REAL ESTATE EQUITY RESEARCH

Elite Commercial REIT

SGX: MXNU
Bloomberg: ELITE:SP
ISIN code: SGXC59097235

Country: Singapore
Industry: Real Estate

RECOMMENDATION: BUY

Current price: £0.25
Target price: £0.37
Initial Public Offering price: £0.68
Issued units: 481.6 million
Market capitalisation: £121.4 million

52-week range: £0.25- £0.60

PRICE PERFORMANCE

COMPANY DESCRIPTION

Elite Commercial REIT (collectively defined herein as EC REIT) is a Singapore real estate investment trust that was founded in 2018, with the investment strategy of principally investing, directly or indirectly, in commercial assets and real estate-related assets in the United Kingdom (UK). EC REIT was listed on the Singapore Exchange Securities Trading Limited on 6 February 2020. Currently, EC REIT is the first and only UK-focused REIT listed in Singapore. EC REIT has 155 properties located across the UK with an aggregate value of £466.2 million, a total net internal area of approximately 3.9 million square feet (sq ft) and a total site area of approximately 72 hectares. As at 30 June 2023, EC REIT had approximately £488.45 million in total assets and £246.5 million in Unitholders' funds

SUMMARY

For 1H2023, Net Property Income rose by 13.37%, from £17.6 million in 2H2022 to £20.0 million in 1H2023, mainly due to approximately £2.2 million in other property income, consisting of £1.9 million of dilapidation settlements and £0.4 million of lease surrender premium. Excluding other property income, Net Property Income Margin continued to remain relatively stable at 97%. Net change in Fair Value of Investment Properties continued to decrease further in 1H2023 by approximately £4.0 million as interest rates continue to rise in UK. EC REIT recorded a net profit of approximately £8.9 million in 1H2023, translating to an Earnings Per Unit (EPU) of 1.85 pence.

RECOMMENDATION

Based on our Peer Comparison Analysis, we obtained a target price of £0.36, which represents an upside potential of 44.44% from the current share price of £0.25. Based on our Dividend Discount Model (DDM) Analysis, we obtained a target price of £0.38, which represents an upside potential of 50.94% from the current share price of £0.25. Taking the average of the target prices, we obtained a target price of £0.37, which represents an upside potential of 47.69% from its current share price of £0.25. Based on EC REIT's NAV per share of £0.51 as at 30 June 2023 and EC REIT's current share price of £0.25, EC REIT is trading at a discount to NAV of 51.0%. This is in line with our Peer Comparison Analysis and DDM analysis above, which show that EC REIT is currently undervalued at £0.25. If EC REIT's shares moves from £0.25 to our target price of £0.37, this would still represent a discount to NAV of 27.4%, which supports our target price of £0.37. Considering the above, we recommend a BUY on EC REIT.

KEY FINANCIALS

		Revenue	Net Profit	EPU	P/E	DPU	Dividend Yield	P/B	NAV Per unit
		£'000	£'000	(pence)	(x)	(pence)	(%)	(x)	(£)
Actual	FY2022	37,075	-18,332	-3.83	NM	4.81	10.20%	0.9	0.52
Forecast	FY2023	39,240	19,934	4.14	7.2	3.52	11.74%	-	-
	FY2024	40,283	25,034	5.20	5.8	3.99	13.31%	-	-

**Forecasted P/E and dividend yield are based on 31 Aug 23 share price of $0.25*
Source: EC REIT, FPA

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COMPANY OVERVIEW

In this section, we will discuss EC REIT's Corporate Profile, Substantial Shareholders, Sponsors, Trust Structure, Trust's Portfolio, and Portfolio Performance

(I) Corporate Profile

EC REIT is a Singapore real estate investment trust that was founded in 2018, with the investment strategy of principally investing, directly or indirectly, in commercial assets and real estate-related assets in the United Kingdom (UK). EC REIT was listed on the Singapore Exchange Securities Trading Limited on 6 February 2020 with an Initial Public Offering Price of £0.68. Currently, EC REIT is the first and only UK-focused REIT listed in Singapore.

As at 30 June 2023, EC REIT has 155 properties located across the UK with an aggregate value of £466.2 million (valuation as at 31 December 2022), a total net internal area of approximately 3.9 million square feet (sq ft) and a total site area of approximately 72 hectares. EC REIT had approximately £488.45 million in total assets and £246.5 million in Unitholders' funds

On 12 May 2023, Liaw Liang Huat Joshua, was appointed as the new CEO of EC REIT.

(II) EC REIT Sponsors

The Sponsors of EC REIT are Elite Partners Holdings (EPH), Ho Lee Group, and Sunway RE Capital.

(a) Elite Partners Holdings

Elite Partners Holdings was incorporated in 2018, as the investment holding firm for Elite Partners Group, which was established to deliver lasting value for investors based on common interests, long-term perspectives and a disciplined approach. Backed by a team with proven expertise in private equity and REITs, its threefold investment philosophy aims to protect initial capital, enhance investment value and create new growth opportunities. As at 30 October 2019, EPH, via its wholly-owned subsidiaries, has an Asset Under Management of approximately S$650 million.

(b) Ho Lee Group

Ho Lee's business grew from a single entity dealing with general plumbing works to one that carries out various construction-related businesses from general building construction to specialised metal works, formwork fabrication and sales and rental of construction machines and equipment. These various companies were grouped together in 1996 and saw the incorporation of Ho Lee Group. Since the incorporation of Ho Lee Group, the Group has also ventured into the development of commercial and residential properties either individually or with its business partners and had to date developed projects such as the Built-to-Order Mauser Factory in Tuas, Singapore, The Watercolour Executive Condominium, The Heron Bay Executive Condominium, to name a few. The Group was also one of the major sponsors of the Viva Industrial Trust during its IPO listing on the SGX in November 2013.

(c) Sunway RE Capital

Sunway RE Capital Pte. Ltd. is a wholly-owned subsidiary of Sunway Berhad. Sunway Berhad is one of Malaysia's largest conglomerates with businesses in property development, property investment and REIT, construction, healthcare, hospitality, leisure, quarry, building materials, and trading and manufacturing. The Sunway Berhad Group comprises three publicly listed entities, Sunway Berhad, Sunway Construction Group Berhad, and Sunway REIT, with a combined market capitalisation of approximately RM17.5 billion as at 15 August 2023.

Sunway RE Capital represents Sunway's latest platform for international real estate investments. One of the platform's primary strategy is to sponsor private real estate funds while taking an active stage in the fund manager. This strategy aims to leverage on the experience of the management team to unlock value through active asset management and enhancement initiatives, while receiving steady recurring income from its real estate investments.

(III) Trust Structure

The Trust is a Singapore–domiciled unit trust constituted pursuant to the trust deed dated 7 June 2018 (the "Trust Deed") between Elite Commercial REIT Management Pte. Ltd. (the "Manager") and Perpetual (Asia) Limited (the "Trustee"). The Trust Deed is governed by the laws of the Republic of Singapore.

(a) Trustee of EC REIT

Perpetual (Asia) Limited is the Trustee of EC REIT. Perpetual Limited is an ASX-listed, diversified financial services company, which has been serving clients since 1886. Perpetual Limited's Singapore business is one of the leading providers of trustee, fund and agency services for the Singapore market, specialising in trustee services for S-REITs, trustee and fund services for Collective Investment Vehicles, as well as trustee and agency services to debt market structures.

(b) Manager of EC REIT

The REIT is managed by Elite Commercial REIT Management Pte. Ltd., which is owned by Elite Partners Holdings Pte. Ltd. (68.0%), Sunway RE Capital Pte. Ltd. (15.0%) and Jin Leng Investments Pte. Ltd. (17.0%). The Manager is responsible for delivering sustainable growth and returns to Unitholders over the long term, through the strategies listed below.

<u>The Manager's Strategy</u>

➢ **Acquisition Growth Strategy**

- Adopt a long-term investment approach to enhance future income and capital growth
- Focus on improving tenant mix and optimising lease profiles to increase stability of income

- Employ a rigorous research-driven selection process to identify value-enhancing commercial properties to generate attractive cash flows and yields
- Access to EC REIT Sponsors' Right Of First Refusal (ROFR) pipeline of strategically located UK commercial assets
- Harness the extensive expertise and network of EC REIT Sponsors and their team in the UK to source for quality acquisitions from the open market

➢ **Active Asset Management Strategy**

- Focus on tenant retention through proactive tenant engagement to understand their requirements and to better serve them
- Develop mutually beneficial collaborations between tenants/occupiers and landlord
- Formulating the best outcomes for properties in the portfolio to maximise value and deliver sustainable returns
- Diversify lease expiries and income profile with a focus on expanding and continuing dialogues on future lease renewals and extensions
- Identify potential property enhancements or redevelopment opportunities to enhance income streams
- Divest under-performing assets to redeploy capital and optimise the performance of our portfolio

➢ **Prudent Capital Management Strategy**

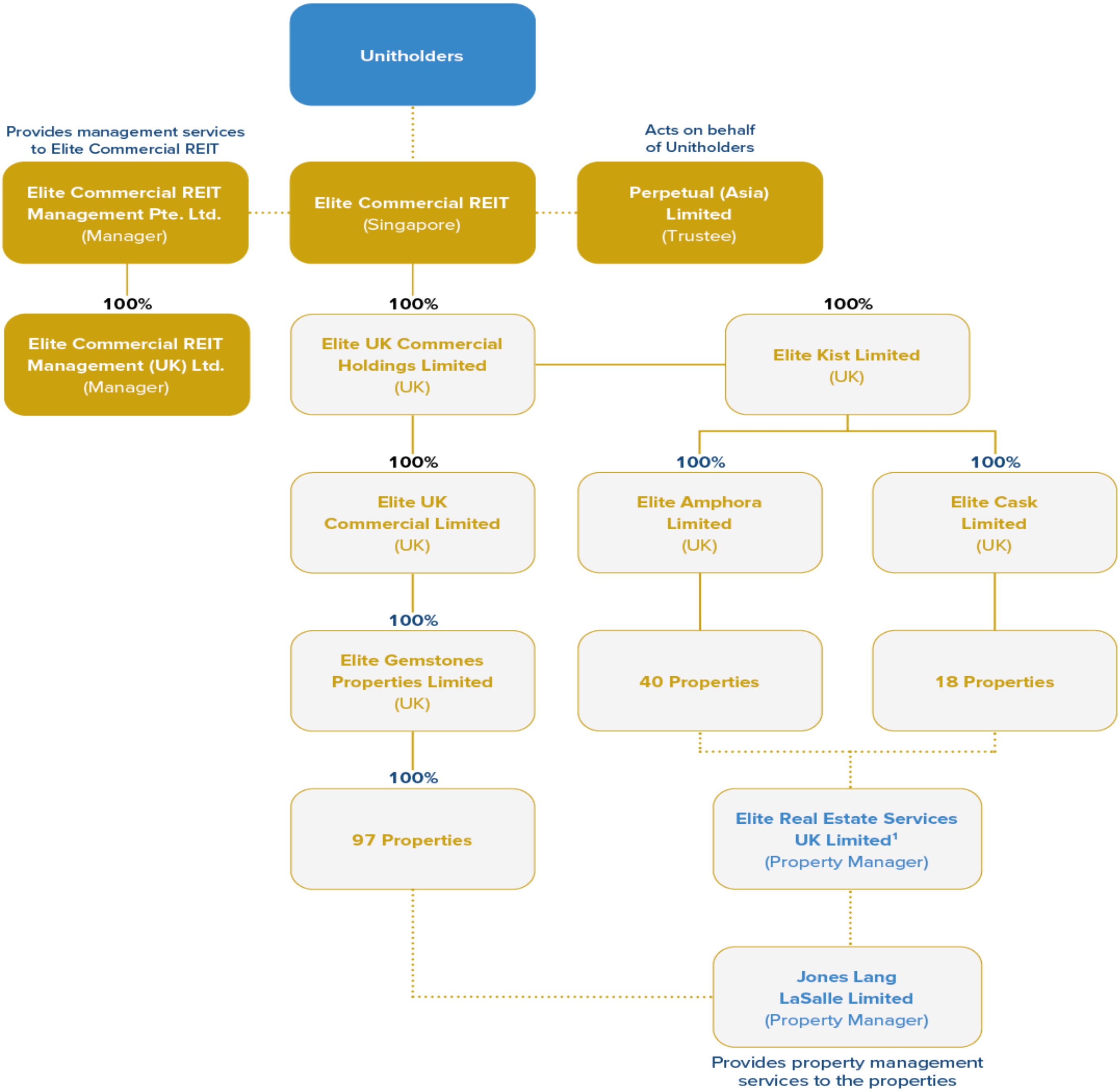
- Prudent management of Aggregate Leverage and Interest Coverage Ratio coupled with diversification of funding sources to optimise financial flexibility
- Employ an appropriate mix of debt and equity to finance acquisitions and asset enhancements
- Optimise borrowing costs and employ all-in borrowing cost hedging strategies
- Continuous monitoring of exposure to risk with a view to maximise risk-adjusted returns to Unitholders

➢ **Sustainability Integration Strategy**

- Work closely and collaboratively with the main occupier to realise sustainability enhancement works leading to improved energy efficiency of Department Work and Pensions-occupied assets
- Expand successful sustainability collaborations with more occupiers and tenants to 'green' the portfolio and improve energy efficiency of the assets and hence their desirability
- Incorporate sustainability considerations into overall business strategy to secure lease longevity and to ensure portfolio remains relevant amidst a changing real estate landscape
- Secure green financing for better cost efficiencies to support wider sustainability efforts

The full details of EC REIT's structure is shown in **Exhibit 1**

Exhibit 1: EC REIT Structure



1. *Elite Real Estate Services UK Limited has been appointed Property Manager to Elite Amphora Limited and Elite Cask Limited.*
2. *Elite UK Commercial Investments Limited (UK), a wholly owned subsidiary of Elite UK Commercial Holdings Limited, is currently undergoing liquidation and will exit the REIT Structure.*

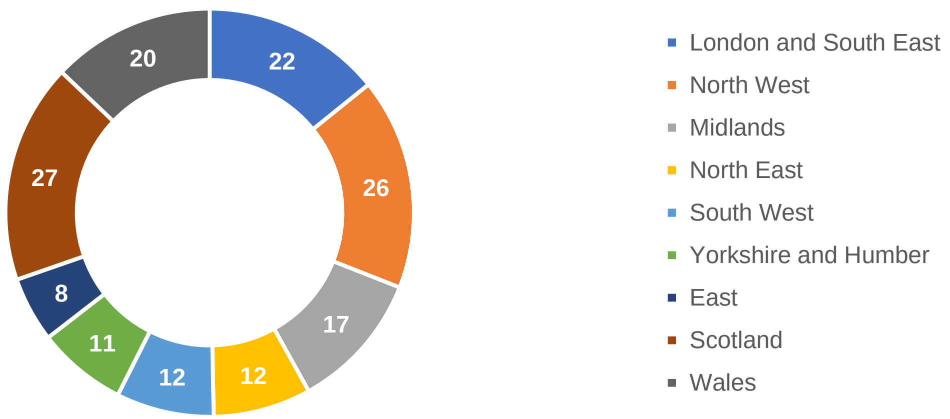
Source: EC REIT

(IV) EC REIT Portfolio

(a) Overview of EC REIT Portfolio

As of 30 June 2023, EC REIT's portfolio consists of 155 commercial properties located across the UK, of which 150 properties are on freehold tenures and 5 properties are on long leasehold tenures, representing a total net internal area of approximately 3.9 million square feet and a total site area of approximately 72 hectares. The Portfolio has an attractive geographical spread, with approximately 27.2% of the Portfolio by Value situated in London and the South East. The geographical spread of the properties across the UK is shown in **Exhibit 2.**

Exhibit 2: Geographical Breakdown By Number Of Properties in UK



Source: EC REIT, FPA

As of 30 June 2023, the Weighted Average Lease Expiry (WALE) of EC REIT's properties is approximately 4.5 years, and the occupancy rate stands at 92.1%. As of 31 December 2022, the aggregate value of these properties is approximately £466.2 million.

(b) EC REIT's Tenants

More than 99% of the REIT's FY 2022 gross rental income is leased to diversified mix of UK Government departments and agencies, backed by AA-rated sovereign credit rating, thus providing financial stability and income certainty. EC REIT's primary occupier is the Department for Work and Pensions (DWP), which is the UK Government's largest public service department responsible for administering the country's state pension, welfare and child maintenance policy. DWP is integral in supporting the UK's social fabric as it delivers essential public services to the community. As at 31 December 2022, DWP contributed to approximately 91.5% of the REIT's annualised gross rental income.

The credit strength of EC REIT's tenants has ensured that the REIT has been able to consistently collect rental three months in advance, in full and on time, ensuring stable cashflows. The Group collected 99.9% of the rent in advance for the three-month period of July 2023 to September 2023, within seven days of the due date.

Leases are also signed on a full repairing and insuring ("FRI") basis, or commonly known as triple net lease, whereby the responsibility for the repair of the external and internal parts as well as the structure of the property is placed with the tenant, thus providing insulation in a rising inflation and rising energy prices environment.

Overall, the quality of the tenant base in Elite Commercial REIT's portfolio helps to ensure that the REIT remains resilient through economic cycles.

(c) Portfolio Valuation

As of 30 June 2023, total portfolio valuation is approximately £466.2 million. Portfolio valuation as of 30 June 2023 remained unchanged from 31 December 2022, but represented a drop by 9.93% compared to the portfolio valuation of approximately £517.6 million, as of 30 June 2022.

Valuation Methodology

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either

directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

EC REIT categorised fair value measurement for investment properties as Level 3 based on the inputs to the valuation techniques used.

The fair values were based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after property marketing wherein the parties had acted knowledgeably, prudently and without compulsion.

EC REIT's Manager has internally assessed that the fair valuation of the investment properties at 30 June 2023 approximates the fair valuation of the investment properties at 31 December 2022. In order to assess the impact of the performance of the UK property investment market between 31 December 2022 and 30 June 2023, the Manager sought advice from a leading global consultancy in commercial real estate in relation to the performance of the UK Property Market during the first 6 months of 2023 and has reviewed information relating to the prevailing market conditions in the UK, the CBRE Monthly Index and its corresponding yield movements. The Manager has also taken into consideration i) the additional £3.7 million of sustainability amount disbursed to the tenants during the current period; ii) the result of the rent review and loss in rental for the vacant units, coupled with the credit strength of the government tenant; and iii) the expectation of the tenant remaining in a proportion of the portfolio beyond 2028.

The independent professional valuations as at 31 December 2022 and 30 June 2022 were based on the investment method (also known as income capitalisation method). The valuation method used in determining the fair value involve certain estimates including yield rate. The specific risks inherent in each of the properties are taken into consideration in arriving at the property valuation as 31 December 2022.

(VI) Substantial Shareholders

The substantial shareholders of EC REIT as at 6 March 2023 are listed in **Exhibit 3**

Exhibit 3: Substantial Shareholders

Substantial Shareholders	Direct Interest		Deemed interest		Total Interest	
	Number of shares	%	Number of shares	%	Number of shares	%
Covea Corporations S.A.	-	-	109,074,215	22.67%	109,074,215	22.67%
Ho Lee Group Trust	36,844,684	7.66%	-	-	36,844,684	7.66%
Sunway Berhad	-	-	28,214,024	5.86%	28,214,024	5.86%
Total Number of units [1]	481,128,443					

[1] Calculated based on 481,128,443 issued units as at 6 March 2023

Source: EC REIT, FPA

Covéa is a French mutual insurance company that covers property, liability and reinsurance businesses headquartered in Paris. Covéa is the ultimate holding company of Covéa Cooperations through the following entities - MMA IARD Assurances Mutuelles, MMA Vie Assurances Mutuelles, AM-GMF, MAAF Santé, MAAF Assurances.

Ho Lee Group is one of the sponsors of EC REIT. As mentioned on page 3, Ho Lee Group carries out various construction-related businesses from general building construction to specialised metal works, formwork fabrication and sales and rental of construction machines and equipment

Sunway Berhad is one of Malaysia's largest conglomerates with businesses in property development, property investment and REIT, construction, healthcare, hospitality, leisure, quarry, building materials, and trading and manufacturing, as mentioned on page 4. Sunway Berhad owns 100% of Sunway RE Capital, which is one of the sponsors of EC REIT.

MARKET OUTLOOK

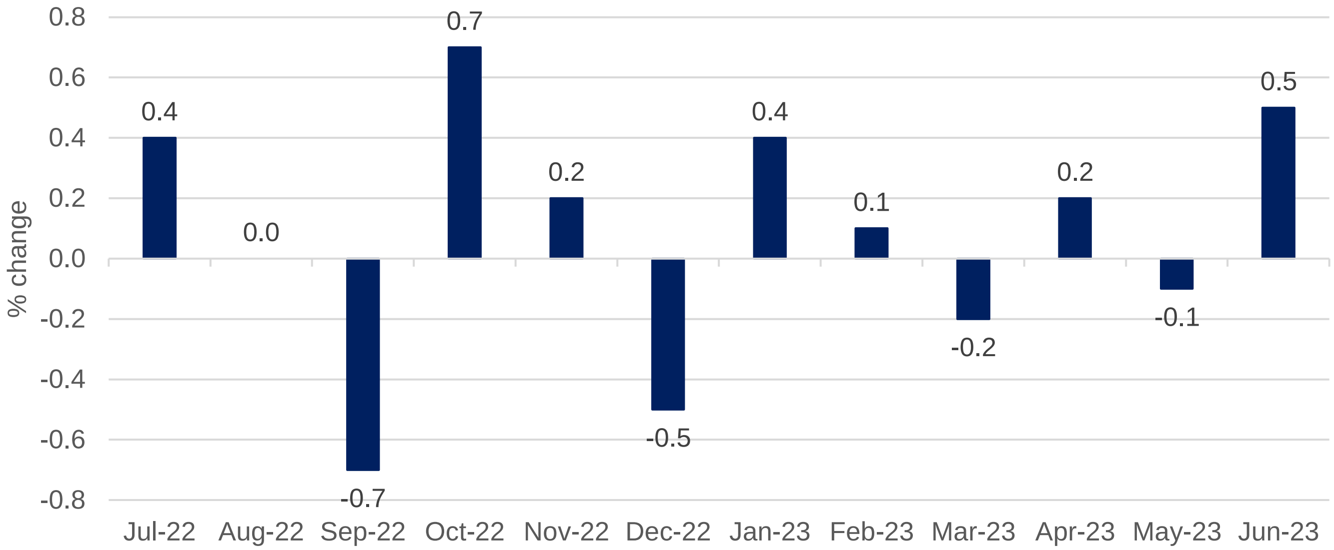
In this section we will be discussing the general outlook of UK's economy, and we will be looking into the UK Commercial Real Estate Industry

(I) UK Economy

As of 16 Aug 2023, according to HM Treasury, which is the UK's government's economic and finance ministry, GDP growth is forecasted to be 0.3% in 2023 and 0.7% in 2024. On the other hand, Bank of England (BOE) projects GDP growth to be 0.5% in 2023 and 2024.

According to Office for National Statistics as at 11 Aug 2023, UK's GDP grew by 0.5% in June 2023, following an unrevised fall of 0.1% in May 2023, as shown in **Exhibit 3**. June's Monthly GDP is estimated to be 0.8% above its pre-Covid19 levels (February 2020). A range of businesses cited the additional bank holiday in May as a reason for increased output in June compared with May.

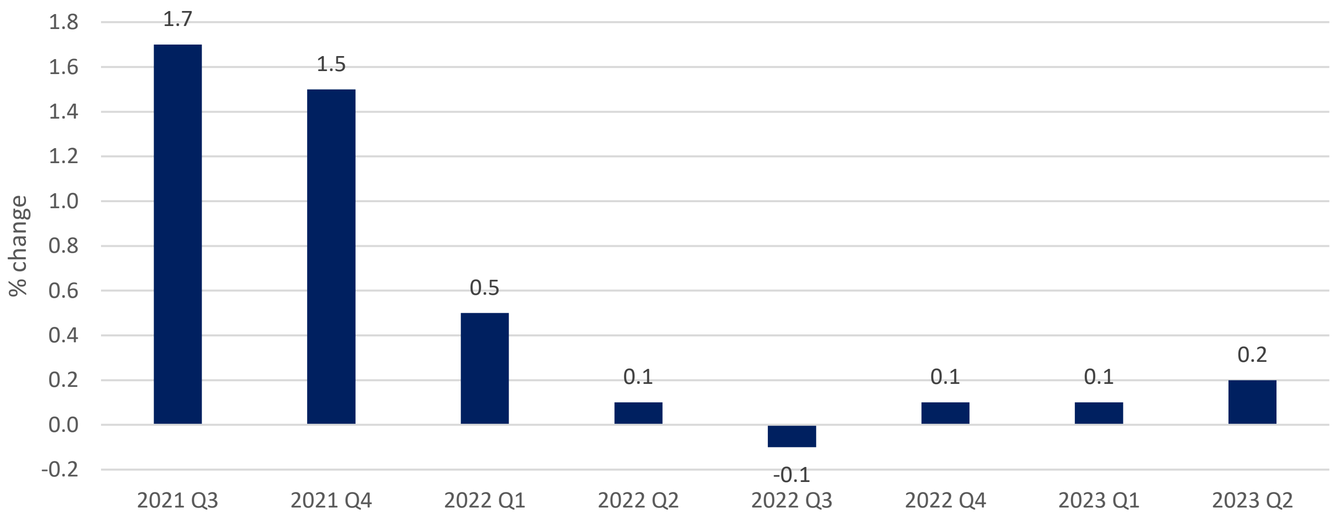
Exhibit 3: Change in UK's GDP (%, mom)



Source: Office for National Statistics, FPA

Looking more broadly, UK's GDP showed a 0.2% growth in the three months to June 2023 (Q2), vs a 0.1% growth in the three months to March 2023 (Q1) as shown in **Exhibit 4.**

Exhibit 4: Change in UK's GDP (%, qoq)

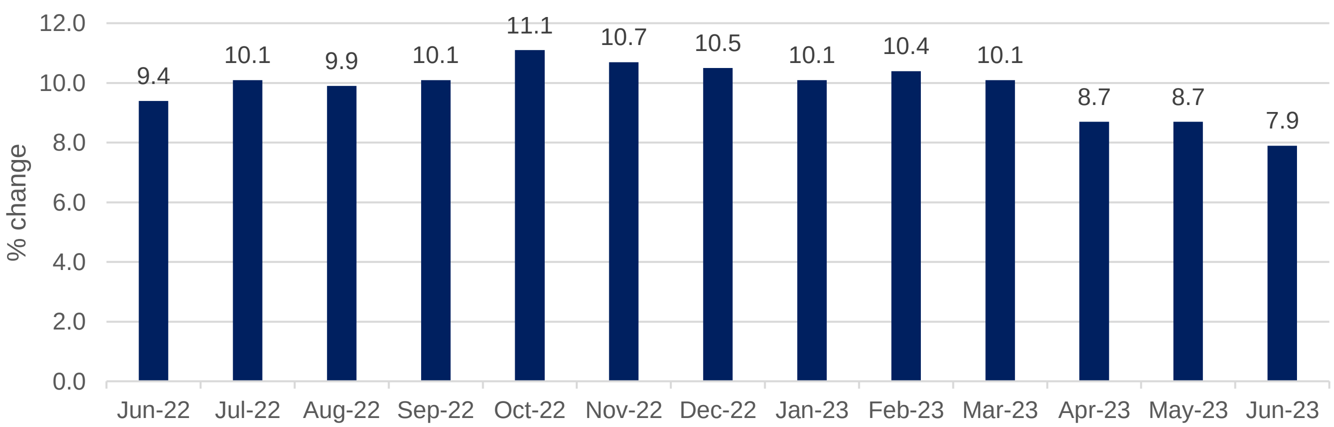


Source: Office for National Statistics, FPA

UK's quarterly GDP growth has remained relatively flat from Q2 2022 to Q2 2023 as high interest rates and elevated inflation continue to weigh on consumers and businesses. On 3 Aug 2023, the Bank of England (BOE) raised interest rates by 25bps to 5.25% in order to bring down inflation which has remained stubbornly high.

According to Office for National Statistics, UK's Consumer Prices (CPI) rose by 7.9% yoy in June, down from 8.7% yoy in May, as shown in **Exhibit 5.** However, these figures are still much higher than BOE's targeted CPI of 2%, as tight labor market and higher wage growth continue to drive prices higher.

Exhibit 5: Change in UK's CPI (%, yoy)



Source: Office for National Statistics, FPA

According to a BOE's August Monetary Policy Report, BOE projects inflation to fall further to 4.9% in Q4 2023 and to 2.5% by the end of 2024.

(II) UK Commercial Real Estate

According to Savills' August 2023 report, nearly all sectors saw an upward shift in prime yields of 25bps in July 2023, except for Foodstores and West End and London City offices, as shown in **Exhibit 6**. This moves the average prime yield out to 6.0%, which is 20 bps higher than that in the previous month and 25 bps higher than the long-term average.

Exhibit 6: Savill's Prime Yield

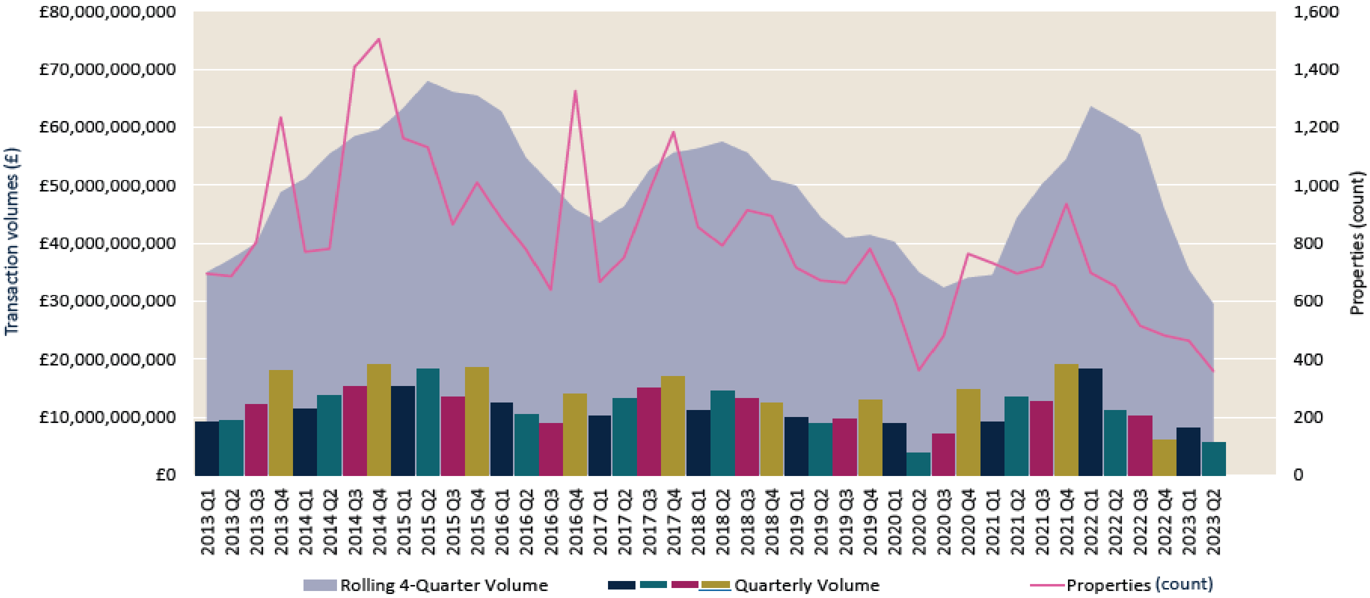
	July 2022	June 2023	July 2023
West End Offices	3.25%	4.00%	4.00%
City Offices	4.00%	5.00%	5.00%
South East Offices	5.25%	6.75%	7.00%
Provincial Offices	4.75%	6.00%	6.25%
High Street Retail	6.00%	6.50%	6.75%
Shopping Centres	7.50%	8.00%	8.25%
Retail Warehouse (open A1)	5.00%	5.50%	5.75%
Retail Warehouse (restricted)	5.00%	6.00%	6.25%
Foodstores (OMR)	4.50%	5.00%	5.00%
Ind/Distribution (OMR)	3.75%	5.00%	5.25%
Industrial Multi-lets	3.75%	4.75%	5.00%
Leisure Parks	6.75%	7.25%	7.50%
London Lease (core) Hotels	3.50%	4.25%	4.50%
Average Prime Yield	4.75%	5.80%	6.00%

Source: Savills Research

We noted from Savills that although the average prime yields are still significantly below the 7.25% average reached at the peak of the Global Financial Crisis (Jan 2009), the rise in prime yields over the recent months reflects the sentiment surrounding the strength of the UK's recent economic headwinds. However, moving into H2 2023, some of these negative concerns have significantly dissipated as a UK recession is no longer the consensus view and wage growth has accelerated. As a result, despite the absence of any anticipated yield compression in the short term, only a few sectors are expected to see further upward movement in the coming months.

We further note from Savills that despite better sentiments, transactional hesitation remains, which may have been fueled by a period of sustained interest rate rises. **Exhibit 7** highlights a 54.6% reduction in H1 commercial property investment market transaction volumes versus the same period last year. Much of the slowdown can be attributed to mismatched seller-buyer expectations, with fewer vendors willing to sell at current pricing unless they have to.

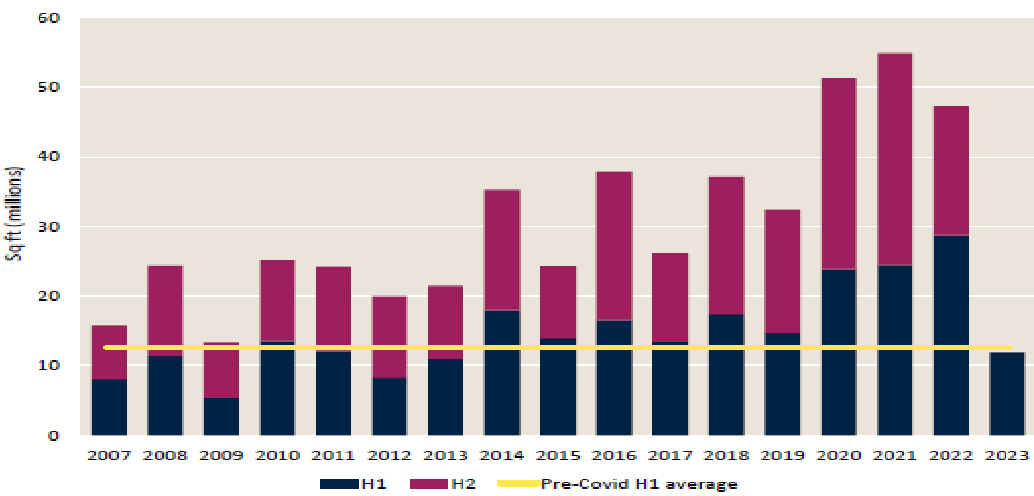
Exhibit 7: Commercial property investment market transaction volumes



Source: Savills Research

As shown in **Exhibit 8**, at a national level, take-up for H1 has reached 12.49 million sq ft across 56 separate transactions, which is the lowest H1 take-up since 2013, which is marginally below pre-Covid H1 average. The predominant driver behind the slowdown has been the level of build-to-suit take-up falling back to 5.2m sq ft, accounting for 41% of demand this year (last year totaled 23.9m sq ft equating to 50% of demand).

Exhibit 8: Take-up Figures

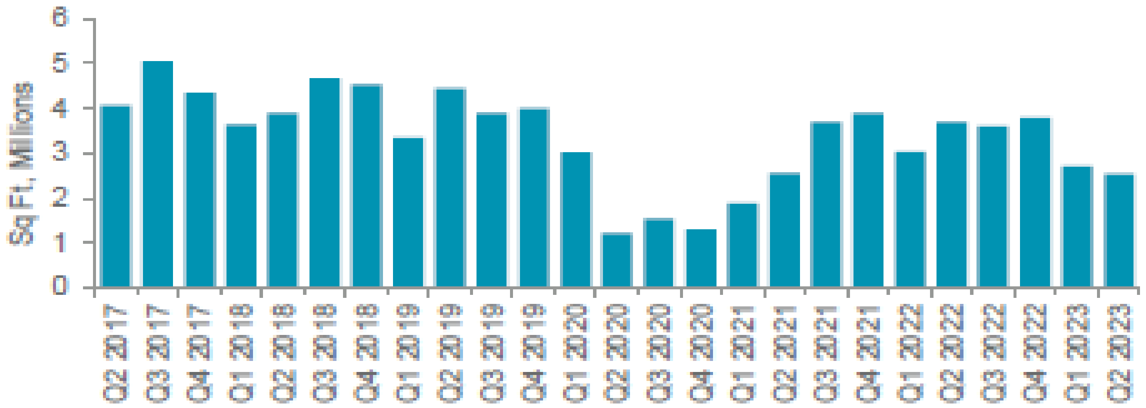


Source: Savills Research

(III) UK Office Real Estate

According to CUSHMAN & WAKEFIELD, as of 8 Aug 2023, office take up across the Big Five (Birmingham, Bristol, Edinburgh, Leeds and Manchester) and Central London markets totaled 2.5 million sq ft in Q2 2023. This is a 7% decline versus Q1 2023 and 22% below the five year quarterly average, as shown in **Exhibit 9.** A 64% majority of space transacted was Grade A quality, which is well above the 57% average across the past five years and continuing to evidence the post pandemic bifurcation trend in office demand. Central London reported 1.8 million sq ft of take up in the second quarter, with the remaining 716,962 sq ft transacting in the Big Five.

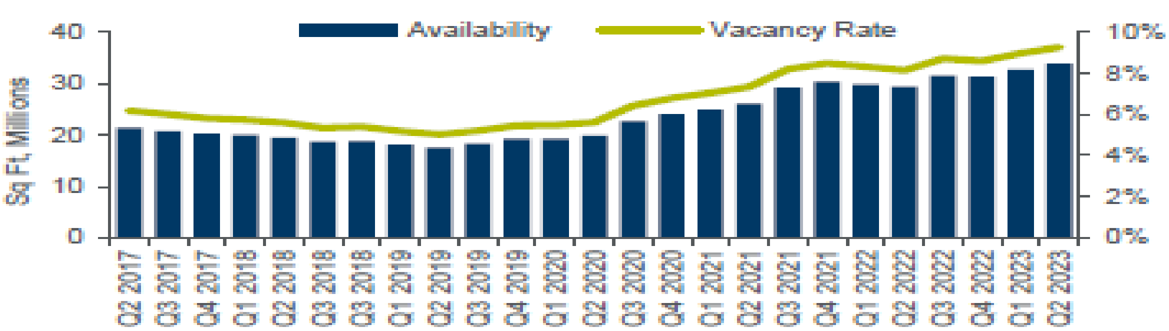
Exhibit 9: Office Take-Up



Source: CUSHMAN & WAKEFIELD

As shown in **Exhibit 10**, Availability ticked up by 4% to 33.9 million sq ft in Q2 versus Q1, driving the vacancy rate up to its highest level since 2009 at 9.3%. Central London supply rose to a record 27.2 million sq ft following a 10% increase in Grade A available space, primarily due to the 14.4 million sq ft of space under construction, 38% of which is due to complete in H2 2023. Big Five availability also increased by 8%, with Grade A supply rising 19% to 1.9 million sq ft as new space completed. Despite the increase, there is only 1.0 years' supply of Grade A stock in the Big Five and with only 2.5 million sq ft under construction, this imbalance is likely to continue. Even consented schemes are struggling to start work with the elevated cost of capital and construction challenging viability. This is also evident in the Central London market where 68% of the more substantial development pipeline is due to complete by 2024, with noticeably fewer deliveries from 2025.

Exhibit 10: Availability and Vacancy Rate



Source: CUSHMAN & WAKEFIELD

As a result, Grade A availability is expected to decline in the medium term as robust demand absorbs existing supply and forthcoming developments. Combined with rising development costs and the elevated price of debt, diminishing supply will fuel prime rental growth as occupiers compete for the best spaces to attract and retain top talent. Prime headline rents in Q2 rose by 4.9% in the year to Q2 2023, which was the average across the Big Five and Central London. Of the 23 London submarkets, 13 reported rental growth on the quarter, led by a 7.4% rise in Kensington to £72.50 per sq ft, while four submarkets declined and seven remained level. Edinburgh and Birmingham reported rental growth of 9.0% and 2.4% respectively, while the other Big Five markets remained unchanged.

Office investment totaled £250 million in the Big Five and £1.6 billion in Central London in Q2 2023, with the combined £1.9 billion being 17% down on Q1 and 48% below the five-year average. Further interest rate rises weighed on activity, reaching 5.0% in June 2023 with prime yields moving +25 bps in the City Core to 5.00% but holding firm in the other markets, while secondary yields softened further. Additional rate increases seem likely in the short-term, bringing further pricing pressures in Q3 and an outward yield forecast. However, indications that inflation may have peaked mean that rates are also likely to be near their top, potentially providing stability and stoking activity in the market with Grade A rental growth and good demand offering opportunities for returns across markets.

As shown in **Exhibit 11**, Colliers projects UK Offices' Estimated Rental Value (ERV) to be -0.5% p.a. in 2023 and 1.3% p.a. in 2024.

Exhibit 11: Collier's Office Forecast Summary

	Dec-23	Dec-24	Dec-25	5 years to 2027
ERV Growth (% pa)	-0.5	1.3	1.9	1.4
Equivalent Yield (% eop)	6.7	6.6	6.5	-25 bps
Capital Growth (% pa)	-2.4	3.6	3.8	2.4
Total Return (% pa)	1.3	7.3	7.5	6.1

Source: Colliers, MSCI

RECENT SHARE PRICE DEVELOPMENT

In the past year, EC REIT's shares fell by 57.26%, from £0.59 on 31 Aug 2022 to £0.25 on 31 Aug 2023, as shown in **Exhibit 12**.

Exhibit 12: EC REIT's 1 Year Share Price Performance

Source: Google Finance, FPA

On 27 September 2022, large transactions of share purchases from various institutions - MMA Vie Assurances Mutuelles, MMA IARD Assurances Mutuelles, MAAF Sante, MAAF Assurances, La Garantie Mutuelle des Fonctionnaires and Covea Cooperations S.A, resulted in EC REIT's share price rising by 15.2% from £0.46 to £0.53

On 14 February 2023, EC REIT reported an 11.4% drop in their distribution per unit (DPU) for FY2022 ended 31 December 2022, with the DPU decreasing to 4.81 pence, from 5.43 pence in the previous fiscal year. The report also revealed that EC REIT's distributable income for FY 2022 declined 5.8% to £23.1m, from £24.5m in FY 2021. Following the announcement of EC REIT's FY2022 results, EC REIT's share price fell by 5.9%, from £0.51 to £0.48.

On 27 April 2023, EC REIT posted a 26.6% fall in DPU to 0.94 pence for the first quarter of FY2023, from 1.28 pence in the previous corresponding period and that its revenue for the quarter slipped 0.4% year on year to £9.2 million. Following the announcement, EC REIT's share price fell by 5.5%, from £0.37 to £0.35.

On 14 August 2023, Joshua Liaw, the CEO of EC REIT, bought 39,000 units of shares at £0.305 per unit

A list of insider transactions for 2023 is shown in **Exhibit 11.**

Exhibit 11: Insider Transactions

Announce Date [Date of Effective Change]	Buyer/ Seller Name [Type*]	S/ W/ U **	Bought/ (Sold) ('000)	Price ($)	After Trade: No. of Shares ('000) ***	After Trade: % Held ***	Note
14/08/23 [11/08/23]	Liaw Liang Huat Joshua [DIR]	S/U	39	0.305	39	0.01	Note
03/04/23 [30/03/23]	Chinoy Yezdi Phiroze [DIR]	S/U	1	-	24	0.01	Note
31/03/23 [30/03/23]	Victor Song Chern Chean [DIR]	S/U	237	-	8,525	1.77	Note
31/03/23 [30/03/23]	Tan Hai Peng Micheal [DIR]	S/U	237	-	45,747	9.49	Note

DIR - Director (include Directors of related companies)
SSH - Substantial Shareholder
COY - Company Share Buyback
TMRP - Trustee-Manager/Responsible Person
S - Shares
W - Warrants
U - Units
R - Rights
Direct & Deemed Interests

Source: EC REIT

We note that Tan Hai Peng Michael has a significant position in Ho Lee Group, which is one of the sponsors of EC REIT. Tan Hai Peng Michael holds an Executive Chairman position in Elite Partners Capital Pte Ltd, a Non-Executive Director position in Elite Partners Holdings Pte Ltd, an Executive Director position in Ho Lee Group Pte Ltd, an Executive Director position in Teck Lee Holdings Pte Ltd and a Managing Director position in TPSC Asia Pte Ltd

We note that Victor Song Chern Chean holds an Executive Director position in Elite Partners Holdings Pte Ltd and a Managing Director position in Elite Partners Capital Pte Ltd.

FINANCIAL ANALYSIS

In this section, we will review some of the key figures from EC REIT's financial statements for the 1H ended 30 June 2023.

(I) Financial Performance Review

Review of 1H 2023 Results

Revenue: Revenue relates to rental income derived from the Group's investment properties and the effect of recognizing rental income on a straight-line basis over the lease term. As shown in **Exhibit 13**, EC REIT's 1H2023 revenue rose by 3.98%, from £18.4 million for the 6 months ended 31 December 2022, to £19.1 million for the 6 months ended 30 June 2023. Compared against 1H2022, revenue rose by 3.38% yoy. Over 99% (30 June 2022: 99%) of the contracted rental income under the current leases is derived from the UK Government via various government departments and agencies including The Secretary of State for Levelling Up, Housing and Communities.

Other Income: Included in 1H2023 other income were £1.9 million of dilapidation settlements and £0.4 million of lease surrender premium, resulting in an absolute change of approximately £2.2 million in 1H2023 compared to 2H2022, as shown in **Exhibit 13.** Compared against 1H2022, Other Income rose by 896.44% yoy mainly due to the dilapidation settlement of £1.9 million.

Property Operating Expense: Property Operating Expenses includes Property management fees, Lease management fees, Property insurance expenses and Other property expenses. As shown in **Exhibit 13**, Property operating expenses rose by 88.48%, from £0.7 million in 2H2022, to £1.3 million in 1H2023. Compared to 1H2022, Property Operating Expenses rose by 124.96% yoy. This was mainly attributed to the increase in property expenses incurred by the Group which were previously borne by the tenants when the properties were leased out, as shown in **Exhibit 14.**

Net Property Income: Accordingly, Net Property Income rose by 13.37%, from £17.6 million in 2H2022 to £20.0 million in 1H2023, as shown in **Exhibit 13**. Compared to 1H2022, Net Property Income rose by 10.47% yoy.

Exhibit 13: EC REIT's Net Property Income

Statement of Comprehensive Income	6 months ended 30/6/2023	6 months ended 31/12/2022	1H2023 v 2H2022		6 months ended 30/6/2022	1H2023 v 1H2022	
			change	absolute change		change	absolute change
	£'000	£'000	%	£'000	£'000	%	£'000
Revenue	19,098	18,367	3.98%	731.00	18,474	3.38%	624.00
Other Income	2,242	-	NM	2,242	225	896.44%	2,017
Property operating expenses	(1,343)	(728)	84.48%	(615)	(597)	124.96%	(746)
Net property income	**19,997**	**17,639**	13.37%	2,358	**18,102**	10.47%	1,895

Source: EC REIT, FPA

Exhibit 14: Breakdown of Property Operating Expense

Breakdown of Property Operating Expense	6 months ended 30/6/2023	6 months ended 30/06/2022	yoy change	absolute change
	£'000	£'000	%	£'000
Property management fee	359	346	3.76%	13
Lease management fee	120	115	4.35%	5
Property insurance expenses	122	116	5.17%	6
Other property expenses	742	20	N.M.	722
Total Property Operating Expense	**1,343**	**597**	124.96%	746

Source: EC REIT, FPA

Manager's Management Fee: Manager's management fee relates to the base fee which is calculated based on 10% of the income available for distribution. As shown in **Exhibit 15**, Manager's Management Fee fell by 14%, from £1.1 million in 2H2022 to £0.9 million in 1H2023. Compared against 1H2022, Manager's Management Fee fell by 23.69% yoy. The decrease in manager's management fee was in line with the decreased income available for distribution to unitholders

Trustee's Fee: As shown in **Exhibit 15,** Trustee's Fee remained unchanged at £55,000 in 1H2023. Compared against 1H2022, Trustee's Fee rose by 7.84% yoy.

Other Trust Expenses: Other trust expenses consist mainly statutory fees such as audit fees, tax agent fees and corporate secretarial fees, valuation expenses and other trust related expenses. As shown in **Exhibit 15**, Other Trust Expenses rose by 2.48%, from £605,000 in 2H2022 to £620,000 in 1H2023. The increase is mainly due to professional fees incurred for dilapidation assessment for vacating assets in 1H2023. Compared against 1H2022, Other Trust Expenses fell by 19.27% yoy.

Finance Income: Finance Income refers to the fair value gain on financial derivatives. As shown in **Exhibit 15**, Finance Income rose by £1.9 million in 1H2023. Compared against 1H2022, Finance Income rose by 338.20% yoy. The Increase in Finance Income in 1H2023 was in line with the rising interest rates.

Finance Costs: Finance Costs includes interest expense on loans and borrowings, amortization of transaction costs relating to loans and borrowings and interest expense on lease liabilities. As shown in **Exhibit 15**, Finance Costs rose by 19.94%, from £4.95 million in 2H2022 to £5.9 million in 1H2023. Compared against 1H2022, Finance Costs rose by 103.88% yoy. The Increase in Finance Costs in 1H2023 was in line with the rising interest costs on borrowings.

Net Finance Costs: Accordingly, Net Finance Costs fell by 19.45%, from £4.95 million in 2H2022 to £4.0 million in 1H2023. However, compared against 1H2022, Net Finance Costs rose by 61.61% yoy.

Net Change In Fair Value Of Investment Properties: As shown in **Exhibit 15,** net change in Fair Value of Investment Properties rose by £47.5 million, from -£ 51.6 million in 2H2022 to -£4.0 million in 1H2023. However, compared against 1H2022, net change in Fair Value of Investment Properties fell by £14.2 million.

Profit/(Loss) before Tax: Accordingly, Profit/(Loss) before tax increased by £51 million in 1H2023 compared to 2H2022. However, this figure represents a drop by 56.47% compared to 1H2022, as shown in **Exhibit 15**

Exhibit 15: EC Profit/(Loss) before Tax

Statement of Comprehensive Income	6 months ended 30/6/2023	6 months ended 31/12/2022	1H2023 v 2H2022		6 months ended 30/6/2022	1H2023 v 1H2022	
			change	absolute change		change	absolute change
	£'000	£'000	%	£'000	£'000	%	£'000
Manager's management fee	(934)	(1,086)	-14.00%	152	(1,224)	-23.69%	290
Trustee's fee	(55)	(55)	0.00%	0	(51)	7.84%	(4)
Other trust expenses	(620)	(605)	2.48%	(15)	(768)	-19.27%	148
Finance income	1,950	-	NM	1,950	445	338.20%	1,505
Finance costs	(5,937)	(4,950)	19.94%	(987)	(2,912)	103.88%	(3,025)
Net finance costs	(3,987)	(4,950)	-19.45%	963	(2,467)	61.61%	(1,520)
Net change in fair value of investment properties	(4,040)	(51,584)	-92.17%	47,544	10,212	NM	(14,252)
Profit/(Loss) before tax	**10,361**	**(40,641)**	NM	51,002	**23,804**	-56.47%	**(13,443)**

Source: EC REIT, FPA

Tax Expense: The major components of income tax expense in the condensed interim consolidated statement of comprehensive income are Withholding tax expense and Deferred tax expense relating to origination and reversal of temporary differences. The breakdown of EC REIT 1H2023 Tax Expense is shown in **Exhibit 16**.

Exhibit 16: Breakdown of Tax Expense

Breakdown of Tax Expense	6 months ended 30/6/2023	6 months ended 31/12/2022	yoy change	absolute change
	£'000	£'000	%	£'000
Withholding tax expense	1,428	1,475	-3.19%	(47)
Deferred tax expense relating to origination and reversal of temporary differences	-	2,273	NM	(2,273)
Tax Expense	1,428	3,748	-61.90%	(2,320)

Source: EC REIT, FPA

Profit/(Loss) after Tax: Accordingly, Profit/(Loss) after Tax rose by £47.3 million, from -£38.4 million in 2H2022 to £8.9 million in 1H2023. Compared against 1H2022, Profit/(Loss) after Tax fell by 55.46% yoy as shown in **Exhibit 17**.

Exhibit 17: Profit/(Loss) after Tax

Statement of Comprehensive Income	6 months ended 30/6/2023	6 months ended 31/12/2022	1H2023 v 2H2022		6 months ended 30/6/2022	1H2023 v 1H2022	
			change	absolute change		change	absolute change
	£'000	£'000	%	£'000	£'000	%	£'000
Profit/(Loss) before tax	**10,361**	**(40,641)**	NM	**51,002**	**23,804**	-56.47%	**(13,443)**
Tax credit/(expense)	(1,428)	2,253	NM	(3,681)	(3,748)	-61.90%	2,320
Profit/(Loss) after tax	**8,933**	**(38,388)**	NM	**47,321**	**20,056**	-55.46%	**(11,123)**

Source: EC REIT, FPA

Earnings per Unit (EPU): As shown in **Exhibit 18**, EPU rose by 9.85 pence, from -8.00 pence in 2H2022 to 1.85 pence in 1H2023. However, compared against 1H2022, EPU fell by 55.95% as shown in **Exhibit 18.**

Exhibit 18: Earnings Per Unit

Statement of Comprehensive Income	6 months ended 30/6/2023	6 months ended 31/12/2022	1H2023 v 2H2022		6 months ended 30/6/2022	1H2023 v 1H2022	
			change	absolute change		change	absolute change
	pence	pence	%	pence	pence	%	pence
Earnings per Unit (pence)							
Basic	1.85	(8.00)	NM	9.85	4.20	-55.95%	(2.35)
Diluted	1.85	(8.00)	NM	9.85	4.20	-55.95%	(2.35)

Source: EC REIT, FPA

The full details of EC REIT's Statement of Comprehensive Income is as shown in **Exhibit 19.**

Exhibit 19: Statement of Comprehensive Income

Statement of Comprehensive Income	6 months ended 30/6/2023	6 months ended 31/12/2022	1H2023 v 2H2022 change	1H2023 v 2H2022 absolute change	6 months ended 30/6/2022	1H2023 v 1H2022 change	1H2023 v 1H2022 absolute change
	£'000	£'000	%	£'000	£'000	%	£'000
Revenue	19,098	18,367	3.98%	731.00	18,474	3.38%	624.00
Other property income	2,242	-	NM	2,242	225	896.44%	2,017
Property operating expenses	(1,343)	(728)	84.48%	(615)	(597)	124.96%	(746)
Net property income	**19,997**	**17,639**	13.37%	2,358	**18,102**	10.47%	1,895
Manager's management fee	(934)	(1,086)	-14.00%	152	(1,224)	-23.69%	290
Trustee's fee	(55)	(55)	0.00%	0	(51)	7.84%	(4)
Other trust expenses	(620)	(605)	2.48%	(15)	(768)	-19.27%	148
Finance income	1,950	-	NM	1,950	445	338.20%	1,505
Finance costs	(5,937)	(4,950)	19.94%	(987)	(2,912)	103.88%	(3,025)
Net finance costs	(3,987)	(4,950)	-19.45%	963	(2,467)	61.61%	(1,520)
Net change in fair value of investment properties	(4,040)	(51,584)	-92.17%	47,544	10,212	NM	(14,252)
Profit/(Loss) before tax	**10,361**	**(40,641)**	NM	**51,002**	**23,804**	-56.47%	**(13,443)**
Tax credit/(expense)	(1,428)	2,253	NM	(3,681)	(3,748)	-61.90%	2,320
Profit/(Loss) after tax	**8,933**	**(38,388)**	NM	**47,321**	**20,056**	-55.46%	**(11,123)**
Earnings per Unit (pence)							
Basic	1.85	(8.00)	NM	9.85	4.20	-55.95%	(2.35)
Diluted	1.85	(8.00)	NM	9.85	4.20	-55.95%	(2.35)

Source: EC REIT, FPA

(II) Capital Management Review

Net Asset Value

Total Assets: As shown in **Exhibit 20,** EC REIT's total assets increased marginally by 0.34% from £486.8 million as at 31 December 2023 to £488.4 million as at 30 June 2023. The increase in total assets was mainly due to an increase in financial derivatives, prepayment for capital expenditures and trade and other receivables. The increase in Prepayment for capital expenditure relates to an increase in sustainability contribution during the period amounting to approximately £4.6 million, for sustainability enhancement works. However, the increase in total assets was partially offset by a lower valuation in investment properties and lower cash & cash equivalent holdings as at 30 June 2023. Investment Properties decreased by approximately £3.3 million due to £3.7 million sustainability contribution disbursed in the financial period and recognized as fair value loss on investment properties, and reclassification of an asset held for sale of £0.5 million, partially offset by the recognition of capital expenditure amounting £0.9 million from prepayment upon completion of sustainability works for certain properties.

Exhibit 20: Total Assets

Statement of Financial Position	30/6/2023 £'000	31/12/2022 £'000	% change
Investment properties	456,711	459,975	-0.71%
Investments in subsidiaries	-	-	-
Financial derivatives	2,017	67	2910.45%
	458,728	460,042	-0.29%
Current assets			
Prepayment for capital expenditure	10,197	7,437	37.11%
Trade and other receivables	14,549	11,872	22.55%
Cash and cash equivalents	4,472	7,444	-39.92%
	29,218	26,753	9.21%
Asset held for sales	500	-	NM
	29,718	26,753	11.08%
Total assets	**488,446**	**486,795**	**0.34%**

Source: EC REIT, FPA

As shown in **Exhibit 21**, EC REIT's Total Liabilities rose by 1.28%, from £238.9 million as at 31 December 2022 to £241.9 million as at 30 June 2023. The increase in liabilities was mainly due to additional loans and borrowing. During 1H2023, the Group partially repaid £5.2 million of its revolving credit facilities and drew down £7.0 million from its new revolving credit facility set up by the Trust in 2022. As a result, loan and borrowings as at 30 June 2023 amounted to £222.5 million

Exhibit 21: Total Liabilities

Statement of Financial Position	30/6/2023 £'000	31/12/2022 £'000	% change
Non-current liabilities			
Loans and borrowings	219,336	213,070	2.94%
Lease liabilities	1,225	1,229	-0.33%
Financial derivatives	-	-	-
Deferred tax liabilities	2,169	2,169	0.00%
	222,730	216,468	2.89%
Current liabilities			
Loans and borrowings	3,200	7,200	-55.56%
Lease liabilities	7	7	0.00%
Trade and other payables	5,736	4,819	19.03%
Deferred income	8,728	8,774	-0.52%
Current tax liabilities	1,545	1,626	-4.98%
	19,216	22,426	-14.31%
Total liabilities	**241,946**	**238,894**	**1.28%**

Source: EC REIT, FPA

Consequently, Net Assets fell by 0.57%, from £247.9 million as at 31 December 2023 to £246.5 million as at 30 June 2023, as shown in **Exhibit 22.** As of 30 June 2023, EC REIT had a total of approximately 482.1 million units in issue and to be issued. Accordingly, EC REIT' recorded a Net asset value per Unit attributable to unitholders of £0.51 as of 30 June 2023.

Exhibit 22: Net Asset Value

Statement of Financial Position	30/6/2023 £'000	31/12/2022 £'000	% change
Net assets	**246,500**	**247,901**	**-0.57%**
Represented by:			
Unitholders' fund			
Units in issue and to be issued	308,103	307,611	0.16%
Unit issue costs	(5,903)	(5,903)	0.00%
(Accumulated losses) / Retained earnings	(55,700)	(53,807)	3.52%
Net assets attributable to unitholders	**246,500**	**247,901**	**-0.57%**
Number of Units in issue and to be issued ('000)	**482,138**	**481,128**	**0.21%**
Net asset value per Unit attributable to unitholders (£)	**0.51**	**0.52**	**-1.92%**

Source: EC REIT, FPA

Aggregate Leverage

The aggregate leverage is calculated as gross borrowings divided by total assets net of the carrying amount of lease liabilities. As mentioned on page 22, total assets amounted to £486.8 million as of 30 June 2023. Total loans and borrowings & lease liabilities amounted to approximately £223.8 million as of 30 June 2023. Accordingly, EC REIT's Leverage ratio was approximately 46% as shown in **Exhibit 23**

Exhibit 23: Leverage Ratio

Statement of Financial Position	30/6/2023 £'000
Total assets	**488,446**
Total Loans and Borrowings	222,536
Total Lease Liabilities	1,232
Total Loans and Borrowings & Lease Liabilities	**223,768**
Leverage Ratio	**46%**

Source: EC REIT, FPA

EC REIT's leverage ratio of 46.0% as of 30 June 2023 is close to the 50% leverage limit allowed by MAS and has a remaining debt headroom of approximately £39 million. EC REIT has announced plans to reduce their leverage ratio using the proceeds from the divestment of their properties and the proceeds received from dilapidation settlements.

As of 30 June 2023, as shown in **Exhibit 24,** EC REIT had completed dilapidation settlements for 4 of their properties and have made dilapidation settlement agreements for another 4 of their properties, while another remaining 4 properties are still in progress. In 1H2023, EC REIT proposed to divest 2 of their properties (John Street, Sunderland and Openshaw Jobcentre, Manchester) in 1H2023 amounting to £1.1 million.

Exhibit 24: Divestments and Dilapidation Settlements

No.	Assets	Valuation 31 Dec 2022	Dilapidation Settlement	Long-term Asset Strategy
1	John Street, Sunderland	£500,000 [1]	Completed	Proposed divestments at £1.1 million, ~14.4% above valuation
2	Openshaw Jobcentre, Manchester	£475,000 [1]		
3	Cardwell Place, Blackburn	£500,000		Various ongoing asset management strategies ▪ Re-letting as offices ▪ Asset enhancements ▪ Asset redevelopment ▪ Divestment
4	Leeds Road, Bradford	£690,000		
5	Crown House, Burton On Trent	£901,000	Agreed	
6	Sidlaw House, Dundee	£1,800,000		
7	Lindsay House, Dundee	£2,050,000		
8	Hilden House, Warrington	£4,300,000		
9	Crown Buildings, Caerphilly	£535,000	In Progress	
10	St Paul's House, Chippenham	£900,000		
11	Victoria Road, Kirkcaldy	£650,000		
12	Ladywell House, Edinburgh	£4,800,000		

Source: EC REIT

According to EC REIT, they plan to further divest another 3 of their properties within the next 2 years. Since EC REIT only divest their properties after the Dilapidation Settlement of those properties have been completed, it is likely that Cardwell Place and Leeds Roads are next in line. As for the last remaining property up for divestment, it is likely to be one of the 4 properties (Crown House, Sidlaw House, Lindsay House or Hilden House) whereby the dilapidation settlement has already been agreed on. Assuming that EC REIT divest their properties based on their valuation as at 31 December 2022, the lowest proceeds from the disposal of the 1 of the 4 properties mentioned above is estimated to be £1,800,000 while the highest proceeds from disposal of the 1 of the 4 properties is estimated to be £4,300,000**.** Including the estimated proceeds from the disposal of the 2 properties (Cardwell Place and Leeds Road) of £1,190,000, the total the estimated range of proceeds from the divestment of the 3 properties range between £2,990,000 and £5,490,000, as shown in **Exhibit 25**

Exhibit 25: Expected proceeds from divestment of the 3 additional properties

Assets	Valuation (as at 31 Dec 2022)	Total Valuation (£)	Minimum Proceeds (£)	Maximum Proceeds (£)	Dilapidation Settlement
Cardwell Place, Blackburn Leeds Road, Bradford	500,000 690,000	1,190,000	1,190,000	1,190,000	Completed
Crown House, Burton On Trent Sidlaw House, Dundee Lindsay House, Dundee Hilden House, Warrington	1,800,000 2,050,000 2,050,000 4,300,000	10,200,000	1,800,000 (from 1 of the 4 properties)	4,300,000 (from 1 of the 4 properties)	Agreed
Expected range of Divestment proceeds			**2,990,000**	**5,490,000**	

Source: EC REIT, FPA

Debt Maturity Profile

As of 30 June 2023, £125.0 million was drawn down from a £125.0 million secured term loan facility and is due for repayment in November 2024.

As of 30 June 2023, £76.0 million was drawn down from a £76.0 secured term loan facility and is due for repayment in January 2025.

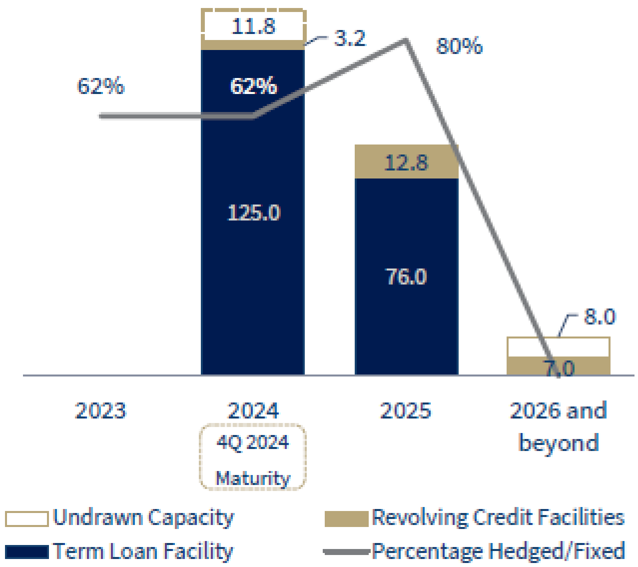
As of 30 June 2023, £12.8 million was drawn down from a £18.0 million revolving credit facility and is due for repayment in January 2025.

A £15.0 million green revolving credit facility was obtained in November 2022. As of 30 June 2023, £7.0 million was drawn down and is due for repayment in May 2026.

EC REIT has in place a S$300.0 million multicurrency debt issuance programme, which was set up in October 2022 for the issuance of notes and/or perpetual securities. As of 30 June 2023, there were no issuances made under the Programme.

As shown in **Exhibit 26,** as of 30 June 2023, EC REIT has no near-term debt maturity until 4Q2024.

Exhibit 26: Debt Maturity Profile

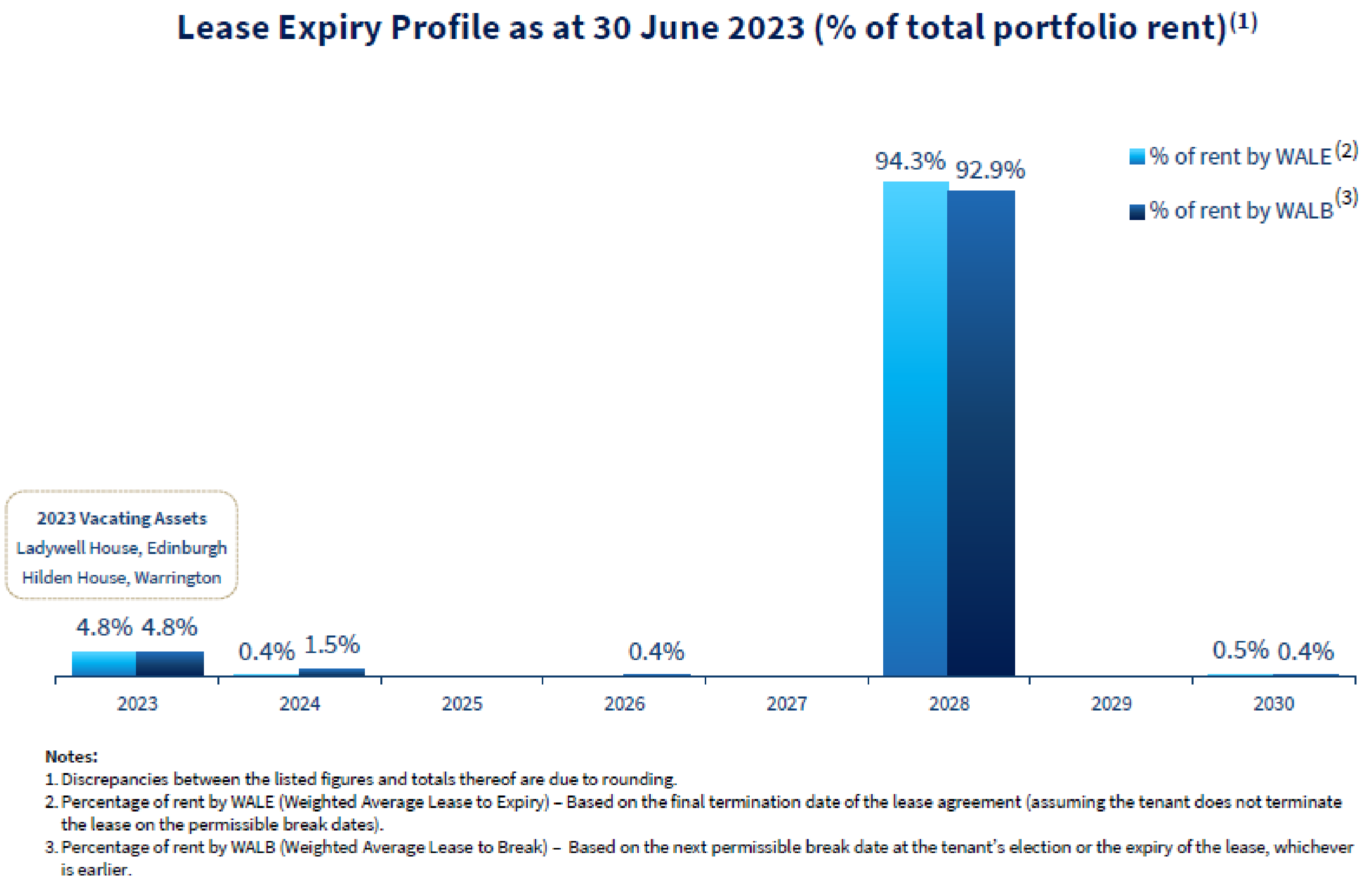


Source: EC REIT

Lease Expiry Profile

As shown in **Exhibit 27,** EC REIT has a long Weighted Average Lease Expiry (WALE) of 4.5 years, which will help to ensure revenue stability for the next few years.

Exhibit 27: Lease Expiry Profile



Source: EC REIT

FINANCIAL PROJECTION

In this section, we will provide our projections for EC REIT's Profit/Loss and distributions for 2H2023 and FY2024

(I) Profit/Loss Projection

Revenue

As noted on page 14 from CUSHMAN & WAKEFIELD, Office take-up in the Big 5 and Central London declined by 7% while vacancy rate rose to its highest level since 2009 at 9.3%. Colliers also noted a negative outlook on the UK office market as they expect Estimated Rental Value and Capital growth to decline in 2023, before picking up in FY2024.

As at 30 June 2023, 92.1% of the portfolio is occupied, with a majority of the leases signed directly with the UK Government's Secretary of State. Given the quality of EC REIT's tenants, we expect this to provide support to EC REIT's credit stability and income certainty. Therefore, we do not expect any significant changes to EC REIT's occupancy rate for 2H2023 and FY2024. Hence, we expect EC REIT's occupancy rate to remain stable at 92.1% in 2H2023 and FY2024.

On 1 April 2023, EC REIT had a total of 136 out of 155 assets up for rent escalation review. 134 of the assets have their rent escalation pegged to the UK Consumer Price Index ("CPI"). 11 of the 134 assets have agreed rent reductions alongside the rental escalation pegged to CPI. The remaining two have rents based on open market rent. The table in **Exhibit 20** below summarizes the rent position of the 136 assets.

Exhibit 20:

Rent Escalation Basis	Number of assets	Rent p.a. as at 31 March 2023 (£'000)	Revised Rent p.a. effective as at 1 April 2023 (£'000)
Rent escalation of 21.07%	7	2,640	3,196
Rent escalation of 15.28%	116	27,083	31,222
Rent escalation of 15.28%, subject to rent reduction	11	1,976	1,456
Rent escalation based on upward only open market rent review	2	132	132
Total	**136**	**31,832**	**36,006**

Source: EC REIT, FPA

As shown in **Exhibit 20** above, rent p.a. for the 136 properties increased by approximately £4.17 million effective from 1 April 2023 onwards, as a result of rent escalation.

$$Increase\ in\ rental\ income\ p.a = £36{,}006{,}000\ - £31{,}832{,}000 = £4{,}174{,}000$$

We assume that there will be no changes in rent for the remaining 19 properties that were not subject to rent escalation, Further, we assume that there are no changes in occupancy rate and no changes in the number of properties in 2H2023 and FY2024.

EC REIT's revenue for 1H2023 was approximately £19.1 million, of which April to June rents already reflect the revised increase in rent p.a. Accordingly, we project revenue to be approximately £20.1 million in 2H2023 and £40.3 million in FY2024 as shown in **Exhibit 21**.

$$Revenue\ for\ 2H2023 = 1H2023's\ Revenue + \frac{3\ months}{12\ months} \times £4.17\ million$$

$$Revenue\ for\ 2H2023 = £20.1\ million$$

$$Revenue\ for\ FY2024 = £20.1\ million\ \times 2 = £40.3\ million$$

Exhibit 21: Revenue Projection

Statement of Comprehensive Income	Forecast		Actual		
	FY2024	6 months ended 31/12/2023	6 months ended 30/6/2023	6 months ended 31/12/2022	6 months ended 30/6/2022
	£'000	£'000	£'000	£'000	£'000
Revenue	40,283	20,142	19,098	18,367	18,474

Source: EC REIT, FPA

Net Property Income

For our Net Property Income projections, we will consider EC REIT's historical net profit margins.

We noted on page 18 that Other Income included £1.9 million of dilapidation settlements and £0.4 million of lease surrender premium in 1H2023. We further note that £0.7 million of Property Operating expenses in 1H2023 was mainly attributed to the increase in property expenses incurred by the Group which were previously borne by the tenants when the properties were leased out. Therefore, we have excluded these in our calculations for EC REIT's historical net profit margin. Further, we assume that Other Property Income is 0 for 2H2023 and FY2024.

As shown **in Exhibit 22**, EC REIT's historical net profit margin (excluding £2.3 in other income and £0.7 in property operating expenses in 1H2023) was relatively stable between 96% to 97% over the past 3 years.

Exhibit 22: EC REIT's Historical Net Profit Margin

Statement of Comprehensive Income	6 months ended 30/6/2023	6 months ended 31/12/2022	6 months ended 30/6/2022	6 months ended 31/12/2021	6 months ended 30/6/2021
	£'000	£'000	£'000	£'000	£'000
Revenue	19,098	18,367	18,474	18,835	15,896
Other property income	-	-	225	-	-
Property operating expenses	(643)	(728)	(597)	(494)	(510)
Net property income	**18,455**	**17,639**	**18,102**	**18,341**	**15,386**
Net Property Income Margin	**97%**	**96%**	**97%**	**97%**	**97%**

Source: EC REIT, FPA

Therefore, we assume that Net Property Income Margin for 2H2023 and FY2024 remains unchanged at 97%. Thus, Net Property Income is projected to be approximately £19.5 million for 2H2023 and £ 39.1 million for FY2024. Accordingly, Property Operating Expenses will be £0.6 million in 2H2023 and £1.2million in FY2024 as shown in **Exhibit 23.**

Exhibit 23. Net Property Income Projection

Statement of Comprehensive Income	Forecast		Actual		
	FY2024	6 months ended 31/12/2023	6 months ended 30/6/2023	6 months ended 31/12/2022	6 months ended 30/6/2022
	£'000	£'000	£'000	£'000	£'000
Revenue	40,283	20,142	19,098	18,367	18,474
Other property income	-	-	-	-	225
Property operating expenses	(1,208)	(604)	(643)	(728)	(597)
Net property Income	**39,075**	**19,537**	**18,455**	**17,639**	**18,102**
Net Property Income Margin	**97%**	**97%**	**97%**	**96%**	**98%**

Source: EC REIT, FPA

Manager’s Management Fee

We used 1H2023 ms anager’s management fee of £0.9 million as a proxy for manager’s management fee for 2H2023, 1H2024 and 2H2024. Accordingly, manager’s management fee is approximately £0.9 million in 2H2023 and £1.8 million in FY2024 as shown in **Exhibit 24**

Exhibit 24: Manager’s Management Fee Projection

Statement of Comprehensive Income	Forecast		Actual		
	FY2024	6 months ended 31/12/2023	6 months ended 30/6/2023	6 months ended 31/12/2022	6 months ended 30/6/2022
	£'000	£'000	£'000	£'000	£'000
Manager's management fee	(1,868)	(934)	(934)	(1,086)	(1,224)

Source: EC REIT, FPA

Trustee’s Fee

Trustee’s Fee remained unchanged at £55,000 from 2H2022 to 1H2023. For 2H2023, 1H2024 and 2H2024, we assume Trustee’s Fee to remain unchanged at £55,000. Accordingly, Trustee’s Fee is projected to be £55,000 in 2H2023 and £110,000 in FY2024 as shown in **Exhibit 25**

Exhibit 25: Trustee’s Fee Projection

Statement of Comprehensive Income	Forecast		Actual		
	FY2024	6 months ended 31/12/2023	6 months ended 30/6/2023	6 months ended 31/12/2022	6 months ended 30/6/2022
	£'000	£'000	£'000	£'000	£'000
Trustee's fee	(110)	(55)	(55)	(55)	(51)

Source: EC REIT, FPA

Other Trust Expenses

As noted on page 19, Other Trust Expenses consist mainly statutory fees such as audit fees, tax agent fees and corporate secretarial fees, valuation expenses and other trust related expenses. Other Trust Expenses rose amounted to £620,000 in 1H2023 compared to £605,000 in 2H2022. For 2H2023, 1H2024 and 2H2024, we assume Other Trust Expenses to remain unchanged from 1H2023 of £620,000. Accordingly, we project Other Trust Expenses to be £620,000 in 2H2023 and £1.24 million in FY2024 as shown in Exhibit 26.

Exhibit 26: Other Trust Expenses Projection

Statement of Comprehensive Income	Forecast		Actual		
	FY2024	6 months ended 31/12/2023	6 months ended 30/6/2023	6 months ended 31/12/2022	6 months ended 30/6/2022
	£'000	£'000	£'000	£'000	£'000
Other trust expenses	(1,240)	(620)	(620)	(605)	(768)

Source: EC REIT, FPA

Finance Income

As noted on page 19, Finance Income refers to the fair value gain on financial derivatives. Given the volatile and unpredictable nature of financial derivatives, we will take a conservative approach and assume Finance Income to be unchanged from 1H2023. Accordingly, Finance Income is projected to be £1.95 million in 2H2023 and £3.9 million in FY2024, as shown in **Exhibit 27**

Exhibit 27: Finance Income Projection

Statement of Comprehensive Income	Forecast		Actual		
	FY2024	6 months ended 31/12/2023	6 months ended 30/6/2023	6 months ended 31/12/2022	6 months ended 30/6/2022
	£'000	£'000	£'000	£'000	£'000
Finance Income	3,900	1,950	1,950	-	445

Source: EC REIT, FPA

Finance Costs

According to WallStreetJournal, the average UK 10 Year Gilts Yield for 1H2023 was 3.72%, while the average UK 10 Year Gilts yield for the first 2 months of 2H2023 was 4.43%, as shown in **Exhibit 27**.

Exhibit 27: UK 10 Year Gilts Yield

1H2023	10Y Gilts Yield (%)	2H2024	10Y Gilts Yield (%)
Jan-23	3.41	Jul-23	4.41
Feb-23	3.44	Aug-23(1)	4.45
Mar-23	3.54		
Apr-23	3.63		
May-23	3.96		
Jun-23	4.32		
Average	3.72	**Average**	4.43

(1) Up to 15 Aug 2023

Source: WSJ, FPA

As shown in **Exhibit 27** above, the UK 10 Year Gilts yield increased by 0.71 percentage points in the first 2 months of 2H2023 from 1H2023. This increase is largely due to the tightening of monetary policy in UK between the period observed which led to higher interest rates. As noted on page 10, the Bank of England (BOE) raised interest rates by 25bps to 5.25% on 3 Aug 2023. According to Reuters, as of 4 Aug 2023, BOE stated that " while the U.S. Federal Reserve and the European Central Bank signaled that their rate hikes were nearing an end when they both raised borrowing costs by a quarter-point last week, but the Governor Andrew Bailey also did highlight that ""we might need to raise interest rates again but that's not certain".

Considering the above, we believe that UK policy rate it is at or near its peak with limited possibility for further rate hikes. In our projections for 2H2023 Finance cost, we used the SGS 10-year bond yield increase of 0.71 percentage points in the first 2 months of 2H2023 from 1H2023 as a proxy. For FY2024 Finance Costs, we noted on page 10 that UK's CPI remained high at 7.9% yoy in June, which is still far from BOE's target of 2%. Therefore, for FY2024, although we do not expect further hikes in interest rates, we still expect that BOE may keep rates elevated in order to bring inflation towards its target rate. Therefore, we assume that Finance costs for 1H2024 and 2H2024 remains unchanged from 2H2023.

As noted on page 19, Finance Costs includes interest expense on loans and borrowings, amortization of transaction costs relating to loans and borrowings and interest expense on lease liabilities.

As of 30 June 2023, EC REIT had approximately £3.2 million in current loans and borrowings and £219.3 million in non-current, loans and borrowings, totaling to £222.5 million, of which 62% are fixed rate debt and 38% are floating rate debt. In addition, EC REIT cost of debt was 5.2% as of 30 June 2023. We also noted that £3.2 million of loans and borrowings and £7,000 of lease liabilities are due in 2H2023. Therefore, we have excluded them in the calculations for interest expense on loans and borrowings for FY2024.

Using the increase of UK 10 Year Gilts yield by 0.71 percentage points in the first 2 months of 2H2023 from 1H2023 as a proxy, we project the variable cost of debt to increase by 0.71 percentage points in 2H2023. For 1H2024 and 2H2024, we assume the variable cost of debt to be unchanged from 2H2023. Therefore, we project interest expense on loans and borrowings to be approximately £6.1 million in 2H2023 and £12 million in FY2024, as shown in **Exhibit 29**

Exhibit 29: Interest Expense on Loans and Borrowings Projections

	Total Debt	Fixed Rate debt (62%)	Floating Rate Debt (38%)	Fixed cost of debt (%)	Variable cost of debt (%)	Interest Expense on Loans and Borrowings (£)		
						Fixed	Variable	Total
6 months ended 30/6/2023	222,500	137,950	84,550	5.2%	-	-	-	-
6 months ended 31/12/2023	219,300	135,966	83,334	5.2%	5.9%	3,587	2,498	**6,085**
FY2024	219,300	135,966	83,334	5.2%	5.9%	7,070	4,925	**11,995**

Source: EC REIT, FPA

As of 30 June 2023, EC REIT also had £7,000 in current lease liabilities and £1.2 million in non-current lease liabilities, totaling to approximately £1.2 million. Interest expense on lease liabilities was £19,000 in 1H2023 and Amortisation of transactions costs for loans and borrowings amounted to £520,000. In our calculations for Finance cost, we assume that interest expense on lease liabilities and amortization of transaction costs for loans and borrowings remain unchanged from 1H2023. Accordingly, we project Finance Costs to be approximately £6.6 million in 2H2023 and £12.5 million in FY2024, as shown in **Exhibit 30**

Exhibit 30: Finance Costs Projection

	Forecast		Actual
	FY2024	6 months ended 31/12/2023	6 months ended 30/6/2023
	£'000	£'000	£'000
Interest expense on loans and borrowings	11,995	6,085	5,384
Amortisation of transaction costs relating to loans and borrowings	520	520	520
Interest expense on lease liabilities	19	19	19
Finance Cost	**12,534**	**6,624**	**5,937**

Source: EC REIT, FPA

Source: EC REIT, FPA

Net change in Fair Value of Investment Properties

As noted on page 21, as of 30 June 2023, EC REIT's investment properties totalled £456.7 million.

Although we noted on page 15 that Collier projects office capital growth to -2.4% p.a. in 2023 and 3.6% p.a. in 2024. However, for 2H2023 and FY2024, we will be conservative in our approach and project office capital growth to zero, as shown in **Exhibit 31**

Exhibit 31: Net Change In Fair Value Of Investment Properties Projection

Statement of Comprehensive Income	Forecast		Actual		
	FY2024	6 months ended 31/12/2023	6 months ended 30/6/2023	6 months ended 31/12/2022	6 months ended 30/6/2022
	£'000	£'000	£'000	£'000	£'000
Net change in fair value of investment properties	0	0	(4,040)	(51,584)	10,212

Source: EC REIT, FPA

Tax Expense

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the condensed interim consolidated statement of comprehensive income are Withholding Tax Expense and Deferred Tax Expense relating to origination and reversal of temporary differences.

We used Tax Credit for 2H2022 as a proxy for 2H2023 and Tax Expense for FY2022 as a proxy for FY2024. Accordingly, Tax Credit for 2H2023 is approximately £2.3 million and Tax Expense for FY2024 is £2.1 million, as shown in **Exhibit 32**

Exhibit 32: Tax Credit/Expense Projection

Statement of Comprehensive Income	Forecast		Actual		
	FY2024	6 months ended 31/12/2023	6 months ended 30/6/2023	6 months ended 31/12/2022	6 months ended 30/6/2022
	£'000	£'000	£'000	£'000	£'000
Tax credit/(expense)	(2,188)	2,253	(1,428)	2,253	(3,748)

Source: EC REIT, FPA

Profit/Loss after Tax

Accordingly, as shown in **Exhibit 33**, Profit after tax is projected to be £11.1 million in 2H2023 and £25.0 million in FY2024.

Exhibit 33: Profit/Loss after Tax Projection

Statement of Comprehensive Income	Forecast		Actual		
	FY2024	6 months ended 31/12/2023	6 months ended 30/6/2023	6 months ended 31/12/2022	6 months ended 30/6/2022
	£'000	£'000	£'000	£'000	£'000
Profit/(Loss) before tax	**27,222**	**13,254**	**10,361**	**(40,641)**	**23,804**
Tax credit/(expense)	(2,188)	(2,253)	(1,428)	2,253	(3,748)
Profit/(Loss) after tax	**25,034**	**11,001**	**8,933**	**(38,388)**	**20,056**

Source: EC REIT, FPA

Earnings per Unit

We assume that the number of units in issue and to be issued for 2H2023 and FY2024 is unchanged at 481.6 million units (1H2023). Accordingly, we project Earnings per Unit to be 2.28 in 2H2023 and 5.20 in FY2024 as shown in **Exhibit 34**.

Exhibit 34: Earnings per Unit Projection

Statement of Comprehensive Income	Forecast		Actual		
	FY2024	6 months ended 31/12/2023	6 months ended 30/6/2023	6 months ended 31/12/2022	6 months ended 30/6/2022
	£'000	£'000	£'000	£'000	£'000
Earnings per Unit (pence)					
Basic	5.20	2.28	1.85	4.20	0.15
Diluted	5.20	2.28	1.85	4.20	0.14
Number of Units in issue and to be issued ('000)	481,647	481,647	481,647	480,134	477,735

Source: EC REIT, FPA

The full details of the projections for 2H2023 and FY2024 are listed in **Exhibit 35**

Exhibit 35: 2H2023 & FY2024 Projections

Statement of Comprehensive Income	Forecast		Actual		
	FY2024	6 months ended 31/12/2023	6 months ended 30/6/2023	6 months ended 31/12/2022	6 months ended 30/6/2022
	£'000	£'000	£'000	£'000	£'000
Revenue	40,283	20,142	19,098	18,367	18,474
Other property income	-	-	0	-	225
Property operating expenses	(1,208)	(604)	(643)	(728)	(597)
Net property Income	**39,075**	**19,537**	**18,455**	**17,639**	**18,102**
Manager's management fee	(1,868)	(934)	(934)	(1,086)	(1,224)
Trustee's fee	(110)	(55)	(55)	(55)	(51)
Other trust expenses	(1,240)	(620)	(620)	(605)	(768)
Finance income	3,900	1,950	1,950	-	445
Finance costs	(12,534)	(6,624)	(5,937)	(4,950)	(2,912)
Net finance costs	(8,634)	(4,674)	(3,987)	(4,950)	(2,467)
Net change in fair value of investment properties	0	0	(4,040)	(51,584)	10,212
Profit/(Loss) before tax	**27,222**	**13,254**	**10,361**	**(40,641)**	**23,804**
Tax credit/(expense)	(2,188)	(2,253)	(1,428)	2,253	(3,748)
Profit/(Loss) after tax	**25,034**	**11,001**	**8,933**	**(38,388)**	**20,056**
Earnings per Unit (pence)					
Basic	5.20	2.28	1.85	4.20	0.15
Diluted	5.20	2.28	1.85	4.20	0.14
Number of Units in issue and to be issued ('000)	481,647	481,647	481,647	480,134	477,735

Source: EC REIT, FPA

(II) Distributions Projection

We assume that the amount retained for general corporate and working capital remains unchanged at approximately £0.9 million in 2H2023, 1H2024 and 2H2024. Accordingly, amount retained for general corporate and working capital is approximately £0.9 million in 2H2023 and £1.9 million in FY2024.

EC REIT 1H2023 distributions were based on 90% of the total amount available for distribution to unitholders at the end of the period. We assume distributions to unitholders to remain unchanged at 90% of the total amount available for distribution to unitholders at end of the period for 2H2023 and FY2024.

As mentioned on page 33, we assume amortisation of transaction costs relating to loans and borrowings to be unchanged from at approximately £0.5 million in 2H2023, 1H2024, and 2H2024. Accordingly, amortisation of transaction costs relating to loans and borrowings is approximately £0.5 million in 2H2023 and £1 million in FY2024.

We further assume deferred tax expenses, dilapidation settlements and other adjustments to be £0 for 2H2023 and FY2024.

Given the above, we project distributions per unit to be 1.78 pence in 2H2023 and 3.99 pence in FY2024, as shown in **Exhibit 36**

Exhibit 36: Distributions Projection

Amount available for distribution	Forecast		Actual
	FY2024	6 months ended 31/12/2023	6 months ended 30/06/2023
	£'000	£'000	£'000
Amount available for distribution at beginning of the period	9,536	8,437	10,857
Profit for the period	25,034	11,001	8,933
Distribution adjustments (Note A)	(2,750)	(1,375)	407
Less: Amount retained for general corporate and working capital	(1,868)	(934)	(934)
Amount available for distribution to unitholders	**29,952**	**17,129**	**19,263**
Distributions to unitholders	(8,582)	(7,593)	(10,826)
Amount available for distribution to unitholders (after retention) at end of the period	**21,370**	**9,536**	**8,437**
Note A			
Distribution adjustments relate to the following items:			
Amortisation of transaction costs relating to loans and borrowings	1,040	520	520
Deferred tax expenses	-	-	-
Dilapidation settlements	-	-	(1,884)
Fair value gain on financial derivative	(3,900)	(1,950)	(1,950)
Net change in fair value of investment properties	0	0	4,040
Effect of recognising rental income on a straight-line basis over the lease term	(368)	(368)	(368)
Trustee’s fee	110	55	55
Others	-	-	(6)
Distribution adjustments	**(2,750)**	**(1,375)**	**407**
Weighted average number of Units at the end of the period	481,647	481,647	481,647
Amount available for distribution to unitholders (after retention) at end of the period	21,370	9,536	8,437
Distribution per Unit (90% of amount available for distribution to unitholders after retention at the end of the period) (in pence)	**3.99**	**1.78**	**1.74**

Source: EC REIT, FPA

POTENTIAL CATALYSTS

(I) Faster-than-anticipated interest rate cuts

As noted on page 11, the Bank of England (BOE) raised interest rates by 25bps to 5.25% on 3 August 2023 and that UK's Consumer Prices (CPI) rose by 7.9% yoy in June. Given that there is still some way to go before BOE achieves their target CPI rate of 2%, we expect that there may be an additional 1-2 hikes in interest rates. Furthermore, we expect rates to remain elevated in FY2024. According to Reuters, Bank of England Deputy Governor Ben Broadbent warned that "monetary policy may well have to remain in restrictive territory for some time yet" as a result of resilient labor market data. BOE follows closely on key economic data such as CPI and unemployment rate in order to assess the need for further rate hikes and make interest rate policy decisions. If however, economic data suggests that CPI is no longer an issue and unemployment rate aligns with BOE expectations, we may see a faster-than-anticipated cut in interest rates. This would help in lowering EC REIT's finance costs, which had weighed down EC REIT's profits in 1H2023 (finance costs amounted to £4.95 million in 1H2023 and £4.85 million in FY2024) Furthermore, as interest rates fall, the valuation of EC REIT's investment properties would rise, which would lead to higher profits. Again, lower valuation in investment properties had weighed down EC REIT's profits previously (the net change in fair value of EC REIT's investment properties was -£4.0 million in 1H2023 and -£51.6 million in FY2022.). Therefore, a faster-than-anticipated cut in interest rates would provide support for EC REIT's profits.

(II) Higher Proceeds from Disposal of Properties

As noted on page 24-25, EC REIT has plans to further divest another 3 of their properties within the next 2 years. We projected the divestment proceeds from the 3 properties based on their valuation date as at 31 December 2022. However, if the commercial real estate market recovers in the near term, this would provide support for a higher valuation of these properties. Furthermore, we took a conservative approach in projecting divestment proceeds of these 3 properties by assuming that they will be divested at valuation. However, we noted that in 1H2023, EC REIT proposed the divestment of John Street and Openshaw Jobcentre at 14.4% above their valuation. Therefore, a recovering commercial real estate and divestments of properties above their valuation would provide a higher upside potential for EC REIT's profits.

(III) Higher Valuation of Investment Properties

As noted on page 15, although Colliers' projects UK Office capital growth to be -2.4% in 2023 and 3.6% in 2024, we took a conservative approach in projecting net change in fair value of investments properties and assume it to be 0 for 2H2023 and FY2024 as shown in page 34. If the Colliers' projection for UK Office capital growth in 2024 turns out to be correct, then that would provide an upside potential the valuation of EC REIT's investment properties in FY2024, which would result in a higher NAV and a higher profit for FY2024.

VALUATION ANALYSIS

(I) Peer Comparison Analysis

Listed below are the following companies used as the basis for our comparable company analysis, together with a brief description of each company.

(a) British Land Company Plc

The British Land Company PLC is a United Kingdom-based property company. Its segments include Campuses and Retail & Fulfilment. The Campuses segment is leveraging the Campus proposition to focus on customers in sectors, including science, technology and health. Retail & Fulfilment segment has a portfolio that is focused on retail parks, which is aligned to the growth of online and last mile fulfilment.

(b) Land Securities Group Plc

Land Securities Group PLC is a United Kingdom-based real estate company. The Company has approximately 24.0 million square feet of retail, leisure, workspace, and residential hubs. It operates through four segments: Central London, Major retail destinations (Major retail), Mixed-use urban neighbourhoods (Mixed-use urban) and Subscale sectors.

(c) Derwent London Plc

Derwent London Plc is a United Kingdom-based real estate investment trust (REIT). The Company is an office specialist property regenerator and investor. The Company owns and manages an investment portfolio of 5.5 million square feet, of which 99% is located in central London, with a specific focus on the West End and the areas bordering the City of London, with the latter principally in the Tech Belt.

(d) Regional REIT Limited

Regional REIT Limited is a Guernsey-based real estate investment trust (REIT). The Company's commercial property portfolio is comprised of United Kingdom assets and includes offices located in regional centers outside of the M25 motorway. The Company's portfolio is geographically diversified, with approximately 154 properties, 1,552 units, and 1,076 tenants.

(e) Assura Plc

Assura plc is a United Kingdom-based real estate investment trust (REIT). The Company specializes in the development of, investment in and management of a portfolio of primary care, diagnostic and treatment buildings across the United Kingdom. It also designs, builds, invests in, and manages GP surgery, primary care and community healthcare buildings for the National Health Service, a comprehensive public-health service under government administration.

The results of our Peer Comparison Analysis is shown in **Exhibit 37**.

Exhibit 37: Peer Comparison Analysis

Company	Stock Listing	Price as at 31 Aug 2023 (£)	Market Cap (£, million)	EPU (pence)(1)	P/E	DPU (pence)(1)	Dividend Yield (%)	NAV per share (£)(2)	P/B
Elite Commercial REIT	SGX	0.25	121	(6.00)	NM	4.0	15.96%	0.51	0.5x
Peer Companies:									
British Land Company Plc	LSE	3.24	2,916	(112.00)	NM	23.00	7.11%	5.95	0.5x
Land Securities Group Plc	LSE	6.03	4,730	(84.00)	NM	39.00	6.47%	9.45	0.6x
Derwent London Plc	LSE	18.34	2,059	(493.00)	NM	79.0	4.31%	34.46	0.6x
Regional REIT Limited	LSE	0.44	245	(13.00)	NM	7.0	16.02%	0.78	0.6x
Assura Plc	LSE	0.46	1,342	(4.00)	NM	3.00	6.54%	0.54	1.2x
Average					**NM**		**8.09%**		**0.7x**

1 Trailing 12-month data (ttm)
2 Most recent quarter (mrq)

Source: Yahoo Finance, Respective Companies Financial Reports, FPA

(a) P/E Multiple

Based on the results in **Exhibit 37** above, all of the P/E multiples are not meaningful as the respective companies recoded a negative Earnings Per Unit in the trailing 12-months. Therefore, we will not be using P/E multiple as a basis for our projected valuation. Instead, we will focus on P/B Multiple and Dividend Yield.

(b) P/B Multiple

Based on the results in **Exhibit 37** above, we note that EC REIT is currently trading at a P/B Multiple of 0.5x, which is lower than the peer average of 0.7x. This suggest that it is undervalued at the current share price of £0.25. Adopting a relative valuation approach, we estimate a target price of £0.36 if EC REIT were to trade at the peer average P/B multiple of 0.7x as follows:

$$Estimated\ Target\ Price = Peer\ Average\ P/B\ \times EC\ REIT's\ NAV\ per\ share$$

$$Estimated\ Target\ Price = 0.7\ \times 0.51 = \text{£}0.36$$

The estimated target price of £0.36 would imply an upside potential of 42.54% from the current share price of £0.25

(c) Dividend Yield

Based on the results in **Exhibit 37** above, we note that EC REIT's dividend yield of 15.96% is relatively more attractive than the peer average dividend yield of 8.09%. Adopting a relative valuation approach, we estimate a target price of £0.49 as follows:

$$Estimated\ Target\ Price = \frac{EC\ REIT's\ dividend\ yield}{Peer\ Average\ dividend\ yield} \times EC\ REIT's\ Current\ Price$$

$$Estimated\ Target\ Price = \frac{15.96\%}{8.09\%} \times £0.25 = £0.49$$

The estimated target price of £0.49 would imply an upside potential of 97.31% from the current share price of £0.25

(d) Target Price (Peer Comparison Analysis)

Considering the above, EC REIT is currently undervalued compared to its peers in terms of P/B and is relatively attractive in terms of dividend yield. Taking the average of our estimated target price based on P/B Multiple and Dividend Yield, we derived a target price of £0.42 as follows:

$$Target\ Price\ = \frac{Estimated\ Target\ Price\ from\ PB\ analysis + Estimated\ Target\ Price\ from\ Dividend\ Yield\ Analysis}{2}$$

$$Target\ Price = \frac{0.36 + 0.49}{2} = £0.42$$

However, we note that most of EC REIT's comparable companies have a much larger market capitalization than EC REIT. Therefore, EC REIT will have a higher risk arising from lower liquidity and lesser access to capital that are commonly associated with smaller-sized firms. According to Professor Aswath Damodaran, the illiquidity discount for private firms range between 20% to 30%. Since EC REIT is a publicly listed company and not a private firm, we will allocate a discount of 15% to the target price to reflect the higher risks involved with lower liquidity and access to capital compared to EC REIT's peer companies which are mostly larger in size.

Therefore, the new target price is as follows:

$$Target\ Price = £0.42\ \times (1 - 15\%) = £0.36$$

The target price of £0.36 would imply an upside potential of 44.44% from the current share price of £0.25

(II) Dividend Discount Model

In addition to our Peer Comparison Analysis, we have also conducted a dividend discount model (DDM) valuation analysis to estimate the target price of EC REIT based on its expected future distributions. Distributions are the cash flows that are returned to the shareholder. We will project EC REIT's DPU for the next 2 years (FY2023-FY2024) and then calculate EC REIT's terminal value using the perpetual growth method. Finally, we will discount the sum of EC REIT's DPU from FY2023 to FY2024, together with its terminal value, using a discount rate, in order to obtain the present value.

Cost of Equity

A firm's cost of equity represents the compensation that the market demands in exchange for owning the asset and bearing the risk of ownership, which we will use as the discount rate. The formula for the cost of equity is as follows.

$$Cost\ of\ Equity = Risk\ free\ rate + Beta\ \times (Market\ Risk\ Premium)$$

Risk Free Rate: We will use UK's 10 Year Gilts yield as a proxy for risk-free rate. As of 31 Aug 23, UK's 10 Year Gilts has a yield of 4.361%.

Beta: According to Yahoo Finance, as of 31 Aug 23, Elite Commercial REIT had a beta of 0.66.

Market Risk Premium: Professor Aswath Damodaran estimates the long term country equity risk premium of a country by adding the country's default spread to the mature market premium. The default spread is obtained by using the local currency sovereign rating (from Moody's: www.moodys.com) and estimate the default spread for that rating, based upon traded country bonds, over a default free government bond rate. Using Professor Aswath Damodaran's calculations for UK's market risk premium as a proxy, UK market risk premium is 5.91% as of July 2023.

Country	Moody's rating	*Default Spread*	*Country Risk Premium*	*Equity Risk Premium*	*Corporate Tax Rate*
United Kingdom	Aa3	0.64%	0.91%	5.91%	25.00%

Source: Aswath Damodaran*, FPA*

Small Cap Premium: As of 31 August 2023, EC REIT had a market capitalization of £121 million, which is considered a small-cap stock. Small-cap firms hold certain inherent risks such as having lower liquidity and lesser access to capital, which tends to raise the cost of capital. Therefore, to reflect the higher risk associated with small-cap firms, we will be adding a small-cap premium. **Exhibit 38** shows a research conducted by Erik Peek (updated in December 2022), which indicates the respective premium associated with different sizes of companies in Europe. Accordingly, EC REIT falls under the size 8 category, which is given a 4.8% small-cap premium.

Exhibit 38: Small-Cap Premium

Size (Portfolio)	Market Capitalization (upper bound) in £ [(1)]	Premium
1 (big)	259,212	0.2%
2	9,743	1.1%
3	4,083	1.9%
4	1,878	1.7%
5	968	2.2%
6	551	3.0%
7	310	3.4%
8	160	4.8%
9	78	5.2%
10 (small)	33	8.7%

[(1)] Converted from € to £ based on 31 Dec 22 exchange rate of €1: £0.088519

Source: CFA Institute, Erik Peek, *FPA*

Cost of Equity: Therefore, the cost of equity is as follows:

$$Cost\ of\ Equity = 4.361\% + 0.66 \times (5.91\%) + 4.80\% = 13.06\%$$

Projected Distributions per Unit (DPU)

As mentioned on page 37, DPU for 2H2023 is projected to be 1.78 pence. Including the DPU in 1H2023 of 1.74 pence, the total DPU for FY2023 is projected to be 3.52 pence. The DPU for FY2024 is projected to be 3.99 pence, representing an increase of 13.4% yoy. Accordingly, the projected DPU for FY2023 to FY2024 are shown in **Exhibit 39**

Exhibit 39: Projected DPU for FY2023 and FY2024

	2023	2024
Distributions per Unit	3.52	3.99
yoy change		13.4%

Source: EC REIT, FPA

Discount Factor

Discount Factor is a weighting factor that is multiplied by the future cash flow to discount it to the present value. The discount rate we used to discount the future cash flow to the present value is EC REIT's cost of equity, which we calculated on page 43, as it better reflects EC REIT's risks, including lower liquidity and lower access to capital.

$$Discount\ Factor\ for\ FY2023 = \frac{1}{(1 + cost\ of\ equity)^{number\ of\ years\ to\ discount}}$$

Since we are discounting FY2023 dividends to the Present Value (31 Aug 2023),

$$Discount\ Factor\ for\ FY2023\ DPU = \frac{1}{(1 + 13.06\%)^{\frac{1}{3}}} = 0.96$$

$$Discount\ Factor\ for\ FY2024\ DPU = \frac{1}{(1 + 13.06\%)^{\frac{4}{3}}} = 0.85$$

The discount factors for FY2023 and FY2024 are as shown in **Exhibit 40**

Exhibit 40: Discount Factors for FY2023 to FY2024

	2023	2024
Discount Factor	0.96	0.85

Source: EC REIT, FPA

Present Value of DPU

Present Value of DPU is calculated by multiplying the distributions per unit for a year by the discount factor.

$$Present\ Value\ of\ FY2023\ DPU = 3.52 \times 0.96 = 3.38$$

$$Present\ Value\ of\ FY2024\ DPU = 3.99 \times 0.85 = 3.39$$

The Present Value of DPU for FY2023 and FY2024 are shown in **Exhibit 41**

Exhibit 41: Present Value of DPU for FY2023 to FY2025

	2023	2024
PV of DPU	3.38	3.39

Source: EC REIT, FPA

Terminal Value

Terminal value is calculated by dividing the last distribution per unit forecast by the difference between the discount rate and the terminal growth rate. We will use UK's long-term GDP growth rate as a proxy for terminal growth rate. As shown in **Exhibit 42**, UK's long-term GDP growth rate is 1.90%.

Exhibit 42: UK's long-term GDP growth rate

Year	GDP Growth (%)
1992	0.40%
1993	2.49%
1994	3.85%
1995	2.53%
1996	1.91%
1997	4.52%
1998	3.16%
1999	3.01%
2000	4.09%
…	…
…	…
…	…
2010	2.43%
2011	1.07%
2012	1.45%
2013	1.82%
2014	3.20%
2015	2.39%
2016	2.17%
2017	2.44%
2018	1.71%
2019	1.60%
2020	-11.03%
2021	7.60%
2022	4.10%
Average	**1.90%**

Source: Macrotrends, FPA

The Terminal Value for EC REIT after FY2024 is as follows.

$$Terminal\ Value\ after\ FY2024 = \frac{3.99\ pence\ \times (1 + 1.90\%)}{(13.06\% - 1.90\%)} = 36.47\ pence$$

Discounting the Terminal value using the discount factor for FY2024 calculated on page 44, the Present Value of the Terminal Value is as follows.

$$PV\ of\ Terminal\ Value = 36.47\ pence\ \times 0.85 = 30.96\ pence$$

Target Price

Taking the sums of the present value of the dividends from FY2023 to FY2024, and the present value of the terminal value, we obtained a target price of £0.37 using the dividend discount model, as shown in **Exhibit 43.**

$$Target\ price = 3.38 + 3.39 + 30.96 = 37.73\ pence\ (or\ £0.38)$$

A target price of £0.38 would imply an upside potential of 50.94% from the share price of £0.25

Exhibit 43: Target Price

	2023	2024
Distributions per Unit	3.52	3.99
yoy change		13.4%
Discount Factor	0.96	0.85
PV of DPU	3.38	3.39
PV of Terminal Value		30.96
Target Price (pence)		37.73
Target Price (£)		0.38

Source: EC REIT, FPA

(III) Valuation Summary

The results from our peer comparison analysis suggest that EC REIT is currently undervalued compared to its peers in terms of P/B multiples. In addition, we note that EC REIT is relatively attractive in terms of dividend yield. Adopting a relative valuation approach, we estimated a target price of £0.36 and £0.49 based on our P/B and dividend yield comparison analysis. Taking the average of the 2 target prices and allocating a 15% discount to reflect the risks associated of being a small-cap firm, we derived a target price of £0.36 based on our peer comparison analysis.

$$Target\ Price = \frac{0.36 + 0.49}{2} \times (1 - 15\%) = £0.36$$

We also conducted a DDM valuation analysis to estimate the target price of EC REIT based on its expected future distribution per unit. With a cost of equity of 13.06% and a terminal growth rate of 1.90%, we estimated a target price of £0.38.

Considering the above, EC REIT is currently undervalued based on our peer comparison analysis and DDM analysis. By taking the average of the target prices of £0.36 and £0.38 from our peer comparison and DDM analysis respectively, we derived an average target price of £0.37

$$Average\ Target\ Price = \frac{0.36 + 0.38}{2} = £0.37$$

Our target price of £0.37 implies an upside potential of 47.69% from the current share price of £0.25

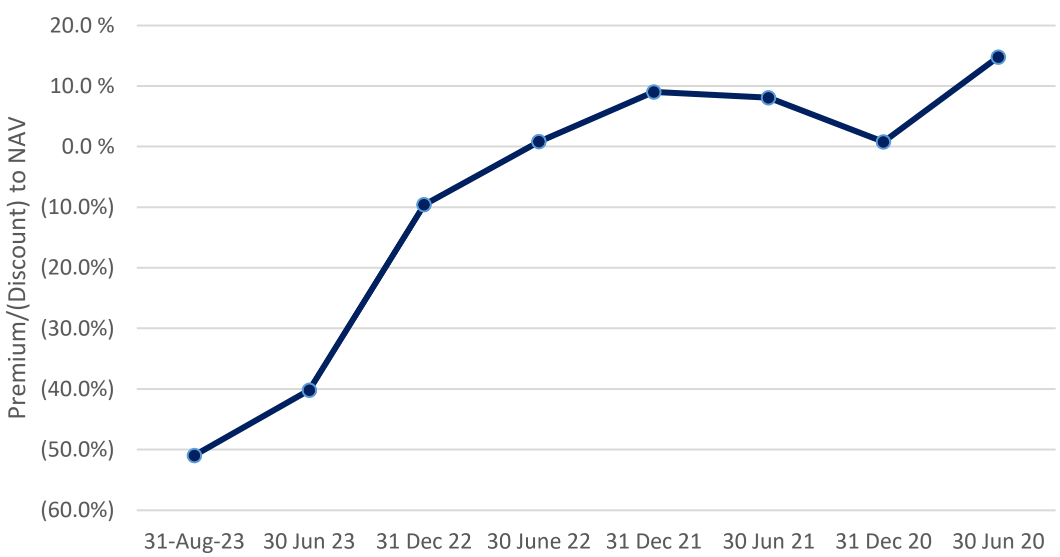
Discount to NAV

Over the past 3 years, EC REIT's NAV per unit fell from £0.61 as at 30 June 2020 to £0.51 as at 30 June 2023 due to a combination of lower share price and lower investment properties valuation. The share price also fell from £0.70 as at 30 June 2020 to £0.31 as at 30 June 2023. Accordingly, the discount to NAV was 40.2% as at 30 June 2023, as shown in **Exhibit 44.**

Exhibit 44: Premium/Discount to NAV

	31-Aug-23	30 Jun 23	31 Dec 22	30 June 22	31 Dec 21	30 Jun 21	31 Dec 20	30 Jun 20
NAV per unit	0.51*	0.51	0.52	0.62	0.61	0.62	0.65	0.61
Share Price (£)	0.25	0.31	0.47	0.63	0.67	0.67	0.66	0.70
Premium/(Discount) to NAV	(51.0%)	(40.2%)	(9.6%)	0.8 %	9.0 %	8.1 %	0.8 %	14.8 %

** Based on 30 June 2023 NAV per unit*



Source: EC REIT, FPA

INVESTMENT RECOMMENDATION

According to our peer comparison analysis, we derived a target price of £0.36, by taking the average target prices from our P/B multiples analysis and dividend yield analysis.

According to our DDM analysis, we derived a target price of £0.38 based on a cost of equity of 13.06% and a terminal growth rate of 1.90%.

Taking the average of the 2 target prices from our peer comparison analysis and DDM analysis, we derived an average target price of £0.37.

$$Average\ Target\ Price = \frac{0.36 + 0.38}{2} = £0.37$$

Our target price of £0.37 implies an upside potential of 47.69% from the current share price of £0.25. Based on EC REIT's NAV per share of £0.51 as at 30 June 2023 and EC REIT's current share price of £0.25, EC REIT is trading at a discount to NAV of 51.0%. This is in line with our Peer Comparison Analysis and DDM analysis above, which show that EC REIT is currently undervalued at £0.25. If EC REIT's shares moves from £0.25 to our target price of £0.37, this would still represent a discount to NAV of 27.4%, which supports our target price of £0.37.

Considering the above, we recommend a BUY on EC REIT. However, there are still risks to our target price, which are highlighted in the next section, on page 50.

RISKS TO THE TARGET PRICE

(I) Sell-off of shares

As noted on page 9, Covea Corporations is the largest shareholder of EC REIT, holding 109,074,215 units of shares as of 6 March 2023, which is approximately 24.95% of EC REIT's total shares. Covea Corporation is a French mutual insurance company that covers property, liability and reinsurance businesses. According to EC REIT, Covea Corporation has mentioned that they do not have any plans to sell-off EC REIT shares as dividends matter to them as a mutual insurance company. However, should Covea Corporation change their stance and decide to sell-off EC REIT"s shares, this would likely cause a large drop in EC REIT's share price.

(II) Longer-than-expected hikes in interest rates

Just as a faster-than-anticipated cut in interest rates, as mentioned on page 38, will provide support for EC REIT"s profits in the coming years, a longer-than-expected hikes in interest rates would continue to drag down EC REIT's profits and margins. In the base case, we expect an additional 1-2 further hike in interest rates by the BOE in order to contain inflation. However, if there is a need for the BOE to hike interest rates even further, this would result in higher borrowing costs and further write downs in the valuation of EC REIT's investment properties. Accordingly, EC REIT's profits for 2H2023 and FY2024 would be lower than what we have forecasted.

SUSTAINABILITY

Sustainability Governance Structure

The Board of Directors, the Sustainability Committee and the Sustainability Working Team make up EC REIT's Sustainability Governance Structure as shown in **Exhibit 44.**

Exhibit 44: Sustainability Governance Structure

Source: EC REIT

The Board of Directors of the REIT Manager determines the materiality of Environmental, Social, & Governance (ESG) factors, considers climate-related risks and opportunities, oversees the management of ESG performance and has ultimate responsibility for sustainability reporting. The Manager is responsible for implementing, managing and monitoring the material ESG issues and targets and providing regular updates to the Board.

The Board has constituted a high-level Sustainability Committee (SC) to drive sustainability performance. The SC is chaired by the Independent Board Chairman. SC members include an Independent Director, a Non-Independent Director, Chief Executive Officer, Chief Investment Officer, Chief Financial Officer, and Assistant Vice President of Investor Relations. Supervised by the Board, the SC is responsible for developing, managing, implementing and monitoring ESG strategy to address material sustainability risks and opportunities to create lasting value for all stakeholders. The SC considers stakeholder concerns and expectations in its strategy.

A Sustainability Working Team (SWT) presided by the Chief Executive Officer (CEO) assists the SC. The SWT comprises representatives from Investor Relations, Asset Management, Finance and Compliance functions. The SWT is responsible for implementing sustainability strategies and collecting ESG performance data from various internal stakeholders for reporting.

Stakeholders Engagement

EC REIT develops stakeholder trust through constructive engagement, transparency and communication. EC REIT prioritise engagement with stakeholders who are important for our value creation and those who may be affected by our decisions and actions. Some interactions with stakeholders are periodic, such as annual general meetings, while others are ongoing and needs-based. The Manager proactively engages stakeholders to drive the business effectively and efficiently. **Exhibit 45** shows the overview of EC REIT's stakeholders and their engagement with them.

Exhibit 45: EC REIT's stakeholders and engagement

Stakeholders	Engagement Method	Purpose of Engagement	Stakeholders' Expectations	Our Response	Engagement Examples In FY 2022
Internal Stakeholders					
Directors	• Meetings and calls • Quarterly Board Meetings • Regular engagements with committees delegated by the Board • Ad hoc Board Meetings (when required)	• To comply with regulatory requirements • Best practices for good corporate governance • For the interest of Unitholders • For strategic guidance	• Regular and timely updates on the REIT's and the Manager's operations and performance	• Terms of Reference for each Board committee are laid out and executed • Clear agenda setting for all Board Meetings • All matters arising are addressed in a timely manner • Promote productive engagements between senior management and Board members • Providing regular, timely and accurate updates on the REIT's operations and performance	• Regular Board Meetings held in FY 2022 • Directors attended trainings on a range of topics including climate change, corporate governance and compliance amounting to an average training hours of 9.8 hours per director in FY 2022
Employees	• Face-to-face meetings • Regular conference calls • Emails • Health and well-being activities • Employee satisfaction survey	• To build a cohesive team with high productivity • To ensure the well-being of employees • To provide an inclusive environment that is conducive for working • To attract future and potential employees with a sustainability mindset	• Competitive remuneration and benefits for talent retention • Good personal growth and development opportunities • Career progression • Attentive and supportive managers • Fair treatment • A respectful and conducive working environment • Work-life balance	• People-friendly human resources ("**HR**") policies and practices • Regular open communications • Training and development opportunities • Regular employee engagements and performance reviews • Whistleblowing channels for malpractice and compliance concerns	• Open communications • Team lunch gatherings • Cycling outing from Marina Bay to East Coast Park in Singapore • Team dinner • Badminton sessions • Tuesday Run Club in the UK

Stakeholders	Engagement Method	Purpose of Engagement	Stakeholders' Expectations	Our Response	Engagement Examples in 2022
External Stakeholders					
Investors (Retail and Institutional)	• One-on-one and group investor meetings and conference calls • Local and overseas non-deal roadshows • Public outreach events, such as the participation in virtual investment conferences, webinars, panel discussions and industry forums • Corporate website with dedicated investor relations contact details • Social media via our corporate LinkedIn page • Annual General Meetings • Extraordinary General Meetings when required • Regular announcements and updates • Results briefings	• To keep all Unitholders, investors and stakeholders informed on the financial and portfolio performance of the REIT and material information that could affect the price or value of the REIT's units	• Stable and growing returns from their investments • Sustainable financial and portfolio performance • Timely and accurate information for their investment decisions • Good corporate governance • Prudent risk management • Unitholder interests are aligned with the management and the Board	• Timely and accurate disclosures of material information • Majority independent Board with competent Board members providing quality corporate governance • Experienced management with ground presence in the UK • Engage competent consultants on remuneration matters, controls and governance • Necessary disclosures under corporate governance in the Annual Report	• Annual General Meetings 2022 • Annual Report • CLSA Singapore Hidden Jewels Access Day 2022 • S-REITs Corporate Day for Korean investors • Citi-SGX-REITAS REITs/Sponsors Forum 2022 • PERE Asia Summit Singapore 2022 • GRESB Regional Insights Asia Panel Discussion • SIAS-SGX Corporate Connect • REITs Symposium 2022 Online Edition • Broker-organised Investor calls • Trading representative and retail investor teach-in sessions • Corporate LinkedIn page and YouTube account
Investment community (Analysts, the Media and Financial Bloggers)	• Regular analysts and media briefings • Face-to-face and virtual meetings • Conference calls, emails and phone calls • Media interviews	• To keep the market informed on the financial and portfolio performance of the REIT and material information that could affect the price or value of the units	• Good corporate governance • Prudent risk management • Unitholder interests are aligned with the management and the Board • Access to senior management	• Timely, transparent and accurate disclosures of material information • Necessary disclosures under corporate governance in the Annual Report	• Research reports by our covering analysts – UBS, CGS-CIMB, UOB Kay Hian and DBS Group Research • One-on-one virtual interview engagement sessions with covering and non-covering analysts to gather feedback
Primary Occupier and Other Tenants/ Occupiers	• Periodic engagement to ensure they are satisfied with our buildings • Collection of environment performance data	• To engage on energy efficiency measures • Improved buildings for lease longevity • To ensure regulatory compliance for energy performance certifications and other regulatory requirements	• Higher energy performance rating for buildings • Ensuring occupiers comply with regulation by ensuring building accessibility to end users	• Ongoing engagement on sustainability issues such as energy, emissions and water • Negotiations and discussions for co-investments to improve buildings' energy efficiency • Proactive incorporation of green lease clauses into new lease agreements	• Discussions with primary occupier and agents on a regular basis • Quarterly dialogues with main occupier to track progress of sustainability enhancement works across DWP-occupied assets to improve energy efficiency • Engagements to obtain energy performance data
Property Managers	• Meetings, emails, calls	• Stay updated on the operational aspects of our assets	• Communication of business plans and strategy	• Regular and open communication and engagements - Engagements on ESG matters	• Daily engagements and dialogues to keep an ear to the ground
Trustee	• Meetings, emails, calls	• To keep the trustee updated on the financial, operational and portfolio performance of the REIT	• Transparent, honest and accurate information	• Regular, timely and accurate updates on business and sustainability plans - Regular dialogues	• Regular meetings and engagements

Stakeholders	Engagement Method	Purpose of Engagement	Stakeholders' Expectations	Our Response	Engagement Examples in 2022
Banks	• Meetings, emails and calls • Ongoing compliance to loan covenants • Dialogues on sustainability issues	• For funding and advisory needs	• Transparent and accurate information • Asset package, compliance, business plan • Manage sustainability risk, timely interest and maturity payments	• Timely interest and maturity payments • Continuous engagements as added confidence for loan disbursements • Regular updates on business and sustainability plans • Regular dialogues • Asset package	• Weekly calls before loan drawdown • Underwriting due diligence • Yearly credit update call • Year-end bank calls • Attend webinars organised by banks (e.g Lloyds Bank)
Regulators	• Ad hoc and periodic survey submissions • Regulatory applications and clarifications as appropriate • Timely regulatory filings • SGX announcements • Circulars • Website, AGM/EGM, Annual Report, Sustainability Report	• To comply with the regulatory requirements in all countries of operations	• Timely and transparent information • Adequate resources devoted to compliance • Setting compliance culture across all staff • Good corporate governance • Compliance with policies, rules and regulations	• Stay updated on all regulatory requirements • Establish comprehensive policies, procedures and controls • Independent review by third-party internal and external auditors • Accountability of senior management and the Board • Active membership in industry associations • Maintenance of zero tolerance approach towards fraud, corruption, bribery and unethical practices across the business • Regular communications with regulators and governing bodies	• Attend sustainability trainings prescribed by SGX • Attend asset management industry engagement townhall by the MAS • Attend Singapore Financial Forum by the MAS-IBF "Growing Timber" webinar series
Auditors	• Planning of audit schedule and scope • Participating in audit exercises (internal and external)	• To comply with regulatory requirements in all countries of operations	• Timely and transparent information • Compliance with policies, rules and regulations	• Stay updated on all regulatory requirements • Establish comprehensive policies, procedures and controls • Unfettered access to information	• Annual internal and external audit exercises
Industry associations (e.g REITAS, FIDRec, RICS)	• Emails, calls	• To keep abreast of industry developments	• Active participation in activities and surveys • Provide feedback when appropriate	• Active participation in activities and surveys • Provide feedback when appropriate • Attend training and courses provided by the associations • Attend industry events organised by the associations	• Employee participation in the Rules and Ethics Course by REITAS as part of the requirement to fulfil continuing professional development ("**CPD**") hours • CEO is a member of the REITAS Promotions Sub-Committee • Royal Institution of Chartered Surveyors ("**RICS**")-accredited asset management team
Local Community	• Corporate social responsibility ("**CSR**") activities • Philanthropic programmes and activities	• To contribute back to the society • Aligns with the REIT's theme of being a social infrastructure play	• Ongoing monetary and in-kind donations • Ongoing volunteer work • Ongoing support for their efforts	• Ongoing CSR activities for continual support	• Volunteering with charity soup kitchen Willing Hearts • Sponsorship of annual Kwong Wai Shiu Hospital Charity Golf Tournament • Participation in LandAid's Steptober to raise funds for charitable causes

Source: EC REIT

Sustainability Framework

EC REIT conducted a comprehensive materiality assessment in FY2021 to determine the most significant ESG topics for prioritisation and reporting. This included a materiality workshop facilitated by a sustainability advisory firm to assess our business activities' most significant economic, environmental, and social impacts and stakeholder expectations.

EC REIT's materiality review in FY2022 included a stakeholder engagement survey to obtain opinions from both internal and external stakeholders regarding our material ESG topics. The survey participants included Unitholders, existing and potential investors, analysts, trustee, Sponsors, industry associations, business partners, and employees. Respondents ranked the proposed ESG topics and had the opportunity to suggest new ones. The feedback received was useful in validating and prioritising the ESG topics for reporting purposes. EC REIT's review concluded that the ESG topics prioritised in the FY2021 report remain material for the FY2022 reporting.

The UN Sustainable Development Goals (SDGs), are key reference points in EC REIT's materiality assessment. EC REIT's approach to proactively manage their most significant ESG impacts supports several of the UN SDGs as shown in **Exhibit 46**

Exhibit 46: EC REIT's contribution to SDGs

Material ESG Topics	SDG Targets Supported	Relevant SDGs
ENVIRONMENT		
• Climate Change • Energy and GHG Emissions • Water • Tenant Engagement	SDG Target 6.4. By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity SDG Target 7.2. By 2030, increase substantially the share of renewable energy in the global energy mix SDG Target 7.3. By 2030, double the global rate of improvement in energy efficiency SDG Target 9.4. By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities SDG Target 13.1. Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters SDG Target 13.3. Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning	6 Clean Water and Sanitation 7 Affordable and Clean Energy 9 Industry, Innovation and Infrastructure 13 Climate Action
SOCIAL		
• Attracting and Retaining Talent • Employee Development • Diversity	SDG Target 5.5. Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life SDG Target 8.5. By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value	5 Gender Equality 8 Decent Work and Economic Growth
GOVERNANCE		
• Regulatory Compliance • Anti-corruption	SDG Target 16.5. Substantially reduce corruption and bribery in all their forms	16 Peace, Justice and Strong Institutions

Source: EC REIT

Environment

EC REIT believes that a low-carbon portfolio is central to maintaining the REIT's competitive edge in the marketplace. The demand for green commercial space grows in line with the Paris Agreement's goal of limiting global warming to well below 2 degrees Celsius ("°C") and preferably 1.5°C by 2030 and reach net zero carbon emissions by 2050

The UK has also set its aspirations to achieve net zero greenhouse gas ("GHG") emissions by 2050. As over 90% of EC REIT's portfolio is leased to the Department for Work and Pensions (DWP), their environmental strategy is therefore aligned with the UK's national climate agenda. Further, as the REIT is listed in Singapore, EC REIT is also supportive of the Singapore Green Plan 2030, a national plan to advance Singapore's national agenda on sustainable development.

EC REIT believe that climate resilience will play an increasingly critical role in asset valuation, the cost of capital and insurance. Hence, EC REIT's aspiration is to have a net zero carbon emission portfolio by 2050.

EC REIT's Approach

Most of EC REIT's portfolio is let out on full repairing and insuring basis. Therefore, EC REIT does not have operational or management control of our buildings in terms of day-to-day management and consumption of energy and water or waste management. Hence EC REIT operates a three-pronged environmental strategy and management approach - mitigate climate related physical risks and transition risks in their portfolio, upgrade assets to leverage the growing demand for low-carbon commercial spaces and engage with their primary occupier to monitor the environmental performance of the buildings.

EC REIT's environmental targets and performances are as shown in **Exhibit 47,** including a commitment to invest about £14.8 million over 3 years for asset enhancement works to improve properties' energy efficiency

Exhibit 47: EC REIT's environmental targets and performances

ESG Topic	2022 Target	2022 Performance	2023 Target
Climate Change	• Establish an environment risk management framework and policy	• Instituted a governance structure to support an effective management of environmental risks covering climate change	• Integrate environmental risks into the Enterprise Risk Management framework
Energy and GHG Emissions	• Engage with the primary occupier to improve energy and water efficiency of buildings	• Quarterly engagement with the primary occupier to improve energy and water efficiency of buildings	• Reporting on buildings where sustainability enhancement works have completed
	• Engage with the primary occupier in terms of regular progress reports following the commitment by the REIT to invest about £14.8 million over three years towards agreed-upon asset enhancement works and initiatives that are likely to improve the properties' energy efficiency to a more sustainable standard	• Developed a monitoring system to track the progress of planned sustainability enhancement works on a portfolio of assets • £7.4 million of Sustainability Contribution was disbursed during the year for sustainability enhancement works on assets occupied by the DWP and MOD	• Continue the engagement with the main occupier • Extend data gathering to non-DWP occupiers
Water	• Establish a process to collect water performance data from primary occupier	• Collected water performance data from primary occupier	• Extend data gathering to non-DWP occupiers
Waste	• Establish a process to collect waste performance data from primary occupier	• Collected waste performance data from primary occupier	• Extend data gathering to non-DWP occupiers
Tenant Engagement	• Continue to engage and collaborate with the primary occupier on periodic and regular sharing of environmental data for performance tracking	• Engaged and collaborated with the primary occupier on periodic and regular sharing of environmental data for performance tracking	• Maintain regular engagement with the primary occupier on periodic and regular sharing of environmental data for performance tracking

Source: EC REIT

CORPORATE GOVERNANCE

Board Composition

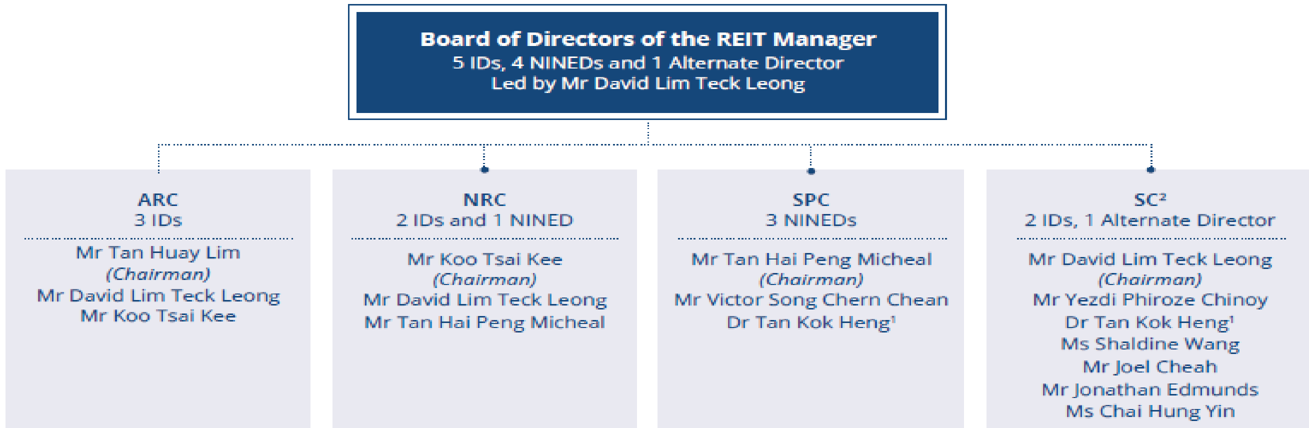
As of 31 December 2022, EC REIT's Board Composition comprise of 9 Directors and 1 Alternate Director, 5 of whom are Independent Non-Executive Director, as listed below.

- David Lim Teck Leong, Chairman and Independent Non-Executive Director
- Tan Huay Lim, Independent Non-Executive Director
- Koo Tsai Kee, Independent Non-Executive Director
- Nicholas David Ashmore, Independent Non-Executive Director
- Yezdi Phiroze Chinoy, Independent Non-Executive Director
- Tan Hai Peng Micheal, Non-Independent Non-Executive Director
- Victor Song Chern Chean, Non-Independent Non-Executive Director
- Tan Dah Ching, Non-Independent Non-Executive Director
- Evan Cheah Yean Shin, Non-Independent Non-Executive Director
- Tan Kok Heng, Alternate Director to Evan Cheah Yean Shin

Board Committees

The Board has established 4 board committees to assist it in the discharge of its functions. These committees are the Audit and Risk Committee (ARC), the Nominating and Remuneration Committee (NRC), the Strategic Planning Committee (SPC) and the Sustainability Committee (SC). The composition is shown in **Exhibit 48**

Exhibit 48: Composition of Board Committees



Notes:
1. *Dr Tan Kok Heng is an alternate director to Mr Evan Cheah Yean Shin.*
2. *Members of SC also comprise Ms Shaldine Wang (CEO), Mr Joel Cheah (CFO), Mr Jonathan Edmunds (CIO) and Ms Chai Hung Yin (Assistant Vice President, Investor Relations)*

Source: EC REIT

(a) Audit and Risk Committee (ARC)

Some of ARC's responsibilities include:

- Reviewing the significant financial reporting and judgements so as to ensure the integrity of the financial statements of the REIT Manager and the REIT and any formal announcements relating to the REIT's and/or the REIT Manager's financial performance
- Reviewing the assurance from the CEO and the CFO on the financial records and financial statements
- Monitoring the procedures established to regulate interested party transactions (IPT), including ensuring the compliance with the provisions of the Listing Manual relating to IPT and the provisions of the Property Funds Appendix relating to IPT and reviewing transactions constituting IPTs
- Reviewing, on a regular basis, the REIT's lease concentration risks and if 20.0% of the leases (by Gross Rental Income) which are expiring within 12 months have not been renewed, to ensure that timely announcements on SGX-ST are to be made

(b) Nominating and Remuneration Committee (NRC)

The NRC members are appointed by the Board from among its members, the majority of whom (including the Chairman of the NRC) are Independent Directors

Some of NRC's responsibilities include:

- Reviewing and recommending to the Board a general framework of remuneration and succession plans for each director and executive officer, in particular the appointment and/or replacement of the Chairman, the CEO and key management personnel
- Developing the process and criteria for evaluation of the performance of the Board as a whole and each of its Board Committees and Directors
- Reviewing the training and professional development programmes for the Board
- Determining annually, and as and when circumstances require, if a director is independent, having regard to the circumstances set forth in Provisions 2.1 and 2.2 of the Code and Rule 210 (5)(d) of the SGX-ST's Listing Manual

(c) Strategic Planning Committee (SPC)

SPC was set up as a platform for Management and Directors to discuss and set objectives for the REIT, in order to support Management in aligning the interests of stakeholders and enable faster decision-making. The SPC also tracks the executions of these objectives set.

Some of SPC's responsibilities include:

- Providing guidance for the overall management of the REIT and the REIT Manager based on the strategic plan set by the Board in accordance with the financial authority limits delegated to the SPC
- Reviewing the long-term objectives of the REIT and the REIT Manager
- Reviewing and recommending any proposed entry into mergers or acquisitions, disposals and investments to the Board
- Reviewing and recommending for adoption of the Board, annual budgets and long-term business plans to achieve the objectives of the REIT or the REIT Manager

(d) Sustainability Committee (SC)

The SC provides strategic oversight and direction for identifying, managing and implementing material ESG factors, including environmental issues concerning climate-related risks and opportunities.

Some of SC's responsibilities include:

- Establishing ESG governance for the effective management of ESG issues
- Overseeing the management and implementation of strategy, policies and practices relating to material ESG factors
- Determining the REIT's material ESG factors, including climate-related environmental risks

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