

SAGICOR REAL ESTATE X FUND LIMITED

2013 ANNUAL REPORT

ERRATA

In the course of printing, errors were identified in the 2013 Annual Report. The following are the corrections to these errors:-

Page 13 to be amended as follows:

Current Heading “**Report of the Investment Manager - Sagicor Life Jamaica**” to be replaced with “**Management & Discussion Analysis Report**”

Page 19 – The following is to be added as the last section of the Management & Discussion Analysis Report

RISK FACTORS

In addition to other information set forth in this Annual Report Investors should be mindful of the risks described below. These risks are not the only ones facing Investors. Additional risks not presently known to the Directors or that the Directors may presently consider to be immaterial may also impair X Fund’s operations.

X Fund’s actual results could differ materially from those anticipated as a result of certain factors, including the risks faced by X Fund described below.

(i) **Ordinary Stock Price Fluctuations**

The trading price of X Fund’s shares has fluctuated since its listing on JSE Main Exchange and may continue to do so in the future. Some of the reasons for fluctuations in the price of the shares include but are not limited to:

- announcements of developments related to X FUND’s business;
- the issue of additional shares by X FUND from time to time;
- announcements concerning the properties in the Sigma Real Estate Portfolio;
- announcements concerning Sagicor Sigma Funds in general and Sigma Real Estate Portfolio in particular;
- general conditions in the economy, the real estate market, and the markets served by any of the major tenants
- substantial loss or damage to any of the Sigma Real Estate Portfolio properties by hurricane, fire and other natural disasters;
- changes in the law regarding several matters including but not limited to taxation, rights of landlords and tenants, planning and the environment.

In addition, prices on the stock market may be particularly subject to volatility. In many cases, the fluctuations may be unrelated to the operating performance of the affected companies. As a result, the price of the shares could fluctuate in the future without regard to operating performance.

(ii) **Changes in Government Policies**

The Government of Jamaica may from time to time affect macroeconomic conditions through fiscal and monetary policies, which may have adverse impact on the real estate market, the stock market and the performance of X Fund.

(iii) **Risk relating to Marketability of the shares**

The X Fund's shares, listed on the Jamaica Stock Exchange, may not be readily saleable and shareholders who may want to "cash-out" may not be able to do so or may only be able to do so at a discount.

(iv) **Risks of hurricane, fire and other Acts of God**

Material events affecting the properties in the Sigma Real Estate Portfolio could also impact on X Fund's performance and operating results. These properties are susceptible to loss or damage by fire, hurricane, earthquake, flood and other perils. Although Sigma Real Estate Portfolio intends to maintain insurance on the properties against such perils there are numerous factors which could expose Sigma Real Estate Portfolio to loss as a result of a fire, hurricane or other such peril. For instance:

- (a) the insurers could delay settlement or deny liability in respect of a claim for a variety of reasons and even if Sigma Real Estate Portfolio were to ultimately prevail, such delay could prevent the repair or reinstatement of the Property with consequential loss of rental income and exposure to increased costs of repairs or reinstatement;
- (b) an insurer or reinsurer could become insolvent or otherwise be unable to respond to a loss under the policy of insurance;
- (c) loss of rent is not covered under the insurance policy;
- (d) after a loss, the sitting tenant may elect to relocate to other premises or to close operations in the leased premises and Sigma Real Estate Portfolio may be unable to promptly find a suitable replacement tenant.

(v) **Taxation Risks**

The transaction model is tax sensitive. Changes in the tax treatment of international business companies in Saint Lucia or unit trusts in Jamaica or of companies listed on the Jamaica Stock Exchange could materially affect the profitability of X Fund. Increase in property taxes or the introduction of any new tax on companies generally or on rental properties could also reduce X Fund's profit margin through its investments in the Sigma Real Estate Portfolio.

(vi) **Foreign Currency Risk**

Although a few leases provide for rent to be paid in United States dollars, as a general rule rent is payable in Jamaican dollars under the leases relating to the Sigma Real Estate Portfolio properties. Certain costs such as insurance and refurbishing costs as respects imported materials such as carpets and elevators may be increased as a result of devaluation of the Jamaican dollar relative to the United States dollar and other foreign currencies. Accordingly, Sigma Real Estate Portfolio is exposed to the risk that the value of the future cash flows from rental income may fluctuate because of changes in foreign exchange rates. Sigma Real Estate Portfolio does not, at this point, hedge its foreign exchange risks and it has no current plans to do so.

(vii) **Operational Risks**

In the execution of its business functions X FUND is exposed to operational risks arising from failures in systems and the processes through which it operates. Critical areas of operational risks include:

- (a) employee errors - such as failure to renew insurance or to insure for the proper value;
- (b) accounting errors, data entry errors; and
- (c) fraud (internal and external) or other criminal activity.

Under the Property Management Agreement between Sagicor Property Services Limited (“Sagicor Property”) and Sagicor Jamaica (in its capacity as managing agent for Sigma Real Estate Portfolio), Sagicor Property is required to indemnify Sigma Real Estate Portfolio against loss or damage caused by the gross negligence, or willful default or fraud of Sagicor Property or any of its employees or agents in the performance of their duties or functions. Sagicor Property seeks to eliminate such risks by maintaining a comprehensive system of internal controls and administrative checks and balances to monitor transactions supported by a robust internal auditing capability. It also maintains an off-site data repository which will enable it to continue operations in the event of catastrophe affecting its operating location.

(viii) **Lessees’ Risks**

Although Sagicor Property has taken care to select reputable tenants for the rental properties in the Sigma Real Estate Portfolio nevertheless changes in the business fortune of a tenant could affect its creditworthiness and business practices. Rental income to Sigma Real Estate Portfolio could therefore be affected by counter-party risk under the relevant leases - that is to say the risk that a tenant may be unable or unwilling to pay its rent on the due date. That risk has been ameliorated somewhat, but not substantially, by requiring tenants to place a security deposit with Sigma Real Estate Portfolio – typically one month’s rent and in a few cases, two months’.

(ix) **Sagicor Jamaica's Control of X Fund**

Consistent with the structure of a traditional mutual fund which has been used as the model for X Fund's investment structure Sagicor Jamaica as the promoter of X Fund has retained control of X Fund through the Special Share. This is designed to ensure that X Fund is managed and its assets invested in the manner contemplated herein. Nevertheless Sagicor Jamaica's significant influence with respect to the election of directors and approval and disapproval of significant corporate matters may be perceived as adverse to the interest of the other stockholders.

(x) **Thin market in Company's Shares**

The Jamaican stock market is relatively small and the market in X Fund's shares is expected to be relatively thin compared to larger capital markets. That means that trade in small quantities of X Fund's shares can trigger wide swings (up or down) in the market price of the shares and make it easier for the stock price to be manipulated.

(xi) **Sale of substantial block of Shares may cause market price to decline**

X Fund's shares are freely tradable. Sagicor Jamaica and Sagicor Pooled Investment Funds (PIF) are not restricted in the manner or timing of the disposal of any of their shares. It is possible that relatively large blocks of Shares may be acquired by pension funds and institutional investors. A sale of a substantial block of shares by any one or more shareholders may cause the market price of the Shares to materially decline.

(xii) **The Special Share held by Sagicor Jamaica will deter take-over bids.**

The fact that Sagicor Jamaica holds the Special Share which gives it control over the election of Directors and other key corporate decisions will make it unlikely that any investor other than Sagicor Jamaica or entities affiliated to Sagicor Jamaica would bid for control of X Fund. Such bid if made would usually be expected to be at a premium above the prevailing trading price of the shares. Accordingly, the likelihood of stockholders receiving a take-over bid is reduced, perhaps significantly.

(xiii) **Fluctuation Property Value**

Movement in the market value of the Sigma Real Estate properties will be reflected in the value of the shares given X Fund's investment in the unit trust portfolio. Property value may fall for a variety of reasons, including but not limited to, change in government policy or taxation; fall in demand for rentable office and warehouse space (due to economic downturn or other factors triggering a reduction in demand for rentable office and warehouse space) and construction of new and more modern office and warehouse facilities.

(xiv) **Changes in the law or regulation affecting Unit Trusts**

The shares will derive their value from the units in the Sigma Real Estate Portfolio. Any change in the law or regulation which impacts (whether adversely or positively on unit trusts) will, most likely, “feed” through to the value of the shares.

(xv) **Lack of Diversification**

The Sigma Real Estate Portfolio is a non-diversified portfolio within the Sagicor Sigma Funds. The lack of diversification means that the Portfolio is particularly exposed to risks affecting the property market.

(xvi) **Withdrawal of concession on withholding tax on income accruing on units in Unit Trust.**

Gains (both income and capital) accruing upon units in a registered unit trust have, traditionally, been treated as tax free. However, in 1998 the Commissioner of Income Tax advised the then Superintendent of Insurance that a review of the Income Tax Act, as it related to the taxation of unit trusts, had confirmed that income earned on investments in a unit trust was not, in fact, tax-free. The Commissioner further noted that with effect from January 1, 1999 all unit trusts would be required to withhold and pay over the tax from income paid to unit holders at the time of encashment of units. The Commissioner also required the trustees (sic) to specify, presumably in any encashment receipt or similar document, the following information namely:

- (a) the value of the unit as at January 1, 1999 (or the time of purchase if acquired after that date);
- (b) income paid or credited on the relevant units;
- (c) tax withheld; and
- (d) capital gain or loss.

The ruling of the Commissioner seems to have caught the unit trust community by surprise as they appear to have been operating on the basis that all gains (whether income or capital) on units in a unit trust were tax-free. A lobby effort on the part of the four existing unit trusts then in existence (including Sagicor Sigma) then ensued and succeeded in “scotching” the Commissioner’s plan to tax income gains on units in a unit trust. However, the issue could re-surface. X Fund has not taken any tax advice on the merits of the Commissioner’s position. If the Commissioner is correct and the law is enforced, then it would have a material adverse effect on Sagicor Sigma Funds and other unit trusts and by the same token on the value of the shares.

Not only would units likely fall in value but the administrative burden of disaggregating gains on units between income and capital would inevitably increase the cost of administering a unit trust with consequential increase in management fees. Indeed, computer systems supporting unit trust operations might have to be replaced or upgraded to effect the disaggregation which would be required under the law.

(xvii) **Insurance Program**

The eleven (11) Sigma Real Estate Portfolio properties with buildings are insured along with other major properties against commercial all risks perils. The insurance is subject to an aggregate catastrophe limit for hurricane damage at all locations of US\$85,000,000.00 and US\$135,000,000.00 for earthquake damage subject to a catastrophe deductible of US\$50,000.00 (for hurricane and earthquake) and US\$10,000.00 for non-catastrophe risks such as fire. Average, whereby a claim for loss is reduced proportionately if the property is under-insured, does not apply to the insurance unless the sum insured is less than 85% of the value at risk at the time of the loss. (See Section 10 for further details of the insurance programme.) Insurance for consequential loss or loss of rent following property damage only exists in relation to the Jewel Dunn's River and R. Danny Williams Building. Accordingly, loss or damage to any of the other properties by fire or other peril could adversely affect the revenues of the Sigma Real Estate Portfolio and in turn the financial performance of X Fund. In addition, one or more of the insurers and underwriters under the insurance programme may become insolvent and unable to meet its obligations in the event of a claim.

(xviii) **Related Party & Potential Conflict of Interest**

X Fund will be managed by Sagicor Jamaica. Sagicor Jamaica is also providing investment management services to the Sigma Real Estate Portfolio and, along with its subsidiary, PIF, will be substantial investors in X Fund. In spite of the multiple roles which Sagicor Jamaica will play, the interests of the various parties are generally aligned. Notwithstanding that the parties all share common interest in the success of X Fund it is possible that conflicts of interest would arise in the day-to-day operation of X Fund.

Sagicor Jamaica, as the holding company for the Sagicor Jamaica group of companies ("the Group"), has a robust Corporate Governance and Ethics Committee comprised of non-executive directors. That Committee is charged with the duty of ensuring adherence to best practice standards of corporate governance and ethics within the Group. This Board Committee, among other things, reviews related party transactions and monitors conflict of interest situations to ensure that all such transactions are carried out on an arm's length basis with the utmost integrity. In addition, X Fund has appointed two (2) independent directors, one of whom will chair its Audit Committee. This Committee will, from X Fund's standpoint, also monitor and review related party transactions and other potential conflict of interest scenarios to ensure strict compliance with best practice benchmarks.

(xix) **Risk Management**

Sagicor Jamaica's goal in risk management is to ensure that it understands, measures, and monitors the various risks that arise and that it adheres strictly to the policies and procedures, which are established to address these potential risks.

The Board of Directors of X Fund is ultimately responsible for the risk management policies of X Fund. Sagicor Jamaica is required by the Administrative Services Agreement, on a day-to-day basis, to identify, assess, monitor and manage all principal risks in accordance with well-defined policies and procedures. The Directors do not guarantee that changes in the local and international markets will not have any materially adverse impact on X Fund's financial results.

Page 27 to be amended to read as follows:

Corporate Governance

OVERVIEW

The Articles of Association of Sagicor Real Estate X Fund Limited (X Fund) provides for a Board of Directors of not more than eight (8) persons. The current Board comprises seven (7) Directors. The Board of Directors is responsible for (i) the strategic direction of X Fund, which involves setting its business objectives and the plans for achieving them; (ii) execution of the approved business objectives through adequate management and resources; (iii) monitoring the performance of the Sigma Real Estate Portfolio with a view to achieving the strategic objectives and ensuring compliance with all applicable legal and regulatory regimes; and (iv) due and proper accounting to all stakeholders of X Fund, including in particular, the stockholders.

The Board of Directors of X Fund has established a tradition of best practices in corporate governance as a foundation for long-term success, while committing to internationally accepted standards and practices, including compliance with sound accounting practices. X Fund recognises the need to continuously upgrade its standards of corporate governance through a review process and, therefore, intends to adopt new standards as they evolve.

Given that the Company did not commence full operations until after the Initial Public Offering (IPO), the Board made decisions solely by way of Round Robin Resolutions over the period January 1, 2013 to December 31, 2013. The Board has agreed to meet on a quarterly basis, unless otherwise required.

The Board has adopted a Charter which provides clear guidelines on the mandate through which it executes the oversight and decision-making role. The Board Charter is available on the Sagicor Website at <http://my.sagicorjamaica.com/x-fund.PDF>

X Fund, as an affiliate of the Sagicor Group, subscribes to the Corporate Governance Policy of the Sagicor Group. This Policy is available at www.sagicor.com

Audit Committee/ Investment Committee

The Board of X Fund established an Audit Committee and an Investment Committee to ensure that there is an ongoing review of its corporate integrity and X Fund's ability to achieve its strategic and operational objectives.

Audit Committee - The Committee Members appointed as at November 8, 2013 are Mr. Peter Pearson (Chairman and Independent Director), Mr. Vinay Walia (Independent Director) and Mr. Michael Fraser.

Investment Committee – Mr. Vinay Walia (Chairman and Independent Director), Dr. the Honourable R. D. Williams, Mr. Richard Byles and Mr. Rohan Miller were appointed members of this Committee effective January 24, 2014.

These Committees will meet quarterly in the absence of any pressing matter or emergency.

Changes in Directorship and Management Details

In the year 2013, the following changes/appointments were made:

Effective April 30, 2013 - Mr. Ravi Rambarran resigned as Director

Effective June 1, 2013 - Mr. Richard Byles was appointed Chairman of the Board

Effective November 8, 2013 - Messrs. Peter Pearson and Vinay Walia were appointed to the Board as Independent Directors

Effective November 8, 2013 - Mr. Rohan Miller was appointed Chief Executive Officer of the Company

Page 48 to be corrected to read as follows:

Disclosure of Shareholdings as at December 31, 2013

Top Ten Shareholders

SHAREHOLDERS	NO . OF SHARES	PERCENTAGE
<i>Sagicor Pooled Diversified Investment Fund</i>	725,404,177	48.51%
<i>Sagicor Pooled Mortgage & Real Estate Fund</i>	286,992,887	19.19%
<i>SLJ Trading A/C - Sagicor Real Estate Fund</i>	183,869,136	12.30%
<i>JPS Employees Pension Plan</i>	50,000,000	3.34%
<i>JCSD Trustee Services Limited - Sigma Optima</i>	44,784,583	2.99%
<i>National Housing Trust Pension Fund</i>	30,000,000	2.01%
<i>Heart Trust / NTA Pension Scheme</i>	20,000,000	1.34%
<i>GraceKennedy Ltd Pension Scheme</i>	20,000,000	1.34%
<i>SJIML A/C 3119</i>	19,860,600	1.33%
<i>Round Table Nominees Ltd</i>	14,200,000	0.95%
Total	1,395,111,383	93.30%
Other	100,225,367	6.70%
Total Issued Shares	1,495,336,750	100.00%

SHAREHOLDINGS OF DIRECTORS

DIRECTORS	NO. OF SHARES
Richard Byles - 1,010,000 <i>(Jacinth Byles- connected person)</i> <i>(Pavel Byles – connected person) – 10,600</i>	1,020,600
R. Danny Williams	Nil
Rohan Miller	200,000
Michael Fraser	Nil
M. Patricia Downes-Grant	Nil
Vinay Walia	Nil
Peter Pearson	Nil
Stephen McNamara	Nil