

# Acquisition Of 25.0% Non-Controlling Minority Shareholding of ARCFS by Sanlam Ltd

## Company Participants

- Paul Hanratty, Group Chief Executive Officer

## Other Participants

- Asanda Notshe
- Sarine Barnard

## Presentation

### Operator

Good day, ladies and gentlemen, and welcome to the Sanlam Investor Call. All participants will be in listen-only mode. They will be an opportunity to ask questions later during the conference. (Operator Instructions)

Please note that this call is being recorded. I'd now like to turn the conference over to Paul Hanratty. Please go ahead, Paul.

### Paul Hanratty {BIO 7445748 <GO>}

Thanks very much, Claudia. And good afternoon ladies and gentlemen and thank you very much for joining us on this conference call right towards the end of December, when I know you all want to be on a leave. I'm joined today on the call by Abigail Mukhuba, Mlondolozu Mahlangeni and Grant Davids. Abigail is our CFO; Lotz, our Chief Actuary and Chief Risk Officer; and Grands Davids, the Head of Investor Relations at Sanlam.

Today we announced that agreement has reached with African Rainbow Capital Financial Services, short ARCFS, whereby Sanlam would acquire a 25% non-controlling minority shareholding in a wholly-owned subsidiary of ARC Financial Services known as ARC Financial Services SubCo subject to the fulfillment of certain substantive conditions. Today's announcement follows a circular to shareholders in November 2018 where it was envisaged that ARC Financial Services would assist Sanlam in the execution of its South African strategy to enhancing empowerment in the financial services sector and in its own operations. In addition, it was agreed that ARC Financial Services would amongst other things, hold strategic investments funded by way of the Ubuntu-Botho preference share facility.

Through this investment now, Sanlam will share in the value creation within the underlying ARC Financial Services SubCo investments. A short summary of the transaction is as

follows. Firstly, there's the creation ARC Financial Services SubCo into which ARC Financial Services will transfer its investments in financial services other than those interest it has in banking-related investments, namely TymeBank, Al Fund and Ooba. Definitely, Sanlam will acquire 25% minority shareholding in ARC Financial Services SubCo through a combination of a subscription for new shares in ARC Financial Services SubCo and the acquisition of shares from ARC Financial Services.

And finally, any amount drawn down under the ZAR2 billion preference share facility approved by Sanlam shareholders to be given to Ubuntu-Botho investments are also being transferred from ARC Financial Services to ARC Financial Services SubCo While the necessary security remains in place for this preference share facility. More detail on the transaction value was given in our SENS announcement.

Transaction is funded from Sanlam Life's existing cash resources. Proposed transaction is categorized as a small related party transaction. Accordingly, the Sanlam Board appointed BDO Corporate Finance as independent expert to provide the Board with a Fairness Opinion. BDO has provided a Fairness Opinion to Sanlam Board confirming that the terms of the proposed transactions are fair to Sanlam shareholders. This opinion has been provided to the JSE and will be available for inspection upon request.

In summary, this transaction strengthens Sanlam's long-term strategic partnership with Ubuntu-Botho and creates the opportunity for further growth in South Africa. Sanlam is very well positioned to serve a wide range of clients and through our partnership with Ubuntu-Botho, we are continuing to create tremendous value for a very broad set of stakeholders across South African society.

I'm now going to open the call for questions and I'll direct them to whichever my colleagues is best able to handle them. Claudia, if you wouldn't mind opening the line now to call.

## Questions And Answers

### Operator

(Question And Answer)

Okay. Thank you. (Operator Instructions) First question comes from Sarine Barnard from Ninety One. Please go ahead, Sarine.

**Q - Sarine Barnard** {BIO 6259120 <GO>}

Hi Paul. Hope you are well?

**A - Paul Hanratty** {BIO 7445748 <GO>}

Yes, Sarine. How are you?

**Q - Sarine Barnard** {BIO 6259120 <GO>}

You're keeping us busy.

**A - Paul Hanratty** {BIO 7445748 <GO>}

You should be on holiday now.

**Q - Sarine Barnard** {BIO 6259120 <GO>}

Unfortunately not. So I just wanted to ask about the asset outperformance participation amount. So can you maybe just expand a bit on that. So the ranges aren't quite wide. And is there specific hurdle rate and a specific participation fee the investment or how does that work?

**A - Paul Hanratty** {BIO 7445748 <GO>}

No, it's on the whole portfolio, Sarine. So I suppose you can think of it as a sort of performance fee you might see in an investment fund. So basically if the return on this is above risk free plus 3% over a three-year period then the participation begins at the rate of 4%. And then once the performance gets above risk free plus 8% that performance fee goes up to 25%. And we basically have a three-year period. And at the end of 9 years, the arrangement comes to an end. And so, obviously, the objective is to grow the fund at above the hurdle rate.

**Q - Sarine Barnard** {BIO 6259120 <GO>}

Okay. And is that performance fee similar to the ARC performance fee?

**A - Paul Hanratty** {BIO 7445748 <GO>}

It's similar in deposit, it's very different in terms of its range and detail, but the principle is very similar. There's also quite a big difference in the fact that there is -- each one is a three-year period. So if you have a look at the exact details, it's actually quite a lot different and it's not nearly as you know if you model it out through a whole stochastic range of potential returns, it's not nearly as generous as the ARC one.

**Q - Sarine Barnard** {BIO 6259120 <GO>}

Okay, great. And then just maybe on the discount. So for the listed assets they're basically, it's at market because you've got the facility to deal with the liquidity premium. But so for the unlisted assets, so that value, does that include the 25% minority and liquidity discount that ARC would carry at -- in their business?

**A - Paul Hanratty** {BIO 7445748 <GO>}

Yes. And then we've applied a discount to that.

**Q - Sarine Barnard** {BIO 6259120 <GO>}

Another 10% discount to that. Okay, great. Understood. Thanks.

## Operator

Thank you. The next question comes from Asanda Notshe from Mazi Asset Management. Please go ahead, Asanda.

### Q - Asanda Notshe {BIO 19227857 <GO>}

Thanks and good afternoon. I hope you're all well. Just two questions from my side. Maybe to follow on from the question on the performance fee. Maybe just rationale behind it. I mean Sanlam Life is paying for the stake, I would imagine that you're paying, I guess, full value for that. And so I just want to understand the rationale and perhaps how also you arrived at the ranges for the hurdles maybe that compared to, let's say, Sanlam Life's cost of capital or any sort of measure like that? So just related. And then also the second question is, why exclude the banking assets in the mix? Thank you.

### A - Paul Hanratty {BIO 7445748 <GO>}

Okay. No problem (inaudible) Asanda. Yes, look very simply, this is not just a passive portfolio of investments. It's a very carefully-constructed portfolio of investments. Obviously, a portfolio that can have more assets added to it and grow over time. And actually ARC are performing a -- effectively a very active role in developing these assets. So it's quite different to managing a basket of, let's say, listed assets. It's a very active approach, A, to finding the assets. B, to working with each of these companies to help them grow and develop their business and grow the value. And so from our point of view, it's extremely valuable if we can from Sanlam benefit from outperformance from these assets then that's tremendous for us.

So basically, we started out looking we've, as you would know, think about our own sort of hurdle rates that around about traditionally risk free plus 4%, although, we think that in the next couple of years that's likely to be somewhat lower and I guess most people are now anticipating post-COVID slightly lower returns over the next couple of years. And so we developed a -- and negotiated a scale of fees here where if there is really very high outperformance, we are very happy to give out a proportion of that outperformance. And so this is going to be an actively-managed portfolio of assets. So that's really the logic and how we got to it.

And then you asked the question about why exclude the banking assets. I mean Sanlam is actually very focused on insurance and asset management and sort of related financial services. We're not at all having any appetite for banking type of assets. You probably know that we have a number of relationships with different banks. Probably our biggest and best-known one would be Capitec. And so we don't want to get involved in directly in the banking industry. Hope that answers your questions.

### Q - Asanda Notshe {BIO 19227857 <GO>}

Okay. Thank you.

## Operator

Thank you. (Operator Instructions) Paul they are no further questions in the queue. Can I turn it back to you for closing comments?

### **A - Paul Hanratty {BIO 7445748 <GO>}**

Yes, of course, Claudia. Thank you very much for hosting the call and for acting as the host of the call. So just to thank everybody very much for dialing in. I hope that you've managed to get a picture of what's happening. And so if anybody wants any follow up, by all means Grant is always available or our media team.

And I want to wish you all a very peaceful and particularly-safe holiday. And all the best for next year, which we hope is the much quieter and more prosperous year for everybody. So stay safe and thanks very much.

### **Operator**

Thank you very much, sir. Ladies and gentlemen, that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

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