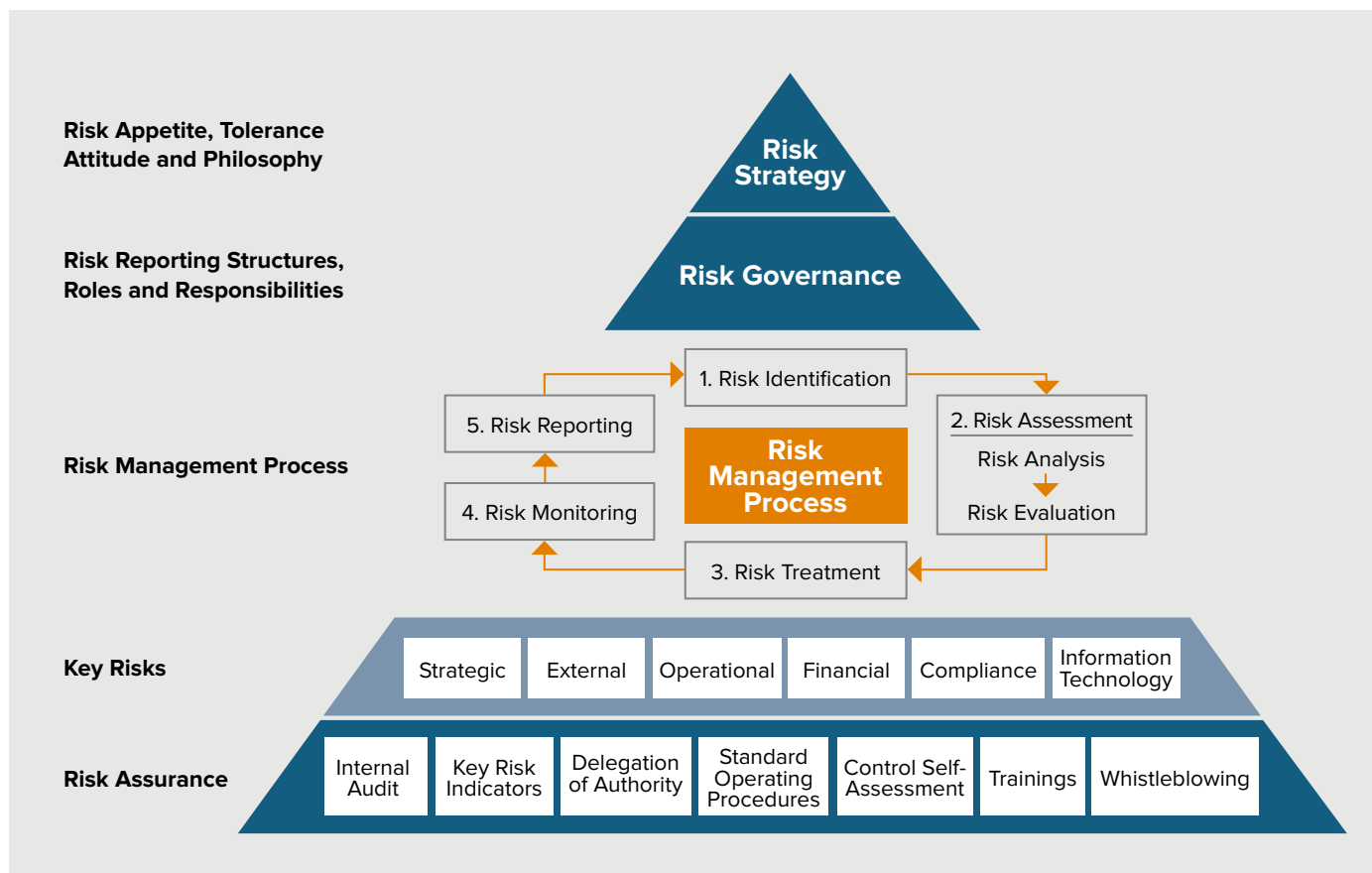


# Risk Management

Risk Management is integral to the Manager's business strategy of delivering sustainable and stable returns. In order to safeguard and create value for Unitholders, the Manager proactively manages risks and embeds the risk management process into the planning and decision making processes.



## Strong Oversight and Governance

The Board is responsible for determining the overall risk strategy and risk governance, and ensuring that the Manager implements sound risk management and internal control practices. The Board also approves the risk appetite and tolerance statements, which set out the nature and extent of risks to take to achieve the Manager's business objectives. The Board is supported by the AC, which comprises independent directors whose collective experience and knowledge serve to guide and challenge management. The AC has direct access to the Sponsor's Risk Management ("RM") department. The AC is updated on a quarterly basis by RM on MLT's portfolio risks.

At MLT, risk management has top-down oversight and bottom-up involvement from all employees. This ensures a risk approach that is aligned with its business objectives and strategies, and integrated with operational processes for effectiveness and accountability.

The Manager's ERM framework is dynamic and evolves with the business. The Sponsor's RM department works closely with the Manager to review and enhance the risk management system in accordance with market practices and regulatory requirements. A control self-assessment ("CSA") framework further reinforces risk awareness by fostering accountability, control and risk ownership.

## Robust Measurement and Analysis

The Manager's risk measurement framework is based on Value-at-Risk ("VaR"), a methodology which measures the volatilities of individual market and property risk drivers such as rental rates, occupancy rates, capital values, interest rates and foreign exchange rates. It takes into consideration changes in market environment and asset cash flows as they occur. To further complement the VaR methodology, other risks such as refinancing, tenant credit and development risks are also assessed, monitored and measured as part of the framework where feasible.

With the VaR methodology, risks are measured consistently across the portfolio, enabling the Manager to quantify the benefits that arise from diversification across the portfolio and to assess risk by country or risk type. Recognising the limitations of any statistically-based system that relies on historical data, MLT's portfolio is further subject to stress testing and scenario analysis to ensure that businesses remain resilient in the event of unexpected market shocks.

## **Risk Identification and Assessment**

The Manager also identifies key risks, assesses their likelihood and impact on business, and establishes corresponding mitigating controls. The information is maintained in a risk register that is reviewed and updated regularly. The key risks identified include but are not limited to:

### **Strategic Risks**

MLT's portfolio is subject to real estate market risks such as rental rate and occupancy volatilities in the countries it operates in and specific factors including competition, supply, demand and local regulations. Such risks are quantified, aggregated and monitored for existing assets and prospective acquisitions. Significant risk profile changes or emerging trends are reported for assessment and/or action.

The risks arising from investment activities are managed through a rigorous and disciplined investment approach, particularly in the area of asset evaluation and pricing. All acquisitions have to be yield-accretive at least in the medium term and meet MLT's internal return requirement. Sensitivity analysis is also performed for each acquisition on all key project variables to test the robustness of the assumptions used. Significant acquisitions are further subject to independent review by the Sponsor's RM department and the findings are included in the Investment Proposal submitted to the Manager's Board for approval. All investment proposals are subject to rigorous scrutiny by the Board (or delegated to the Management Committee).

On receiving the Board's or Management Committee's approval, the investment proposals are then submitted to the Trustee, who is the final approving authority for all investment decisions.

The Trustee also monitors the compliance of the Manager's executed investment transactions with the restrictions and requirements of the Listing Manual of the Singapore Exchange Securities Trading Limited, MAS's Property Funds Appendix and the provisions in the Trust Deed.

New development projects usually take a few years to complete, depending on the project size and complexity. To mitigate the risk of development delays, cost overruns and lower than expected quality, the Manager has put in place stringent pre-qualifications of consultants and contractors, and regular reviews of projects' progress.

### **External Risks**

To mitigate country risks such as economic uncertainties or political turbulence in countries where it operates in, the Manager conducts rigorous country and market research, and monitors economic and political developments closely.

### **Operational Risks**

Comprehensive operating, reporting and monitoring guidelines enable the Manager to manage day-to-day activities and mitigate operational risks. To ensure relevance, the Manager regularly reviews its Standard Operating Procedures ("SOPs") and benchmarks them against industry practices. Compliance with SOPs is monitored by the CSA framework and reinforced through training of employees and regular reviews by the Sponsor's Internal Audit Department. The Sponsor's Internal Audit Department plans its internal audit work in consultation with management, but works independently by submitting its plans to the AC for approval at the beginning of each year.

Loss of key management personnel and identified talents can cause disruptions to the Manager's business operations and hinder the achievement of its business objectives. The Manager has put in place succession planning, talent management and competitive compensation and benefits plans to reward and retain performing personnel.

To deal with catastrophic events such as terrorism and natural disasters, the Manager has put in place and tested a comprehensive Business Continuity Plan to enable it to resume operations with minimal disruption and loss. MLT's properties are insured in accordance with industry norms in their respective jurisdictions and benchmarked against those in Singapore.

Credit risks are mitigated from the outset by conducting thorough tenant credit assessment during the investment stage prior to acquisition. For new and sizeable leases, credit assessments of prospective tenants are undertaken prior to signing of lease agreements. On an ongoing basis, tenant credit is closely monitored by the Manager's asset management team and arrears are managed by the Manager's Credit Control Committee which meets fortnightly to review debtor balances. To further mitigate risks, security deposits in the form of cash or banker's guarantees are collected from prospective tenants prior to commencement of leases.

### **Financial Risks**

Financial market risks and capital structure are closely monitored and actively managed by the Manager, and reported to the Board on a quarterly basis. At the portfolio level, the risk impact of currency and interest rate volatilities on value is quantified, monitored and reported quarterly using the VaR methodology. Refinancing risk is also quantified, taking into account the concentration of the loan maturity profile and credit spread volatility.

# Risk Management

MLT hedges its portfolio exposure to interest rate volatility arising from its floating rate borrowings by way of interest rate swaps.

Where feasible, after taking into account cost, tax and other relevant considerations, the Manager will borrow in the same currency as the underlying assets to provide some natural hedge, or hedge through cross currency swaps for its overseas investments. To mitigate foreign exchange risks and to provide investors with a degree of income stability, a large proportion of rental income received from overseas assets is hedged using forward contracts and secured in Singapore Dollar terms.

The Manager also actively monitors MLT's cash flow position and requirements to ensure significant liquid reserves to fund operations and meet short-term obligations (see Corporate Liquidity and Financial Resources section on pages 82 to 83). In addition, the Manager monitors and mitigates bank concentration risks by having a well-diversified funding base. The limit on gearing is observed and monitored to ensure compliance with Appendix 6 of the Code on Collective Investment Schemes issued by the MAS.

## Compliance Risks

MLT is subject to applicable laws and regulations of the various jurisdictions in which it operates. Non-compliance may result in litigation, penalties, fines or revocation of business licenses.

The Manager identifies applicable laws and regulatory obligations and embeds compliance in day-to-day business processes.

## Information Technology ("IT") Risks

Any system downtime or breach in security may have an adverse impact on the integrity, accuracy and completeness of data and information. The Manager has in place comprehensive policies and procedures governing information availability, control and governance, and data security. In addition, an IT disaster recovery plan is in place and tested to ensure business recovery objectives are met.

## Rigorous Monitoring and Control

The Manager has developed internal key risk indicators that serve as an early-warning system to management by highlighting risks that have escalated beyond established tolerance levels. Management has also established required actions to be taken when risk thresholds are breached.

Every quarter, the Sponsor's RM department presents to the Board and AC a comprehensive report, highlighting key risk exposures, portfolio risk profile, results of stress testing scenarios and status of key risk indicators. The Board and AC are also kept abreast of any material changes to MLT's risk profiles and activities.