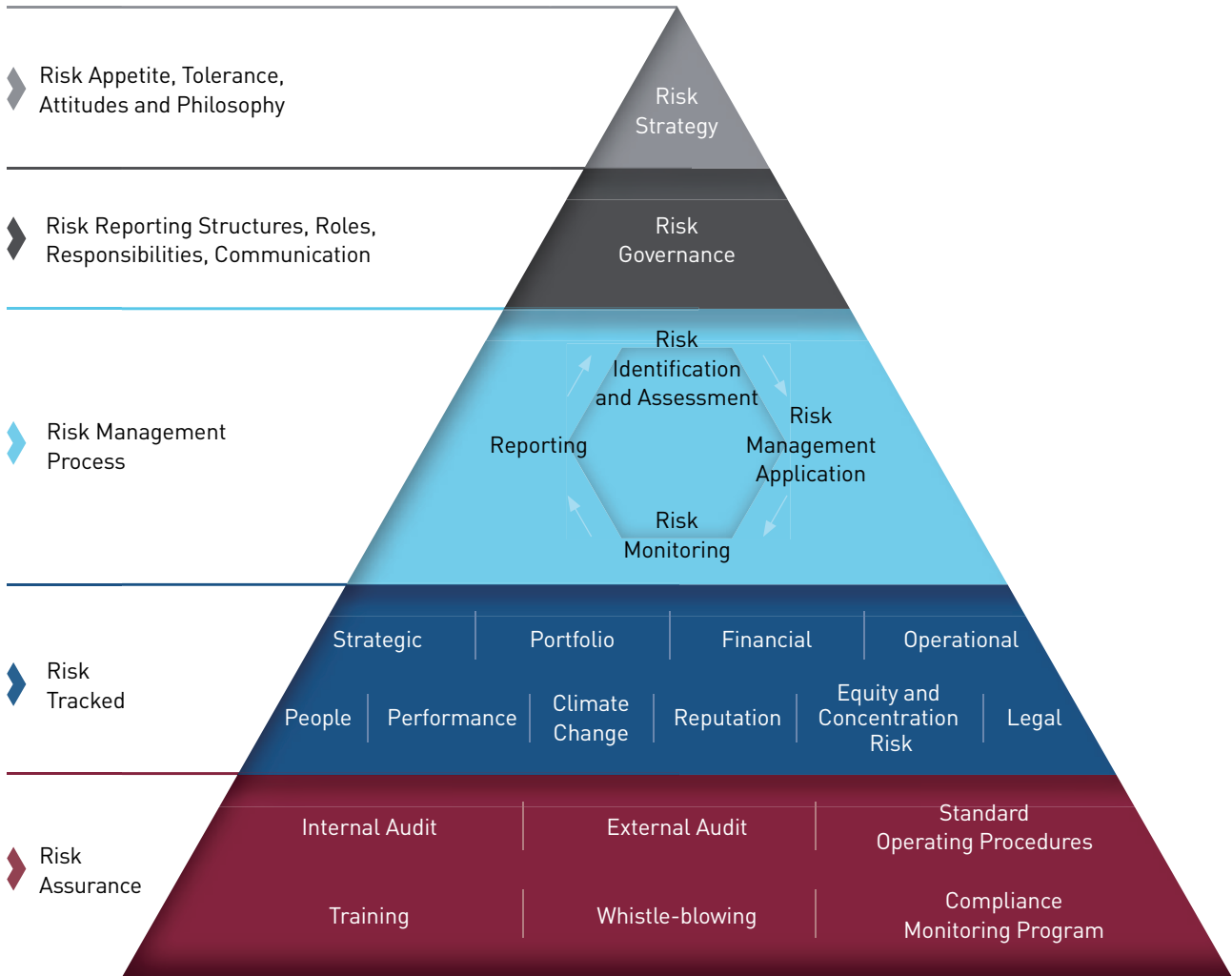


# RISK MANAGEMENT

Effective risk management is an integral part of our business — both strategically and operationally, which enables ESR-LOGOS Funds Management (S) Limited (“ELFM” or the “Manager”) to optimise risk-reward relationship in the pursuit of opportunities to create sustainable and growing returns for ESR-LOGOS REIT’s unitholders (“Unitholders”).



## RISK GOVERNANCE

The Board of Directors of the Manager (“Board”) is responsible for overseeing the Enterprise Risk Management (“ERM”) Framework and ensuring the establishment of the overall risk strategy, risk governance and internal control across ESR-LOGOS REIT, ELFM and ESR-LOGOS Property Management (S) Pte. Ltd. (“ELPM”) (collectively, the “Managers”) to safeguard Unitholders’ interests and ESR-LOGOS REIT’s assets. The ARCC supports the Board by providing dedicated oversight of risk management at the Board level, including the setting up of a robust internal control system, establishment of enterprise-wide risk management policies, processes and Risk Appetite Limits to ensure proactive management of key risks as well as accountability within ESR-LOGOS REIT and the Managers (the “Group”).

The management team of the Manager (“Management”) is responsible for the development, implementation and monitoring of the risk management practices across the Group.

## RISK MANAGEMENT PROCESS

The Manager adopts a four-step risk management process comprising risk identification and assessment, risk management application, risk monitoring as well as reporting. This framework provides a structured process for the Board and the Manager to establish risk-based strategies, identify potential risk issues that may affect the Group and manage these risks to an acceptable residual level.

### **(A) Risk Identification and Assessment**

The Board approves the ERM Risk Appetite Statements (“RAS”) which identify the nature and extent of material risks that the Group should be taking to achieve its strategic and business objectives. The RAS serve as a “traffic light alert system”. The risk appetite threshold of each risk is based on the colours of a traffic light — Red, Amber and Green. Green is within the acceptable risk appetite, Amber signals increasing risk which needs to be monitored and reduced as necessary and Red means it is outside the risk appetite that ESR-LOGOS REIT and the Managers are willing to undertake and thus, measures and steps need to be put in place to reduce the risk level to within the acceptable range.

The RAS are monitored on a quarterly basis to ensure that all risks are appropriately managed within the threshold as approved by the Board.

The RAS are reviewed and tabled to both the Board and ARCC every quarter for their notation, and the metrics adopted for each measure in the RAS are reviewed at least annually (or more frequently if the business environment warrants).

A Key Risk and Control Matrix has been put in place by the Manager to proactively identify ESR-LOGOS REIT’s and the Managers’ material operational risks together with the likelihood and impact of such risks and establish corresponding mitigating controls to manage these risks. Risk assessments were conducted once every 2 to 3 years with the involvement of ARCC members and the Manager’s Management team via a top-down approach as well as bottom-up engagement with the employees of the Managers where key risks were identified, mapped and updated into the existing Key Risk and Control Matrix to ensure the ongoing relevance of the risks for the Group. An environmental risk assessment was conducted to assess the environmental risks which are applicable to ESR-LOGOS REIT. The identified environmental risks are incorporated into the Key Risk and Control Matrix. In addition, the identified risks and controls are reviewed by the respective head of departments quarterly (or more frequently if the business environment warrants) to ensure the matrix stays relevant and effective.

### **MANAGING KEY RISKS**

The Manager has identified the following key risks faced by ESR-LOGOS REIT and the Managers, and corresponding controls have been established to manage the risks:

#### **(i) Strategic Risk**

Strategic risk relates to the risk on impact on earnings or capital on the sustainable long-term growth of ESR-LOGOS REIT arising from inadequate business decisions, improper implementation of strategy or lack of responsiveness to changes in the industry.

#### **(ii) Portfolio Risk**

The Manager critically analyses each potential transaction to achieve the strategic objectives of providing Unitholders with a stable income stream and long-term growth in Net Asset Value (“NAV”) per unit before deciding to proceed with the transaction. The strategies adopted by the Manager include:

1. proactively managing ESR-LOGOS REIT’s property portfolio to maximise returns;
2. selectively acquiring properties that meet our investment criteria and enhance Unitholders’ value;
3. divesting of non-core properties; and
4. adopting prudent capital and risk management strategies.

#### **Investment Risk**

Our investment portfolio comprises primarily real estate used mainly for industrial purposes (including investments in real estate related assets and/or other related value enhancing assets or instruments). Investments are on a long-term basis in Singapore and/or overseas markets, depending on investment opportunities and market conditions.

To manage the impact of economic uncertainties, the Manager monitors economic development as well as any policies that have an impact on the daily operations within the portfolio. Each new investment opportunity is subject to a disciplined and rigorous due diligence process, taking into consideration its potential for yield enhancement, long-term sustainability and asset valuation.

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The Board also reviews management reports and feasibility studies on proposed acquisitions prepared by the Manager, and goes through detailed and rigorous deliberation with the Management team before approving each proposal to ensure that the transaction is in the best interests of ESR-LOGOS REIT and the Unitholders.

## Project Development Risk

Asset enhancement and development initiatives are initiated to ensure that ESR-LOGOS REIT's properties remain competitive. Consultants and contractors are subject to stringent pre-qualification procedure prior to engagement and projects under development are tracked for progress update and monitored for investment performance.

## (iii) Operational Risk

The Manager has established policies and procedures to manage the risks associated with the day-to-day operations as well as to ensure business continuity. This includes the monitoring and reporting of operational incidents and ensuring safety-related standards and procedures are put in place. These policies and procedures are reviewed and updated periodically to ensure relevance and effectiveness as well as compliance with the latest legislations and regulations.

In addition, the Manager has put in place Business Continuity Plan ("BCP") and Crisis Management Policy for any unforeseen events to allow for resumption of operations with minimal disruption and loss. Annual testing of the BCP is conducted to assess the readiness of relevant outsourced service providers and to ensure smooth continuation of the essential business operation as well as for all employees to familiarise with their roles and responsibilities in the event of BCP activation.

## Information Technology Risk

Cyber security threats have been increasing recently and are getting more sophisticated. The Manager has in place an Information Technology Risk Management Policy for managing risks associated with information technology ("IT") security. Penetration testing is conducted at least once a year to check for any potential security breaches. Training on IT security awareness is conducted periodically for employees to institute awareness on evolving IT-related threats. Annual disaster recovery plan exercise is also conducted to ensure timely recoverability of IT systems.

## Regulatory and Compliance Risk

As a Capital Markets Services Licence Holder, the Manager is required to comply with the relevant rules and regulations issued by the various authorities. Any such non-compliance may result in litigation, penalties, fines, negative publicity or revocation of Capital Markets Services Licence. The Manager maintains a framework that proactively identifies new and changes to applicable laws and regulatory obligations and ensures compliance in the day-to-day business processes through the establishment and update of relevant regulatory-related policies and procedures. Regulatory requirements on base capital and financial resources of the Manager are being monitored to ensure that the requirements are met on an ongoing basis. Results of Compliance Monitoring Programs, ongoing monitoring of overdue non-compliance instances uncovered by internal/external/regulatory inspections as well as any regulatory breaches are tabled to the ARCC on a regular basis to ensure continuous adherence to regulatory requirements.

## Fraud and Corruption Risk

The Managers adopt a zero-tolerance approach to bribery and corruption of any form and are committed to acting professionally, transparently and fairly with integrity in all our business dealings and relationships. The Manager has put in place policies and guiding principles on anti-corruption and bribery and establishes boundaries for the acceptance or offer of gifts and entertainment to ensure that the REIT's business is conducted with honesty, fairness and high ethical standards.

## (iv) Financial Risk

The Manager monitors the financial market risk and capital structure actively as prudent capital management is the key for a sustainable business. The Manager also ensures that there is diversity in terms of source of funds, a well-staggered debt maturity profile, and a gearing ratio within its target range to mitigate any financial risk.

## Market Price Risk

The inability to meet the expectation of stakeholders may lead to adverse movements in the level or volatility of ESR-LOGOS REIT's market price. This could be due to rumours or adverse news of ESR-LOGOS REIT being presented to the stakeholders, or a lack of information. The Manager has put in place Policy on Market Disclosure and Investor Relations Corporate Communication Policy to ensure relevant stakeholders are actively engaged.

**Credit Risk**

Credit risk is the potential financial loss resulting from the failure of a customer or a counterparty to settle its financial and contractual obligations to ESR-LOGOS REIT, as and when they fall due. The Manager has established credit limits for tenants and monitors their balances on an on-going basis. Credit evaluations are also performed by the Manager before lease agreements are entered into with the prospective tenants. In addition, tenants are required to provide tenancy security deposits or corporate guarantees, or to assign rental proceeds from sub-lessees to ESR-LOGOS REIT prior to the commencement of the leases.

**Interest Rate Risk**

ESR-LOGOS REIT's exposure to interest rate risk relates primarily to its interest-bearing financial liabilities. Such risk is monitored on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates. The Manager adopts a policy of ensuring that the majority of its exposure to changes in interest rates on borrowings is on a fixed rate basis by entering into interest rate swaps and/or fixed rate borrowings.

**Currency Risk**

ESR-LOGOS REIT is exposed to currency risk arising from overseas investments. The Manager's strategy is to hedge the majority of financial market-related exposures, taking into consideration the availability and corresponding cost of the hedge instruments.

**Liquidity and Refinancing Risk**

The Manager monitors the liquidity risk of ESR-LOGOS REIT regularly and maintains adequate level of cash and cash equivalents and ensures there are available committed revolving credit facilities to finance ESR-LOGOS REIT's operations (including the servicing of financial obligations) for a reasonable period barring any unforeseen extreme circumstances that cannot be reasonably predicted, such as natural disasters. The Manager also ensures the REIT's gearing ratio is maintained at a prudent level and adhered to the ongoing requirements under the Code on Collective Investment Schemes issued by the Monetary Authority of Singapore ("MAS"). The maturities of debt facilities are also spread out to mitigate re-financing risks in a single financial year. In addition, the Manager places cash balances and establishes debt facilities with more than one reputable bank to reduce bank concentration risks.

**(v) Performance and Reputation Risk**

The Manager continuously monitors and measures against peer benchmarks metrics such as NPI yield, management expense ratio and DPU to ensure that ESR-LOGOS REIT performs better than or at least on par with the market.

Reputational risk is the current or prospective risk to earnings and capital arising from adverse perception of ESR-LOGOS REIT's image by tenants, counterparties, Unitholders, investors and regulators. The Manager consistently monitors the media to identify any adverse news on ESR-LOGOS REIT that warrants any immediate actions by the Manager.

**(vi) People Risk**

People are the key to the business as loss of key management personnel and identified talents can cause disruptions to the Managers' business operations. Talent management including succession planning is in place for key management personnel and staff remuneration is reviewed periodically to ensure it remains competitive to retain and attract talents. The Manager also carries out periodic employee engagement survey to gather feedback on the general sentiments among the employees.

**(vii) Climate Change Risk**

Risk arising from failure to understand and manage climate change effects may potentially impact the value of the REIT's assets and result in sub-optimal investment decisions. Environmental risk due diligence is conducted as part of the investment considerations and ongoing climate change risk is monitored on a periodic basis. Appropriate policies and procedures are put in place by the Manager to manage the actual and potential impact of climate change risk on the asset valuation and reputation of the REIT.

**(viii) Equity and Concentration Risk**

The Manager regularly monitors the top 10 unitholders and percentage of units held by substantial unitholders of ESR-LOGOS REIT to ensure compliance with the ownership requirements under the SGX Listing Rules and that minority unitholders' interest are not being prejudiced due to the ownership concentration.

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## (ix) Legal Risk

ESR-LOGOS REIT and/or the Manager may suffer financial losses, reputation damage and regulatory sanctions as a result of legal suits against the REIT and/or the Manager (including staff and directors). Such legal risk could arise from a breach of contract with tenants or a breach of regulations. To manage legal risk, legal counsels are engaged to review material contracts prior to entry. Various policies and procedures are also established by the Managers to provide guidance in carrying day-to-day business activities while adhering to relevant rules and regulations.

## (B) Risk Management Application Compliance Matrix

Other risk management tools are used to manage risks besides the RAS and Key Risks & Control Matrix. The Manager maintains a register known as the Compliance Matrix to record major rules and regulations relevant to both ESR-LOGOS REIT and ELFM. The register is reviewed yearly or whenever the business environment changes substantially or whenever there are new or changes to relevant rules and regulations.

## Policies and Procedures

Policies and procedures have been set up to reduce operational risks by providing uniform practices that serve as a basis for guidance in day-to-day operations and to facilitate the understanding and correct implementation of different work processes. All policies and procedures must be reviewed and updated where relevant at least once a year to ensure they are kept up-to-date. Any revisions, amendments and supplements to the various policies must be approved by the Board, ARCC or CEO, as appropriate.

## Education and Training

To increase the level of awareness and knowledge of various risks, controls requirements and processes within ESR-LOGOS REIT and the Managers, all new employees are required to undergo induction training by the various departments. On-the-job training is provided to equip the employees with the knowledge and skills to carry out their work. Internal bite-sized compliance training is also conducted for the purpose of information sharing, especially on changes relating to internal policies. Employees are encouraged to source for external training to deepen their field of expertise and/or acquire new skills and knowledge as part of their personal development plans. Skills and knowledge acquired via such training can be applied to their work to improve work processes or control requirements thus effectively reducing operational risks for the Managers.

## Whistleblowing

The Manager has put in place Policy on Whistleblowing to provide an avenue to all employees and external parties to raise any concerns about possible improprieties in matters of financial reporting or other matters to the ARCC Chairman, without fear of reprisals. Valid reports made in good faith are investigated independently with appropriate follow up actions.

## (C) Risk Monitoring

The Board and ARCC are kept abreast of ESR-LOGOS REIT and the Managers' key risk exposures as well as the risk management activities and results via the following quarterly reports by the Management:

1. Quarterly monitoring of ERM RAS
2. Quarterly review of Key Risk and Control Matrix
3. Quarterly monitoring of outstanding internal/ external audit recommendations and regulatory inspection findings
4. Quarterly attestations from employees, appointed representatives, Heads of Departments and Directors in terms of compliance with relevant regulatory requirements
5. Quarterly reporting of actual and potential breaches and loss events

In addition to the above risk monitoring methods, the Manager has formulated a Compliance Monitoring Framework using the Compliance Matrix as a base document. A risk assessment of all regulatory requirements impacting the Group is performed on an annual basis. This will guide the approach taken for Compliance's oversight function which includes a combination of routine monitoring and risk-based monitoring programmes (otherwise known as the Compliance Monitoring Program). A two-year Compliance Monitoring Program based on the results of the risk assessment is then tabled to both the ARCC as well as the Board for approval. Upon the approval of the program, Compliance will proceed to implement the program and the results of the reviews will be tabled to both ARCC and the Board on a quarterly basis for their review.

In order to give ARCC and the Board the assurance that the Manager's risk management and internal control systems are adequate and effective, an annual internal control review based on the top risks identified in the Key Risk and Control Matrix is conducted by the Compliance department and the results are tabled to both ARCC and the Board.

The outsourced internal auditor also conducts independent review of the risk management and internal control systems implemented by the Manager so as to provide independent assurance to the Board and ARCC on the adequacy and effectiveness of the risk management and internal control systems.

Together, all these monitoring tools provide greater assurance that the ESR-LOGOS REIT's and the Managers' identified risks are adequately managed.

**(D) Reporting**

Reports are provided to ARCC/Board/regulators on a regular basis to update on the Managers' risks and compliance management activities.