

## **RISK MANAGEMENT REPORT**

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Risk management is carried out by the Audit and Risk Committee under policies approved by the board of directors. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

### **1. Risk mitigation**

Risk mitigation is the process of designing and implementing controls to effectively mitigate the risks identified in the risk identification process. The following key principles are adhered to in the risk mitigation process:

- Automation
- Multi-level review
- Ongoing monitoring
- Immediate escalation

#### **1.1 Automation**

A key principle in the risk mitigation process is automation. Management attempts to automate as many processes as possible in order to eliminate the risk of human error. Wherever a process has been automated, processing outside of the automated process is strictly prohibited. The majority of the automation of processes is done in-house, which ensures that in depth knowledge of the automated process is at hand at all times in the event of an incident.

#### **1.2 Multi-level review**

Through a multi-level review process management attempts to eradicate all human errors that could occur in any given process. Each process is signed off by the preparer, first reviewer and second reviewer. For critical and newly implemented manual processes, an independent review by internal audit is also included.

#### **1.3 Ongoing monitoring**

In order to be proactive in respect of risk management, a high level of independent review by the compliance and internal audit function has been incorporated into the day-to-day processes of the company. This ensures ongoing monitoring of the controls designed to mitigate significant risks. It also reduces risk by being able to identify

potential compliance breaches or breakdowns in controls prior to the execution of a transaction.

#### 1.4 **Immediate escalation**

One of the key principles in the risk mitigation process is immediate escalation of incidents. Although escalation of an incident is in its very nature a post event process, it serves to mitigate the potential impact of the incident on the organisation. All staff members are required to escalate any incident to their superior immediately and are not allowed to attempt to “fix it themselves”. The superior will then escalate the matter to the head of compliance and internal audit and the relevant director.

**PROPERTY RISK**

	<b>Risk Measures</b>	<b>Controls</b>
1	<p><b>Macro-Economic Risk</b></p> <ul style="list-style-type: none"> <li>• Economy weakens</li> <li>• Low economic growth</li> <li>• Sovereign credit ratings downgrades</li> <li>• Poor business confidence</li> <li>• Increasing supply of property</li> </ul>	<ul style="list-style-type: none"> <li>• The company has entered into investment management with reputable investment management companies in order to reduce the market risk due to poor investment decisions.</li> <li>• In terms of the investment managers' investment process, all investment decisions are approved by the investment committee prior to the investment being made.</li> <li>• Pricing and liquidity risks are controlled through a valuation methodology agreed and approved by the trustees.</li> <li>• The company engages in regular communication with clients through newsletters to keep clients informed of the operations of the company.</li> </ul>
2	<p><b>Development Risk</b> Risk that new developments will not realise target yields and revenue</p>	<ul style="list-style-type: none"> <li>• Pricing and liquidity risks are controlled through a valuation methodology agreed and approved by the trustees.</li> <li>• There is a focus on entering into long term lease agreements with well-known and established tenants so as to ensure controlled and certain revenue and to ensure that the rental secured for the property is in line with the expected yields.</li> </ul>
3	<p><b>Property Risk</b></p> <ul style="list-style-type: none"> <li>• Deterioration of surrounding municipality or government run infrastructure</li> <li>• Increasing operating expense put pressure on property maintenance</li> </ul>	<ul style="list-style-type: none"> <li>• There is a focus on entering into long term lease agreements with well-known and established tenants so as to ensure controlled and certain revenue.</li> <li>• In the above leases the escalation rates are market related to ensure that rising costs in maintaining the property are at all times carried by the tenant. Lease agreements will provide that while the obligation is on the tenant to maintain the property, the landlord will attend to same and record the cost of maintenance from the tenant.</li> <li>• All maintenance of the various Oasis Properties is carried out by an internal maintenance team and the maintenance budget of each premises is approved by the executives.</li> <li>• Any ad hoc maintenance is also presented to the executives for sign off before any work is carried out or any money spent.</li> </ul>

4	<p><b>Tenant Risk:</b></p> <ul style="list-style-type: none"> <li>• Major tenant failure</li> <li>• Increases in vacancies</li> <li>• Downward pressure on rentals as a result of wanting to secure tenants</li> </ul>	<ul style="list-style-type: none"> <li>• There is a focus on entering into long term lease agreements with well-known and established tenants so as to ensure controlled and certain revenue.</li> <li>• There are further built in procedures to monitor the strategic objectives and ensure that they remain aligned with agreed policy. There is also vigilance for early warning indicators of underperformance of tenants.</li> <li>• Regular meeting with the tenants to ensure any concerns of the tenants are addressed. This reduces the risk of tenants leaving the premises causing vacancies.</li> <li>• Further there is a leasing committee established which is in constant look out for the prospective high quality tenants to ensure that all the vacancies are filled as soon as they arise.</li> </ul>
5	<p><b>Land Invasion</b></p> <ul style="list-style-type: none"> <li>• Delayed developments due to inability to remove illegal land occupiers</li> <li>• Decreased land valuations</li> <li>• Potential loss of income</li> <li>• Additional operating cost to manage potential land invasion</li> </ul>	<ul style="list-style-type: none"> <li>• Boundary demarcation</li> <li>• Court order obtained to evict trespassers</li> <li>• Regular proactive patrols</li> <li>• We rely on our strong relationship with council for their support</li> <li>• Operational control over our assets</li> </ul>
6	<p><b>Property Management Risk:</b></p> <ul style="list-style-type: none"> <li>• Loss of skills and corporate knowledge</li> <li>• Inefficient property management processes</li> </ul>	<ul style="list-style-type: none"> <li>• The company provides ongoing training to staff to ensure that staff are multi-skilled to provide back-up capacity in the event of staff turnover.</li> <li>• A robust staff remuneration model is implemented to ensure the retention of staff and incentivize them.</li> <li>• A strong performance management framework and process is in place to ensure that poor work performance is adequately documented to ensure correct allocation of rewards based on performance.</li> <li>• Senior management is responsible for implementing the controls designed by the executive in order to mitigate risks identified in the property management process. Senior management forms the first line of defense in the property management process and is responsible for bringing any deficiencies or gaps found in the process to the attention of the executive.</li> </ul>

		<ul style="list-style-type: none"> <li>• The property management process is monitored daily by the property committee and this committee reports weekly to the executives and therefore oversight of the process by the executives is carried out on a weekly basis.</li> </ul>
6	<p><b>Risks arising out of Covid 19 and the National Lockdown imposed by the South African Government</b></p> <ul style="list-style-type: none"> <li>• Risk of failure of tenants resulting in increased vacancies</li> <li>• Risk of non-payment of rental and recoveries</li> <li>• Risk of deterioration of property</li> </ul>	<p>Since the implementation of the National Lockdown, retail, industrial and commercial (office) tenants other than tenants who provide essential services or supply essential goods (food stuffs, medicine and pharmaceutical products), State Owned Entities and Government, have been forced to stop trading. Government has announced certain relaxations of the Lockdown Regulations (for example, Hardware stores are now able to trade but are subject to restrictions in that they may only trade with professional tradesman who are required to effect emergency maintenance to properties). As a result of their inability to trade, tenants may be unable to generate income to meet their rental and other payment obligations under their lease agreements.</p> <p>In order to address the risk consequent on these tenants potential inability to pay their rentals and recoveries, we have engaged with the South African Property Industry Group (comprising of SAPOA, SAREIT and SACSC) who are engaging with major retailer such as the Foschini Group, Mr Price, Truworths, Woolworths and Pepkor) on a tenant assistance and retail sector relief package.</p> <p>In line with the proposal published the Property Industry Group, the Company intends offering (on a case by case basis) rental relief in the form of a discount on the rental payable, a deferral of a portion of the rental payable and/or a combination of both. Rates, taxes and other recoveries remain due and payable in full by tenants. The relief the company intends offering to its tenants is intended to soften the financial impact that the Lockdown has on their business and their ability to remain viable post the Lockdown Period.</p> <p>The company is tracking all payments received from tenants during the Lockdown Period on a daily basis.</p>

		<p>In order to ensure that the properties owned by the Oasis Crescent Property Fund are maintained and that any emergency repairs and/or maintenance work which cannot wait for the Lockdown to be lifted to be attended to, the Company has registered as an essential services provider with the Companies and Intellectual Property Commission and has issued the maintenance staff with permits to enable them to attend to any such maintenance and repair work.</p>
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