



SPEAR
REIT LIMITED

Governance Report **2018**

Governance Report

Approach to ethical and effective governance

The board is committed to ensuring that the governance structure in the group cultivates an ethical culture which it is able to provide effective leadership and in doing so Spear has adopted the King IV Report on Corporate Governance for South Africa.

Spear's code of business ethics and conduct which applies to all directors and employees, the Board Charter and the fiduciary duty as directors ensures that Spear is effectively managed and controlled by an ethical Board based on integrity and good faith who serve in the best interest of all stakeholders. The values that we live by are ensuring collective regard to Spear's performance whilst considering the natural environment and society for the preservation of future generations.

In addition to Spear's code of conduct of business ethics and conduct, there are a range of policies which defines Spear's commitment to an ethical culture. Mechanisms have also been put in place for correction where needed by the implementation of a whistle-blower facility.

The board continuously monitors and revisits its policies on organisational ethics with the assistance of the Social and Ethics Committee and the executive team on an ongoing basis. In doing so, Spear strives towards best practices in this regard to further the objectives of Spear in the best interests of stakeholders.

Approach to good corporate citizenship

The Board, through the Board Committees and executive team's oversight ensures that Spear's responsible corporate citizenship efforts include compliance with the Constitution of South Africa, laws, leading standards, and adherence to its own codes of conduct and policies.

The board continuously monitors corporate citizenship with the assistance of the Social and Ethics Committee and the executive team. Regular updates on laws and leading standards are provided to the board on an ongoing basis to ensure compliance thereof at all times.

Approach to strategic objectives

The board with the assistance of the executive team has the responsibility for steering and setting the strategic objectives of Spear to deliver long-term value. The board provides the overall strategic direction which includes a framework of rewards and controls.

In approving the strategy of the Spear, the Board recognises the importance of ensuring an appropriate balance in meeting the diverse needs and expectations of Spear's stakeholders, maintaining an appropriate stakeholder communication framework and long term-value creation.

The board further delegates the responsibility to the executive team to implement the strategic objectives of Spear and continuously monitors and assesses performance against the short-, medium- and long-term objectives of Spear.

Accessible and legitimate information to stakeholders

The board oversees that all reports required to be released to stakeholders meets the legitimate and reasonable information needs of stakeholders and is made available on Spear's website (www.spearprop.co.za). Spear's Integrated Report aims to provide a balanced, accurate and accessible assessment of Spear's strategy and operations.

The Board has satisfied itself that the Integrated Report complies with JSE Listing Requirements and the reasonable information needs of stakeholders, by demonstrating Spear's ability to create value and demonstrate the short, medium and long-term prospects of Spear.

Focal point of corporate governance

The board is the focal point of Spear's corporate governance system and is ultimately accountable and responsible for the performance and affairs of Spear. Spear maintains strong governance principles guided by King IV™ which is implemented through the board.

During the year under review, the board is satisfied that it has discharged all of its duties in accordance with its board charter.

The board is explicitly responsible for the stewardship of Spear and to promote ethical behaviour and compliance with relevant laws and regulations, audit and accounting principles and practices and Spear's own governing documents and code of conduct of business ethics and conduct. The board further monitors and oversees the implementation of its policies and organisational performance and is satisfied that it has fulfilled its responsibilities in accordance with its charter.

The board met four times during the year under review. The table below sets out the board meetings held and attendance during the reporting period.

	A Varachhia	MN Flax**	QM Rossi**	C Barnard**	JE Allie*	BL Goldberg*	N Kjellström-Matseke*	CS McCarthy
11 May 2017	●	●	●	●	●	●	●	N/A
28 Jun 2017	●	●	●	●	●	●	●	●
18 Oct 2017	●	●	●	●	●	●	●	●
24 Jan 2018	●	●	●	●	●	●	○	●

* Independent

○ Absent and apologies

** Executive director

✘ Not a member

● Attended

N/A Not a board member at time of meeting

Composition of the Board

The board with the assistance of the Nominations Committee ensures the appropriate balance of knowledge, skills, experience, diversity and independence to objectively and effectively discharge its governance role and responsibilities is attained. The Board is satisfied that its composition is aligned to its principle objectives.

During the year under review, the board reviewed the composition of the board and performance of each individual director and recommended the re-appointment of all of the directors whom were set to retire by rotation at the annual general meeting. It is noted that in accordance with Spear's Memorandum of Incorporation, all of the directors were required to retire at the first annual general meeting post listing where after one third would need to retire by rotation at the annual general meeting in the ensuing year. The board further reviewed the role and responsibilities assigned to the chairman and the lead independent director.

In accordance with JSE Listing Requirements, Spear implemented a policy with regards to gender and racial diversification. With the assistance of the Nominations Committee, the need for a black female non-executive director with an information technology skillset was identified. Interviews with proposed candidates were held and Spear is hopeful to conclude an appointment in the near future.

No board members have been removed, resigned or retired during the year under review barring the retirement by rotation which took place at the Annual General Meeting held on 11 August 2017 at which all of the directors were duly re-appointed.

Governance Report (continued)

The relevant experience of the current board members whom further serve as committee members are as follows:

Mike Naftali Flax

Mike is an accomplished property professional who operates within the commercial property sector. He is a chartered accountant by qualification and has more than 30 years' experience in the property sector. He has been key in some of the most exciting property transactions across the listed sector. Mike was the founder of Spearhead Property Group, which was later sold to Redefine Property Fund. Mike served on the board of directors of Madison Property Fund Managers until 2009 after a merger with Redefine Properties and Apex Hi to form the new Redefine Properties and until February 2011 served as an executive director of Redefine Properties Limited. Mike has extensive expertise in commercial property finance, development and a variety of key financial functions within the property sector. His entrepreneurial approach to property is admired by many within the property sector and his ability to create and unlock value has been proven time and time again. Mike is responsible for setting the trajectory of the business and will play a key role in the development of earmarked properties and the creation of investment deal flow for the fund.

Quintin Michael Rossi

Quintin has a wealth of experience in both the listed and private property sector, specialising in all aspects of leasing and management related to commercial, industrial and retail real estate. Quintin started his real estate career at a Cape Town-based brokerage and then went on to head up the national leasing management role at Redefine Properties Limited, which at the time was and currently still is one of the largest listed property funds in South Africa. He has played a key role in the conclusion of major corporate leasing and sale deals in the commercial real estate market, leaving his value-adding mark throughout South Africa. Quintin is in charge of all day-to-day management of the Reit and property portfolio, overseeing both asset management and property management operations to ensure tenant satisfaction and portfolio growth. Quintin is also responsible for the growth of the business, which includes both new acquisitions and new development projects and will be mandated to secure new opportunities that will add value to the Spear Reit property portfolio.

Christiaan Barnard

Christiaan is a chartered accountant by qualification and joined Spear after leaving Grant Thornton LLP (Dallas) and is responsible to oversee the financial functions of the entire Spear REIT, its subsidiaries and related operations from initial listing to date and has in-depth knowledge of Spear and its operations.

Christiaan has been exposed to the real estate sector from a young age through various family interests. He understands the demands associated with unlocking value in a real estate environment. Christiaan has experience in audit practices in various industries, including software development and support, oil and gas production and property REIT holdings.

Abubaker Varachhia

Abu has been involved in major property transactions and has initiated multi-million Rand property development projects throughout South Africa. Abu served as a director on the board of the JSE-listed property fund Spearhead Property Holdings Limited and Ingenuity Property Investments Limited. Currently Abu serves on the board of directors of the JSE-listed company Mazor Steel & Aluminium Limited. Abu has extensive experience in property development and his skill in this regard, along with his ability to find value in potential portfolio redevelopments, will be invaluable to the future of the business.

Brian Leon Goldberg

Brian has been active in the real estate sector for the past 25 years. During this period, he has been integrally involved in many significant property developments and investments. Brian has an astute understanding of the Western Cape real estate sector. He has vast and varied expertise, both in the commercial real estate arena and the legal technical environment relating thereto. Brian's market knowledge, deal making and technical skills will strengthen and add value to the business's growth initiatives.

Jalaloodien Ebrahim Allie

Jalal has been involved in the real estate sector for more than 21 years. He joined Seeff Trust (Pty) Ltd, the forerunner to Spearhead Property Holdings, in 1993 as the Financial Manager after leaving PKF Chartered Accountants and Auditors.

In early 1999 he was appointed Chief Financial Officer and Company Secretary of the newly-listed Spearhead Property Holdings Limited, which he founded together with Chief Executive Officer Mike Flax.

Niclas Kjellström-Matseke

Niclas is one of Sweden's best-known business leaders, with a successful career as a management consultant and later as a visionary consumer-oriented CEO. Niclas was the CEO of Novamedia Nordics since its establishment in 2005 up until 2015. Novamedia operates the Swedish Postcode Lottery and several TV productions. He is also recognised for his unique network of global leaders in business, politics and the NGO communities. He serves on several boards in Sweden, the US and Africa. Niclas is an active member of the global CEO network of YPO (Young Global Leaders), where he served as Chairman of its Swedish chapter. He is also a member of the Elders' Advisory Board, where he supports leaders such as former President Jimmy Carter, Graca Marcel, Mary Robinson and Kofi Annan in their work for peace and democracy through negotiations with world leaders. Since 2013, Niclas has served on the UN's SDSN (Sustainable Development Solutions Network) Leadership Council, with a focus on establishing new SDGs. In 2016, he relocated to South Africa to focus on developing business and sustainable solutions in Southern Africa through his own company, Perennis Limited.

Cormack Sean McCarthy

Sean has 30 years of experience in the property industry. Having developed a substantial number of residential, commercial and industrial real estate projects, he has a wide range of knowledge in the property development field. His speciality has been identifying and developing opportunities where substantial value was unlocked. His practical and hands-on approach has allowed him to tackle complex projects which are less attractive to the broader market, but offer higher returns.

Other positions held by the board are as outlined in the table below.

Director	Name of company	Capacity
Abu Varachhia	Spear REIT Limited	Non-executive chairman
	Spear Holdco Proprietary Limited	Director
	Upper East Side Hotel Proprietary Limited	Director
	Abma Properties Proprietary Limited	Director
	Abma Properties 786 Proprietary Limited	Director
	Aznab Properties Proprietary Limited	Director
	Bombazine Properties Proprietary Limited	Director
	Cloudberry Investments 18 Proprietary Limited	Director
	Clusten 54 Proprietary Limited	Director
	Dormell Properties Proprietary Limited	Director
	Exiled Investments Proprietary Limited	Director
	Micromatica 970 Proprietary Limited	Director
	Mtshobela Capital Holdings Proprietary Limited	Director
	Nabaz Investments Proprietary Limited	Director
	Nav Properties Proprietary Limited	Director
	Quarry Hill Developments Proprietary Limited	Director
	Trivot Properties 30 Properties CC	Member
	LDM Quantity Surveyors (CT) Incorporated	Director
	LDM Holdings Proprietary Limited	Director
	Mazor Aluminium Proprietary Limited	Director
Mazor Steel Proprietary Limited	Director	
Ingenuity Property Investments Limited	Director	

Governance Report (continued)

Director	Name of company	Capacity
Mike Flax	Spear REIT Limited	Deputy executive chairman
	Spear Holdco Proprietary Limited	Director
	Easy Shoes Proprietary Limited	Director
	Fronsac Investments Limited	Director
	Scarlet Sun 58 Proprietary Limited	Director
	Upper East Side Hotel Proprietary Limited	Director
Quintin Rossi	Spear REIT Limited	Chief executive officer
	Spear Holdco Proprietary Limited	Director
	Upper East Side Hotel Proprietary Limited	Director
	Pacivista Proprietary Limited	Director
	Fundamental Holdings Proprietary Limited	Director
	Arrow Investments 1 Proprietary Limited	Director
	Arrow Creek Investments 227 Proprietary Limited	Director
	Arrow 3 Investments Proprietary Limited	Director
	Arrow 4 Investments Proprietary Limited	Director
	23 Main Road Properties Proprietary Limited	Director
	Bantry Hills Proprietary Limited	Director
	Spear One Pty Ltd	Director
	Evlah Investments (Pty) Ltd	Director
	Rosvest (Pty) Ltd	Director
Blend Property 15 Pty Ltd	Director	
Christiaan Barnard	Spear REIT Limited	Chief financial officer
	Spear Holdco Proprietary Limited	Director
	Pacivista Proprietary Limited	Director
	Fundamental Holdings Proprietary Limited	Director
	Upper East Side Hotel Proprietary Limited	Director
	Arrow Investments 1 Proprietary Limited	Director
	Spear One Pty Ltd	Director
	Blend Property 15 Pty Ltd	Director
Brian Goldberg	Spear REIT Limited	Non-executive director
	Turnigen (Pty) Ltd	Director
Jalal Allie	Spear REIT Limited	Non-executive director
	Emarie Campbell Real Estate Proprietary Limited t/a Pam Golding Properties	Financial director
	Big Bay Beach Estates Proprietary Limited t/a Pam Golding Properties	Financial director
	Syfrets Property Brokers Proprietary Limited	Non-executive director
	Asim Financial Services Proprietary Limited	Director
Niclas Kjellström-Matseke	Spear REIT Limited	Non-executive director
	SDG Center Africa	Director
	United Nations Sustainable Development Solutions Network	Director
	Perennis Africa Proprietary Limited	Chief executive officer

Director	Name of company	Capacity
Sean McCarthy	Sujean Property Investments	Director
	Redfern Trust Enterprises	Director
	Mega Park Investments	Director
	Creative Gems	Director
	Somerset Square Property Development	Director
	One Vision Investments 38	Director
	Spear REIT Limited	Director
	Anjuzest	Director
	Cape Lifestyle Investments	Director
	Golden Falls Trading 337	Director
	Normandie Development	Member
	Business Activator	Director
	Philippi Village	Director
	Greenpoint City Improvement District	Director
	Westore	Director
Internetexpo	Member	

Board Committees

There are five board committees to facilitate efficient decision-making and assist the Board in the execution of its duties, powers and authorities as follows:

- Nominations Committee
- Audit and Risk Committee
- Social and Ethics Committee
- Remuneration Committee
- Investment Committee

Each committee has a terms of reference that defines its role and responsibilities. Each committee was satisfied that it had discharged its duties accordingly during the year under review.

Audit and Risk committee	Investment committee	Remuneration committee	Social and Ethics committee	Nomination committee
Members				
Jalal Allie (Chair) Brian Goldberg Niclas Kjellström- Matseke	Brian Goldberg (Chair) Abu Varachhia Mike Flax Quintin Rossi Christiaan Barnard Niclas Kjellström- Matseke Sean McCarthy	Jalal Allie (Chair) Niclas Kjellström- Matseke Abu Varachhia	Niclas Kjellström- Matseke (Chair) Quintin Rossi Brian Goldberg	Jalal Allie (Chair) Brian Goldberg Niclas Kjellström- Matseke

Governance Report (continued)

Audit and Risk committee	Investment committee	Remuneration committee	Social and Ethics committee	Nomination committee
Composition				
<ul style="list-style-type: none"> • Minimum three directors • All independent • Independent Chair • At least one member has relevant financial qualification and experience 	<ul style="list-style-type: none"> • Board and Exco members • Independent Chair 	<ul style="list-style-type: none"> • Majority independent • Independent Chair and not board chair 	<ul style="list-style-type: none"> • Two independent • One prescribed officer • Independent Chair 	<ul style="list-style-type: none"> • Two independent • One non-executive • Independent Chair and not board chair
Responsibilities				
<ul style="list-style-type: none"> • Review and monitor key policies and processes • Make recommendations to the Board regarding the auditor and lead audit partner • Oversee and review the quality of the effectiveness of the external audit • Monitor the existence, nature, extent, implementation and effectiveness of the internal control processes • Review the effectiveness of the financial director and finance function • Review the effectiveness of the risk management framework • Review material risk exposures 	<ul style="list-style-type: none"> • Review, approve and recommend acquisitions to the Board 	<ul style="list-style-type: none"> • Ensure that the remuneration strategy is competitive to attract, develop and retain employees • Review and approve the Remuneration policy • Approve the design of the Short Term Incentive scheme, including the determination of the targets and participation thresholds; • Approve the design of the Long Term Incentive scheme, including the determination of the allocation criteria and performance conditions • Review and monitor the progress of the employment value proposition 	<ul style="list-style-type: none"> • Oversight and monitoring of organisational ethics • Oversight and monitoring of Social and Economic Development • Oversight and monitoring of good corporate citizenship • Oversight and monitoring of customer relations • Oversight and monitoring of environment, health and public safety • Oversight and monitoring of Broad-Based Black Economic Empowerment • Oversight and monitoring of labour and employee engagement • Compliance with applicable laws and regulations. 	<ul style="list-style-type: none"> • Review annually the Board Charter • Determine restrictions on the number of listed company boards on which a director may serve • Determine the service periods of directors; • Determine the retirement and succession of directors; • Determine a policy governing the seeking of independent professional advice by individual Board members • Review annually, the size structure and composition of the Board • Make recommendations on the appointment of new directors

Audit and Risk committee	Investment committee	Remuneration committee	Social and Ethics committee	Nomination committee
Responsibilities (continued)				
<ul style="list-style-type: none"> Review financial statements and reports from external auditors and make recommendations to the Board Review significant financial reporting issues and assess the appropriateness of accounting policies 		<ul style="list-style-type: none"> Determine the succession of senior management 		<ul style="list-style-type: none"> Identify and nominate candidates to fill board vacancies Approve the role and responsibilities of the Chairman and ensure there is a succession plan in place Evaluate annually the board and board committees' performance Evaluate annually the performance of the Chairman of the Board Evaluate annually the performance of the Chief Executive Officer Evaluate annually the performance of the Company Secretary
Key areas of focus for 2019				
<ul style="list-style-type: none"> Continuous effective risk management Ensuring the control environment remains effective 	<ul style="list-style-type: none"> Assisting the board in concluding accretive property deals 	<ul style="list-style-type: none"> Ongoing review and implementation of remuneration policy to attract and retain vital talent 	<ul style="list-style-type: none"> Implementation of environmental strategy 	<ul style="list-style-type: none"> Ensuring the achievement of the set racial and diversification targets

External Auditor

During the year under review, the audit and risk committee reviewed the independence of the external auditor and was satisfied that such had been met in accordance with the provisions of the Companies Act No 71 of 2008.

The audit and risk committee further reviewed the tenure of the audit firm, the policy regarding non-audit services, the decision letter from the Independent Regulatory Board of Auditors in accordance with section 22(15)(h) of the JSE Listing Requirements and the rotation of the designated audit partner as well as any significant changes within the external audit firm. The audit and risk committee was satisfied that the recommendation to re-appoint BDO Cape Incorporated as the external audit firm and Mr Bradley Jackson as the designated audit partner complied with all necessary laws and regulations.

Governance Report (continued)

Finance Function

During the year under review, the audit and risk committee considered the finance function and was satisfied with the expertise and experience of the chief financial officer as well as that appropriate financial reporting controls and procedures existed in Spear which were implemented and working adequately.

Evaluation of the Board

The board annually evaluates its own performance as a whole along with that of the Chairperson and the Company Secretary. This is completed by a questionnaire and Directors complete their answers anonymously. The responses of the questionnaire of the evaluation is collected and collated by the Company Secretary who then tables the results to the Board. Discussions are then held by the Chairman with each individual director with regards to their performance and correction action taken, if required.

For the year under review, the board reviewed the results of the evaluations and is of the view is that the evaluation was effective and assists in improving the board's performance.

Delegation to the Chief Executive Officer and executive team

The chief executive officer has delegated authority from the Board regarding the responsibility and custodianship for day-to-day operations and risk management.

This mandate authorises the chief executive officer to command required resources, internal and external, to ensure that Spear is managed in accordance with its strategic objectives. The chief executive officer is further assisted in carrying out his duties by the executive team and senior management. Regular meetings are held between the executive team and senior management to attend to day-to-day operations and risk management.

With the assistance of the Nominations Committee, a succession plan for the chief executive officer and executive team is currently in place. Both the board and executive team have access corporate governance services which is deemed effective.

The other professional commitments of the chief executive officer is outline on pages 5 and 6 of this report.

Conflicts of Interests

Directors are not involved in decisions where they have a conflict of interest or a material personal interest. The company secretary further monitors potential conflicts that may arise and informs the board thereof.

CEO and senior executive performance

The board with the assistance of the remuneration committee reviews the performance of the chief executive officer and senior executives and approves their remuneration.

Independent advice

The board, board committees and individual directors may seek external advice at the Company's expense, if appropriate, the advice may be made available to other directors.

Risk Management

The board assumes responsibility for the governance of risk by setting the direction for how risk should be approached and addressed that encompasses both opportunities and associated risks to be considered when developing strategy for Spear.

The board with the assistance of the audit and risk committee has approved the risk framework that articulates and gives effect to its set direction on risk. The executive team further continues to monitor and identify key risks in the business.

During the year under review, emphasis was placed on mitigating key risks that had been identified in the industry such as the drought crisis in the Western Cape resulting in a decline in the leisure industry and tenant failure due to tough economic conditions. Spear implemented various water initiatives to mitigate the impact of the drought crisis on its properties as outlined in the Integrated Report. In terms of tenant failure, heightened credit vetting procedures were implemented to mitigate the impact of tenant failure. Spear will continue to assess and monitor these risks in the current year going forward. The diagram below sets the risk management oversight framework.

Risk Leadership	Board of Directors		
	Provides oversight of risk exposures and risk taking Sets and communicates expectations for risk management Approves appetite for risk		
	Executive Team		
	Sets business direction and resolved sufficient business risk issues Provides recommendations to the board on risk policy framework, risk appetite and risk practices Implements operational risk management in the business units		
Lines of Defence	The Business (1st line of defence)	Oversight Functions (2nd line of defence)	Independent Assurance (3rd line of defence)
	<i>Owns and manages risks</i> <ul style="list-style-type: none"> • Property management and operations • Acquisition and disposal of properties 	<i>Oversees and sets the framework and standards</i> <ul style="list-style-type: none"> • Group risk • Human resources • Health and safety • Group quality • Technical services • Legal and compliance • Finance 	<i>Provides independent assurance of frameworks and controls effectiveness</i> <ul style="list-style-type: none"> • External Audit

Information technology governance

The board approves policy that articulates and gives effect to its set direction on the employment of technology and information and with the assistance of the executive team whom tracks new developments in technology.

The executive team is responsible for the implementation of the ICT Strategy against operational plans and had procured the services of an external service provider to manage Spear's technology and information framework. The finance and property management functions of Spear is heavily reliant on technology and information. The board is of the view that the current technology and information frameworks are adequate.

Governance Report (continued)

Compliance with laws and regulations

The board is responsible for the stewardship of Spear in discharging its obligations and assumes responsibility for monitoring management's implementation of board plans and strategies to promote ethical behaviour and compliance with relevant laws and regulations, audit and accounting principles and practices, and Spear's own governing documents.

The board is assisted in achieving compliance with all applicable laws and regulations by the Audit and Risk Committee, the Social and Ethics Committee, the executive team and the company secretary. Regular legislative updates are provided to the board to assist the board in ensuring compliance with all applicable laws and regulations.

Assurance of external reports

The board assumes responsibility for assurance by setting the direction concerning the arrangements for assurance services and functions to enable an effective internal control environment. These controls include the board, board committees, executive management and operations and compliance controls.

The board satisfies itself that a combined assurance model is applied which incorporates and optimises the various assurance services and functions so that, taken as a whole, these support the objectives for assurance as described in the Integrated Report and Financial Statements.

Stakeholder engagement

The board assumes responsibility for the governance of stakeholder relationships by setting the direction for how stakeholder relationships should be approached and conducted in the organisation. Regular communication, engagement and feedback is a cornerstone of building relationships with our stakeholders. The maintaining of stakeholder relationships is upheld via the Spear board and Management through various communication touch points to ensure that stakeholders feel part of, and integral to Spear.

A range of information is made available to the stakeholders via SENS announcements and our website as well as investor road shows and webcasts. Other shareholder engagement activities include the Annual General Meeting, the release of the Integrated Report and financial results.