

# RISK MANAGEMENT



It is a-iTrust's policy that the Group will implement a standard risk management approach and methodology across the Group's entities, recognising that the management of risks is integral and essential to achieving strategic goals and business outcomes.

The Group has minimal direct employees. APFT and APMSI act as the Trustee-Manager and Property Manager respectively. Hence the risk management processes and practices will be executed by APFT, APMSI and such other parties providing services to the a-iTrust Group, for or on behalf of the Group.

The Group accepts, as an organisational philosophy, that:

- Management of risk is critical to the governance and management responsibilities at all levels within a-iTrust group (Board, senior management and, ultimately, all staff);
- Guidance for discharge of these responsibilities will be provided via key strategic and operational risk management principles applicable throughout the organisation; and
- External assistance should be engaged periodically to independently verify implementation of this policy and key risk management principles.

Enterprise wide risk management process is put in place to ensure potential risks are identified and key controls to mitigate these risks are established and linked together. The same is continuously assessed, monitored and reviewed in the light of changing circumstances and regulatory requirements and re-aligned as required.

## KEY RISKS & CONTROL MEASURES

### INVESTMENT RISK

Investment risk arises when the Trust develops existing land within the portfolio, or acquires new properties. Such risks encompass market risk, as well as the impact of the investment on the risk parameters on the existing portfolio. The Trustee-Manager adopts the following measures to mitigate investment risk:

- A research-driven investment approach focusing on the relevant national macroeconomic outlook, analysis of the relevant micro real estate markets (including supply and demand, vacancy and rental), and detailed asset analysis;
- Detailed property and technical due diligence prior to acquisition;
- Independent valuation as a guide to the purchase price;
- Detailed evaluation of the impact of the proposed acquisition on the portfolio income, geographical and tenant diversification, and lease expiry profile; and
- Review and approval by the Investment Committee / Board.



## **OPERATIONAL RISK**

The Group has integrated risk management into its day-to-day activities across all functions. These include comprehensive operating, reporting and monitoring controls put in place to manage risks arising from leasing, management and maintenance activities of the Group. The Trustee-Manager monitors and reviews such controls regularly and improves them where necessary.

## **INTEREST RATE RISK**

The Group's exposure to changes in interest rates relates primarily to interest-earning financial assets and interest-bearing financial liabilities. The Group has put in place a cross-currency swap to hedge an existing floating-rate loan at the VCU level denominated in Japanese Yen into fixed-rate Indian Rupee obligations.

## **CURRENCY RISK**

The Group is exposed to foreign currency risk as a result of having operations in two countries. The currencies giving rise to this risk are primarily Singapore Dollar, Japanese Yen and US Dollar given that the Group's functional currency is in Indian Rupee. Whilst the distribution to Unitholders is in Singapore Dollar, the Group's income is in Indian Rupee. To enhance the stability of distribution to Unitholders, the Group enters into forward contracts to hedge a substantial portion of the cash flow it expects to receive from VCUs. The exposure as a result of foreign currency loan at a VCU is also managed through the use of cross currency swaps.

To address the short term operating requirements for currencies other than Indian Rupee, the Group will buy or sell the foreign currency at the prevailing spot rate.

## **CREDIT RISK**

Credit risk is the potential financial loss resulting from the failure of a customer or counterparty to settle its financial and contractual obligations to the Group, as and when they fall due.

The property manager conducts financial assessments on tenants before entering into lease agreements. Tenants are required to place significant amount of security deposits for lease and fit-out rentals. The property manger monitors their account receivable balances on an ongoing basis to minimise the impact of a defaulting customer on the performance of the property.

## **LIQUIDITY RISK**

The Group maintains sufficient cash and cash equivalents to meet the normal operating cash requirement. The Group regularly monitors and observes bank covenants for borrowings.