From:
Sent: 28, January, 2014 3:43 PM
To: REIT Consultation Paper
Subject: Response the SFC's public consultation on proposals to amend the Code on Real Estate Investment Trusts (REIT Code)

Dear SFC,

I am writing to response the SFC's public consultation on proposals to amend the Code on Real Estate Investment Trusts (REIT Code) to introduce flexibility in the investment scope of real estate investment trusts (REITs). I am strongly against the proposals from a pension investor point of view. I summarized my points as below. I then propose some alternatives and suggestion at the end.

1. Against the principle of REITS investments
   REITS investment is viewed and promoted as a long-term investment tool that almost all of the returns and risks are attached to recurrent rental income. The change of the scope of investment brings additional factors not align to the principle risk/return structure and expectations of REITS that an investor is facing. Basically, the proposed change will blur the pure REITS and other products like mutual funds, pension trusts...etc.
2. Take away options for investors who want to invest in pure REITS
   For investors who need/prefer to invest in a pure REITS (not mixed with other business such as property development, or other investments included in the proposal), this proposal, if passed, effectively take away this investment option. i.e. Investors lost the product (pure REITS) available to them that can offer them the return and associated risk of pure "recurrent rental income" investment.
3. Unnecessary from portfolio construction point of view
   If an investor would like to invest in these additional businesses, he/she can simply invest directly on the related equities to adjust his/her overall portfolio or invest via some mutual funds that matches his/her investment strategy. This proposal adds no value to investors from portfolio point of view. It only removes a pure REITS investment tool/option for adjusting the portfolio as mentioned in another point.
4. Potential cost to existing REITS investors
   Changing the code on REITS that affects existing REITS products is not fair to the existing investors of affected product as their investment decision were based on existing code and become part of the long term investment/portfolio plan. If investors were forced to change the current investment in REITS due to the change of the code, there is a cost on that action. Even the investors on any products should accept the risk on policy changes, but this is a justified one as this not necessary nor expected.
5. Potential conflict of interest of REITS managing company
   The proposal allows REITS managing companies potentially able to mix other business to the REITS where the additional business may be related to the managing company's parent company or related companies. One of the factor gives REITS investor confidence is the current code limits the chance of such conflict of interests. The proposal to change that will diminish the protection/confidence investor can have from the code.
6. Against the role of SFC
   The principal responsibility of SFC should be protecting the investors' interests and in particular on long-term investments with more true options for all types of investors and better transparencies with less chance/risk of conflict of interests that may occur. The proposal on expanding the scope of investments of REITS is doing exactly the opposite direction. SFC also has the role to "help promote Hong Kong as an international financial centre" and that can only be achieved by making financial products in HK give investor confidence and keeping the market offering different types of products for different type of investors, i.e. have true options for investors. This cannot be achieved by just giving REITS management companies more flexibility due to their own commercial interest.

Alternatives:

- SFC can consider creating a different and separate class of REITS with the proposed changes included for newly created REITS (not for existing REITS to change). For example, SFC can create a class of products called "Semi-REITS" that allows these more investment flexibilities if this can help to attract more companies to register "Semi-REITS" in Hong Kong. The principle is to protect existing REITS investors and make them not affected.
- SFC can also consider allowing existing REITS managing company to create and operate separately for non-REITS investments. But the investment and risk must be separated clearly and it is up-to the investor to choose whether they would like to invest these additional investments on these non-REITS investments. Again, the principle is to protect existing REITS investors so that they have an option to just investing in pure REITS with no extra cost or risks.

Regards,
Bob.

"Consider the environment - think before printing!"