



**(a real estate investment trust constituted on 28 April 2017 under the laws of the Republic of Singapore)**

**Managed by Cromwell EREIT Management Pte. Ltd.**

**PROPOSED UNIT CONSOLIDATION – FAQs**

*All capitalised terms used in this document but not otherwise defined herein shall have the meanings ascribed to them in the circular issued by Cromwell EREIT Management Pte. Ltd., as manager of Cromwell European Real Estate Investment Trust dated 12 April 2021 (the “Circular”).*

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## (A) Rationale

### 1. What is the rationale for the Proposed Unit Consolidation? How will this improve the attractiveness of CEREIT and the Units?

As outlined in the Circular, the Proposed Unit Consolidation involves the consolidation of every five existing units in CEREIT held by unitholders of CEREIT as at a record date to be determined by the Manager, into one unit. Below are the four key rationale points from the announcement:

#### (a) Increase in the market interest and attractiveness of CEREIT and its consolidated units

The Manager believes that the Proposed Unit Consolidation will generally be beneficial to CEREIT and its Unitholders as it would improve the attractiveness of CEREIT and the Units.

It will reduce the large number of Units in issue five-fold following the completion of the Proposed Unit Consolidation, lifting the trading price five-fold *ceteris paribus*.

CEREIT's Units have traded in a range of €0.425 to €0.51<sup>1</sup> per Unit in the period from 1 October 2020 to the Latest Practicable Date<sup>2</sup>. Following the Proposed Unit Consolidation, the Manager expects that, all other things being equal, the theoretical trading price and net asset value ("NAV") of each Consolidated Unit would be five-fold higher, taking into account the decrease in the number of Units in issue following the Proposed Unit Consolidation.

FOR ILLUSTRATIVE PURPOSES ONLY and based on the illustrative historical price of €0.455 per existing Unit<sup>3</sup>, the theoretical trading price of each Consolidated Unit following the Proposed Unit Consolidation would be €2.275 per Consolidated Unit.

The Volume Weighted Average Price ("VWAP") and the theoretical adjustment to the VWAP of CEREIT's Units for the six-month period up to and including the Latest Practicable Date are as follows:

VWAP for the six-month period up to and including the Latest Practicable Date	€0.4617
Assuming that the Proposed Unit Consolidation was carried out prior to the six-month period up to and including the Latest Practicable Date:	
Adjusted VWAP for the six-month period up to and including the Latest Practicable Date	€2.3085

The Manager believes that, immediately following the Proposed Unit Consolidation, with the reduction in the number of existing Units in issue and the resulting increase in the theoretical trading price of each Consolidated Unit, the Proposed Unit Consolidation is likely to improve the attractiveness of CEREIT and the Units, particularly among institutional investors, research houses and fund managers.

<sup>1</sup> Data from Refinitiv Eikon

<sup>2</sup> 31 March 2021

<sup>3</sup> Derived from closing price on latest practicable date (31 March 2021)

(b) Potential reduction of magnitude of fluctuation in CEREIF's Unit trading price and market capitalisation

The Manager believes that the Proposed Unit Consolidation will reduce the percentage point fluctuation in the trading of CEREIF's Units, reduce excessive volatility in its market capitalisation and allow for unit price movements that are more consistent with general market movements in terms of percentage changes. As an example, if the general market falls or rises 0.5%, at a current Unit price of below €1, CEREIF's Unit price can fall or rise in steps of €0.005 per Unit, which will result in an over 1 percentage point fall or rise, double the decline of the market. At post-5:1 consolidation price of above €1, if the general market falls or rises 0.5%, CEREIF's Unit price can fall or rise in steps of €0.01 per Unit, which will result in a less than 0.5 percentage point fall or rise. The Unit would therefore be less volatile than the general market.

FOR ILLUSTRATIVE PURPOSES ONLY example:

- Since the initial public offering of CEREIF, CEREIF's euro-denominated counter CNUU.SI has traded in the range of €0.28 to €0.59.
- Using a rounded Unit trading price of €0.50 pre-consolidation within the above-mentioned range for illustrative purposes, the mandated Singapore Exchange Securities Trading Limited (the "SGX-ST") bid-ask spread of €0.005 for counters below €1.00 will result in a 1.0 percentage point change in Unit trading price, crossing from €0.500 asking price to the €0.495 bid price.

Applying the consolidation ratio, the new theoretical price of a CEREIF Unit would be €2.50. With a Unit trading price above €1.00, a €0.01 bid-ask spread will now apply under the SGX-ST trading platform, resulting in a much smaller percentage point impact of 0.4 percentage point change in Unit trading price, crossing from €2.50 to €2.49.

The smaller percentage point impact from Unit trading price fluctuations may also facilitate tighter price discount ranges during corporate actions, which will provide long-term benefits to all Unitholders. The Proposed Unit Consolidation may then result in increased market interest and activity in the Consolidated Units, and generally enhance the attractiveness of the Consolidated Units to investors, including institutional investors.

(c) Potential reduction of percentage transaction cost for trading in each board lot of Consolidated Units

Trading in Units with small denominations results in higher transaction costs for investors, relative to the trading price due to bid-ask spreads.

FOR ILLUSTRATIVE PURPOSES ONLY example:

- Assuming a Unit trading price of €0.50 pre-consolidation, if an investor puts in an order to purchase €1,000 worth of Units, at a €0.005/Unit bid-ask spread for Units below €1.00, the transaction cost is a 1.0 percentage point spread, resulting in €10.00<sup>4</sup> of transaction costs for every €1,000.
- Following the Proposed Unit Consolidation, the new theoretical price of a Unit would now be €2.50. If an investor puts in an order to purchase €1,000 worth of Units at this theoretical

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<sup>4</sup> €10.00 derived based on 1% of €1,000

price, the €0.01/Unit bid-ask for Units above €1.00 will apply and the transaction cost is a spread of 0.4 percentage point, resulting in €4.00<sup>5</sup> of transaction costs for every €1,000.

- The Proposed Unit Consolidation would therefore save an investor €6.00 per every €1,000 traded. The effect on bid-ask spreads from the Proposed Unit Consolidation may then result in increased cost savings to all Unitholders.

(d) Lower brokerage trading costs to investors

Trading on Singapore's stock market involves minimum fixed expenses (including but not limited to minimum brokerage fees, clearance fees, and settlement fees). Consequently, trading in Units with small denominations results in higher costs relative to the trading price, for each board lot of Units, and also results in greater price fluctuations. The Proposed Unit Consolidation will result in higher Unit price denomination, therefore, reducing the brokerage trading costs as a percentage of each board lot of Consolidated Units.

**2. Has SGX provided in-principle approval for this Proposed Unit Consolidation? What were their views on this?**

As stated in the Chair's annual Letter to Unitholders in the recently published Annual report, the Board carefully considered the recommendation of the Manager and took advice from stakeholders including multiple investment banks, legal advisors and investor feedback in arriving at this proposal. The Proposed Unit Consolidation is expected to increase the market interest and attractiveness of CEREIT and reduce the volatility in CEREIT's Unit trading price.

The Manager has obtained the approval in-principle from the SGX-ST for the listing of, and dealing in and quotation on the Main Board of the SGX-ST of the Consolidated Units created pursuant to the Proposed Unit Consolidation.

The Circular containing further details of the Proposed Unit Consolidation has been published on SGXNet and CEREIT's website. The Manager will be seeking the approval of Unitholders by way of an ordinary resolution at an extraordinary general meeting ("EGM") to be convened on Tuesday, 27 April 2021.

**3. Will this affect CEREIT's 1H 2021 distribution payment? Does this mean a distribution for 1H 2021 will be reduced / not be declared? How will this affect CEREIT's DPU yield?**

Unitholders should note that the Proposed Unit Consolidation will not affect the total distributable income of CEREIT.

FOR ILLUSTRATIVE PURPOSES ONLY, assuming that prior to the Proposed Unit Consolidation, a Unitholder owned 1,000 units and the trading price of a Unit was equal to the NAV per Unit as at 31 December 2020 of €0.509, the Unitholder's 1,000 Units would be worth a total of €509.00. Post the Proposed Unit Consolidation, the Unitholder would own 200 Consolidated Units and the revised NAV per Consolidated Unit as at 31 December 2020 would adjust to €2.547 per Consolidated Unit, such that the 200 Consolidated Units held by the Unitholder would still be worth an unchanged total of €509.00.

**Unitholders should note that the Proposed Unit Consolidation will not affect the total NAV of CEREIT with the exception of anticipated costs of approximately €35,000 relating to the Unit Consolidation exercise.**

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<sup>5</sup> €4.00 derived based on 0.4% of €1,000

Assuming that such Unitholder received a distribution of €0.03484 per Unit for FY2020, or €34.84 in total for the 1,000 Units held prior to the Proposed Unit Consolidation, post Unit Consolidation, the FY2020 proforma distribution per unit (“DPU”) would be five-fold higher at €0.1742 per Consolidated Unit, and €34.84 in total for the 200 Consolidated Units, equivalent to the amount received pre-Unit Consolidation.

CEREIT just reported a strong balance sheet and FY2020 results that outperformed its peer average. The Proposed Unit Consolidation will not affect the total distributable income and the Manager does not expect any material change to CEREIT’s DPU yield of ~7.6% which is based on actual FY2020 DPU and the Unit price as at the latest practicable date.

**4. Do you have any relevant case studies / examples on share / unit consolidations? What were the implications of the share / unit consolidation in those instances? Is there any direct precedent in the Singapore market?**

The Proposed Unit Consolidation is best contemplated in the context of CEREIT’s characteristics and performance. CEREIT is a mid-sized REIT looking to reduce price volatility and trading costs within the trading parameters and mechanics of the SGX-ST, on which it is listed. CEREIT has a ~S\$2.0 billion market capitalisation<sup>6</sup> and reported a strong balance sheet and FY2020 results that outperformed its peer average in late February 2020 and outperformed its initial public offering (“IPO”) Prospectus DPU forecasts in both 2018 and 2019. Over the three years since CEREIT’s listing, the REIT has evolved into a low-beta >S\$2 billion market cap REIT that has demonstrated that it is capable of sustaining its distributions from quality assets across a portfolio of assets spanning 1.7 million square metres.

As recently disclosed in CEREIT’s Annual Report 2020, only ~4% of CEREIT’s register is currently owned by Unitholders in small sizes; at present, less than 0.01% of its Unitholders own less than 1,000 Units and 0.24% of Unitholders own between 1,000 to 10,000 Units.

Considering all of the above, specifically, two examples that are relevant to CEREIT and support the objectives for CEREIT’s Proposed Unit Consolidation are outlined below:

(a) Singapore market:

Over the past 15 years, Singapore has seen a number of share / unit consolidations, but the majority of these (30 or so) occurred in 2015 when the SGX-ST introduced a S\$0.20 minimum trading price rule and reduced each lot size to 100 shares / units per normal trade. The average market capitalisation of the companies that did so then was S\$90 million, with only four companies having market capitalisations above S\$200 million and only one above S\$500 million. Even then, these companies on average outperformed the STI index in the six months post consolidation.

CEREIT is not a “penny” stock or a high-risk “micro-cap” stock so there is no direct precedent amongst the 30 or so Singapore consolidations mentioned above, with the possible exception of one S-REIT – AIMS AMP REIT – which undertook a 5:1 unit consolidation in September 2011 that was approved by its unitholders. Following the unit consolidation:

- The REIT’s adjusted price immediately post consolidation was marginally lower (-0.5%)<sup>7</sup>, however it increased 13.2% over the next six months<sup>8</sup>, outperforming the STI benchmark performance for the same period by 1.8 percentage points,

<sup>6</sup> Data from Refinitiv Eikon, market cap as at 31 March 2021, € to S\$ exchange rate 1:1.5889

<sup>7</sup> For the first post-unit consolidation date 29 September 2011 vs. the previous trading day, data from Refinitiv Eikon

<sup>8</sup> For the six-month period from 29 September 2011 to 28 March 2012

- The REIT's price performance registered substantially reduced weekly high / low price volatility by 28 percentage points, with a much lower bid-ask spread, and
- The REIT's unit price registered a substantial increase in liquidity by 35% over the next six months.

(b) International market:

Another specific and relevant example occurred in Australia in 2010 - 2011, when several Australian REITs, including a leading diversified REIT in Australia, the GPT Group (where CEREIT's Chair Mr Lim was a director at the time) underwent a 5:1 fully paid stapled securities unit consolidation. GPT Group's proposed unit consolidation was approved by 99% of securityholders. Post the unit consolidation:

- Its security trading volume increased by 24% on average over the next six months<sup>9</sup>,
- Its weekly high / low price volatility dropped by 17.3 percentage points for the same period, and
- Its security price has not traded lower over the 11 years since the consolidation took place<sup>10</sup>.

**5. If a unit consolidation is really so beneficial, why have the other mid-cap S-REITs not undertaken this?**

The Manager is unable to comment on behalf of other S-REITs and companies. It notes that there are currently 24 (out of 43) S-REITs and Business Trusts listed in Singapore with unit prices below S\$1 / US\$1 / €1.0 / £1.0<sup>11</sup>.

However, in the case of CEREIT, the Manager believes that the proposed 5:1 unit consolidation is beneficial for CEREIT's Unitholders in the long term, for the reasons outlined:

- (a) Increase in the market interest and attractiveness of CEREIT and its Consolidated Units
- (b) Potential reduction of magnitude of fluctuation in CEREIT's Unit trading price and market capitalisation
- (c) Potential reduction of percentage transaction cost for trading in each board lot of Consolidated Units
- (d) Lower brokerage trading costs to investors

For more details on relevant precedents, see Q4.

**6. Are there any safeguards in place to protect CEREIT Unitholders?**

All CEREIT Unitholders will have the opportunity to vote on the resolution at an EGM to be held on Tuesday, 27 April 2021.

**7. How will this affect Unitholders that hold odd lots of CEREIT Units? How many Unitholders will be affected by the rounding down of Units?**

The number of Consolidated Units which Unitholders will be entitled to, based on their holdings of Existing Units as at the Record Date, will be rounded down to the nearest whole Consolidated Unit. Any fractions of Consolidated Units arising from the Proposed Unit Consolidation will be disregarded. Each Consolidated Unit will rank *pari passu* with each other.

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<sup>9</sup> For the six-month period from 12 May 2010 (first day post unit consolidation) to 12 November 2010

<sup>10</sup> Apart from short periods of relative underperformance for the first two months post unit consolidation

<sup>11</sup> As at 17 March 2021 (noting that Eagle Hospitality REIT and Religare Health Trust are suspended as at this date)

Based on the full Unitholder register as per the Central Depository (Pte) Limited (“CDP”) records at 17 March 2021, only 24 out of CEREIT’s more than 4,200 Unitholders that hold directly with CDP will be affected by the rounding down of Consolidated Units. Of the 24 affected Unitholders, 14 Unitholders representing a total of 957,989 units are individuals. The remaining 10 affected Unitholders are nominee accounts, for which the Manager has no visibility for individual underlying Unitholdings or for the holdings of the additional ~500 Unitholders that hold under CPF IS.

**8. Has CEREIT considered other methods (e.g. stock splits, reducing sponsor’s stake) to improve its unit trading liquidity instead?**

The nature of REITs as listed vehicles is such that unitholders are predominantly long-term and hold on to their units over the long term. CEREIT is no exception, especially considering its attractive DPU yield. Nevertheless, improving the trading liquidity of CEREIT’s Units has been a focus of the Manager from CEREIT’s IPO.

CEREIT has evolved significantly since its IPO three years ago when its market capitalisation was just ~S\$1.3 billion, 75% of Units were concentrated in the hands of four cornerstone investors, with a free float of only ~S\$300 million, and its Units had very low trading liquidity. As at the end of 2020, CEREIT is among the top 15 REITs in Singapore, with a ~S\$2.0 billion market capitalisation<sup>12</sup>. With the exception of the sponsor, no Unitholder owns more than 10% of Units<sup>13</sup>. The Sponsor’s stake has reduced from ~36% to the current ~28%, since IPO, providing for a ~S\$1.4 billion<sup>14</sup> free float. CEREIT’s successful track record since IPO has also increased interest in its Units and today CEREIT’s Unitholder base comprises more than 4,700 unitholders<sup>15</sup>, up from less than 3,000 at IPO. The management team has also focused on diversifying the Unitholder register through active investor engagement. Close to 50% of Unitholders are now institutional and family office investors, which has in turn helped increase average daily trading liquidity almost nine-fold<sup>16</sup> since IPO. CEREIT is now part of more than 250 key indices (Bloomberg, FTSE Russell, MSCI, S&P, iEdge etc.) and much closer to other major relevant REIT index benchmarks.

**9. Higher unit prices may block out retail participation. Are you trying to attract more institutional investors at the expense of CEREIT’s retail investors?**

Counters of companies and REITs with quality businesses and good track records attract retail investors even if their share prices are in larger denominations. For example, some of Singapore’s largest-cap counters have a sizable retail shareholder / unitholder base – consider the major local banks, telcos, property developers, and ‘large-cap’ REITs.

The Manager believes that the Proposed Unit Consolidation will attract more retail investors due to lower transaction costs and higher liquidity. At the expected post-consolidation price of ~€2.50, the minimum 100-lot trade will increase in value from €50<sup>17</sup> to €250, which is still well below the average Unitholding size based on an analysis of CEREIT’s unitholding distribution among more than 4,200 Unitholders<sup>18</sup> that hold Units directly through CDP.

To use a housing market analogy, similar to when stamp duties or brokerage costs in the housing market are reduced, transactions and prices of the properties generally increase.

<sup>12</sup> Data from Refinitiv Eikon, market cap as at 17 March 2021, € to S\$ exchange rate 1:1.5889

<sup>13</sup> Refer to page 275 of CEREIT’s FY 2020 Annual Report (Statistics of Unitholdings)

<sup>14</sup> Refer to page 275 of CEREIT’s FY 2020 Annual Report, as per definitions used by FTSE Russell for the calculation of “free-float restrictions” for the purpose of various FTSE Russell-related indices

<sup>15</sup> As at 17 March 2021; approximately 4,200 Unitholders directly with CDP and approximately 500 Unitholders with holdings through CPF Investment Scheme

<sup>16</sup> Average monthly trading volume for March 2018 (post IPO stabilisation) vs. March 2021

<sup>17</sup> Assuming illustrative €0.50 price that falls within the range of in the period from 1 October 2020 to the latest practicable date

<sup>18</sup> Refer to page 274 of CEREIT’s FY 2020 Annual Report (Distribution of Unitholdings)

CEREIT is a diversified low-volatility REIT and its Manager aims to provide stable and growing DPU and NAV per Unit over the long term. The majority of returns expected of this style of product (and asset class) is predominately the distribution yield through the cycle. As such, if reduction of costs to buy and sell CEREIT's Units is facilitated, this will in turn potentially help to improve the net yield and total return for Unitholders. Furthermore, the Proposed Unit Consolidation is likely to reduce intraday volatility, which will help improve the Sharpe Ratio, a measure of risk and return.

The Manager expects that the Proposed Unit Consolidation will improve liquidity and investor demand. By definition, liquidity refers to the ease with which an asset, or security, can be converted into ready cash without affecting its market price. As mentioned above FOR ILLUSTRATIVE PURPOSES ONLY: at a hypothetical bid-ask price of €2.49 / €2.50, a seller can quickly find a buyer by dropping the price by 0.4% without having to cut the price of the trade by 1% for the pre-consolidation denomination of €0.495 / €0.50. Likewise, a buyer is likely to step up and buy CEREIT only 0.4% above the post-consolidation bid price than having to 'pay' 1.0% above the pre-consolidation bid.

Moreover, given that investors largely trade CEREIT's Euro-denominated counter, a €0.5 cent tick would be 1.6x as wide as a trade executed via the Singapore dollar counter, based on the current exchange rate. The current bid-ask spreads on SGX-ST do not provide quarter-cent ticks. A 5:1 unit consolidation should therefore improve the fungibility appeal of the counters, increase the liquidity of the Singapore dollar counter, and reduce the arbitrage observed from time to time.

## **(B) Timeline and Approvals**

### **10. Is there an indicative timeline for the Proposed Unit Consolidation?**

Please refer to the Circular issued on 12 April 2021.

### **11. What are the approval thresholds required, in order for the Proposed Unit Consolidation to proceed? What is the likelihood that the Proposed Unit Consolidation will be approved?**

Please refer to the Circular issued on 12 April 2021.

The Manager cannot make forward-looking statements or speculate on the outcome of the EGM. The outcome will be decided by a majority of CEREIT Unitholders.

## **(C) Feedback**

### **12. Have you received any feedback from your retail and other institutional / large Unitholders? What are their views on the Proposed Unit Consolidation?**

Overall, feedback has been positive. Prior to tabling the Proposed Unit Consolidation, the Manager has been engaging with CEREIT's investors / Unitholders as part of its investor outreach and generally investors understand the rationale of the Proposed Unit Consolidation.

## **(D) Board / management**

### **13. Does the Board / management / advisers have any experience with share / unit consolidations? What is the experience of CEREIT's non-executive directors in Singapore?**

The depth of the Manager's independent directors' experience is well-documented in public disclosures and their corporate governance standards are widely recognised through our high positions in the Governance Index for Trusts (GIFT) and Singapore Governance and Transparency Index (SGTI) rankings.

The Board and its advisors have considerable experience with share / unit consolidation in Singapore and/or other public financial markets. Significantly, Mr Lim was also a long-serving director of one of Australia's leading diversified REITs, where he was part of the Board that oversaw a 5:1 unit consolidation in May 2010 which was approved by its unitholders, and parallels what the Manager aims to achieve for CEREIT Unitholders. The example, which supports the Manager's recommendation, is mentioned in the previous questions.

**14. Does this have anything to do with the corporate changes / reshuffling of key management on the Sponsor level?**

No. This exercise was proposed by the Manager's Board of Directors, a majority of which are independent.

**15. Does the Sponsor support the Proposed Unit Consolidation?**

Yes. Cromwell Property Group, as the sponsor of CEREIT and substantial unitholder holding approximately 27.99% of Units in CEREIT, has provided a written undertaking to the Manager that it would procure each of its subsidiaries to vote in favour of the Proposed Unit Consolidation at the EGM.