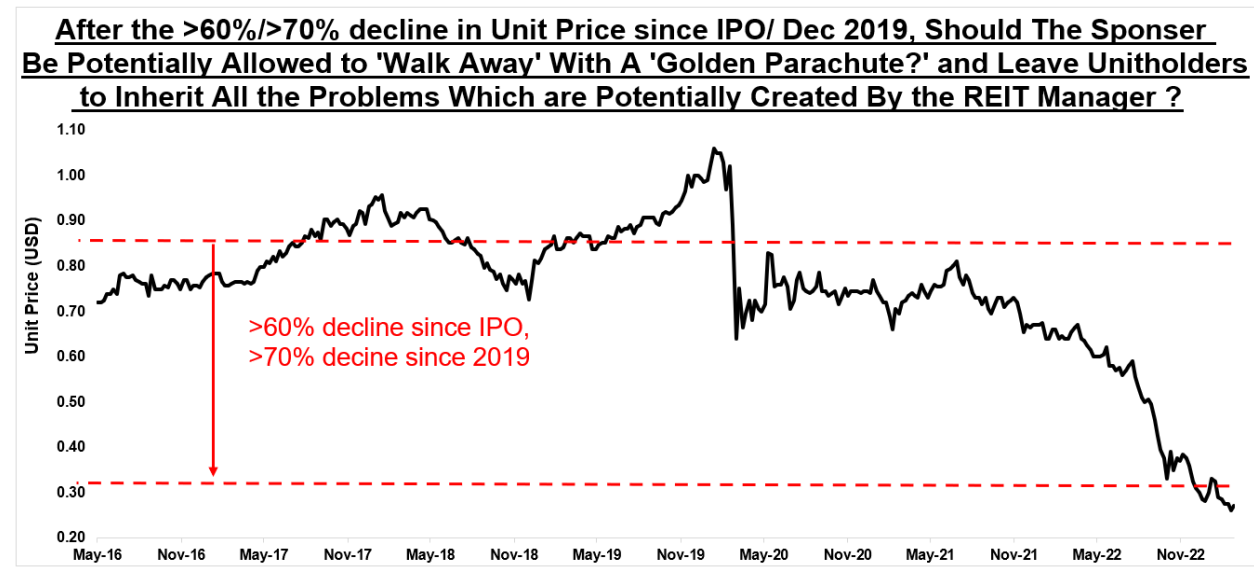
The potential problems faced by unitholders from the change of REIT ownership is that **after paying a substantial premium for the manager, the easiest way for the new owner to recover its cost is by acquisitions financed by capital raising in order to increase its portfolio management and acquisitions fees.**

MUST’s sponsor, Manulife, publishes a yearly comprehensive ESG report detailing its strong commitment to corporate governance. However, **its treatment of minority unitholders at MUST tells a different story of a sponsor who is potentially ‘bailing out’ and trying to circumvent**

³ Paul, Ben. “Manulife US Reit’s manager and sponsor group need to deliver real value rather than just words” *Business Times*, 13 Feb 2023

the SGX rulebook to undertake a preferred placement and selling the REIT manager to a single party at a handsome profit.

We therefore urge the REIT manager and its sponsor to take responsibility and help the REIT navigate out of the current situation.



Unitholders Seek MAS and SGX RegCo’s Support to Ensure the Sponsor and REIT Manager take responsibility

We also seek the support of MAS and SGX RegCo to protect unitholders by making the sponsor take responsibility by not allowing them to simply ‘walk away’ and leave minority unitholders to face the problems that the REIT manager has created.

Potential Transaction Allowed in Its Form will Destroy Confidence and Weaken the Singapore REIT Market

If this is allowed, it will set a precedence for other REIT Managers that they can freely leverage up the REIT for acquisitions to increase their acquisitions and portfolio management fees. When faced with critical issues, the sponsor of the REIT manager can simply cash out, leaving the unitholders at a severe disadvantage through dilution.

If executed as intended by the MUST REIT Manager and Mirae Global Investments, the transactions would certainly lower confidence in Singapore's REIT market and the city's standing as an advocate of good corporate governance.

Instead of strengthening Singapore's REIT market, it would be a step towards weakening it, which is what nobody wants.

Sincerely yours,

Jan F. Moermann
Chief Investment Officer

Havard Chi
Head of Research

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