Risk Management

Risk management is an integral part of the Manager's business strategy to deliver sustainable and growing returns. To safeguard and create value for Unitholders, the Manager proactively takes steps to anticipate and manage potential risks and incorporates risk management process into the planning and decision-making process.

Enterprise Risk Management Framework

The Manager's ERM framework is adapted from the International Organisation for Standardisation (ISO) 31000 Risk Management and is benchmarked against other relevant best practices and guidelines. The ERM framework is also reviewed annually to ensure that it is up-to-date, relevant, and practical in identifying, assessing, treating, monitoring, and reporting on key risks.

Risk Governance and Assurance

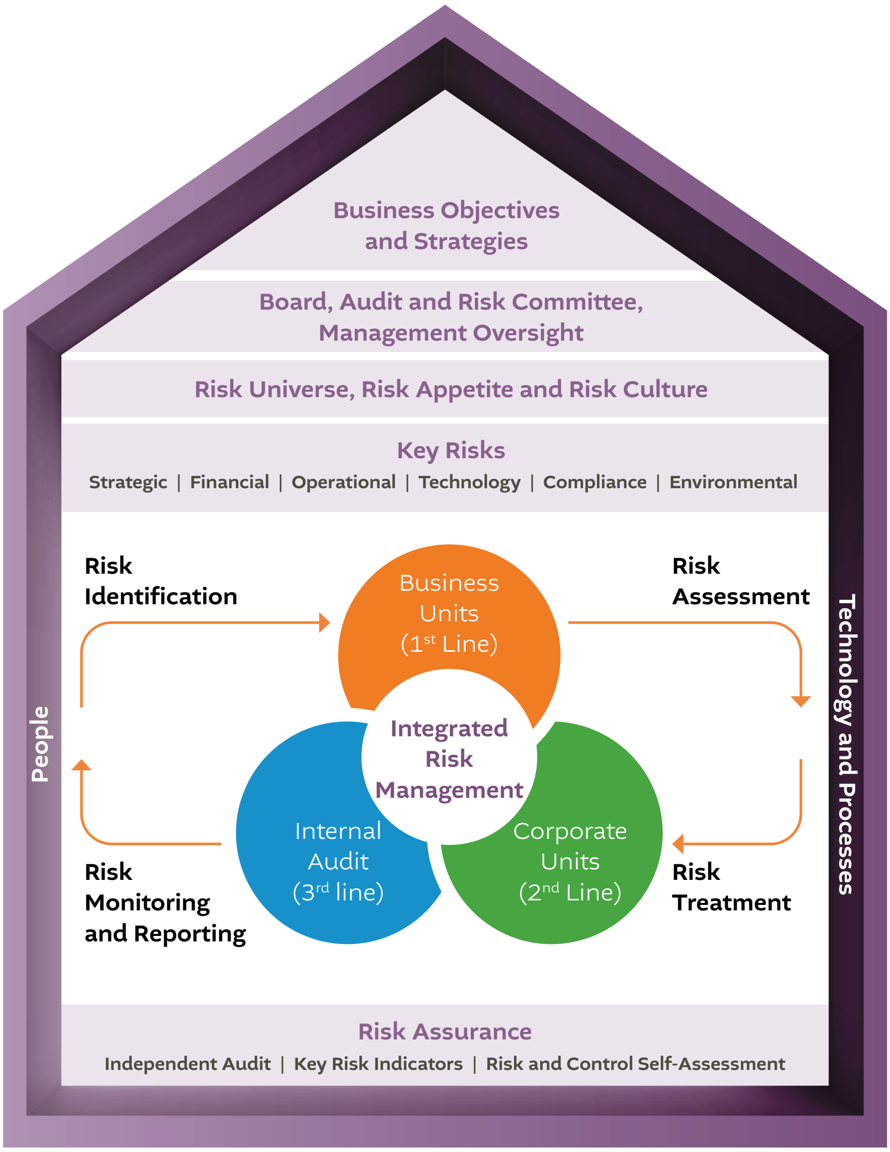
The Board is responsible for overseeing the governance of risks and ensuring that the Manager implements sound risk management and internal control practices. The Board also approves the risk appetite, which sets out the nature and extent of material risks that can be taken to achieve MIT's business objectives. The Board, which is supported by the AC, reviews the risk strategy, material risks and risk profile.

The Manager is responsible for directing and monitoring ERM implementation and practices. The Manager adopts a top-down and bottom-up approach that enables systematic identification and assessment of material risks based on the business objectives and strategies, and continuous communication and consultation with internal and external stakeholders.

The Risk Management Department of the Sponsor works closely with the Manager to design, implement and improve the ERM framework in accordance with market practices and regulatory requirements, under the guidance and direction of the AC and the Board.

During the financial year, the Manager, supported by the Sponsor's Risk Management Department, enhanced its Control Self-Assessment to a risk-focused Risk and Control Self-Assessment ("RCSA") to ensure that material risks are being effectively managed. The RCSA also serves to strengthen risk awareness and foster risk and control ownership.

Separately, the Internal Audit function reviews the effectiveness of the risk management and internal control systems, as well as the effectiveness of the controls in place to manage material risks.



Risk-Aware Culture

A strong "risk-aware" culture serves as a strong foundation for the effective implementation of a risk management programme. Therefore, the Manager is committed to inculcating a strong risk-aware culture by setting the right tone at the top and providing continuous support for risk management. The Risk Management Department, through its engagement with various stakeholders, raises awareness of risks and facilitates the management of material risks.

Robust Measurement and Analysis

The Manager's financial risk measurement framework is based on Value-at-Risk ("VaR"), a methodology which measures potential losses arising from property market and macroeconomic risks based on adverse historical movements in rental rates, occupancy rates, capital values, interest rates and foreign currency exchange rates. It takes into consideration changes in the market environment and asset cashflows, enabling the Manager to quantify the benefits of diversification across the portfolio. The framework also measures other risks, such as development, marketing, refinancing and tenant-related risks, wherever feasible.

Risk Management

The Manager recognises the limitations of statistically-based analysis that rely on historical data. Therefore, MIT's portfolio is subject to stress tests and scenario analyses to analyse the impact of changing assumptions so as to better understand the level of resilience that the business may demonstrate amid adverse situations.

Risk Identification and Assessment

The Manager's ERM framework includes identifying key risks, assessing their likelihood and impact on the business, and establishing mitigating controls, taking into account the cost-benefit trade-off. The information is maintained in a risk register that is reviewed and updated regularly. The key risks identified include but are not limited to:

Sector and market

MIT's portfolio could be exposed to various market factors or conditions such as competition, supply and demand dynamics, changing trends including the shift towards hybrid/flexible work arrangements. The Manager monitors market developments and trends, assesses their implications and formulates plans and pre-emptive strategies accordingly. In addition, the Manager monitors existing tenants' performance and adopts a flexible leasing strategy to maintain a high portfolio occupancy.

Economic and geopolitical

Given the geographical diversity of its business, MIT's portfolio could be exposed to various key macroeconomic and geopolitical factors or events such as interest rate hikes, prolonged inflation, trade wars, political instability and changes in government policies impacting the real estate sector. The Manager remains vigilant and actively monitors the macroeconomic trends, economic and political developments in key markets, conducts rigorous real estate market research and assesses their implications on the business, and formulates plans and pre-emptive strategies accordingly. The Manager also maintains a well-diversified portfolio across geographies and focuses on markets with robust underlying economic fundamentals and where the Manager has operational scale.

Financial

The Manager is exposed to financial risks such as counterparty risk, foreign exchange risk, liquidity risk and interest rate risk.

Prior to investment (where relevant) or onboarding of sizeable tenants, credit assessments are conducted on tenants to assess and mitigate their credit risks. On an ongoing basis, tenants' credit worthiness is closely monitored by the Manager's Asset Management Department and arrears are managed by the Credit Control Committee, who meets regularly to review debtor balances. To further mitigate credit risks, security deposits in the form of cash or banker's guarantees are collected from prospective tenants prior to the commencement of leases where applicable.

Where feasible, after taking into account cost, tax and other relevant considerations, the Manager borrows in the same currency as the underlying assets to provide a natural hedge, and/or hedges through derivatives, whenever appropriate. The VaR methodology and sensitivity analysis are utilised to assess potential impact on balance sheet arising from any unhedged foreign exchange risks. To provide investors with a reasonable degree of income stability against foreign exchange volatility, a large proportion of income receivable from overseas assets is hedged into SGD using forward contracts.

The Manager actively reviews and manages the level of interest rate risk by borrowing at a fixed rate or hedging through interest rate derivatives, where appropriate and upon taking into account the costs involved. At the portfolio level, the risk impact of interest rate volatility on value is quantified, monitored, and reported quarterly using the VaR methodology and sensitivity analysis.

The Manager actively monitors MIT's cashflow position and funding requirements to ensure sufficient liquid reserves to fund operations, meet short-term obligations and refinancing requirements, and achieve a well-staggered debt maturity profile. For more information, please refer to the Corporate Liquidity and Capital Resources section on pages 78 to 80 of this Annual Report.

The Manager also maintains sufficient financial flexibility and adequate debt headroom for MIT to fund future acquisitions and development projects. In addition, the Manager monitors and mitigates bank concentration risks by having a well-diversified funding base. Coupled with regular reverse stress tests, the limits on MIT's aggregate leverage ratio and adjusted interest coverage ratio are observed and monitored to ensure compliance with the MAS Property Funds Appendix.

Investment and divestment

The risks arising from investment and divestment activities are managed through a rigorous and structured approach. All acquisitions and divestments are aligned with MIT's investment strategy. Evaluation of investment risks includes comprehensive due diligence, and sensitivity analysis performed for each acquisition on all key project variables to test the robustness of the assumptions used. Independent risk assessments for significant acquisitions are conducted by the financial risk function and included in the investment proposals submitted to the Board for approval. All investment and divestment proposals are subject to rigorous scrutiny by the Management, in accordance with the Board's approved delegation of authority.

Upon receiving approval from the Board, investment proposals are submitted to the Trustee, which serves as the final approving authority for all investment decisions.

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

Business disruption

In the event of unforeseen catastrophic events including natural disasters such as earthquakes, floods, typhoons and pandemics, or man-made disruptions such as cybersecurity attacks, riots and deliberate sabotage, the Manager has a business continuity plan as well as a crisis communication plan to resume business operations with minimal disruption and loss. MIT's properties are insured in accordance with industry norms in their respective jurisdictions and benchmarked against those in Singapore.

Fraud and corruption

The Manager maintains a zero-tolerance policy towards unethical business practices or conduct, fraud, and bribery. The Manager also has a whistle-blowing policy that allows employees and stakeholders to raise any serious unethical concerns, suspected fraudulent activities and bribery, dangers, risks, malpractices, or wrongdoings in the workplace while protecting them from reprisals through a clearly defined process and independent feedback channel. Employees are required to comply with the policies and procedures, including policies on ethics and code of conduct, gifts and entertainment, safe work practices and professional conduct. If an employee is found guilty of fraud, dishonesty, or criminal conduct in relation to his/her employment, the Manager reserves the right to take appropriate disciplinary action, including termination of employment.

Health and safety

The Manager places utmost importance on the health and safety of its stakeholders. Safety practices such as fire emergency plan and regular checks on fire protection systems have been incorporated in MIT's Standard Operating Procedures. Checks on required certificates and permits are also performed regularly to ensure compliance with regulatory requirements. To ensure continual improvement, the Manager monitors the safety and well-being of its employees and contractors working at the properties and sites, and promptly highlights and addresses any potential safety risks that may arise.

Information technology, cybersecurity, and data protection

Concerns over the threat posed by cybersecurity attacks have risen as such attacks become increasingly prevalent and sophisticated. Policies and procedures governing information availability, control, and governance, as well as data security are established to protect MIT's data. A disaster recovery plan is in place and tested annually to ensure business recovery objectives are met. All employees are required to complete cybersecurity awareness training to help their understanding on the risks and threats associated with cyberattacks. On top of monitoring the Manager's network for potential security threats, network vulnerability assessments and penetration testing are also conducted regularly to ensure cybersecurity measures continue to be effective.

Legal and regulatory

The Manager is committed to complying with the applicable laws and regulations of the various jurisdictions in which MIT operates. Non-compliance may result in litigation, penalties, fines, or revocation of business licenses. The Manager identifies applicable laws and regulatory obligations and ensures compliance with these laws and regulations in its day-to-day business processes. The Manager also keeps track of and assesses upcoming changes in applicable laws and regulations of the various jurisdictions in which MIT operates.

Climate (physical and transition)

The Manager is exposed to physical risks such as rising sea levels, coastal flooding, and additional hot and cold days, as well as transition risks that can result in increased carbon tax, higher energy prices and more stringent building design requirements.

The Manager is committed to implementing the Mapletree Group's net zero by 2050 roadmap to minimise MIT's business impact on the environment and to alleviate any potential impact of climate change on its business. This entails implementing robust climate risk mitigation strategies to shift towards a low carbon business model. The Manager sets targets for carbon emissions reduction, and water and energy efficiency. It will continue its efforts to adopt renewable energy sources and attain green building certifications where feasible. Environmental risk due diligence is incorporated as part of the Manager's investment considerations and exposure scans to physical risks of existing properties are conducted periodically. The Manager also monitors changes in climate regulations and engages stakeholders in ESG initiatives and discussions proactively.

Rigorous Monitoring and Control

The Manager has developed key risk indicators that can serve as an early-warning system to highlight risks that are close to exceeding or have exceeded agreed thresholds.

Every quarter, the Sponsor's Risk Management Department presents a comprehensive report to the Board and the AC, updating on the status and changes to key risk indicators, portfolio risk profile and the results of stress testing scenarios.