

Business Update Call

Company Participants

- Paul Hanratty, Group Chief Executive Officer
- Robert Roux, Chief Executive Officer - Salnam Investments Group
- Wikus Olivier, Chief Financial Officer

Other Participants

- Asanda Notshe, Analyst
- Francois Du Toit, Analyst
- Johny Lambridis, Analyst
- Larissa van Deventer, Analyst
- Mike Christelis, Analyst
- Sarine Barnard, Analyst
- Warwick Bam, Analyst

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Sanlam Investor Update. All participants are currently in listen-only mode; and there will be an opportunity to ask questions later during the conference. (Operator Instructions) Please also note that this call is being recorded.

I would now like to turn the conference over to the Group Chief Executive Officer, Mr. Paul Hanratty. Please go ahead, sir.

Paul Hanratty {BIO 7445748 <GO>}

Thank you very much. Good afternoon, ladies and gentlemen, and thank you very much for making time to join us this afternoon. I've got Robert Roux, the Chief Executive of Sanlam Investment Group online with me. I've also got Wikus Olivier, who is the Chief Financial Officer at Sanlam; and we've got Patrick Hartnic from Investor Relations as well in call and we'll -- between us we'll be very happy to take your questions in due course.

I'm not going to say a great deal to introduce the topic. We sent out a SENS today, and we are very excited to be able to announce today the acquisition of 25% of our third party asset management business by African Rainbow Capital. This creates the largest black owned asset manager in South Africa. And we believe that this is just the first step in

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helping this business to become a very dominant and successful asset manager in the South African, and in time, the African landscape.

So we think it's a great transaction for us. We think the business is being put in a great competitive position. It's a very diversified business. And we look forward to a great deal of success together with our partners at -- at ARC. So I'm not going to say much more. I'll let you all ask questions. And the conference organizer will allow each of you to make -- to put your hands up and to let him know when you would like to ask a question, and I'll try and direct it to the most appropriate person on the call with me. Thanks very much.

Questions And Answers

Operator

Thank you, sir. (Operator Instructions) Our first question is from Mike Christelis of UBS. Please go ahead.

Q - Mike Christelis {BIO 15233664 <GO>}

Hi, guys. Can you hear me.

A - Paul Hanratty {BIO 7445748 <GO>}

Yeah. Sure.

Q - Mike Christelis {BIO 15233664 <GO>}

Okay. Thanks, Paul. Paul, just two questions, if I can. Firstly, this deal was announced or at least the sort of basis for this transaction was -- was already announced about 18 months ago, and they were sort of kept getting reiterations from -- from your predecessor that the deal was imminent. Can you maybe just elaborate a little bit as to what the cause of the delay was in getting this deal across the line given that presumably you've got two winning partners, I just don't understand why it's taken this long to get to the stage we're at. There's also talk at the time of bringing in another asset manager into the deal, maybe you can just elaborate what -- what the -- what the delays were?

And then the second question coming back to the original deal that was announced about 18 months ago, there was a comment in there around other possible transactions with African Rainbow, including I think corporate or healthcare. Can you talk a little bit about what the statuses of those. Are they -- are those off the table or should we expect another similar sized deal or maybe just sort of what the -- what the future holds for that -- the rest of that announcement? Thanks.

A - Paul Hanratty {BIO 7445748 <GO>}

Michael, thanks -- thanks a lot. Nice to talk to you. Long time, no see. Look, Michael, I started work on the 1st of July. So it's not really very easy for me to comment on what -- what took time. But I think what is true is that there were some ideas to try to bring together a number of different asset managers. And you can imagine the complexity of

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trying to consummate a deal, where you're trying to put an empowerment and also pull together a number of different asset managers.

So I think what's happened is that we've, as you would know been through recent strategic review, we are very clear that in order to be successful in the South African markets, we need to have strong empowerment credential in certain market areas, and institutional asset management is one of the most important areas in which to have those credentials. And yeah, we decided that we should get on with this because it's a strong competitive area for us.

And it doesn't mean that we cannot still bolt-on or add in the asset managers you may want to be part of a really large black owned asset manage, but it's just complicated. And so we -- we've simplified the thing, and we've pressed it hit, and it now allows us to get on with some of the organic developments in the business. There may or may not be opportunities to consolidate in due course in asset management.

Your question about, how are we going to do things in the -- in the employee benefits or I think you said the healthcare space. Well, I think the -- there is no question that in healthcare and -- and in employee benefits, empowerment credentials are important, but we've got no specific plans at this point. And if we did have, I'm sure we wouldn't be discussing with you on this call any of those plans.

Q - Mike Christelis {BIO 15233664 <GO>}

Right. Right. Understood. Thanks, Paul.

Operator

Thank you. The next question is from Johny Lambridis of Prudential. Please go ahead.

Q - Johny Lambridis {BIO 1887932 <GO>}

Afternoon, Paul. Hope, you're well. Yeah, just two questions from me as well. Yeah, just going through the BDO sort of Fairness Opinion, just trying to work out what base level of assets was used to sort of do their DCF was that sort of 30 April, 31 May or 30 June because I think you talk about sort of if assets move by a certain amount, there might be a need to sort of re-strick the price. I just want to work out what level of assets are we -- are we sort of looking at as the base value?

And then the second question, I sort of see they are using sort of a 17% risk discount rate, which sort of seems like a right for maybe at SAHAM not really a Sanlam Investments. Could you make -- just comment on why such a high discount rate to value the profits of -- what was -- what has been a very sort of established business?

A - Paul Hanratty {BIO 7445748 <GO>}

Okay. Wikus, do you want to pick up those technical questions for us?

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A - Wikus Olivier {BIO 20074722 <GO>}

Okay. No problem. Afternoon, Johny. On the first question the base asset value, it was based on end of April asset under management levels that went into the valuation models. The risk discount rates, as you know, the risk free rates also increased quite a bit during the volatility. So you'll -- we start with a base risk -- risk free rate of 10% is effectively risk free plus -- plus 7%. And that's kind of very close to the risk discount rates that we also use that we've been using consistently for the valuation of this business in terms of our own methodology. So we view it has (Multiple Speakers).

Q - Johnny Lambridis {BIO 1887932 <GO>}

So -- so we can expect a similar -- we can expect a sort of a similar sort of valuation technique to be used as at 30 June for the valuation of the remaining, or, I guess, at June around 100% of business?

A - Paul Hanratty {BIO 7445748 <GO>}

Yeah. It will be like 100% consistent, Johny with this.

Q - Johnny Lambridis {BIO 1887932 <GO>}

Thank you.

A - Paul Hanratty {BIO 7445748 <GO>}

And maybe Johnny sorry, it's nice to -- nice to chat to you again as well. The -- you sort of put in a comment there, which we may be Wikus will address. So you know, when we were doing this clearly, every day I suppose we changed -- we can all change our view on what the future holds for markets and -- and economies. But we were keen to press ahead strategically to get this done, but understanding that we were operating now in a period of quite a high degree of volatility. And so that's why there was a somewhat maybe you might think unusual close sort of assets move in either direction, you know, what we regard as would then take us into an area with either party, the valuation would be uncomfortable, and we have to redo it. So that -- that explains why we put that in.

Q - Johnny Lambridis {BIO 1887932 <GO>}

Yeah. I guess, my line of question is similar to maybe Mike, well sort of yeah, I'm sort of concerned your timing, the buyer is timing the purchase of this business at the bottom of its cycle. That's my concern. It doesn't sort of seem like a natural time to be selling an asset manager?

A - Paul Hanratty {BIO 7445748 <GO>}

Well, of course, it will be -- it will be wonderful if you're right that it's the bottom.

Q - Johnny Lambridis {BIO 1887932 <GO>}

Okay.

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Operator

Thank you. (Operator Instructions) Our next question is from Warwick Bam of Avior Capital Markets. Please go ahead.

Q - Warwick Bam {BIO 19921967 <GO>}

Hi, Paul. I just want to confirm that you can hear me?

A - Paul Hanratty {BIO 7445748 <GO>}

Yes. We can, Warren.

Q - Warwick Bam {BIO 19921967 <GO>}

Thanks, Paul. Just following on from Michael and other questions being asked, just with regards to the actual discount that's being paid. In the 2018 circular, there was a minority discount, which had a typical range of 10% to 12%, and then the marketability or liquidity discount, which was also around 13% to 50% -- 15%. So can you give us a sense of what that looks like. And base it on the group equity value, the latest group equity value that you're able to disclose, I mean if that's 31 December, that's great. What is the discount getting paid to that? That's question number one.

And then in terms of the intergroup administrative services that will still take place. Have these contracts been reviewed by the Board? And are they all now at arms length or will that still -- will that process still take place? Thanks.

A - Paul Hanratty {BIO 7445748 <GO>}

Thanks -- thanks, Warren. Wikus do you want to pick this up?

A - Wikus Olivier {BIO 20074722 <GO>}

In term of the discount, Warren, from a percentage perspective, the combined minority and liquidity discount is -- is 25% that's been used in the deal. From intergroup fee perspective, those have been set at -- at some appropriate levels. And what of course, the board then the [ph] committee might show is that valuation actually takes into account the actual fees that's been charged, which then effectively means that it doesn't really matter what the level of the fees is as long as the valuation is also based on that fee basis.

A - Paul Hanratty {BIO 7445748 <GO>}

Thanks, Wikus.

Q - Warwick Bam {BIO 19921967 <GO>}

Thanks, Paul.

Operator

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Thank you. (Operator Instructions) Sir, it would appear, we have no further questions in the queue.

A - Paul Hanratty {BIO 7445748 <GO>}

Okay.

Operator

My apologies. We do have some questions that came through. The next question then is from Sarine Barnard of Ninety One. Please go ahead.

Q - Sarine Barnard {BIO 6259120 <GO>}

Hello, Paul.

A - Paul Hanratty {BIO 7445748 <GO>}

Sarine, we thought you just took the day off.

Q - Sarine Barnard {BIO 6259120 <GO>}

No, I have been working behind the scene.

A - Paul Hanratty {BIO 7445748 <GO>}

I'm not like you (inaudible).

Q - Sarine Barnard {BIO 6259120 <GO>}

Can you tell us what the current funds on the management of the business is? And maybe just talk a bit, so it's maybe a question for Robert, maybe talk a bit about the composition, I assume Satrix will be quite a big part of that multi-manager, just a little bit more color on -- on that will be very helpful.

A - Paul Hanratty {BIO 7445748 <GO>}

Yeah, for sure, Sarine. So I'll ask -- I'll ask Robert to give you both. Of course, he won't give you, I'm sure the up-to-date AUM number because I think that he wouldn't be allowed to do. So Wikus just -- just make sure Robert doesn't stray yet [ph]. And -- but I'm very happy for Robert to give you a rough idea of the breakdown. As I just point out in my opening remark, Sarine, this is a very diversified business, and you're quite right, Satrix is a -- is a big and growing part of that. But Robert give it a go.

A - Robert Roux {BIO 18773329 <GO>}

So Sarine around about if you go back to December, the total assets that they -- that we manage in this business that excludes any assets that's been managed for the Sanlam balance sheet is around about 450 billion. Of that Satrix is about, I think, I'm not 100% sure whether it's 90 or 95, around about 90 -- 90 billion at the end of the year. And if you can take a split of 45% [ph], institutional about 45 overall. It includes the multi-manager. It

includes then obviously some and then alternatives as well. Alternatives is relatively small at this stage between 35 and 50. I don't know is that -- is that enough for you for at this stage? If you -- if you look at December to --

Q - Sarine Barnard {BIO 6259120 <GO>}

Yeah.

A - Robert Roux {BIO 18773329 <GO>}

If you look for the December --

Q - Sarine Barnard {BIO 6259120 <GO>}

You said about 45% institutional?

A - Robert Roux {BIO 18773329 <GO>}

That's right. 45% institutional, 55% retail.

Q - Sarine Barnard {BIO 6259120 <GO>}

Okay. Great.

A - Robert Roux {BIO 18773329 <GO>}

Because -- because I exclude Sanlam obviously that's sort of -- so we don't double count.

Q - Sarine Barnard {BIO 6259120 <GO>}

Thank you. That's it.

Operator

My apologies.

A - Paul Hanratty {BIO 7445748 <GO>}

Was there any --

Operator

My apologies.

A - Paul Hanratty {BIO 7445748 <GO>}

Any other question.

Operator

Yes. The next question is from Asanda Notshe of Mazi Asset Management. Please go ahead.

Q - Asanda Notshe {BIO 19227857 <GO>}

Good afternoon. Just checking, if you can hear me.

A - Paul Hanratty {BIO 7445748 <GO>}

Yeah. We can hear you well.

Q - Asanda Notshe {BIO 19227857 <GO>}

Great. Thanks. Maybe linked to the previous question, just to maybe if you can remind us regarding the exclusion of the sort of the balance sheet assets and so on, why that was and why it just sort of doesn't go as a package deal?

And then second question is, just in terms of you know, the -- the sort of management going forward of -- of the new -- of this entity now that -- that's been where ARC has been introduced. Are there any changes that are anticipated or is it sort of the management team that's currently in place there? Thanks.

A - Paul Hanratty {BIO 7445748 <GO>}

Yeah. Asanda maybe -- maybe I can help you. So I think that the way that Sanlam structured its asset management is very clever. There is a separate business that looks after the assets of the life company. And by -- by having some effectively managing third-party assets, we've had our management team very focused on managing assets that are not captive. So they had to be market competitive both in terms of performance product and sort of client, client service.

And the Sanlam -- the Sanlam asset that are managed in separate entity, I don't think would be appropriate to put into this transaction. Firstly, they are somewhat unique in nature. There is a -- there is a very high level of -- of guarantees in them, and there is some very technical structuring. And you would just have rather strange asset management business, it wouldn't look like a Mazi Capital or -- or any other asset manager. So we've kept this to a pure asset management business, traditional asset management business, where it also benefits from -- fully from empowerment credential.

Q - Asanda Notshe {BIO 19227857 <GO>}

Okay. Paul, I wish -- I wish, we look like that.

A - Paul Hanratty {BIO 7445748 <GO>}

I was saying, you'll one day.

Q - Asanda Notshe {BIO 19227857 <GO>}

And then just in terms of the -- the management of the board.

A - Paul Hanratty {BIO 7445748 <GO>}

Sorry, of course, that Robert can answer that. But there is absolutely no intention to change the management unless Robert is hiding something from me.

A - Robert Roux {BIO 18773329 <GO>}

No. You've answered it. That's fine Paul. He is correct.

Q - Asanda Notshe {BIO 19227857 <GO>}

Okay. Thank you.

A - Paul Hanratty {BIO 7445748 <GO>}

Great. Pleasure.

Operator

Thank you. The next question is from Francois Du Toit of Renaissance Capital. Please go ahead.

Q - Francois Du Toit {BIO 16128719 <GO>}

Hi guys, sorry, I got into the call a bit late. Just quickly, as I see in the Fairness Opinion that you've guided for or as we see the underlying assumption in the valuation is for 8.2% revenue growth long term, then you maybe give an indication of whether there is any scale gains assumed that impacts your distributable income growth in that some -- in that valuation, firstly?

And then secondly also, can you give an indication of what sort of net flows should get you to achieve that level of growth?

And then thirdly, just on -- on growth as well, what impact do you think that the improved BEE status will have on -- on net flows on -- on your ability to compete and where that is most valuable?

A - Paul Hanratty {BIO 7445748 <GO>}

Francois, thanks. Look I'm going to let Wikus answer some of that, but I think that we're not going to answer that question in the detail to which you -- you asked it. I'll let Wikus answer. But I'll -- I'll preface it by saying that in doing the projections and in looking at the margins and the revenue growth, we have built what we believe are sensible business plans. We haven't let margin expansion go wild. And yes, we have a lot quite explicitly for what we believe the impact of the empowerment credentials will be, and we believe that there is a significant value accretion to us from doing this that we look. But I'm -- I'm going to say to Wikus, I don't -- I don't want him delving into the kind of detail that you're looking for, but Wikus if you're prepared to expand a little bit, you're welcome.

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A - Wikus Olivier {BIO 20074722 <GO>}

Paul, I think you've covered it -- it well. As we said early on the methodology that we use is consistent with what we'll be using end of June. And being in a close period, I wouldn't want to expand more on underlying assumptions in detail.

Q - Francois Du Toit {BIO 16128719 <GO>}

That's fine. Thank you very much.

Operator

Thank you. We have a follow-up question from Johny Lambridis. Please go ahead.

Q - Johny Lambridis {BIO 1887932 <GO>}

Sorry just tying into Warwick's question around the discount for the deal. I mean, if I recall correctly, from the original sort of circular back end of 2018, although ARC own a minority stake, I think the circular at that point said that they would be able to materially influence Sanlam Investments and enjoy powers of control, including the ability to appoint directors and appoint and remove senior employees, therefore I sort of question the minority discount that they're getting if they can actually effectively control the board and remove the employees. Can you just yeah, maybe just comment on that do those powers of -- powers of control still exist and if so why it's at a discount?

A - Paul Hanratty {BIO 7445748 <GO>}

Yeah. Look, I'll make a few comments, but Wikus you might want to comment. We -- we aren't actually even doing things along the lines that you suggest, but Wikus do you want to just fill in the detail.

A - Wikus Olivier {BIO 20074722 <GO>}

Yeah. So I think from a board perspective, as a 25% shareholder, you naturally expect them to -- to have board position, but it's effectively based on the percentage shareholding. So they definitely will not be able to control the board. Sanlam will have the majority board members.

And with regard to the appointment of senior management and again, there is a process of consulting the thing. But then through the -- should there be a dispute through the mechanisms, the final decision will be lying with Sanlam on the key appointments (Multiple Speakers).

A - Paul Hanratty {BIO 7445748 <GO>}

Yeah. So maybe just to wrap it up, Johny. I mean, when we -- when I came in, certainly I saw that there were some of those things, and we were very clear that we see -- we see ARC has adding a tremendous amount of value to the thing, but it is still a Sanlam controlled business. And we expect them to make a contribution to the board, but certainly not to have powers control.

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Q - Johny Lambridis {BIO 1887932 <GO>}

Thank you.

Operator

Thank you. (Operator Instructions)

A - Paul Hanratty {BIO 7445748 <GO>}

It seems -- am I right in saying, we don't have any further question.

Operator

We do have a question, sir. (inaudible). Please go ahead. (inaudible). Your line is open. Would you like to ask a question? I'm not sure why that is not working.

A - Paul Hanratty {BIO 7445748 <GO>}

Yeah. It might be a technical problem.

Operator

It could be a network issue. Unfortunately, we cannot hear you (inaudible). Otherwise, we have no further questions in the queue.

A - Paul Hanratty {BIO 7445748 <GO>}

Great. Well, thank you very much to everybody, who joined the call. We really appreciate the time that you set aside, and yeah, we wish you a wonderful safe evening. And thanks very much to our coordinator on the conference call for your job. Thanks -- thanks very much.

Operator

Sir we do have one last question that came in. Can you take that one?

A - Paul Hanratty {BIO 7445748 <GO>}

Okay. Sure.

Operator

It's from Larissa van Deventer [ph] of Barclays. Please go ahead, Larissa.

Q - Larissa van Deventer {BIO 21570130 <GO>}

Thank you. Good afternoon, gentlemen.

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A - Paul Hanratty {BIO 7445748 <GO>}

Hi, Larissa.

Q - Larissa van Deventer {BIO 21570130 <GO>}

Hi, Paul. Just a very quick question, please. If I'm doing the math -- so in your announcement, you said that the earnings for IFRS purposes came to 352 million. Is that specifically for the bid [ph] that got carved out, so is an implied price NPE ratio of 9.3 times correct then?

A - Paul Hanratty {BIO 7445748 <GO>}

Wikus, you comment on that. It sounds correct.

A - Wikus Olivier {BIO 20074722 <GO>}

Yes. It is correct.

Q - Larissa van Deventer {BIO 21570130 <GO>}

Mathematically because -- so, it's okay. And then -- and then do I understand clearly that -- that includes a 25% minority ownership discount?

A - Wikus Olivier {BIO 20074722 <GO>}

That's simply, that's after the discount that it's had.

Q - Larissa van Deventer {BIO 21570130 <GO>}

Yes. Perfect. Thank you very much.

Operator

Thank you very much.

A - Paul Hanratty {BIO 7445748 <GO>}

Great.

Operator

Then we have no further question, sir.

A - Paul Hanratty {BIO 7445748 <GO>}

Fantastic. Everybody have a wonderful evening, and I really appreciate your time.

Operator

Thank you very much, sir.

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A - Paul Hanratty {BIO 7445748 <GO>}

Yeah. Robert, Wikus, Patrick, thanks a lot as well.

A - Wikus Olivier {BIO 20074722 <GO>}

Thanks, Paul. (Multiple Speakers).

Operator

Thank you. Ladies and gentlemen, that concludes this event, and you may now disconnect.

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