

The background of the slide is a dark green color with a faint world map. Overlaid on the map are various financial charts, including candlestick charts and line graphs. Two large, thick green arrows originate from the left side of the slide and point towards the right, one above the other. The top arrow points towards the upper right, and the bottom arrow points towards the lower right. Various currency codes and percentage changes are visible in the background, such as 'ITL', 'DEM', 'BEF', 'FRF', 'MLG', 'RUS', '+12%', 'V22%', '-0.4', 'V26.23', '-0.16', 'V16.22', 'JPY', 'EUR', 'CHF', 'GBR', 'SEK', 'CAD', 'RMV 18.68 - 0.7%', and 'DTR 31.48 - 0.0%'.

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GLOBAL PUBLIC COMPANY ACADEMY

REITS AND LISTED FUNDS IN ASIA – JAPAN & SINGAPORE

Bradley Edmister
Joo Khin Ng

June 2018

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J-REITS: STRUCTURE BASICS

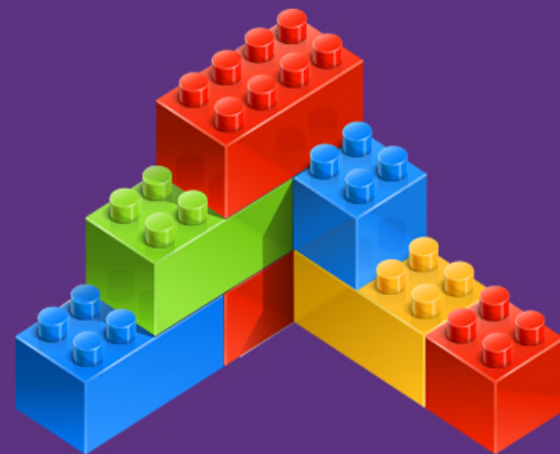
J-REITs: Structure Basics

- Market started in early 2001
 - Enabled by legal, tax and other changes
 - Major success for Japanese regulators and the TSE
 - Nearly 60 listed J-REITs



J-REITs: Structure Basics

- Entity Structure
 - *Toshi Hojin* (Investment Company) under Investment Trust Law
 - Externally managed REIT structure
 - All key functions outsourced



J-REITs: Structure Basics

- Role of the Sponsor
 - Formation
 - Owner/Promoter of Asset Manager
 - Sourcing and Pipeline Support
 - Sponsor Support Agreement
 - Key driver of equity story



J-REITs: Structure Basics

- Types of Sponsors

- Broad range of investor-focused sponsors

Domestic Corporates

Trading Companies

Asset Managers

Conglomerate-related
Real Estate Companies

Developers

Global Corporates

Independent Real Estate
Companies

Logistics Companies

Global PE/RE Fund
Sponsors

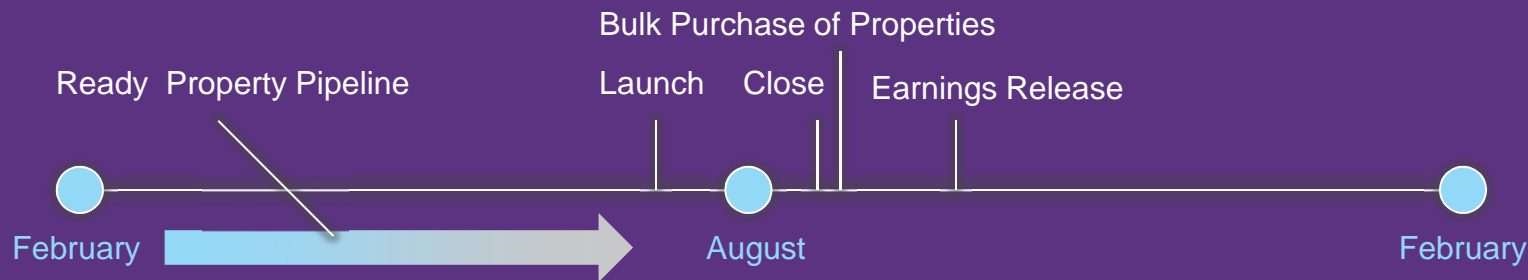
J-REITs: Structure Basics

- Reporting Cycle
 - 6 month fiscal period
 - J-GAAP reporting
 - Accounting and Comfort Letters
- J-REIT Tax Status



J-REITs: Structure Basics

- Property Acquisition and Financing Cycle
 - 6 month FY and dividend drives deals
 - Acquisitions must be financed through concurrent equity offerings and borrowings to maintain LTV
 - Property acquisitions target start of FY to capture income



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LEGAL POINTS FOR MARKET PARTICIPANTS

Legal Points for Market Participants

- What is a J-REIT Global Offering?
 - Japanese Public Offering
 - +
 - Overseas Offering
 - Typically institutional private placement
 - May or may not include U.S. offering
 - May be equity or debt
 - So far, mainly equity due to sufficient liquidity and favorable interest rates for J-REITs in Japanese loan/bond markets



Legal Points for Market Participants

Types of Global Offerings

144A / Reg.S

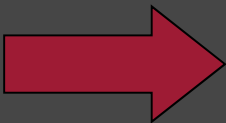
- May be broadly marketed in U.S. (QIBs)
- 10b-5 disclosure letter
- Customary US-style due diligence
- Disclosure similar to U.S. registered offering
- Ongoing Disclosure:
 - Rule 12g3-2(b) and AIFMD
- U.S. comfort letter (SAS 72; SAS 100)

Reg.S Only

- Limited liquidity and less favorable pricing
- No 10b-5 disclosure letter
- Due diligence may be more limited
- OC disclosure may be more limited/include other info
- Ongoing disclosure:
 - Local listing, IR driven and AIFMD
- Non-U.S. comfort letter (ICMA)

Legal Points for Market Participants

- How do I tell the difference?



Kenedix Residential Investment Corporation

67,900 Investment Units
OFFER PRICE: ¥340,762 PER UNIT

Kenedix Residential Investment Corporation is issuing 67,900 new investment units in a global offering, out of which 27,160 new units are being offered outside Japan in an international offering by the international joint lead managers named in this offering circular, and 40,740 new units are being offered in Japan by Japanese underwriters.

The international units are being offered by the international joint lead managers to non-U.S. persons **in offshore transactions outside the United States and Japan in reliance on Regulation S under the U.S. Securities Act of 1933**, as amended (the “Securities Act”), and, unless the international units are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available, may not be offered, sold or delivered within the United States. For a description of certain restrictions on offers and sales of the international units and distribution of this offering circular, see “Transfer Restrictions” and “Purchase and Sale.”

In connection with the Japanese offering, SMBC Nikko Securities Inc. (“SMBC Nikko”) will over-allot an additional 2,100 units in Japan. We have granted SMBC Nikko, as representative of the Japanese underwriters, an option to purchase up to an additional 2,100 units in connection with any over-allotments in the Japanese offering. See “Purchase and Sale.”

Legal Points for Market Participants

- Financial statement limitations
 - Outsourced accounting and manpower challenges
 - Typically no *pro forma* financials
 - Historical financials limited
 - Even in formation IPOs



Legal Points for Market Participants

- Forecast Financial Information
 - Required under TSE rules
 - Model based disclosure approach
 - Proxy for pro formas
 - Detailed assumptions provided



Legal Points for Market Participants

- Appraisal Disclosure
- PML Disclosure
- Non-GAAP Measures
 - Adjusted, Appraisal and Forecast NOI/NAV trending
- Property Taxes
- Trust Beneficiary Interests (TBI)



Legal Points for Market Participants

- J-REITs are PFICs
- ERISA: to REOC or not to REOC?
 - J-REIT managers typically do not track US ERISA status
- AIFMD
 - J-REITs considered AIFs under new rules

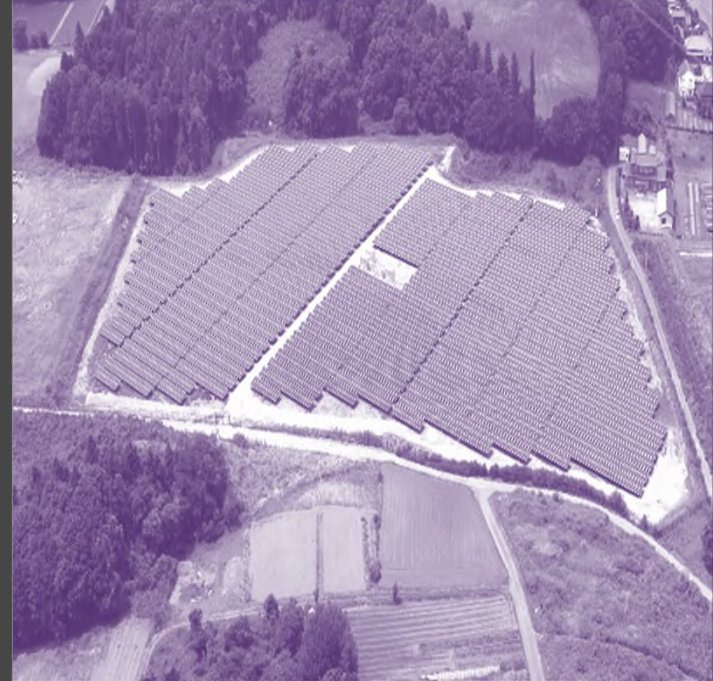


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JAPAN INFRASTRUCTURE FUNDS

TSE Infrastructure Fund Market

- Established in April 2015
- Takara Leben first listing in June 2016
- Similar to J-REITs but REITable assets include:
 - Solar power generation facilities
 - Other renewable power generation facilities
 - Airports, toll roads and other social infrastructure
- Amendments in 2017 to improve market



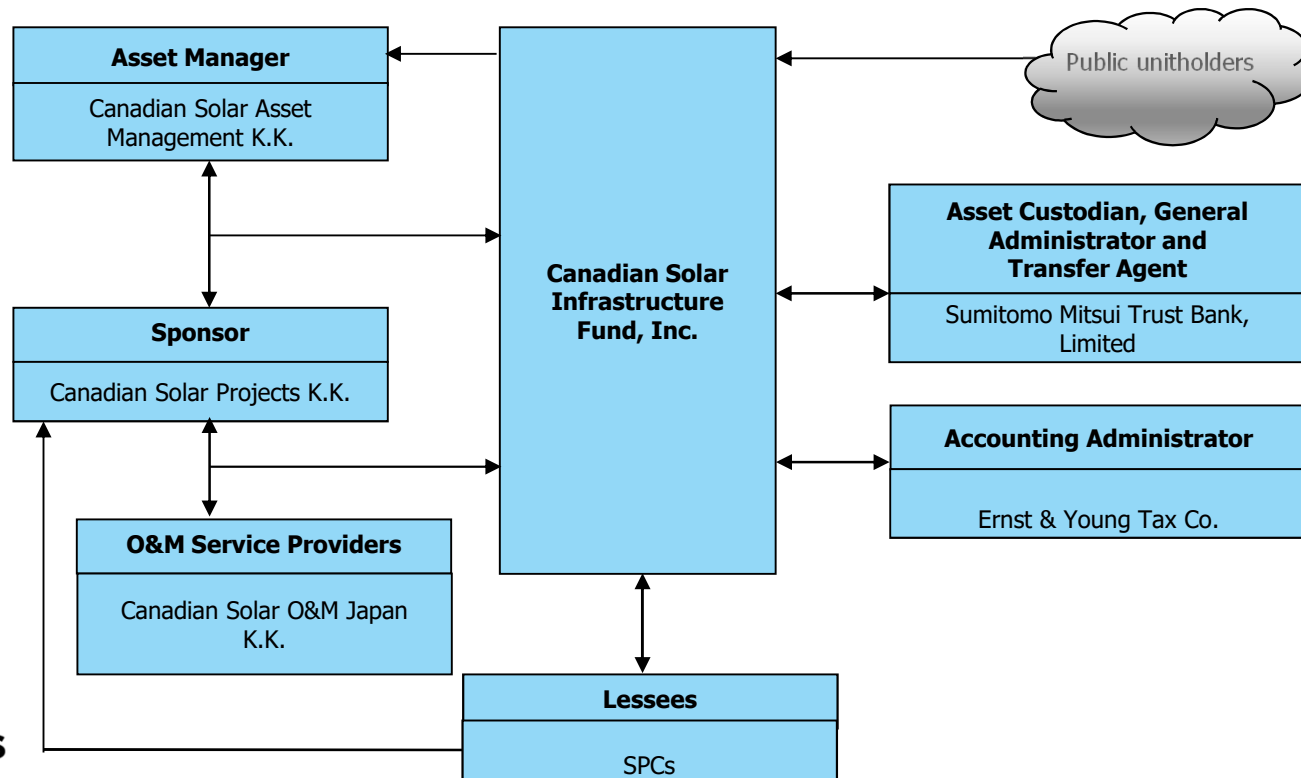
TSE Infrastructure Fund Market

- Currently 4 Listed Issuers
 - Takara Leben Infrastructure Fund (June 2016)
 - Ichigo Green Infrastructure Fund (December 2016)
 - Renewable Japan Energy Infrastructure Fund (March 2017)
 - Canadian Solar Infrastructure Fund (October 2017)
 - First Global IPO of a Japan Infrastructure Fund



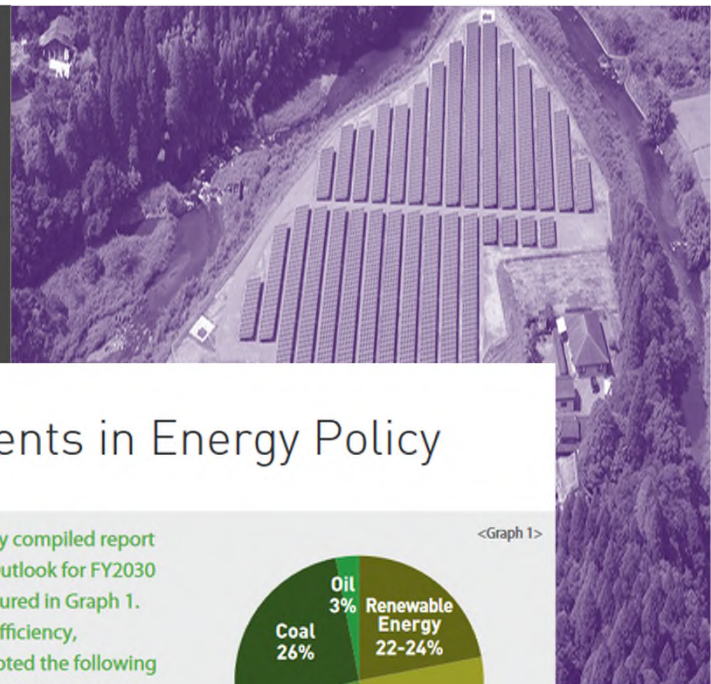
Solar Energy Project REIT Structure

- Structure Example: Canadian Solar Infrastructure Fund



FIT System in Japan

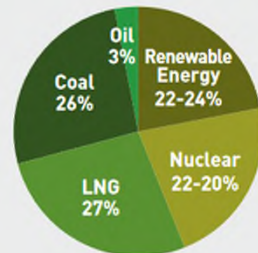
- FIT = Feed-in Tariff
- Introduced after Great East Japan Earthquake
- Ensures 20-year fixed price offtake for qualified projects (subject to curtailment regulations)
 - Regional utilities required to enter into contracts
- FIT price adjusted by METI periodically



New Developments in Energy Policy

METI has outlined Japan's policy positions in a newly compiled report called the Long-term Energy Supply and Demand Outlook for FY2030 (the "Energy Mix"). Its target 2030 energy mix is pictured in Graph 1.

To achieve stable supplies of energy, economic efficiency, environmental feasibility and safety, Japan has adopted the following three strategies: 1) strengthen energy security; 2) implement energy conservation and renewable energy policies that consider environmental concerns alongside growth; and 3) balance public interest issues, such as stable supplies of energy and reduced costs, with market liberalization and growing competition.



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S-REITS AND PROPERTY TRUSTS: THE MARKET

Singapore - Asia's Regional Hub for REITs and Property Trusts

Brief History of the S-REIT market



Singapore - Asia's Regional Hub for REITs and Property Trusts

- Based on FTSE ST REIT Index, the dividend yield for Singapore REITs have been 4.3% - 6.8% over a period of 5 years (Source: Bloomberg, 30 Nov '17)
- Major Singapore REITs Sub-segments:
 - Retail S-REITs
 - Industrial S-REITs
 - Office – Commercial S-REITs
 - Hospitality S-REITs
 - Residential S-REITs



Singapore - Asia's Regional Hub for REITs and Property Trusts

- Portfolio of S-REITs listed on the Singapore Exchange as of 30 November 2017:
 - 10 Retail S-REITs
 - 9 Industrial S-REITs
 - 7 Office – Commercial S-REITs
 - 6 Hospitality S-REITs
 - 3 Healthcare and Healthcare Facilities S-REITs
 - 6 Diversified and Other Misc. Sectors S-REITs

Total Market Capitalization: more than S\$88 Billion



Nature of S-REITs

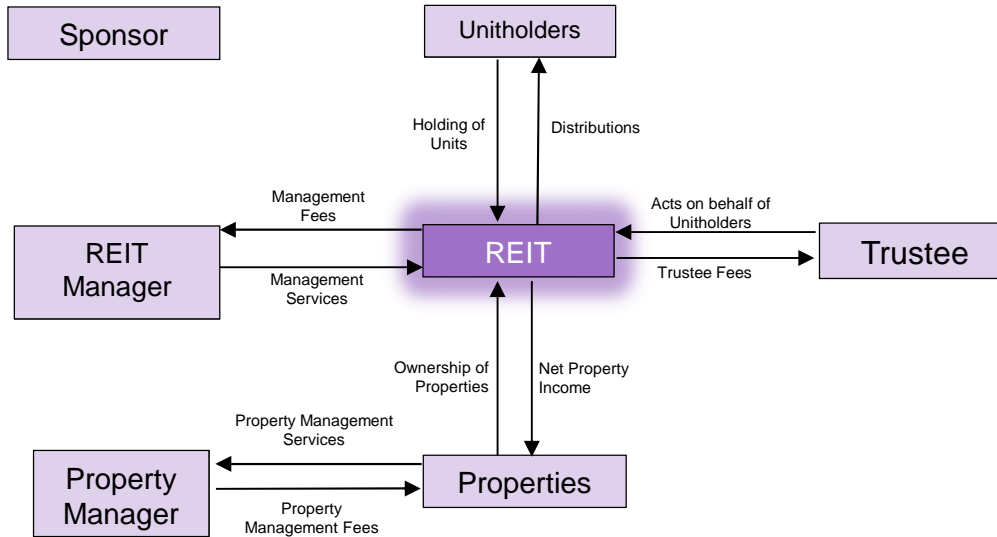
- 3 Key Features:
 - Portfolio Diversification
 - Income Distribution – at least 90% of taxable income to be distributed to enjoy tax-exempt status
 - Tax Benefits for Unitholders – tax-exempt distribution
- Units of S-REITs are bought and sold like other securities (stocks and shares) listed on the Singapore Exchange
- Unitholders of S-REITs protected under the Singapore Code on Takeovers and Mergers
- Management of S-REITs by the REIT Manager is generally subjected to similar listing rules and corporate governance guidelines observed by Singapore listed companies



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S-REITS AND PROPERTY TRUSTS: KEY STRUCTURAL FEATURES

Typical Structure of S-REITs



Structural Features of a typical S-REIT

- S-REIT is constituted as a Unit Trust and regulated under the Collective Investment Scheme (CIS) regime
 - Trust Deed forms basis on which an S-REIT operates
- Direct Regulatory Supervision by the Monetary Authority of Singapore (MAS)
 - S-REIT must be authorized or recognized by MAS
- Listing Regulatory Supervision by the Singapore Exchange RegCo
 - Investment objectives and policies unchanged for first 3 years unless approved by way of special resolution of Unitholders
- In theory, possible to have an unlisted S-REIT but so far only investments in listed S-REITs are offered to the public



Structural Features of a typical S-REIT

- Two “operators” control and management structure:
 - REIT Manager
 - ❖ Holder of Capital Markets Services (CMS) Licence (REIT Management) issued by the MAS
 - ❖ Stringent criteria for grant and maintenance of CMS Licence
 - ❖ Strong local management presence is a must
 - ❖ In-house compliance and internal control
 - REIT Trustee
 - ❖ Holder of Trust Company Licence issued by the MAS
 - ❖ Stringent criteria for grant and maintenance of Trust Company Licence
 - ❖ Typically the registered owner of the real estate portfolio or shares of the real estate portfolio entities



Structural Features of a typical S-REIT

- At least 75% of the S-REIT's portfolio must be invested in income-producing real estate
 - The expression, "income-producing real estate", means real estate assets of which the natural yield (without any arrangement which could artificially enhance the yield of the assets under management) is greater than the "Risk-Free Rate"
 - "Risk-Free Rate" is the highest yield of 5-year Singapore Government Securities for the 12 months preceding the valuation report date submitted to MAS
- Sponsor's Role
 - Establishes the REIT Manager
 - Promotes the S-REIT and typically a provider of strong pipeline of acquisition assets for future growth



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BUSINESS TRUSTS: THE NATURE

Nature of Business Trusts

- What is a Business Trust?

- Business enterprise that is hybrid structure having elements of a company and a trust
- Distributions not restricted to paying dividends out of accounting profits – distributions out of operating cash flows
- Suitable for businesses involving high initial capital expenditures with stable operating cash flows. Typically, for infrastructure and utilities businesses, ship and vehicle leases and charters as well as transportation assets
- May be used to constitute REIT-like Property Trusts



Nature of Business Trusts

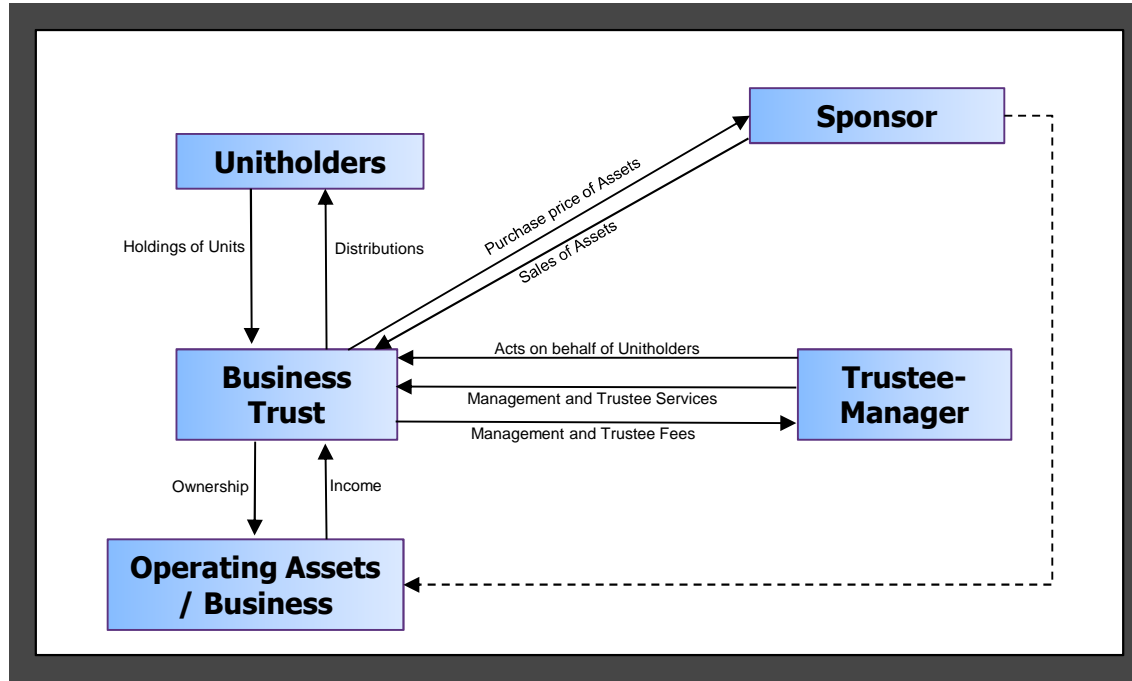
- Using a Business Trust, business owners can unitize big ticket assets into liquid and affordable units which are traded on the Singapore Exchange
- Units in Business Trusts are bought and sold like other securities (stocks and shares) listed on the Singapore Exchange
- As with the case of S-REITs, Unitholders of Business Trusts are protected under the Singapore Code on Takeovers and Mergers and management of Business Trusts by the Trustee-Manager is generally subjected to similar listing rules and corporate governance guidelines observed by Singapore listed companies
- Targeted at investors with higher risk appetite. Hence, the expected yield for a Business Trust is generally significantly higher than the yield for S-REIT



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BUSINESS TRUSTS: KEY STRUCTURAL FEATURES

Typical Structure of Business Trust



Key Differences: S-REIT ↔ Business Trust

- Regulatory Regime:
 - Governed by the Business Trusts Act
 - Collective Investments Scheme regime disappplied
 - Nonetheless, subjected to stringent registration requirements supervised by the MAS
- Responsible Entity – single “operator” structure:
 - Unlike S-REITs, Trustee and Manager are combined into a single Trustee-Manager
 - Trustee-Manager does not require a CMS Licence (unlike a REIT Manager) but the fit-and-proper criteria applied by the MAS in the registration process is equally stringent
 - Dual responsibility of safeguarding the interests of the Unitholders and managing the Business Trust. Recognition that a nimble management is necessary in light of the nature of the asset class



Key Differences: S-REIT ↔ Business Trust

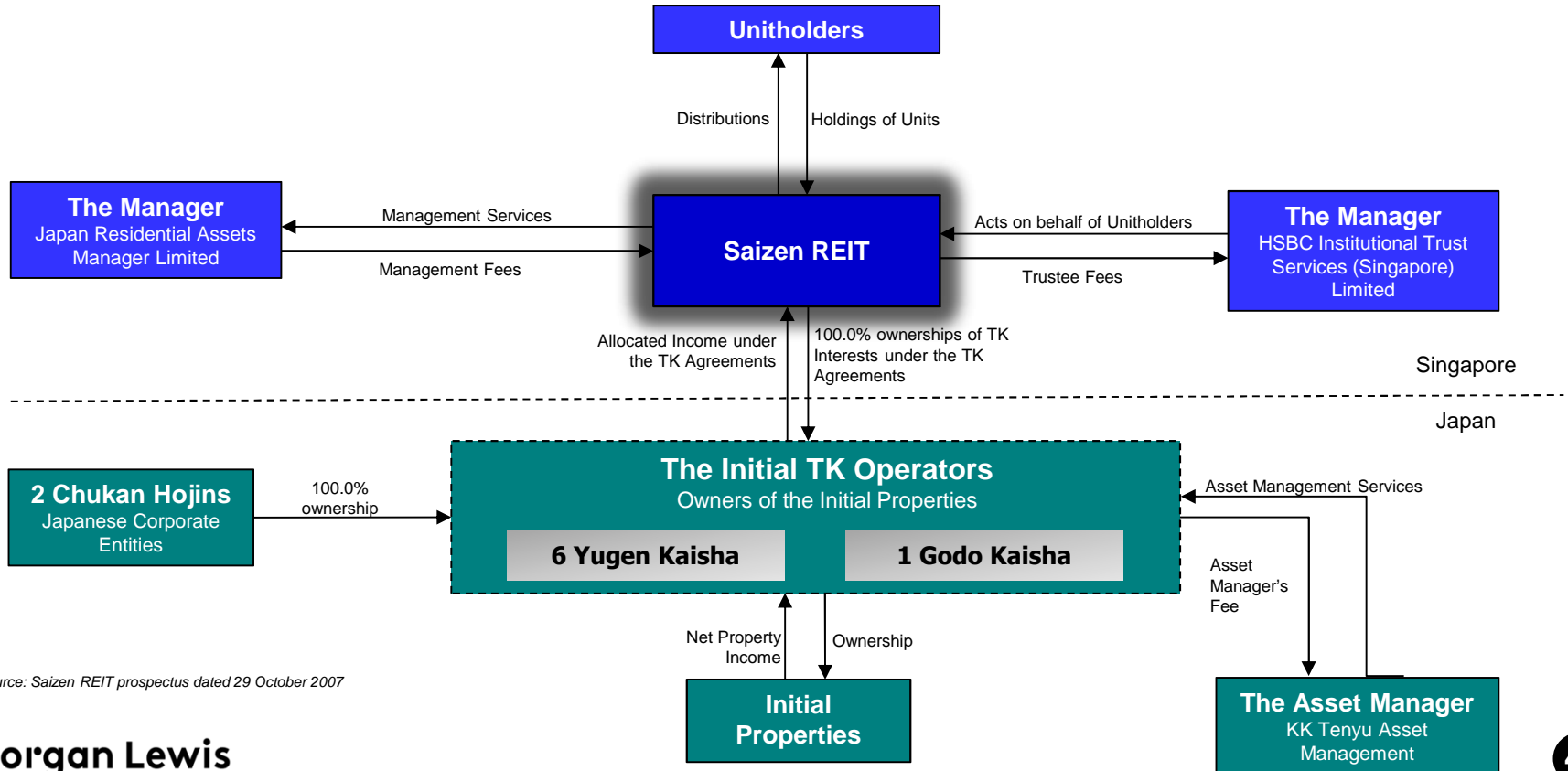
- No Pass-through for Tax:
 - Unlike S-REITs, Business Trusts are subject to income taxation like corporates
 - As a result of the lack of tax flow-through, a higher yield is typically demanded for Business Trusts compared with S-REITs
- No gearing or leverage limit
 - Business Trusts are not subject to any gearing or leverage limit. S-REITs are subjected to gearing or leverage limit of 45%
- No property development limit
 - Business Trusts are not subject to any property development limit even if they are structured as Property Trusts. S-REITs are subjected to 25% limit in terms of holding of property under development



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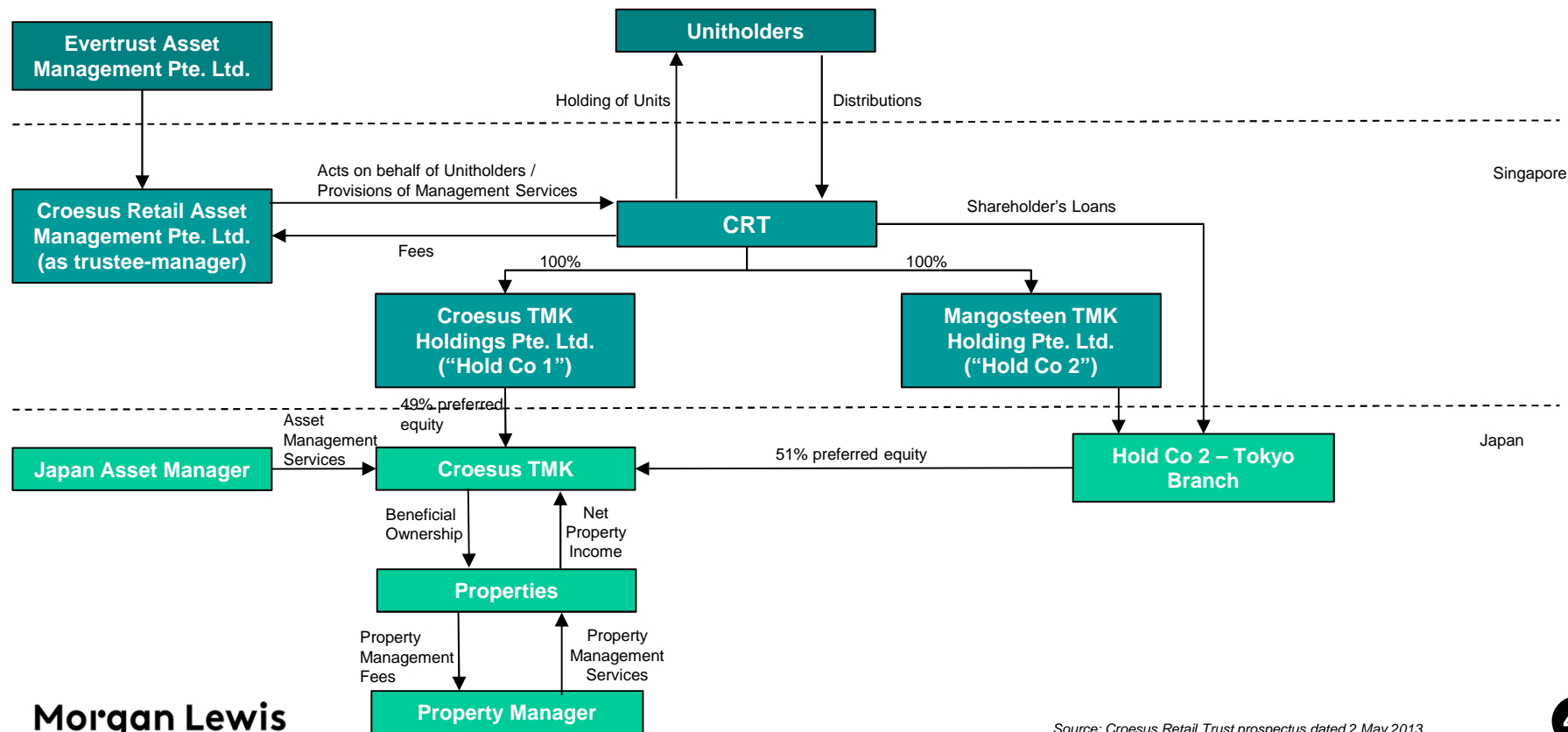
S-REITS – PROPERTY TRUSTS: ATYPICAL STRUCTURES

Saizen REIT



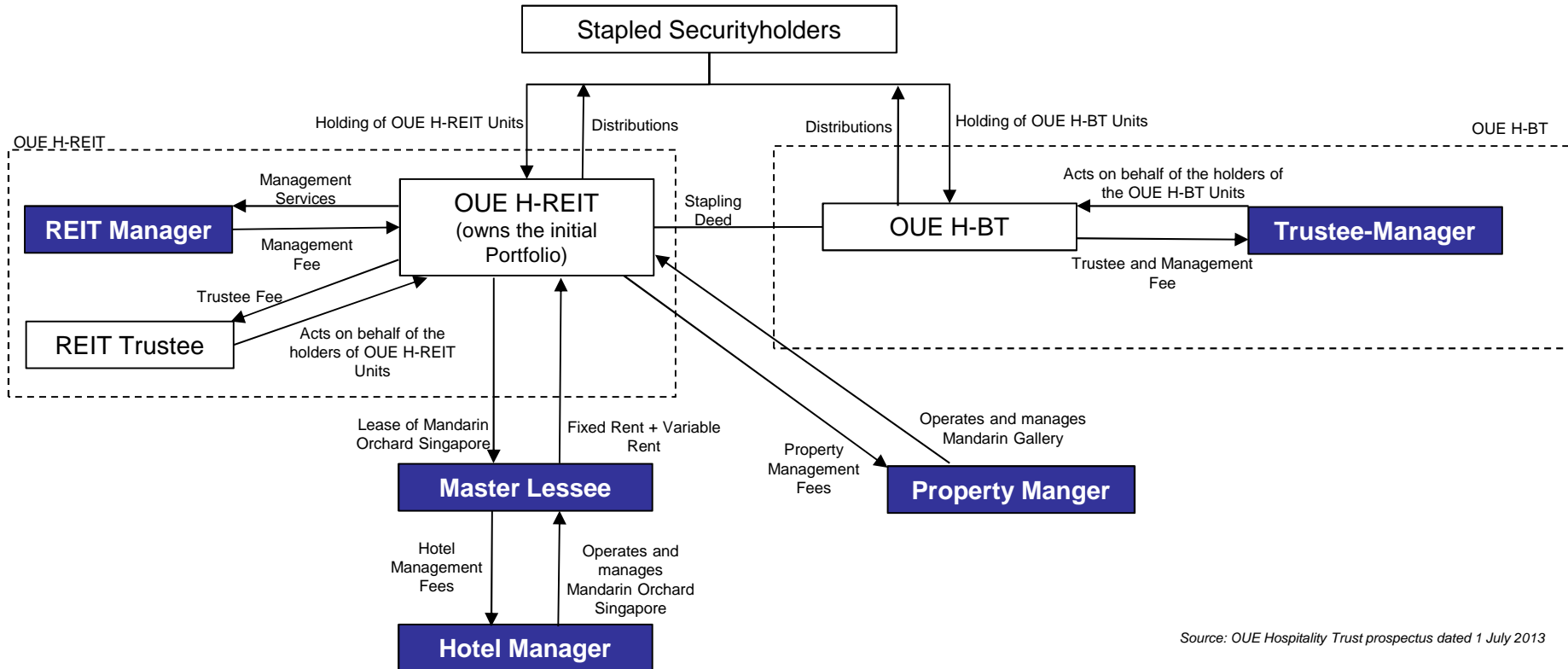
Source: Saizen REIT prospectus dated 29 October 2007

Croesus Retail Trust (Business Trust)



OUE Hospitality Trust

(OUE Hospitality REIT – Business Trust)



Source: OUE Hospitality Trust prospectus dated 1 July 2013

QUESTIONS?

CLE

- If you registered noting that you need CLE the code is **AS34I8A**. Please save this number; you will need this to receive a Certificate of Attendance. You will be contacted within 30-60 days by our CLE administrative team.
- We will process your credits for other states where this program has been approved.
- Questions? Please email Aisha Khan at Aaisha.khan@morganlewis.com

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Bradley K. Edmister represents US, Japanese, and other Asian clients in cross-border mergers and acquisitions (M&A) and capital markets transactions. Fluent in Japanese, Bradley handles a range of public and private M&A matters for both strategic and private equity clients, cross-border joint ventures, and global equity and debt capital markets transactions, including American depositary receipts and global depositary receipts. He also works on Japanese real estate investment trusts and ongoing listing and US Securities and Exchange Commission (SEC) compliance matters for foreign private issuers.



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Joo Khin Ng counsels capital markets and corporate finance clients. Clients seek his commercial skills and ability to bring transactions to the market. Over the past two decades, he has worked on all forms of equity and debt capital-raising transactions as well as pre-listing private equity and strategic investments. He also provides counsel for real estate investment trusts (REIT) and business trust initial public offerings (IPOs). Joo Khin is fluent in Mandarin.

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