KEPPEL INFRASTRUCTURE TRUST (KIT)

AN EROSION OF TRUST

25 MARCH 2025

Corporate Monitor Limited

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EXECUTIVE SUMMARY

Incentives drive behavior. Designing a good fee structure is paramount in managing potential conflicts of interests. This is all the more important in Singapore's REIT and Business Trust sector, where the use of external manager and Trustee Manager is the norm. This is in sharp contrast to all for profit companies, where internal management teams manage the businesses for the benefit of all (or most) shareholders.

The model of external manager brings an inherent conflict of interests. This is best illustrated in our study of Keppel Infrastructure Trust (KIT), where the Trustee Manager --- Keppel Infrastructure Fund Management Pte Ltd (KIFM) is 100% owned by Keppel Ltd, whereas KIT is only 18% ultimately owned by Keppel Ltd.

In April 2022, KIT convened an EGM where a new fee structure was approved, although close to 20% of unitholders voted against it. During the EGM, unitholders also questioned the management team on the impact of the change. This is an unusually high **"Against vote"** in Singapore context, where dissent votes of more than 5% is rare, let alone 20%. KIT said the new fee structure would align the interests of KIFM with KIT unitholders, by making two key changes:

- A base fee of 10% of the ***Distributable Income***.
- A performance fee of 25% of the INCREASE in ***Distribution Per Unit***.

In theory, KIFM will earn more fee only if the Distributable Income (DI) and Distribution Per Unit (DPU) increase. The performance fee will encourage KIFM to drive a bigger increase in distribution. This will then be a win-win for both unitholders and KIFM.

In reality, fees paid to KIFM increased massively, while KIT's organic business has seen a decline, and unitholders suffered a loss on their investment in KIT. Total shareholder return was -5.5% over the last 10 years but the negative trend has accelerated since the new fee structure was introduced: -14.5% from FY22 to FY24. So massive is the fee increase that in the 3 years since the fee structure change, fee paid to KIFM amount to S$159m (FY22 to 24), or almost double that of the fees (S$83m) paid in the 6 years prior to the fee structure change! In FY24, the original businesses that KIT owns saw double digit ***declines*** in Funds From Operation (FFO). However, KIT presented a 10.3% gain, which was possible when new acquisitions are included. It is the same story in FY23.

Making accretive acquisitions is a legitimate way to grow but the decline in organic performance raises questions about past acquisitions made by KIT, advised by KIFM. The Marina East Water deal, which Corporate Monitor issued a report in December 2024, is another recent example of non-accretive acquisition in our view.

KIFM also earns a fee when KIT makes an acquisition, based on the total enterprise value, not the investment amount. In the case of Marina East Water, KIT's equity investment amount is S$2 (this is not a typo) but the acquisition fee paid was $1.6m, based on the enterprise value of close to S$323m. Besides fees, more acquisitions could help mask the organic decline in KIT's business.

The new fee structure also gives KIFM wide latitude to declare distributions. In 2023, a special distribution of S$131m (2.33 cents per unit) was declared to "reward" unitholders. This is possible due to a "Capital Optimisation" of S$131m, which KIT never explained. However, according to a DBS research report in November 2023, corroborated by KIT's financials, this was in fact additional debt taken up by KIT's subsidiary in Australia. **KIFM is paid a performance fee of S$33m because of the special distribution! This is not**

counting the higher base fee of $13m from this "Capital Optimisation". For raising debt of $131m, KIFM took away $46m in fees.

Using more debt to pay distribution is pure financial engineering as it is essentially drawing down on capital to pay dividends. Based on KIT's FY24 results, KIT's leverage ratio has deteriorated. Actual leverage is in fact higher as some debts are not included due to the use of JV/associate structure. An example is the debt of $288m in the Marina East Water transaction. Despite KIT raising perpetual securities and new units amounting to $400m in FY24, KIT may soon need to raise additional equity to keep its gearing ratio at a reasonable level. So, unitholders who get paid now will have to pony up more money in a rights issue, or risk dilution. There is no benefit to unitholders but massive fees to KIFM. As an aside, the Australian subsidiary reported a decline in FFO in FY24 due to the higher interest expense and maintenance capex.

Unitholders should also note that the Net Asset Value (NAV) per unit of KIT has been steadily decreasing from 32.5 cents per unit in FY16 to only 14.4 cents per unit in FY24. **If goodwill is excluded, NAV per unit is in negative territory since FY22. Unitholders should therefore question whether the "distributions" received are "return of their capital" or "real investment returns"**.

The advantage that the new fee structure gives KIFM doesn't stop here. **The performance fee has no high watermark provision**. Put simply, KIT's distribution experienced a temporary high in FY23 and KIFM is rewarded handsomely. Without such special distribution, FY24's total distribution declined predictably. However, if KIT's distribution increases in FY25, KIFM will get paid performance fee again, even though the FY25 distribution may still be lower than the level in FY23! In fact, a scenario of up, down, up, down and so on will benefit KIFM very much. Almost all the hedge funds in the world have such high watermark provision to prevent the managers to profit unlimited times when the underlying performance is stagnant over a multi-year period. But this doesn't apply to KIT. The question of a high watermark was raised at the April 2022 EGM but was not given due attention by the Board/Management.

How thoroughly did the board of KIT examine the fee structure when it was proposed in 2022? We note that KIT board had / have members well versed in the world of finance and investments. Concepts such as paying distribution out of additional leverage and not operating cashflow, as well as high watermark, could not be alien to them. **Unitholders have a legitimate question to pose to the KIT Board.**

Another board duty is to ensure that when KIT acquires assets from the sponsor Keppel, that such acquisitions are at arm's length basis. However, as we discovered in the Marina East Water case, all but two of KIT directors abstained from voting, citing conflicts as they also sat on other Temasek companies' boards. Since KIT is sponsored by Keppel, acquisition of assets from Keppel is expected to be common (this is celebrated as an advantage to KIT). Does this mean KIT board members would have to routinely abstain? Should KIT not bring in truly independent board members instead of putting its directors in situations of conflict frequently? Despite the clear acknowledgement of this issue by the KIT Board, disappointingly, the most recently appointed director, Ms Eng Chin Chin, is also sitting on other Temasek companies' board.

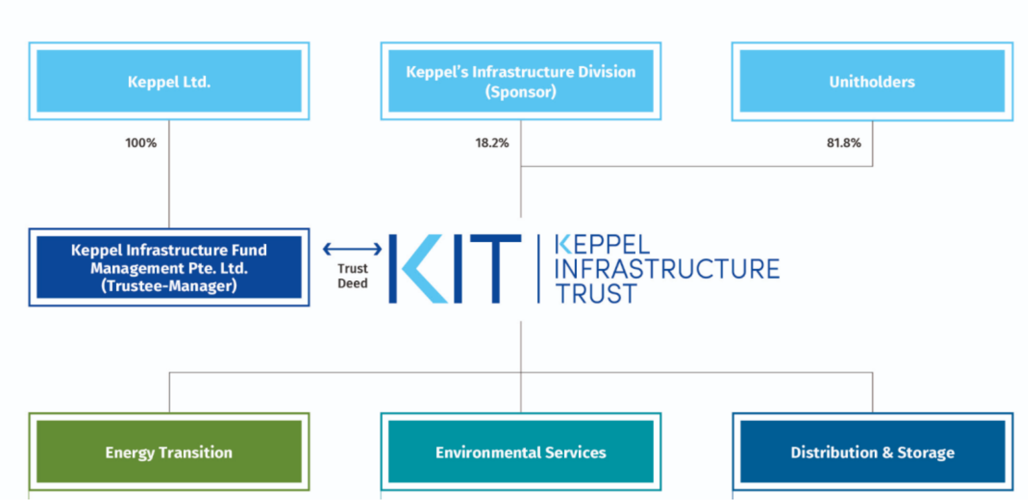
The in-built conflict of an external Trustee Manager setup could also be managed if Keppel balances its interests between a 100%-owned KIFM and an 18%-owned KIT. Here we note that Keppel aspires to be a global asset manager with S$200b funds under management. KIT, along with the many trusts/REITs that Keppel sponsors or controls, as well as the private funds, are very much at the core of this Vision 2030. Profits from asset management are expected to be a pillar, maybe a primary one, to Keppel, which divested most of the offshore and marine business. Unitholders in KIT and other Keppel affiliated REITs will do well to bear this in mind. (Please see CML's report on Keppel's asset management business titled **"Keppel: Strategic Transformation to Asset Manager (Report 3)"** where we highlighted such conflicts of interests.)

It is no accident that close to 20% of unitholders voted against the fee structure in the 2022 EGM.

1. INTRODUCTION

Keppel is one of the most recognized "Singapore Inc" brand names in Asia. Keppel was founded in 1968 shortly after Singapore's independence in 1965. Over the years, Keppel produced multiple listed issuers across various industries, such as: Keppel REIT, Keppel DC REIT, Keppel Land and Keppel Infrastructure Trust.

KEPPEL INFRASTRUCTURE TRUST (KIT) is an infrastructure trust listed in Singapore. KIT is managed by Keppel Infrastructure Fund Management Pte Ltd (KIFM) and is sponsored by Keppel, a global asset manager and operator. The Trustee-Manager, KIFM, has dual responsibility of safeguarding the interests of KIT Unitholders, and managing the business owned by KIT. Although this is a usual setup in Singapore's REIT and Trust sector, there is an inherent conflict of interests between Keppel and the unitholders. KIFM is a wholly-owned subsidiary of Keppel whereas KIT is only 18% owned by Keppel, as illustrated below.



Put simply, fees that KIT pays to KIFM benefit Keppel 100%, but only 18% of the gains at KIT accrues to Keppel. Against this backdrop, how would KIFM balance its allegiance to Keppel versus the KIT unitholders ?

Investors in a Keppel issuer should expect the highest corporate governance standards and a best-in-class management team. Minority investors putting their savings into a Keppel issuer should be confident that there are independent directors looking out for their interests.

Unfortunately, we are about to demonstrate the erosion of this trust when it comes to **Keppel Infrastructure Trust.** *Please see our previous CML report on 8 December 2024 ("KIT – Desalination plant disappears into murky Off Balance Sheet Water")*. The report highlighted the extremely opaque deal structure between parent (Keppel) and 18% associate entity (KIT) as mere financial engineering.

This report will highlight glaring issues with

(i) the level of fees charged by KIT to its investors since changes in the Trustee Manager Fee Structure in FY22;

(ii) frequent accounting changes;

(iii) excessive acquisition fees;

(iv) almost unlimited latitude in re-interpreting financial metrics and decisions on using debt to pay special distribution; and

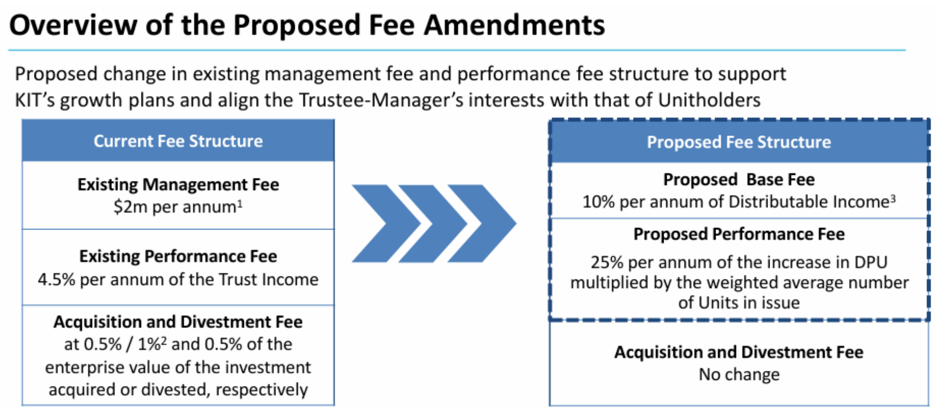
(v) absence of high watermark provision for performance fee.

2. FEES UPON FEES

Charlie Munger famously said: *"Show me the incentives, and I will show you the outcome".*

According to our research, KIFM's incentives are not aligned with those of minority shareholders.
In April 2022, at KIT's EGM, 80.97% of unitholders approved a change to its fee (see: PowerPoint Presentation) proposed by KIFM. Unsurprisingly, 19.03% of shareholders voted against the proposed change. This was the highest percentage of votes against any resolution for KIT since it was established. Unitholders asked a number of questions regarding the proposed change in fee structure but were arguably not aware of the full implications of this change, which only became evident subsequently.

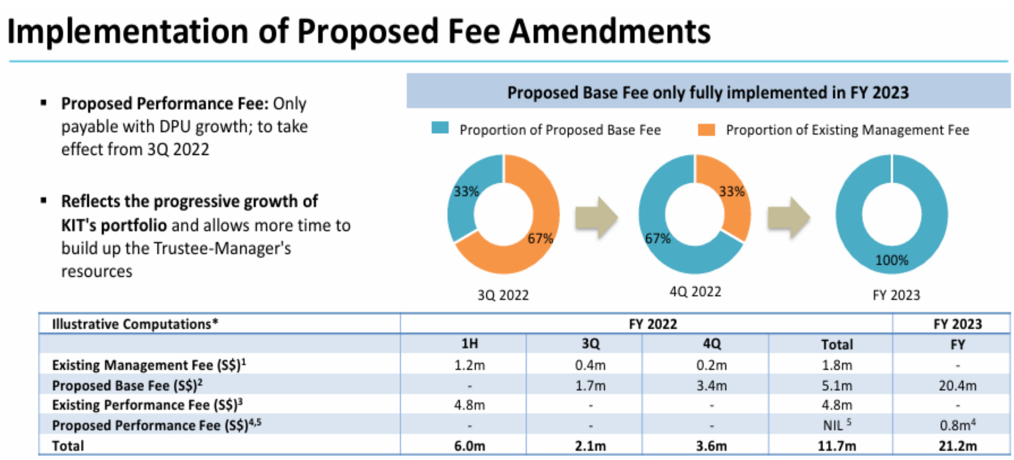
The goal of the proposed changes sounded very well intentioned for minorities: *"proposed change in existing management and performance fee structure to support KIT's growth plans and* ***align the Trustee-Manager's interests with that of Unitholders"***



Source: KIT EGM presentation slides

Actual Fees Sky-Rocketed After the Fee Structure Change

During the 2022 EGM, the board showed a hypothetical scenario (for illustrative purposes) how much the fee would be for FY23 under this new formula:



Illustrative Computations*	FY 2022				FY 2023
	1H	3Q	4Q	Total	FY
Existing Management Fee (S$)[1]	1.2m	0.4m	0.2m	1.8m	-
Proposed Base Fee (S$)[2]	-	1.7m	3.4m	5.1m	20.4m
Existing Performance Fee (S$)[3]	4.8m	-	-	4.8m	-
Proposed Performance Fee (S$)[4,5]	-	-	-	NIL [5]	0.8m[4]
Total	**6.0m**	**2.1m**	**3.6m**	**11.7m**	**21.2m**

Source: KIT EGM presentation slides

The actual paid out Trustee-Manager Fees in FY23 as reported in KIT's financial statements were massively higher, at S$56.6m, versus the S$21.2m projected at the 2022 EGM. The actual was 2.67 times the amount projected! This excluded the performance fee of some $13m recognised in FY24 which pertained to FY23. **Including this additional $13m performance fee, total Trustee-Manager fees for FY23 is a staggering $70m.**

Although the new fee structure was to be fully implemented in FY23 and progressively implemented in FY22, the actual fee in FY22 was S$48.9m (being $41.5m recognised in profit or loss of KIT and $7.4m being capitalized as cost of investment), versus the S$11.7m projected at the EGM. *(source: 2023 Annual Report page 179 footnote 42):*

42. TRUSTEE-MANAGER'S FEES

	GROUP	
	2023 $'000	2022 $'000
Base fee	**37,314**	9,550
Performance fee	**19,070**	4,819
Acquisition fee	**184**	27,088
	56,568	41,457

Our research shows that the massive increase in fees in FY22 and FY23 is not an aberration. The table below shows the fees over the last 9 years, from FY16 to FY24.

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
	S$'m	S$'m	S$'m	S$'m	S$'m	S$'m	S$'m	S$'m	S$'m
Base Fee	2.8	2.6	2.6	2.6	2.3	2.3	9.6	37.3	24.1
Performance fee	6.9	7.2	7.2	12.6	9.6	9.5	4.8	19.1	13.0
Acquisition /Divestment Fees				11.2	0.1	0.3	27.1	0.2	5
Acq fee capitalised						3.1	7.4	-	11
TOTAL FEES	**9.7**	**9.8**	**9.8**	**26.4**	**12.0**	**15.2**	**48.9**	**56.6**	**53.1**

Aggregate fees for 6 years (FY2016 to FY2021)
S$$82.9M

Aggregate fees for 3 years (FY2022 to FY2024)
S$158.6M

In the 3 years (from FY22 to FY24) post the change in fee structure approved in April 2022, total fees paid by KIT add up to S$159m! This is almost double the total fees (S$83m) paid in the preceding 6 years! The base fee alone has grown from approximately S$2m per annum before the change, to $37m in FY23 and S$24m in FY24.

Who is Footing the Bill for the Much Higher Fee?
In short, it is the KIT unitholders who are footing the bill for the higher fees. The fees are taking up a very high proportion of **Distributable Income ("DI")**. In FY24, the total fees collected totalled a whopping 26% of DI! Compare this to FY20 or FY21, prior to the new fee structure taking effect, total fees were between 5-8% of DI.

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
	S$'m	S$'m	S$'m	S$'m	S$'m	S$'m	S$'m	S$'m	S$'m
Distributable Income	149	144	141	189	226	192	222	317	203
Total fees as a % of Distributable Income	6%	7%	7%	14%	5%	8%	22%	18%	26%

Pay for Performance?

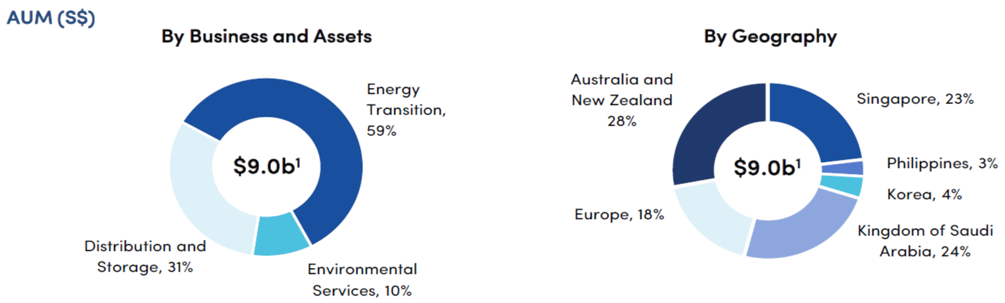
Given the substantial increase in fees, has KIT's asset performance or share price or distribution improved in a commensurate way? We will examine these questions in the following sections.

3. IS THE TRUST ACTUALLY GROWING?

KIT's underlying performance actually deteriorated significantly.

Overview of KIT's business

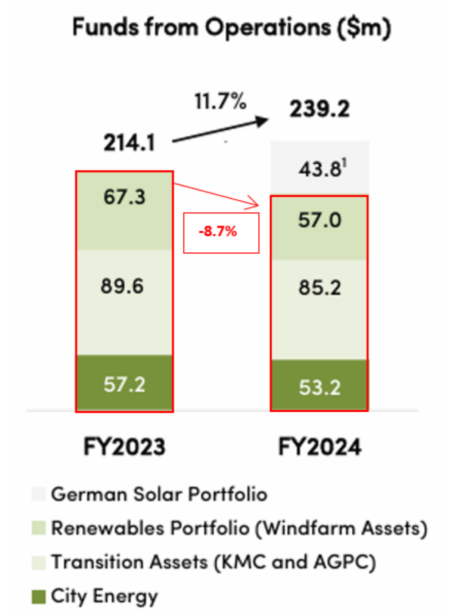
The portfolio of KIT is divided in three business areas:



Source: KIT FY24 results presentation

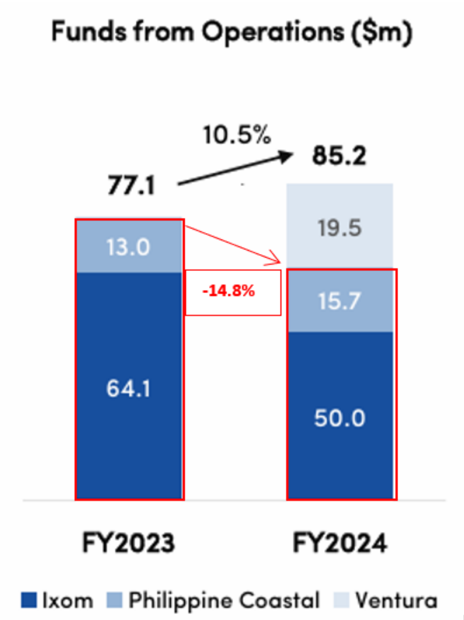
A) ENERGY TRANSITION

If we look at the most recent unaudited FY24 results presentation, we can see that the largest segment of the business, **Energy Transition**, actually saw its FFO (Funds from Operations) from existing assets declined **-8.7% from S$214.1 million in FY23 to S$195.4 million in FY24.** It seems that every existing asset experienced decline in FFO! We marked this in red in the bar chart below. In the company presentation, this decline is masked by including the German Solar Portfolio acquisition announced in December 2023.



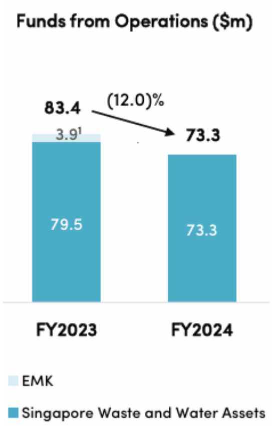
B) DISTRIBUTION & STORAGE

FFO from existing assets declined -14.8% from S$77.1 million in FY23 to S$65.7 million in FY24. We marked this in red in the bar chart below. In the company presentation, this decline is again masked by including the acquisition of a bus company, Ventura in Melbourne Australia, as announced in June 2024.



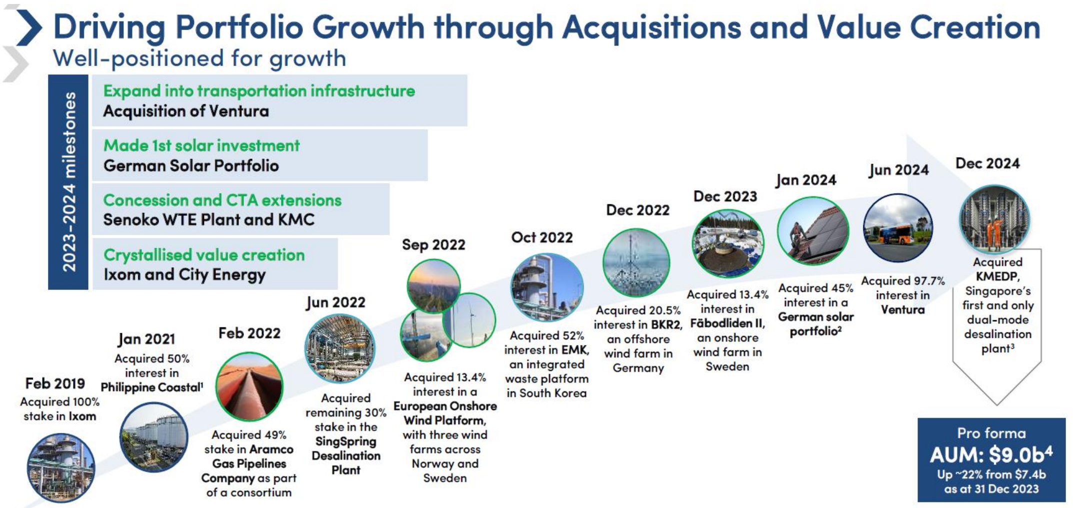
C) ENVIRONMENTAL SERVICES

The smallest segment, Environmental Services, saw a decline in FFO and completed no acquisitions in FY24. FFO from continuing operations declined -12% from S$83.4 million in FY23 to S$73.3 million in FY24.



KIT Needs To Grow, But Whom Does It Benefit?

Given the organic decline of FFO at KIT, KIFM needs to keep finding new acquisition targets. The underlying business of KIT is weak and deteriorating; it can only mask this by doing ever more acquisitions. Since 2019, KIT has completed 11 acquisitions.



Source: KIT FY24 results presentation

In the REIT and Trust sector, acquisition fee is standard feature. KIFM is paid an acquisition fee, which is 0.5% (for transactions with the Sponsor) or 1% (for transactions with third parties) of the entire enterprise value of an acquired asset. However, a liberal application of the fee can hurt KIT unit holders.

KIT would pay nominal amount for an asset but pay a sizeable acquisition fee. For the acquisition of Marina East Water Pte Ltd, announced in November 2024, **KIT paid $2 for the equity investment but paid an acquisition fee of $1.6m on the entire enterprise value (S$363m) of Marina East Water!**

> As at the date of this Announcement, the enterprise value of MEW is approximately S$323 million, which comprises the Sale Shares Consideration (as defined below) of S$2.00 payable by the Trustee-Manager to KIHPL at Completion, the KIT Loan of S$35,000,000 to be provided by KIT to MEW at Completion, and the amount of S$288,240,894 which remains outstanding on the Facility as at the date of this Announcement based on the amortisation of the Facility.

One of KIT's investments produced no FFO within 2 years of acquisition. In August 2022, KIT, together with Keppel and Keppel Infrastructure, bought 100% of Eco Management Korea, one of the largest waste-to-energy companies in Korea, in a S$666m transaction. KIT has 52% stake. In FY24, FFO from Eco Management Korea was nominal. The FY23 FFO was S$3.9m. KIT has not explained why.

Should KIT acquire financial asset play and pay hefty fees for it? The Saudi Aramco pipeline deal is just a financial asset, according to KIT's financial statements. KIFM gets an acquisition and other fees even when it provides no value add. KIT paid US$250m and owns an indirect minority and non-controlling stake (size of equity stake NOT disclosed) alongside Blackrock and Hassana Investment Company, both financial investors. These investors will own 49% of a company which will lease the usage right of the pipeline for 20 years. Aramco retains legal title and full operational control of the pipeline. Yet KIFM is paid an acquisition fee, plus base fee and performance fee, when the success or otherwise of the asset has nothing to do with KIFM. **Based**

on the financial statements of KIT, acquisition fee of close to $27m was incurred. This financial asset, valued at S$363m in FY23, generated a DI of S$48.8m from this asset, so KIFM gets a base fee of S$4.9m. This works out to a recurring fee of 1.3%.

This is not the only example. For the wind farm portfolio in Norway, Sweden and Britain, KIT together with Keppel, teamed up with Norway's largest pension fund and Munich Re to acquire 49% of this portfolio. Fred. Olsen Renewables AS, a leading developer and operator of renewable energy assets, has 51% stake. This S$225m investment is no different in nature to the Saudi Aramco project. KIT has no operational role and in fact is only one of the investors in a consortium with other financial investors.

<u>What is an "infrastructure" play?</u> Is Ventura, a bus company in Australia that KIT acquired in FY24, an infrastructure asset? As in Singapore, bus services in Melbourne are provided by private operators on fixed term contracts with the government. Ventura's contracts expire in 2028. There is no certainty that Ventura's contracts would be renewed. Even if it does, the economics could be worse due to competition. ComfortDelgro has to contend with such a business model. *For more details, please refer to Corporate Monitor's report on ComfortDelgro.* Investors don't generally consider ComfortDegro as an infrastructure business. If they do, they are better off buying the shares of ComfortDelgro, for which they bear no acquisition, base fee and performance fee.

Ultimately, no one should begrudge KIFM's fee if unitholders enjoy a good return on their investment in KIT. So how does that investment return look?

4. A DECADE OF POOR PERFORMANCE

Unfortunately, for unitholders, investment return on KIT is negative, more so after the fee structure change.

Over the past ten years, the answer is in the chart below. (note: yellow D denotes distribution payment). The total return over the past ten years, inclusive of distributions, was -5.5%. (source: LSEG Workspace)

How did unitholders fare since the revised fees (3-year period from 2022 to 2024) came into place?

The answer is in the chart below. (note: yellow D denotes distribution payment). The total return over the three-year period, inclusive of distributions, was -14.47%. (source: LSEG Workspace)

In summary, unitholders suffered even poorer return on their investment after the fee structure change in 2022.

Net Asset Values (NAV) of KIT weren't any better.

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
	S$'m	S$'m	S$'m	S$'m	S$'m	S$'m	S$'m	S$'m	S$'m
NAV per unit (in cents)	32.5	29.9	27.3	26.5	22.9	22.3	19.3	15.8	14.4
NAV per unit (if Goodwill is excluded)	21.2	18.6	16.0	9.8	5.2	5.7	-3.6	-4.3	Not available

NAV per unit of KIT has been steadily decreasing from 32.5 cents per unit in FY2016 to only 14.4 cents per unit in FY2024. If goodwill is excluded, NAV per unit is in negative territory since FY22. Unitholders should therefore question whether "distributions" received are "return of their capital" or "real investment returns".

5. DI, FCFE AND FFO: LET'S ADJUST UNTIL WE SHOW GROWTH!

Financial disclosure at KIT is appalling. KIT has, over the years, changed key criteria on how it measures its performance. KIT's historical financials are almost impossible to reconcile due to the frequent changes in standards and benchmarks used.

In this report, Distributable Income ("DI") is featured prominently as the base fee is determined as 10% of Distributable Income. Distributable Income is defined by KIT as follows:

Distributable Income	:	Free Cash Flow to Equity for the relevant period. Free Cash Flow to Equity is derived from Funds from Operations (see definition of Free Cash Flow to Equity). Distributable Income is therefore derived from Funds from Operations. Where reported by KIT (starting from the release of KIT's Key Business and Operational Updates for the first quarter ended 31 March 2022), "Free Cash Flow to Equity" will be re-named to "Distributable Income"

Prior to the introduction of this term "Distributable Income" in FY22, the company uses a term known as "Free Cash Flow to Equity (FCFE)". FCFE is defined by KIT as:

Free Cash Flow to Equity or FCFE	:	FFO less mandatory debt repayment and other charges, credits or adjustments as deemed appropriate by the Trustee-Manager. Where reported by KIT (starting from the release of KIT's Key Business and Operational Updates for the first quarter ended 31 March 2022), "Free Cash Flow to Equity" will be re-named to "Distributable Income"

And FFO referred to above is defined by KIT as:

Funds from Operations or FFO	:	Profit after tax adjusted for reduction in concession/ lease receivables, transaction costs, non-cash interest and current cash tax, maintenance capital expenditure, non-cash adjustments and non-controlling interest adjustments

It is worthy to note the following:

- **Distributable Income / FCFE, being a determinant of the fees payable to the Trustee Manager, should be an objectively determinable quantum. Why should it be allowed "any adjustments as deemed appropriate by the Trustee-Manager"?**
- **By definition, FCFE/DI should be less than FFO since FFO must be used to service KIT's debt obligations before the remaining amounts are "distributable".**

The latest highlight of the opaque financial results is the FY24 results presentation.

On page 16 of the said presentation deck, we find the following overview of 2H24 vs 2H23:

Underlying distributable income is down a whopping -38.7% but after "adjusting" for one-offs and timing differences, KIT shows 14.7% growth.

S$'000	2H 2024	2H 2023	+/(-) %	Remarks[1]
Energy Transition	66,728	50,034	33.4	Please refer to slide 15 for the variance analysis.
Environmental Services	32,359	44,861	(27.9)	Please refer to slide 15 for the variance analysis.
Distribution & Storage	69,097	31,521	>100	Please refer to slide 15 for the variance analysis.
Asset Subtotal	168,184	126,416	33.0	
Corporate	(55,451)	(73,713)	(24.8)	Comprises Trust's expenses and distribution paid/payable to securities holders, management fees and financing costs.
Capital Optimisation	-	131,164	N.M.	Special distribution in 2H 2023 of $131.2m.
Distributable Income	112,733	183,867	(38.7)	
Distributable Income (after adjusting for one-offs and timing differences)	108,908	94,985	14.7	▪ 2H 2024 DI would be $108.9m after adjusting for upfront financing fee (-$3.6m) and PCSPC loan drawdown for capex (-$0.7m) net of base fees adjustment (+$0.4m). ▪ 2H 2023 DI would be $95.0m after adjusting for capital optimisation (-$131.2m) net of upfront financing fee (+$11.2m), base fees adjustment (+$12.0m) and performance fees (+$19.1m). ▪ Higher 2H 2024 Distributable Income (after adjusting for one-offs and timing differences) is mainly attributed to positive contribution from new acquisitions (+$26.9m), partly offset by lower contribution from Senoko WTE (-$10.1m) and extension capex incurred (-$3.7m).

1. The variance analysis should be made with reference to prior year comparative.

If we look at the FY24 vs FY23 comparison we see a similar scenario: Underlying distributable income is down a whopping -35.7% but after "adjusting" for one-offs and timing differences, KIT shows 4.3% growth.

S$'000	FY 2024	FY 2023	+/(-) %	Remarks[1]
Energy Transition	150,381	147,706	1.8	Please refer to slide 17 for the variance analysis.
Environmental Services	69,968	83,728	(16.4)	Please refer to slide 17 for the variance analysis.
Distribution & Storage	99,081	73,092	35.6	Please refer to slide 17 for the variance analysis.
Asset Subtotal	319,430	304,526	4.9	
Corporate	(115,699)	(118,932)	(2.7)	Comprises Trust's expenses and distribution paid/payable to securities holders, management fees and financing costs.
Capital Optimisation	-	131,164	N.M.	Special distribution in FY 2023 of $131.2m.
Distributable Income	203,731	316,758	(35.7)	
Distributable Income (after adjusting for one-offs and timing differences)	218,742	209,712	4.3	▪ FY 2024 DI would be $218.7m after adjusting for upfront financing fee (+$2.9m) and performance fee (+$13.0m) net of PCSPC loan drawdown for capex (-$0.7m) and base fees adjustment (-$0.2m). ▪ FY 2023 DI would be $209.7m after adjusting for BKR2 debt repayment (-$22.4m) and capital optimisation (-$131.2m) net of upfront financing fee (+$13.4m), base fees adjustment (+$14.0m) and performance fee (+$19.1m). ▪ Higher FY2024 Distributable Income (after adjusting for one-offs and timing differences) is mainly attributed to positive contribution from new acquisitions (+$36.6m), partly offset by lower contribution from Senoko WTE and windfarms (-$22.5m in total) and extension capex incurred (-$3.7m).

1. The variance analysis should be made with reference to prior year comparative.

Given the odd accounting, we went back in time and found a similar pattern: whenever DI is down, management adjusts and excludes/includes one-offs until it shows …growth!

This is again clearly demonstrated in the 1H24 presentation:

Distributable Income (DI)

S$'000	1H 2024	1H 2023	+/(-) %	Remarks
Energy Transition	**83,653**	97,672	(14.4)	
- City Energy	**20,987**	32,185	(34.8)	Fuel cost under-recovery due to timing of fuel cost pass through ($9.7m impact) and higher maintenance capex ($2.1m) for 1H 2024
- Transition Assets (KMC and AGPC)	**40,488**	30,617	32.2	Resumption of KMC's DI after capital restructuring ($17.2m) partly offset by marked to market gain from unwinding of interest rate swaps at AGPC in 1H 2023 ($7.4m)
- Renewables Portfolio (wind farms)	**14,917**	34,870	(57.2)	1Q 2023 debt repayment ($22.4m) was funded by retained cash at BKR2 prior to acquisition completion. BKR2's 1Q 2024 debt repayment was $22.3m
- German Solar Portfolio	**7,261**	-	NM	Contributions from the first, second and third close of the acquisition
Environmental Services	**37,609**	38,867	(3.2)	
- Singapore Waste and Water Assets	**37,491**	35,750	4.9	Lower debt repayment for the SingSpring Desalination Plant
- EMK	**118**	3,117	(96.2)	Due mainly to phased retrofitting works undertaken for plastics recycling business
Distribution & Storage	**29,984**	41,571	(27.9)	
- Ixom	**24,009**	37,102	(35.3)	Higher incremental finance cost ($7.8m), maintenance and growth capex ($10.5m), net of lower tax paid ($11.1m) for 1H 2024
- Philippine Coastal	**3,549**	4,469	(20.6)	Growth capex and one-off upfront financing costs (totalling $4.2m)
- Ventura	**2,426**	-	NM	Contribution from acquisition completed on 3 Jun 2024
Asset Subtotal	**151,246**	178,110	(15.1)	
Corporate	**(60,248)**	(45,219)	33.2	Comprises Trust's expenses and distribution paid/payable to securities holders, management fees and financing costs.
Distributable Income	**90,988**	132,891	(31.5)	**1H 2024 would increase by 2.1% y-o-y to $117.8m**, after adjusting for one-offs ▪ 1H 2024 DI would be $117.8m after adjusting for performance fees ($13m), growth capex ($8.9m) and upfront financing fee ($6.5m) net of base fees ▪ 1H 2023 DI would be $115.4m after adjusting for BKR2 debt repayment ($22.4m), upfront financing fee ($2.2m) and growth capex ($0.7m) net of base fees

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It seems that KIT is just **randomly subtracting and adding expenses and fees that are inconvenient for KIFM**. As highlighted by the red arrow above, management is adjusting for the base fee and performance fees it is paying itself. These are real costs paid by unitholders and should never be adjusted.

Are such adjustments done to confuse and obfuscate the true underlying performance of KIT?

6. Other Questionable Fee Practices

KIFM has earned a substantial increase in fees charged to KIT, while delivering neither improved business performance by way of organic FFO or investment returns for unitholders. How did this happen?

The answer lies in the almost unlimited ability of KIFM to make adjustments to whatever metric it deems appropriate. As we have seen, making adjustments is what KIFM has done frequently.

KIT paid distributions not from retained earnings or operating cash flows but from increased borrowings at Australian subsidiary IXOM

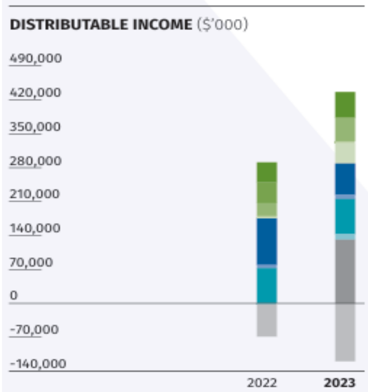
In FY23, KIT reported a special distribution of 2.33 cents per unit, amounting to an estimated $131m; as a result, KIFM is "entitled" to a performance fee of 25% of this "increase in distribution per unit" which amount to $33m. Whilst the FY23 only reflected a performance fee of some $19m, the additional performance fee of some $13m is recognized by KIT only in FY24. The special distribution was hailed as a special bonanza for unitholders. However, as we will find out, this is a troubling practice.

Record Distributions

6.19 cts

KIT paid a special distribution of 2.33 cents per Unit in November 2023 with the crystallisation of value creation efforts. Total DPU for FY 2023 saw a significant 62% increase to 6.19 cents, up from FY 2022's 3.82 cents. Excluding the special distribution, KIT's DPU would see a steady increase of 1% to 3.86 cents for the year.

What is the source of cash for such special distribution?



	2022	2023
Energy Transition		
City Energy	40,274	52,730
KMC[1]	43,115	–
Aramco Gas Pipelines Company	26,533	48,817
European Onshore Wind Platform	4,875	3,005
BKR2	870	43,154
Distribution & Storage		
Ixom	95,678	64,134
Philippine Coastal	6,932	8,958
Environmental Services		
Waste and Water Assets	72,270	72,296
EMK	(1,979)	11,432
Trust and Corporate Entities		
Capital Optimisation	–	131,164
Others	(66,075)	(118,932)
Total	222,493	316,758

The breakdown of Distributable Income as included in the FY23 Annual Report is reproduced above and included therein is a significant "Capital Optimisation" amount of some $131m, without due explanation.

According to a research report by DBS dated 6 November 2023, Capital Optimisation is in fact additional debt financing, see below extract:

> *What is the "capital optimisation?" Essentially, this is a partial crystallisation of the value created by KIT's management from growing EBITDA at Ixom and CityEnergy, which has enabled the trust to refinance borrowings with upsized credit facilities on the back of much stronger EBITDA levels. The capital optimisation concluded this year has yielded S$273m in funds for the trust, part of which (S$142m) has been earlier used to pay down bridge loans taken to fund acquisitions completed in FY22, and the remaining S$131m is now being used to fund the special distribution for unitholders. We believe the timing of the special distribution ties in with the successful refinancing completed at Ixom recently, where we have seen 52% growth in EBITDA from FY19-23 levels, driven by organic and inorganic factors, which has allowed the trust to optimise capital structure there and share some of the gains with unitholders. This debt was drawn down to finance the payment of special dividends.*

So it was apparent that KIT used debt to "juice" the distributable income to S$317m in FY23, and KIFM then collects a 10% base fee and a performance fee of 25% of the increase in Distribution Per Unit! We find the practice extremely egregious for two reasons:

- Distribution from an infrastructure trust, whose assets are typically of fixed lives, should rightfully come from actual operating cashflow. To pay distribution out of additional borrowings (financing cash flow) is akin to consuming controlled substance for a temporary high.
- The additional borrowing puts the underlying assets at greater financial risk and lowers the net cashflows. Already, IXOM's FFO in FY24 was 22% lower year on year due to higher interest expense and higher maintenance capex, according to KIT's result presentation.

Based on the latest company disclosure (p19 in FY24 results presentation), KIT has seen a **sharp deterioration in key debt and gearing metrics, even without including those unconsolidated debt of its associates/joint venture, such as the $288m debt associated with Marina East Water**. In fact, the **group's** interest cover is only 2.2x, whereas the table below shows the **Trust's** interest cover as 7.0x.

Balance Sheet (S$'m)	31 Dec 2024	31 Dec 2023
Cash	457	483
Borrowings	2,989	2,717
Net debt	2,532	2,234
Total assets	6,186	5,617
Total liabilities	4,208	3,828
Net Debt / EBITDA	5.4x[2]	4.8x
Net Gearing[3]	40.9%	39.8%
Interest Coverage Ratio	7.0x	15.0x[4]
Weighted Average Cost of Debt	4.51%	4.25%

KIT has a self-imposed 45% net gearing ratio limit which means a dilutive large capital raising is likely on the cards in FY25.

Viewed in this light, KIT is essentially paying distribution out of its capital, because sooner or later, it has to raise new equity. The temporary high was packaged as a bonanza to unitholders, who will either pony up more money to subscribe for the rights issue, or suffer a dilution. Only KIFM stands to benefit, via the higher base fee and even higher performance fee.

No High Watermark for Performance Fee

KIFM gets to double or triple dip on performance fees from KIT, without producing any increase in FFO or DI over a multi-year period, because KIT's performance fee did not include a high watermark provision.

A high watermark is a standard feature for hedge funds, which are already notorious for their high fees. According to research by bFinance, 92% of global hedge funds adopt a high watermark. KIT should be compared to a hedge fund as it uses a similar fee structure with a base fee + performance fee component.

An illustrative example of the impact of having a high watermark versus no high watermark:

	FYx1	FYx2	FYx3	FYx4
DPU	3.00	3.50	2.50	3.00
Number of units	1,000	1,000	1,000	1,000
Performance fee, without high watermark	NA	125	Nil	125
Performance fee, with high watermark	NA	125	Nil	Nil

In the above example, performance fee of 25% x 500 = $125 would be payable in FYx2. In FYx3, no performance fee is paid as the DPU is lower than FYx2. However, in FYx4, although the DPU is exactly the same as FYx1, a performance fee amounting to 25% x 500 =$125 again becomes payable if there is no high watermark provision.

Had a high watermark been established, instead of paying performance fee in both FYx2 and FYx4, performance fee is only payable in FYx2.

Not having a high watermark could have expensive consequences for KIT unitholders, bearing in mind that KIT has more than 6 billion units in issue at the end of FY2024.

7. WHERE IS THE BOARD OF DIRECTORS?

Companies are supposed to have checks and balances. Management is controlled by a board of directors where the majority of members should be considered "independent".

On page 191 of the FY23 Annual Report (the last available annual report as of this writing) stipulates:

*"Independent Judgment: All directors of the Trustee-Manager (the Directors**) are fiduciaries who are expected to act objectively and exercise independent judgment in the best interests of KIT** and hold Management accountable for performance. When reviewing Management's proposals or decisions, the Directors bring their objective independent judgement to bear on business activities and transactions involving conflicts of interest and other complexities.* ***All Directors have discharged this duty consistently well".***

With the exception of Ms Christina Tan Hua Mui, all other 6 directors (as of 31 December 2024) considered themselves as **Independent**.

Many of KIT board members are from the finance industry so concepts like high watermark could not be alien to them. As accomplished financial professionals, they also ought to understand the risk of raising additional debt to pay special distribution.

Should the Board hold management to account for the fees, which have grown to exorbitant proportion, without delivering commensurate performance?

CML reminds the trustee-manager that the Business Trusts Act imposes a duty on the trustee-manager to act in the best interests of unitholders and to give priority to interests of unitholders where these conflict with the trustee-manager's own interests.

The conflicts of interests extend beyond fees. Keppel is the sponsor of KIT, so acquisition of assets from Keppel is a regular occurrence. Yet in the most recent acquisition of Marina East Water, all but two of the independent directors of KIT abstained from voting. They all cited their other roles with Temasek companies. Despite the clear acknowledgement of this issue by the KIT Board, disappointingly, the most recently appointed director, Ms Eng Chin Chin, is also sitting on other Temasek companies' board.

8. CONCLUSION

Our findings pose many questions about the corporate governance and practice of management at KIT.

It is crystal clear to us that the changes approved in the FY22 EGM were extremely beneficial to the trustee manager's compensation but much less so to unitholders. The unit price performance of KIT has been dismal since the changes were approved. The organic business performance of KIT has similarly declined in FY24. Yet, since the change in the fee structure in 2022, total fees paid to KIFM has increased massively.

As we have shown in earlier sections, the total fees paid to KIFM in the 6 years before 2022 was roughly 50% of the fees paid in the 3 years hence! Fees made up 26% of DI in FY24, when it was 8% in FY21. Ironically, the poor organic business performance incentivized management to resort to more acquisitions to show growth. (In the meantime, management has also been aggressive in changing definitions of financial metrics and making adjustments to convey a picture of growth when none exist.) It certainly did not help KIT unitholders that KIFM charges fee on the entire enterprise value of the acquisition instead of the actual investment amount and with no clear criteria as to what constitutes "acquisition", such as an acquisition of a financial asset.

It is more alarming that additional borrowing was taken out at its Australian subsidiary to fund its special distribution and in the process enriching KIFM enormously. The trust document gives KIFM almost unlimited latitude to define any financial metric, which allowed such aggressive distribution to be made.

To add further injury to KIT unitholders, there is no high watermark provision for the performance fee. This allows KIFM to be paid performance fee multiple times WITHOUT any increase in DPU over a multi-year period.

The external manager model has an inherent conflict of interests. In practice, such conflict is tempered with proper corporate governance at two levels. Firstly, the board of directors, most of whom are independent, has a fiduciary duty to the unitholders to ensure that the Trustee-Manager fee structure is fair and reasonable. Based on the observations since the fee change, it is evident to CML that the directors need to provide more justifications in allowing such egregious fee structure to be recommended at the 2022 EGM. Secondly, Keppel, being the 100% owner of KIFM and 18% owner of KIT, has a Singapore Inc brand name to ensure there is a proper balance of interests in both entities. However, it is also Keppel's Vision 2030 to grow its asset management business, and the attendant profit thereof. In Corporate Monitor's third report on Keppel's asset management business titled ***"Keppel: Strategic Transformation to Asset Manager (Report 3)"***, we specifically highlighted such conflicts of interests.

In conclusion, KIT's fee structure is grossly unfair to unitholders. Rather than aligning the interests of KIFM to those of unitholders, the fee structure promotes the interests of KIFM to the detriment of unitholders. As our appendix shows, KIFM's profit before tax in FY23 reached S$35m, or 7 times higher than the profit before tax of S$5m in FY21, prior to the new fee structure. We also note such substantially higher profit is after KIFM paid a much higher admin and corporate fee to Keppel, from S$4m in FY21 to S$15m in FY23.

APPENDIX: A PEEP INTO KIFM's FINANCIALS

In the March 2022 circular for the EGM, one of rationales for the fee structure was to widen and deepen the talent pool. Specifically, this was to expand global reach and talent pool in deal origination, execution and operational improvements. The new fee structure will also help to establish overseas offices to broaden reach, diversify and originate close to source.

Did KIFM have such an increase in costs such that the fee adjustment was necessary? We found instead that KIFM has posted vastly improved profitability since the new fee structure was implemented. Profit before tax in FY22 and FY23 was S$33m and S$35m respectively, which was 7 times higher than the profit before tax of S$4-5m in each of FY20 and FY21! The staff cost and other expenses did not go up materially. So it was not clear the increased fee paid by KIT helped to broaden and deepen KIFM's talent pool or to establish overseas offices.

One KIFM expense did go up substantially: admin and corporate fee to Keppel Group. From around S$4m in each of FY20 and FY21 to S$15m in FY23.

$'000	FY19	FY20	FY21	FY22	FY23
Revenue	26,660	12,282	15,454	48,964	56,626
Staff costs	(3,491)	(3,721)	(5,127)	(4,668)	(5,660)
Admin and corporate fee charged by Keppel Group	(6,440)	(3,836)	(4,333)	(10,472)	(14,980)
Director fees	(476)	(628)	(723)	(697)	(595)
Other expenses	(332)	(406)	(380)	(406)	(601)
Other income	114	394	48	100	75
Net Profit before tax	**16,035**	**4,085**	**4,939**	**32,821**	**34,865**
Profit Margin	**60%**	**33%**	**32%**	**67%**	**62%**

KIFM, being the trustee-manager, must not carry on any business other than the management and operation of the registered business trust as its trustee-manager. Therefore, the revenue as reflected above is solely paid by KIT.

It is clear that KIFM did not need a fee adjustment in FY2022 and it is also evident Keppel ultimately benefited from the change in fee structure. We rest our case.