LION GLOBAL INVESTORS

Lion-Phillip S-REIT ETF

Low cost, easy access to S-REITs[1]

Lion-Phillip S-REIT ETF is designed to provide investors with a low-cost access to 25[2] high-quality S-REITs that offers a sustainable income stream. It is passively managed to fully replicate the Morningstar® Singapore REIT Yield Focus Index℠ (Index).

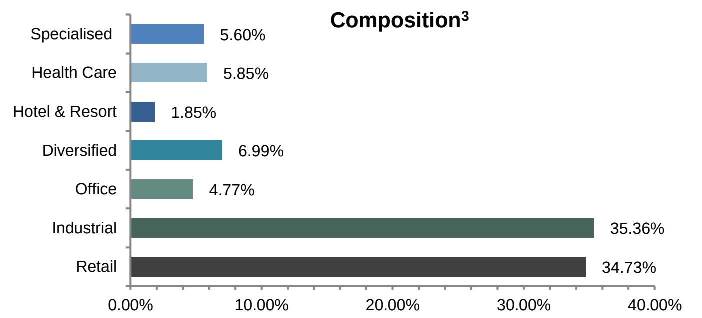
Index Construction Methodology

Selection Universe	Factors Score Calculation	Morningstar® Singapore REIT Yield Focus Index℠
Morningstar ® Singapore REIT Yield Focus Index℠	Assign scores for the following factors: • Quality • Financial Health • Dividend Yield	Portfolio weights based on factors score: Adjusted for liquidity of underlying REIT

The Index is designed to screen for high-yielding REITs with superior quality and financial health.

KEY FACTS

1. Full replication of the Morningstar® Singapore REIT Yield Focus Index℠ ("Index")
2. 25[2] high quality S-REITs
3. Latest distribution of S$0.0260 per unit on ex-date 27 January 2022^ (Note: Distributions are not guaranteed and may fluctuate)
4. Gross current dividend yield of 4.85%[4]
5. Total AUM: S$289.9 million
6. Management fee: 0.50% p.a.
7. SGX stock code: CLR
8. Bloomberg ticker: SREITS SP



Source: Bloomberg, Lion Global Investors, as at 30 June 2022. ^Pay-date of 28 February 2022. Distribution is for the period from 1 July 2021 to 31 December 2021, and comprises of 100% distributable income[5] and 0% capital component. Past payout yields and payment do not represent future payout yields and payments. Distributions are not guaranteed and may fluctuate. Distribution payments shall, at the sole discretion of the Manager, be paid out of either (a) income; or (b) net capital gains; or (c) capital of the fund or a combination of (a) and/or (b) and/or (c). The declaration and/or payment of distributions (whether out of income and/or capital) may have the effect of lowering the net asset value of the fund. For further detailed income statistics, please visit www.lionglobalinvestors.com

Singapore REITs Outlook

Singapore REITs – Understanding the risks

Driven by strong inflationary pressure, the US Federal Reserve (Fed) has turned more hawkish on its monetary policy. On 15 June 2022, the Fed raised its benchmark rate by 0.75%, its most aggressive hike since 1994. According to the dot plot, the Fed's benchmark rate will hit 3.4%, 1.5 percentage point higher than March's estimates[6]. At the same time, the Fed is also shrinking its balance sheet in order to reduce the amount of liquidity in the market. The Fed's tightening has caused the 10-year Treasury yield spike to 3.28% on 21 June 2022 from just 1.51% at the beginning of 2022.

The hike in interest rates affects Singapore REITs on 2 fronts. At the short end of the interest rate curve, an increase in rates will raise the borrowing costs for the sector, putting downward pressure on dividend per unit (DPU) growth. We estimate that for every 100 basis points (bps) rise in floating rates, Singapore REITs will see 1.0% to 8.5% decline in DPU, with Singapore REITs that have lower proportion of fixed rate debt being more adversely affected.

At the longer end of the curve, the yield spread between the US 10-year Treasury yield and Singapore REITs have compressed to 2.5%, lower than historical average of about 3%. One way to interpret this is that Singapore REITs are trading at a premium against the bond market, relative to history.

Balancing risk and reward

While the yield spread suggests that Singapore REITs are not cheap relative to bond investments, we believe that Singapore REITs may not correct as significantly as feared. Apart from rising inflation and interest rates, the world is facing other challenges such as the pandemic, armed conflicts and other geopolitical and social tensions. Singapore is widely seen as a safe haven amidst the chaos and volatility around the world. Indeed, the strength of the Singapore dollars year to date is a strong testament of investors' confidence in our social stability and economic growth prospects. We believe that some investors are willing to accept a lower yield in Singapore REITs because of the sector's stable and visible earnings outlook over the next 2-3 years. This inflow from foreign investors will help to support the sector's valuation in our view.

Singapore is one of the first cities in the region to proactively reopen for business post the pandemic. As of 26 April 2022, Singapore has moved to DORSCON[7] yellow and has eased most of the safe management measures that were previously in place. With fewer restrictions, malls and offices are seeing a strong recovery in physical occupancy. With supply remaining tight, we believe that the commercial landlords are in a good position to raise rents. We believe that this will help to more than mitigate the rise in borrowing costs on the back of the rate hikes.

Moreover, Singapore also has reopened its borders to international travelers. This will boost the hospitality and retail sectors as more tourists visit Singapore. As such, the reopening of Singapore will likely lead to healthy rental income growth. The Singapore REITs sector is currently trading at 1x price to book. We believe that a lot of the short-term headwinds discussed above have been factored in the sector's valuation. We remain positive on the sector in the longer-term prospects as we believe that the strong fundamentals of the Singapore economy will help the sector do well going forward.

Photo Credit: iStock

Notes

[1]S-REITs are securities constituting the Morningstar® Singapore REIT Yield Focus Index℠.

[2]As at 30 June 2022. The number of S-REITs which constitutes the Index may be changed by Morningstar Research Pte Ltd from time to time.

[3]Composition chart does not add up to 100%. Cash and cash equivalents as at 30 June 2022 was approximately 4.85%.

[4]Based on the weighted average 12-month trailing dividend yield of the underlying S-REITs as at 30 June 2022. Past payout yields and payments of the underlying S-REITs do not represent future payout yields and payments.

[5]Distributable income refers to the interest and dividend income, taking into consideration the net realised gains, a collective investment scheme receives from its portfolio holdings and are payable to its investors.

[6]https://www.cnbc.com/2022/06/15/fed-hikes-its-benchmark-interest-rate-by-three-quarters-of-a-point-the-biggest-increase-since-1994.html

[7]DORSCON refers to Disease Outbreak Response System Condition

For more information on the Lion-Phillip S-REIT ETF, please visit: https://www.lionglobalinvestors.com/en/fund-lion-phillip-s-reit-etf.html or email us at contactus@lionglobalinvestors.com.

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Any dividend distributions, which may be either out of income and/or capital, are not guaranteed and subject to the Manager's discretion. Any such dividend distributions will reduce the available capital for reinvestment and may result in an immediate decrease in the net asset value of the ETF.

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