

# REPORT OF THE NOMINATION AND REMUNERATION COMMITTEE

## Background statement

The board of directors ensures that Tower remunerates directors, executive management and employees in a fair, transparent and responsible manner. The nomination and remuneration committee is responsible for ensuring that responsible remuneration practices are designed and implemented.

The remuneration policy is designed to attract, motivate and reward executives and senior management, and promote the achievement of Tower's strategic objectives while ensuring responsible remuneration practices. This is achieved through awarding short and long-term incentives.

Remuneration comprises salaries, benefits, allowances and short- and long-term incentives. The long-term incentive scheme aims to align management and shareholders with Tower's medium to long-term strategies.

As explained on page 4, Tower's objective is to grow its total return through the sustainable growth of distributions. Capital windfalls expected from the refurbishment of properties and the sale of non-core properties is expected to be re-invested into the company. This will result in rising, sustainable distributions and rising NAV with suitable gearing.

A key consideration of Tower's strategy is the strength of our balance sheet. Major short to medium-term focus will be on reducing our overall LTV with a targeted figure of 35%. We are satisfied with the efforts made over this past year. The LTV reduced to 34.1% and R120 million of Tower's Standard Bank Euro loans were settled.

The Tower Property Fund incentive scheme is a key focus of the nomination and remuneration committee and was approved by shareholders at the 2018 AGM.

Management needs to achieve certain vesting conditions under this share incentive scheme to receive shares in respect of the share options awarded to them under the long-term incentive scheme. The conditions of this share incentive scheme are detailed in note 21 on page 84.

The nomination and remuneration committee is satisfied that the objectives of the remuneration policy were met during the year.

## Remuneration policy

The nomination and remuneration committee recognises the need to incentivise key employees. Therefore, we adopted a policy of awarding short-term incentives and long-term incentives in addition to salaries, benefits and allowances. The incentives intend to reward above-average performance.

Employee remuneration, excluding executive and senior management, is determined on a market-related basis. Employees received a total cost-to-company package. Provident fund and medical aid expenses are deducted from this. Employees have company and individual targets which make up their yearly short-term incentive, which is typically equivalent to a 13th cheque.

None of the contracts with executive directors have any severance provisions or potential termination payments.

This remuneration report and the rules of the long-term incentive scheme may be obtained from the company's website at <http://www.towerpropertyfund.co.za/investors/#ImportantDocuments>.

## Fixed remuneration

The nomination and remuneration committee is responsible for reviewing and recommending the remuneration of executive management. Executive management salaries are benchmarked against Tower's industry peers and in particular, with comparable roles, in businesses of similar size and complexity.

Fees for non-executive directors are recommended by executive management to avoid a conflict of interest arising in respect of members of the nomination and remuneration committee. Non-executive directors' fees are set by considering the director's time commitment and the contribution required to effectively discharge the duties of a non-executive director. These fees are also benchmarked against Tower's peers in the industry.

## Variable remuneration

### Short-term incentives

Short-term incentives are rewards for the attainment of yearly short-term goals and targets and reward individual performance of executives and key employees. Short-term incentives are recommended by the chief executive officer and approved by the nomination and remuneration committee based on objective criteria. The chief executive officer's short-term incentive is evaluated and approved by the nomination and remuneration committee.

Short-term incentives are paid in cash and are awarded up to a maximum of the employee's total cost-to-company salary.

## The following key performance indicators (KPIs) will be utilised

<b>CEO</b>
50% based on company total return (income growth plus tangible net asset value growth). Threshold target for 0% vesting is 10% total return, stretch target for 100% vesting is 15% total return, and linear vesting is in between.
50% based on individual performance: including reduction in loan to value, management of executive team incentives.
<b>CFO</b>
50% based on company total return (income growth plus tangible net asset value growth). Threshold target for 0% vesting is 10% total return, stretch target for 100% vesting is 15% total return, and linear vesting is in between.
50% based on individual performance: including the reduction of total LTV, reducing the Euro LTV, refinancing current loans at more attractive rate, appropriate hedging in line with strategy – minimum 70%.
<b>Asset Managers</b>
50% based on company total return (income growth plus tangible net asset value growth). Threshold target for 0% vesting is 10% total return, stretch target for 100% vesting is 15% total return, and linear vesting is in between.
50% based on individual performance: sale of non-core properties, realisation of the Old Cape Quarter profits growth of individual portfolios in line with total return targets.

## Long-term incentive scheme

Tower's nomination and remuneration committee recommended a long-term incentive scheme (the LTI scheme) which was approved by shareholders at the 2018 AGM.

The LTI scheme awards options (based on a maximum of 100% of the employee's annual salary, dependent on performance) for the achievement of certain objective criteria over a three-year period. The criteria may be changed by the nomination and remuneration committee from time to time depending on Tower's strategy.

Year one options were awarded with an exercise price of R6.68 per share (being the opening share price on the day of the approval of the LTI scheme by the nomination and remuneration committee) and vest, based on the achievement of the below criteria, in 2021, 2022 and 2023.

For year two, options will be awarded at a zero cost, and the options will vest over three years (i.e. one-third in year three, one-third in year four and one-third in year five) if the vesting conditions are achieved.

Recipients of the vesting shares will be required to hold the shares for at least one year unless the shares are required to be sold to settle a tax liability in respect of the shares.

The following vesting conditions will apply to the scheme:

- One-third based on total shareholder return versus listed peers: with threshold vesting of 30% for median performance, 100% vesting for upper quartile, and linear vesting in between
- One-third based on distribution per share (DPS) growth – this being the distribution divided by the amount of shares in issue: with threshold vesting of 0% for CPI, 100% vesting for CPI + 6% per annum, and linear vesting in between

- One-third based on tangible NAV per share growth – being the NAV less any good will: threshold vesting of 0% for CPI, 100% vesting for CPI + 6% per annum, and linear vesting in between

The LTI scheme has good and bad leaver provisions which are evaluated by the nomination and remuneration committee as required.

## Voting on remuneration

Non-executive directors' remuneration is tabled at the AGM for shareholder approval at least every two years. This is in accordance with provisions of the Companies Act.

The remuneration policy and the remuneration implementation report will be tabled at every AGM for separate non-binding advisory votes. This is in accordance with King IV™ and the JSE Listings Requirements. In the event that either the remuneration policy or the remuneration implementation report, or both, are voted against by 25% or more of the voting rights exercised by shareholders, the board of directors of Tower will engage with shareholders to ascertain the reasons for the dissenting votes. They will address all legitimate and reasonable objections and concerns raised. The engagement process will include the acceptance of written and verbal objections and concerns, and Tower will report back in the next IAR on the results of the engagement process. At the AGM held on 31 October 2018, shareholders voted in favour of Tower's remuneration policy and remuneration implementation report with 99.01% and 99.48% respectively.

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## CONTINUED

### Remuneration implementation report

Salaries were in line with the fixed remuneration disclosed on page 83 under directors' emoluments. No incentive bonuses were paid during the year under review.

The nomination and remuneration committee is satisfied that Tower complied with the remuneration policy, and that there were no substantial deviations from the policy.

### Remuneration of senior management for the year

R'000	Total guaranteed pay	Provident fund	Short-term incentive bonus
Marc Edwards	2 536	377	–
Joanne Mabin	1 658	246	153
Johan Malherbe	1 911	–	–
Bruce Rogerson	1 905	–	–

### Long-term incentives

	Transaction date	Award price	Vesting date	Number of options	Value
Marc Edwards	2 November 2018	R6.68	2 November 2021	4 189 473	R27 985 679.64
Joanne Mabin	2 November 2018	R6.68	2 November 2021	2 742 494	R18 319 859.92
Johan Malherbe	2 November 2018	R6.68	2 November 2021	2 742 494	R18 319 859.92
Bruce Rogerson	2 November 2018	R6.68	2 November 2021	2 742 494	R18 319 859.92



### Andrew Dalling

Chairman

Nomination and remuneration committee