



THE POWER OF ONE |

2017

INTEGRATED  
ANNUAL REPORT |

# TALKING OF ONE

Alexander Forbes's vision is to be a globally distinctive pan-African financial services leader. During 2017 we launched Ambition 2022, our refreshed five-year strategy that aims to achieve our vision with a client-centric model focused on helping our clients secure their lifetime of financial well-being. In order to reach our goals we need to come together as one, combining our efforts seamlessly across the group to create value for all of our stakeholders.

Our collective power as a leaner, more focused group is the force we need to deliver financial well-being to our clients. It's time to believe in the power of one.

1  
BRAND  
ONE BUSINESS

ONE



# 1



## WHO WE ARE

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# ABOUT THIS REPORT

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In 2017 Alexander Forbes publishes its seventh integrated report and the third since our 2014 listing on the JSE Limited (JSE). This report outlines the group's model for creating and distributing value and conveys the most material financial and non-financial aspects of performance for the group and its businesses.

The focus of the report is on presenting a holistic view of the group's strategy, performance and priorities through the lens of our four material themes, which are structured around our most important stakeholder groups: clients, employees, investors and society.

## Scope

This report covers the performance of Alexander Forbes Group Holdings (AFGH) for the year ended 31 March 2017.

This financial year (1 April 2016 – 31 March 2017) is referred to as '2017' throughout the report. The report also includes events and leadership changes that occurred after year-end but before publication date.

The scope of the report includes the businesses over which AFGH exercises control. During the year under review no businesses were acquired and three businesses were disposed. In terms of International Financial Reporting Standards (IFRS) businesses disposed are classified as discontinued operations and reflected as such in the financial statements. These were:

- Lane Clark & Peacock (LCP): the UK-based consulting business in which AFGH held a 60% partnership stake. The sale of this business was concluded on 19 December 2016.
- The insurance consulting division of Alexander Forbes Financial Services: the SA-based business which AFGH sold on 31 March 2017.
- Alexander Forbes Compensation Technologies, the sale of which was finalised in June 2016.

In addition, the board of directors has decided to dispose of the group's minority stake in the Kenyan financial services business. This business has therefore also been classified as a discontinued operation.

The integrated report contains forward-looking statements and targets, which involve risk and uncertainty as they relate to future events and may be influenced by

factors outside of Alexander Forbes's control. Readers of the report should use all caution regarding the interpretation and use of any forward-looking statements in the report.

## Reporting principles

Alexander Forbes takes direction on its operations and reporting from the King Report on Governance for South Africa 2009 (King III) and aligns its reporting with the Integrated Reporting Council's Integrated Reporting (<IR>) Framework.

Our financial statements are produced in accordance with International Financial Reporting Standards (IFRS) and comply with the JSE Listings Requirements as well as the Companies Act of South Africa 2008.

## Assurance

While the financial figures in this report are taken from audited information, the report itself has not been audited. Our annual financial statements are audited by PricewaterhouseCoopers who expressed an unmodified opinion thereon. Shareholders are advised that, in order to obtain a full understanding of the nature of the information that has been audited, they should obtain a copy of the auditor's report together with the audited consolidated annual financial statements, both of which are available online.

Our B-BBEE rating has been independently verified by Empowerdex Proprietary Limited.

## Feedback

Feedback helps us to stay abreast of the interests of our stakeholders and this in turn helps us to improve the way we communicate through this report and other platforms. We welcome all feedback – on this report and otherwise – via e-mail at [InvestorRelations@aforbes.co.za](mailto:InvestorRelations@aforbes.co.za).

This report contains summary commentary on the key elements of our financial performance in the investors section, page 68. For further information, both the full and abridged financial statements are available on our website.

Summary information on governance, risk, regulatory issues and remuneration is contained in this report. Further information on all of these topics, together with our adherence to the King III principles, is available in the full governance report on our website.

[www.alexanderforbes.co.za/investor-relations/integrated-reports](http://www.alexanderforbes.co.za/investor-relations/integrated-reports)

# WHO WE ARE

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from the  
chairman

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Governing  
our  
business

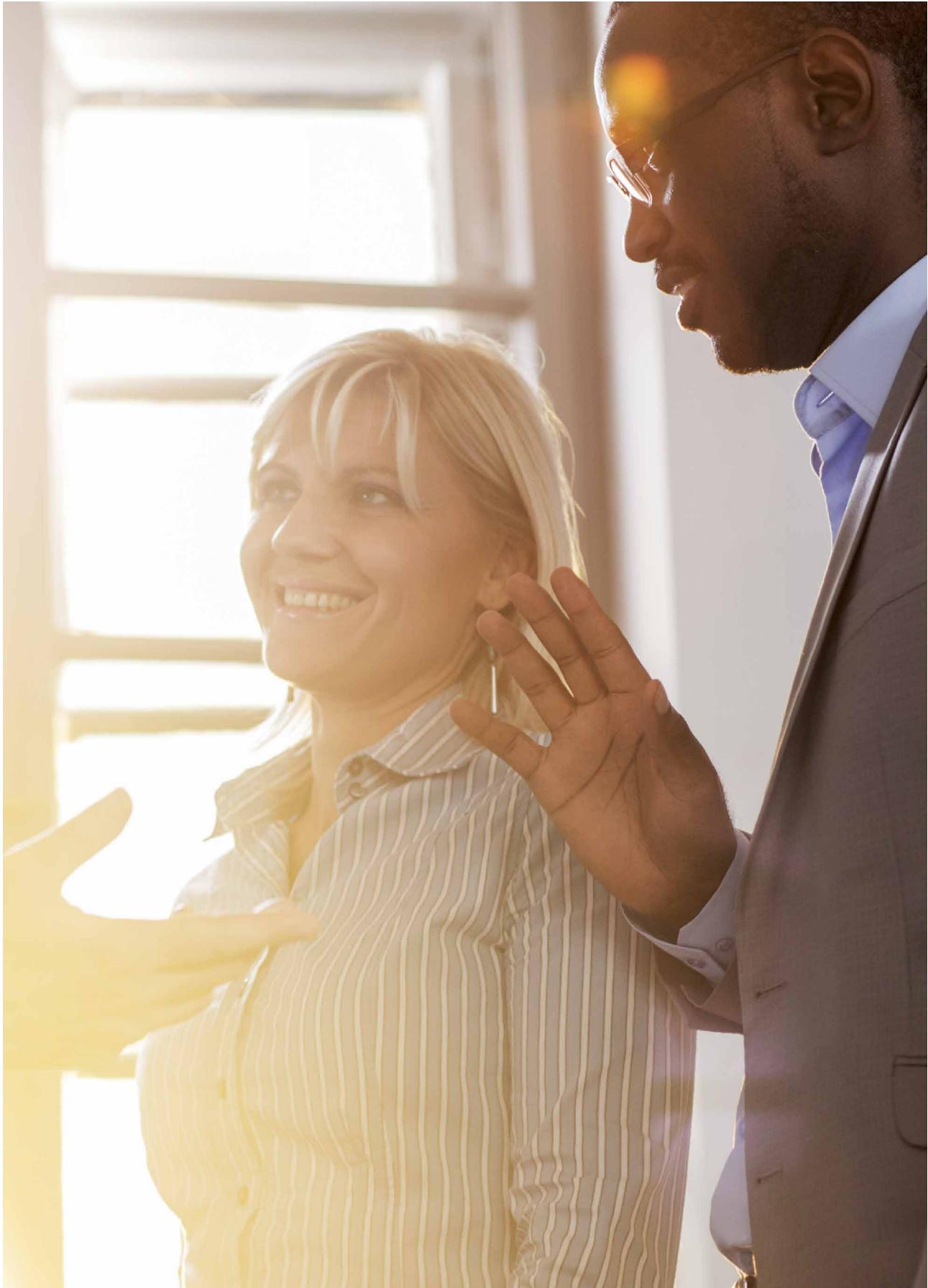
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Our board  
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# MESSAGE FROM THE CHAIRMAN

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**Given what was a particularly challenging operating environment, the Alexander Forbes group's overall performance for the 2017 financial year was satisfactory. It was a year of transition for the group. We welcomed our new group chief executive as well as several other senior leaders across the business. We refreshed our strategy and ambition under what we are calling Ambition 2022. We aligned our investment plans to the strategy and embarked on a comprehensive technology and digital modernisation programme. I believe we now have a very solid platform for growth, with detailed plans and performance indicators for execution against our strategy.**

## Our performance in 2017

The unexpected global economic and political outcomes of 2016/17 caused considerable market instability and volatility. These events, coupled with local political disquiet, made it a challenging year for the financial services sector domestically. The pro-Brexit vote and President Trump's economic policies have negatively impacted the South African economy. More critically, South Africa itself is in a state of transition. The upsurge in political activism through focused campaigns at tertiary educational institutions and in civil society, the recall from office of Treasury officials and the lack of clarity around government policy have resulted in uncertainty around the country's macroeconomic outlook. The result was the downgrading of the country's credit rating. The financial services industry is acutely sensitive to these macroeconomic factors, and the political and economic turmoil has contributed to a very tough trading environment across most sectors.

This difficult operating context has been reflected in our 2017 results, which I believe were satisfactory given the backdrop. The group achieved a 1.2% growth in operating income and a 3.1% growth in profit from operations, and our overall increase in expenses was well contained at 0.5% as a result of increased operational efficiency. Our core institutional business experienced good growth and the retail clients division is gaining positive traction.

In addition, Alexander Forbes itself has been going through a period of significant transition. We have successfully shifted towards operating as a leaner, more focused group that is no longer 'siloed' into different businesses, but instead offers a single group customer value proposition. We have also begun to leverage our dominant institutional position to expand in the retail market. A key enabler of these structural and product changes is a modern operating platform that supports the

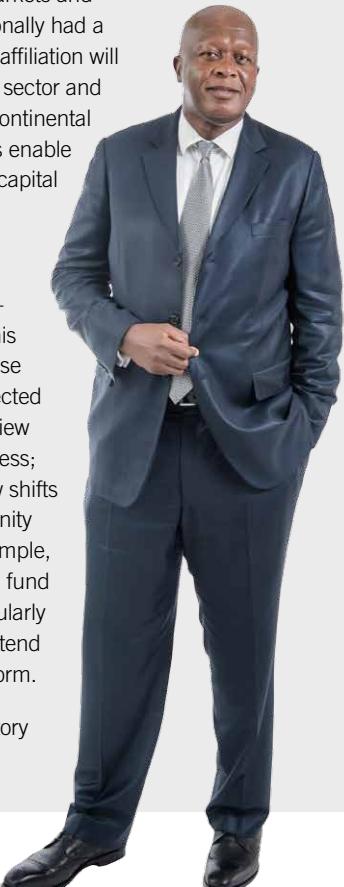
entire organisation. To this end we have partnered with Sapiens and will be modernising our systems over the next five years. The transaction with Sapiens is the largest single investment in technology and digital in the history of the group.

During 2017 the group completed two important transactions. The group sold its 60% interest in UK-based consulting business, Lane Clark & Peacock, for R1.3 billion, which has allowed us to improve the capitalisation of the business. Simultaneously, African Rainbow Capital (ARC) acquired a 10% shareholding in Alexander Forbes Limited (a wholly-owned subsidiary of the group) as a strategic empowerment partner. We believe this relationship, coupled with our partnership with Mercer, will give us the opportunity to penetrate markets and segments in which we have not traditionally had a deep presence. We anticipate that the affiliation will facilitate greater access into the public sector and improved navigation in pursuit of our continental ambitions. Together, these transactions enable our restructuring process and provide capital for investments and acquisitions.

## Regulatory reform

Regulatory changes have – as always – remained a significant consideration this year. Among other changes, the increase in marginal tax rates has adversely affected our high net worth clients. We do not view regulations as an obstacle to our business; we recognise their usefulness and view shifts in the regulatory context as an opportunity to gain competitive advantage. For example, changes to social security and pension fund regulations create new markets, particularly in other African countries, where we intend to expand in the wake of legislative reform.

Our intention with regard to the regulatory environment is to be proactive in



implementing new requirements as and when they arise. In 2017 the group made substantial progress in readying itself to comply with the requirements of the Solvency Assessment and Management framework (SAM), and ensuring that we embed SAM into our strategic plans and into the way we do business.

## Clients

The markets in which we operate are shifting towards outcomes-based solutions. As a group we need to meet our clients' needs and expectations, remaining relevant to them and providing value in terms of their long-term well-being. During 2017 we refined our group strategy, focusing on customer-centricity and our retail ambitions.

To support these ambitions we have planned and budgeted for significant investment in our modernisation and digitisation. Collaboration between the various business divisions is critical to achieving our ambitions, forming the anchor of our holistic client service offering.

## Employees

This year we have focused on boosting our talent pool to successfully drive our strategy. In particular, we have concentrated on appointing new leaders, through both external recruitment and internal promotions, who will ensure continuity and achieve our group ambitions.

We have embarked on our focused strategic drive under the fresh leadership of Andrew Darfoor, a 20-year-plus veteran of financial services with broad international and emerging market experience, who was appointed in September 2016. Under his leadership we have already driven significant positive change within the group. We also appointed Leon Greyling and Bernard Schluep to head up the investments and emerging markets businesses respectively. These gentlemen have already begun to impact their businesses positively.

## Society

Being an ethical company is a key priority for Alexander Forbes and we are committed to being an influence for good in the societies in which we operate. Responsible investment and fair treatment of customers remain important aspects of the mandate for the investments team and we drive this as a principle that underlies the way we do all our business. We are committed to realising our transformation targets and this year retained our level two B-BBEE rating.

We continue to make a difference to disadvantaged communities through the Alexander Forbes Community Trust. Our partner non-profit organisations positively impact the lives of thousands of impoverished children and adults.

## Appreciation

I would like to express my deepest appreciation to the staff of Alexander Forbes for their commitment and dedication. Without them we would not be able to deliver value to our clients and achieve our strategic goals. The industry accolades we have received ten years in a row, namely the three PMR.africa Diamond Arrow Awards we received for Large Administrators, Top National Fund Administrator, and Top Retirement Fund Consulting and Actuarial Firm, are an indication of the high calibre of people in our business.

I wish to express my gratitude to the board members for their support and guidance during a period of transition. In particular, I wish to acknowledge the service of Deon Viljoen, the former group chief financial officer of Alexander Forbes, who spent 14 years with the group and guided it through several significant events. I wish Deon well in his new career. I also wish to thank Peter Edwards, Grant Stobart and Derrick Msibi for their contribution during their time with the group.

At the same time, I wish a warm welcome to Andrew Darfoor, the group's new chief executive.

Special appreciation must also go to our customers who continue to support us. We commit to continue to provide them with leading solutions and superior service.

## Looking ahead

Alexander Forbes' new beginning also marks a sad but proud ending for me personally, as I have announced my resignation as chairman. I will be succeeded by my fellow board member, Moses Kgosana, who I am confident will take up the challenge of chairing the board with elegance and acuity.

As the group emerges from its difficult period of transition as a leaner, customer-focused business, it is well-positioned to create substantial sustainable value for all its stakeholders. Moses and Andrew are looking forward to steering the group towards achieving its vision of building a globally distinctive, leading pan-African financial services provider.

### Sello Moloko

Non-executive chairman

20 June 2017, Sandton

# 2017 GROUP PERFORMANCE REVIEW

**97%**  
institutional  
client retention  
rate

**146**  
financial well-being days

## Clients (See page 48)

Indicator	Change	2017	2016*	2015*
Total number of institutional clients	0% ➔	<b>4 939</b>	4 923	4 638
Total number of members under administration	12% ➜	<b>1 297 020</b>	1 479 405	1 447 872
Total number of retail clients	6% ➝	<b>142 330</b>	134 142	129 501
Institutional client retention rate (%)	0% ➔	<b>97</b>	97	97
Retail client retention rate (%)	1% ➜	<b>85</b>	86	86
Net promoter score (NPS) for umbrella fund clients in South Africa (rating from -100 to 100)	18% ➝	<b>65</b>	55	47
Financial well-being (number of financial well-being days)	>100% ➝	<b>146</b>	7	-

\* Prior-year numbers have not been restated for discontinued operations.

**R1 million**

**Productivity:**  
revenue per employee  
(2016: R1.3m)

## Employees (See page 60)

Indicator	Change	2017	2016*	2015*
Total number of salaried employees	17% ➜	<b>3 554</b>	4 267	4 111
Total payroll (Rbn)	48% ➜	<b>1.5</b>	3.0	2.6
Employee engagement index	6.5% ➜	<b>54.4</b>	60.9	63.8
Employee turnover (%)	2.4% ➝	<b>12.9</b>	10.5	9.6
Average training expenditure per employee (R)	3% ➜	<b>6 387</b>	6 585	6 641
Productivity: revenue per employee (Rm)	23% ➜	<b>1.0</b>	1.3	1.2

\* Prior-year numbers have not been restated for discontinued operations.

**12.9%**  
Employee turnover  
(2016: 10.5%)

Annual dividend **40c**

(2016: 37c)



## Investors (See page 68)

Indicator	Change	2017	2016*	2015*
Headline earnings per share (cents)	8% ↓	<b>53.4</b>	58.1	31.9
Normalised headline earnings per share (cents)	4% ↓	<b>59.7</b>	62.2	59.4
Operating income from continuing operations (Rm)**	1% ↑	<b>3 435</b>	3 395	3 276
Profit from operations (Rm)	3% ↑	<b>933</b>	905	892
Net profit for the year (Rm)	80% ↑	<b>1 574</b>	874	359
Normalised profit after tax (Rm)***	4% ↑	<b>704</b>	680	485
Final dividend (cents)	5% ↑	<b>23</b>	22	12
Average AuA and AuM (Rbn)	2% ↑	<b>345</b>	339	322

\* Restated for discounted operations.

\*\* Operating income represents revenue net of direct expenses.

\*\*\* Excluding discontinued operations.



**53.4c**

Headline earnings per share (2016: 58.1c)

## Society (See page 80)

Indicator	Change	2017	2016	2015
Number of asset managers assessed through our investment systems	17% ↑	<b>20</b>	17	-
B-BBEE scorecard level	0% →	<b>2</b>	2	2
Total CSI expenditure (Rm)	14% ↓	<b>4.3</b>	5.0	4.4
Electricity consumption at head office (KWh)	1% ↑	<b>8 266 929</b>	8 203 799	8 634 176
Water consumption at head office (KL)	7% ↓	<b>43 395</b>	46 783	39 284



**R4.3m**

CSI expenditure (2016: R5m)

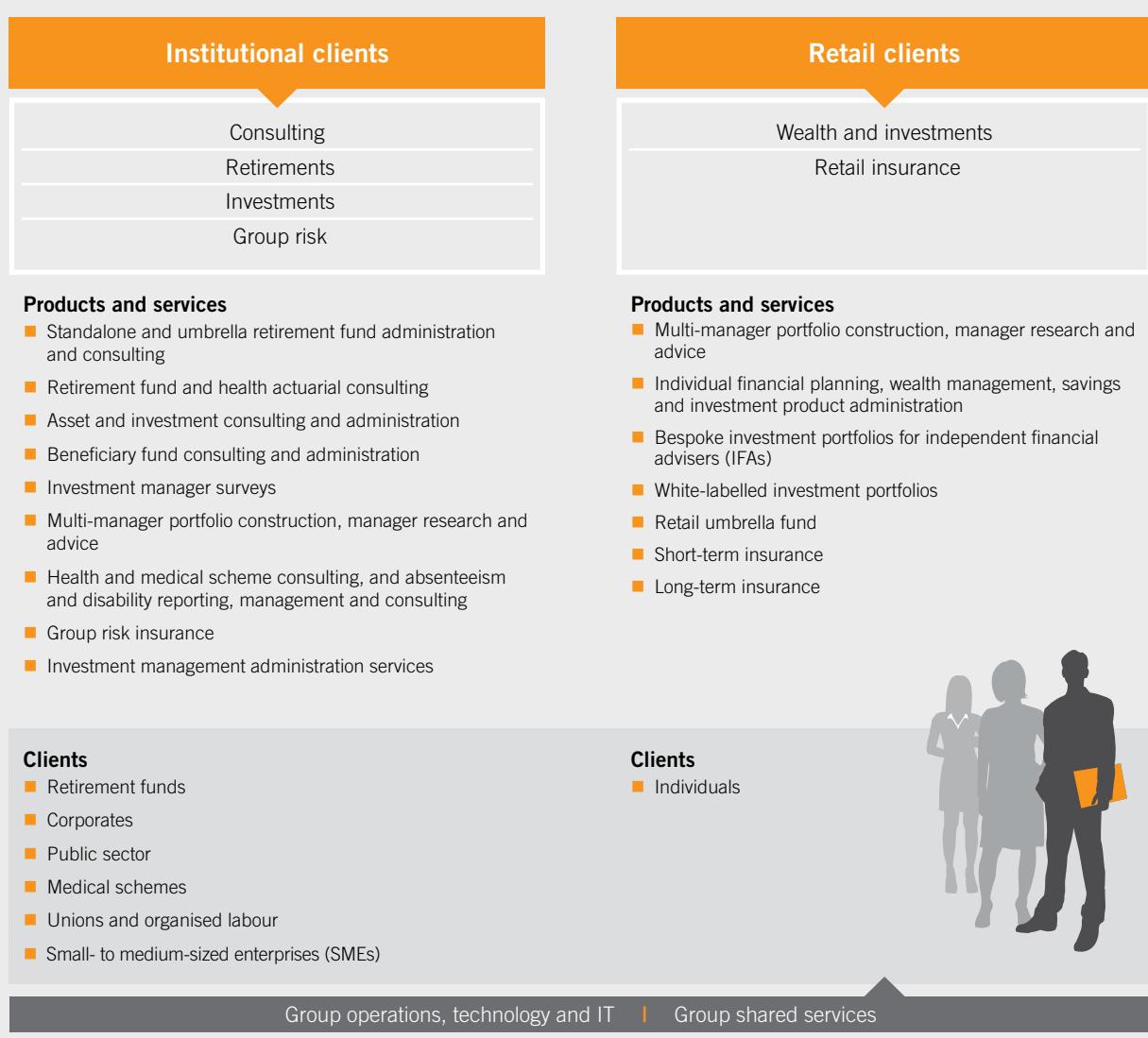


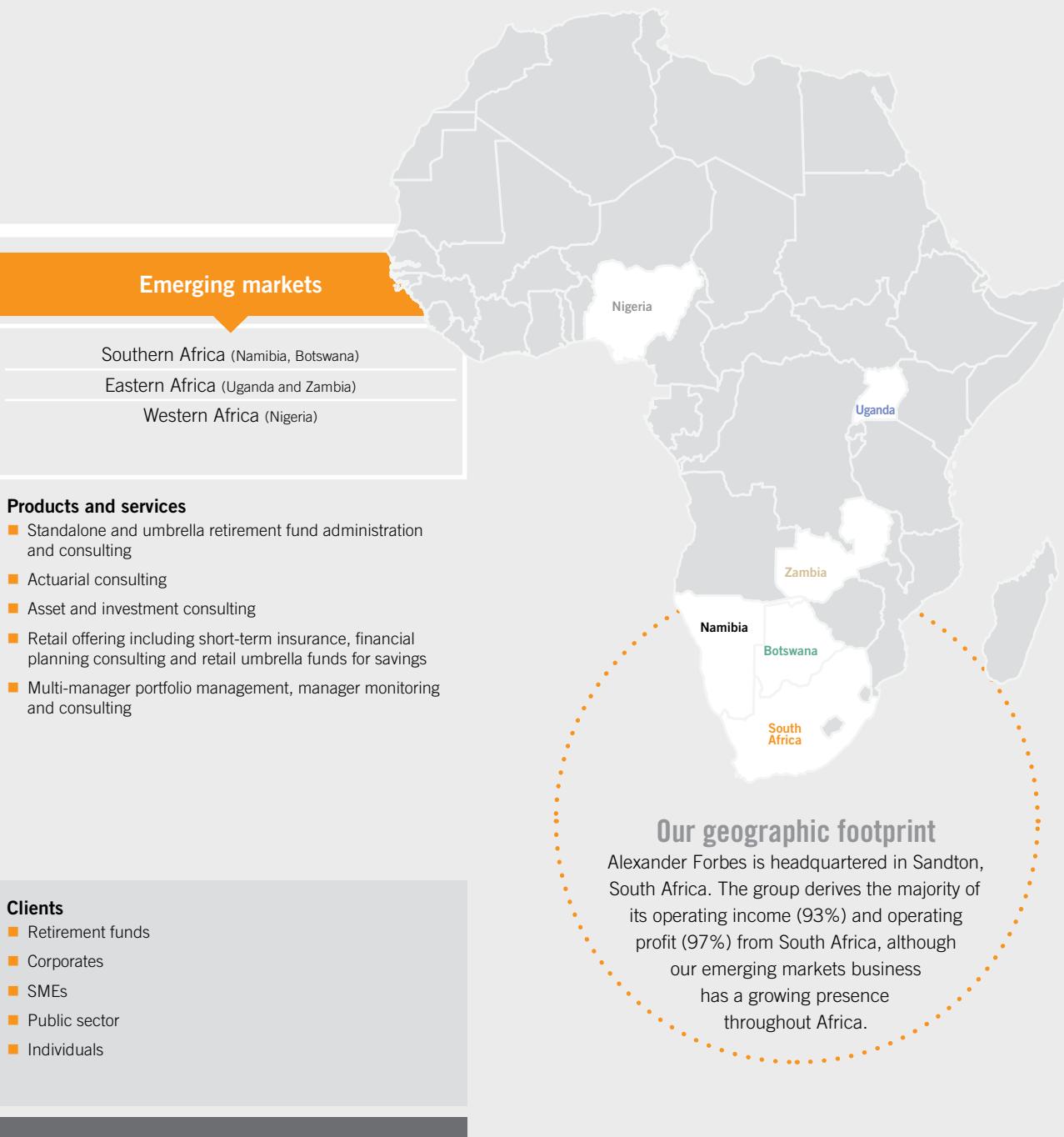
# OUR STRUCTURE AND GEOGRAPHIC PRESENCE

Alexander Forbes offers integrated retirement, investment, life and insurance solutions to create, grow and protect our clients' wealth and assets. The group structure was revised and simplified during the year under review. It now consists of:

- Three core divisions supporting a 'vertically integrated' customer proposition with increased collaboration
- Two core group functions to promote better efficiency, standardisation and cost optimisation

## Alexander Forbes group





# 2017 DIVISIONAL PERFORMANCE REVIEW

## Institutional clients

Indicator	2016 – 2017 % change	2017	2016*	2015*
Operating income from continuing operations (Rm)**	1%	<b>1 920</b>	1 909	1 955
Profit from operations (Rm)***	1%	<b>465</b>	462	534
Total number of institutional clients (SA)	0%	<b>4 439</b>	4 424	4 190
Total number of members in institutional retirement funds (SA)	4%	<b>985 567</b>	1 029 087	1 018 000
Number of new institutional clients (SA)	23%	<b>162</b>	211	243
Institutional client retention (%)	0%	<b>97</b>	97	97
Umbrella fund AuM (Rbn)	5%	<b>68.4</b>	65.3	60.1
Group risk gross written premium (GWP) (Rm)	11%	<b>439</b>	397	320
New AuM business wins (Rbn)	24%	<b>9.9</b>	13.0	8.2
AF Investments AuM and AuA (Rbn)	1%	<b>285</b>	281	273
% investment portfolios that performed ahead of benchmarks	20%	<b>85</b>	71	70

\* Prior-year numbers have been restated for discontinued operations.

\*\* Operating income represents revenue net of direct expenses.

\*\*\* Profit from operations is stated before accounting for IFRS lease adjustments, share scheme costs and non-trading and capital items.

## Retail clients

Indicator	2016 – 2017 % change	2017	2016*	2015*
Operating income from continuing operations (Rm)**	5%	<b>1 274</b>	1 216	1 089
Profit from operations (Rm)***	11%	<b>466</b>	421	356
Total number of retail clients (SA)	6%	<b>137 567</b>	130 214	126 688
Assets under advice (Rbn)	4%	<b>64.7</b>	62.2	56.9
Average assets under administration (Rbn)	3%	<b>59.8</b>	58.1	53.9
Closing AF Investments assets under management (Rbn)	4%	<b>53</b>	51	47
Assets preserved on exit and retirement (%)	2%	<b>45</b>	46	46
Capture rate (%)	6%	<b>35</b>	33	33
Short-term insurance gross written premium (GWP) (Rm)	8%	<b>1 547</b>	1 435	1 297
Long-term insurance gross written premium (GWP) (Rm)	23%	<b>27</b>	22	19
Financial loss ratio (%)	6%	<b>71</b>	76	71
New AF Life retail policyholders	110%	<b>1 411</b>	673	384

\* Prior-year numbers have been restated for discontinued operations.

\*\* Operating income represents revenue net of direct expenses.

\*\*\* Profit from operations is stated before accounting for IFRS lease adjustments, share scheme costs and non-trading and capital items.



**R466m**  
Operating income from  
continuing operations

(2016: R421m)

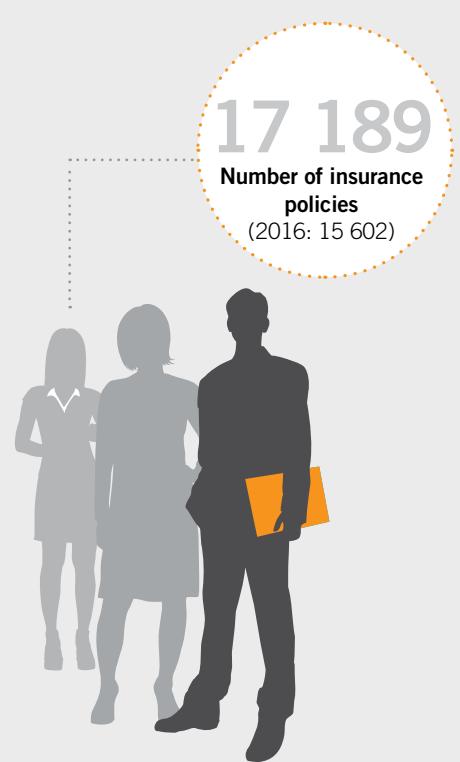
## Emerging markets

Indicator	2016 – 2017 % change	2017	2016*	2015*
Operating income from continuing operations (Rm)**	11% ↓	<b>241</b>	270	232
Profit from operations (Rm)***	51% ↓	<b>32</b>	65	55
Total number of institutional clients	0% ↗	<b>500</b>	499	475
Total number of members under administration	57% ↓	<b>109 575</b>	254 899	247 637
Total number of retail clients	21% ↑	<b>4 763</b>	3 928	2 813
Short-term insurance gross written premium (Rm)	15% ↑	<b>290</b>	253	200
AF Investments Namibia assets under management (Rbn)	3% ↑	<b>3.6</b>	3.5	3.3
Number of insurance policies	10% ↑	<b>17 189</b>	15 602	11 594

\* Prior-year numbers have been restated for discontinued operations.

\*\* Operating income represents revenue net of direct expenses.

\*\*\* Profit from operations is stated before accounting for IFRS lease adjustments, share scheme costs and non-trading and capital items.



# 4 763

**EMERGING MARKETS:**  
Total number of retail clients  
(2016: 3 928)

# GOVERNING OUR BUSINESS

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**Good corporate governance is key to achieving our strategy. It facilitates effective and prudent management that can deliver the long-term success of the company. Alexander Forbes believes that the application of the principles of good governance as contained in the King Code of Governance Principles and the King Report on Governance 2009 (King III), are a cornerstone of the Alexander Forbes business.**

To ensure that our operations are executed in accordance with these principles, we have established a management system that includes a compliance framework, code of ethics, as well as policies and protocols to govern processes and operations.

Our governance framework is applicable to all of the group's subsidiaries in addition to those policies and procedures that are specific to certain subsidiaries.

Alexander Forbes has a unitary board. Its mission is to represent and promote the interests of the company's shareholders and relevant stakeholders by adding value to the company's performance. The board is responsible for ensuring that the group's operations, processes and activities are underpinned by a strong system of governance that is fully integrated into all aspects of its business. At the date of issue of this report the company's board of directors consisted of ten members. Of these, five were independent directors, three non-executive directors and two executive directors.

The board is governed by the board charter. The charter regulates how the board conducts business in accordance with the principles of good corporate governance, setting out specific individual and collective roles and responsibilities.

The board committee structure is designed to assist the board of the company in performing its duties and responsibilities. Although the board delegates certain functions to these committees, it retains ultimate responsibility for their activities. Each board committee has formal written terms of reference that are reviewed every year.

During the year under review the subsidiary board and audit committee meeting processes were streamlined in order to reduce duplication of information and reporting, while continuing to comply with regulatory reporting requirements.

In preparing for the implementation of King IV, we commenced training and commissioned a gap analysis of the King IV requirements. The gap analysis will include testing the relevant policies and statutory documents against the principles of

King IV and workshops will be held to review the reports arising from the gap analysis.

During 2017 Alexander Forbes adopted a policy to promote gender diversity at board level. The voluntary target set by the board in the policy is that 30% of the board should comprise women within three years of adoption of the policy. The nominations committee will monitor the gender composition of both the board and executive team and make recommendations to the board.

## Key focus areas of the board in 2017

- Reviewing and approving the group's revised strategy, which culminated in Ambition 2022
- Conducting the annual JSE compliance review, the annual review of the board's terms of reference and work plan, and the annual review of the group authorities matrix
- Approving the integrated annual report, annual financial statements, notice of annual general meeting, solvency and liquidity reports, interim report, dividend declarations and general buy-back programme
- Adopting a gender diversity policy
- Reviewing and approving the board committees' terms of reference
- Receiving and considering feedback on the board assessment report
- Reviewing and approving the transaction with African Rainbow Capital, the disposal of LCP, and other acquisitions and disposals
- Adopting an acquisitions policy and establishing an acquisitions committee
- Receiving a briefing on the Financial Sector Charter codes and the DTI codes
- Agreeing and adopting a capital allocation strategy
- Reviewing and approving the annual budget and Ambition 2022 group strategy



For more detailed information on governance, including meeting attendance, focus areas, board and committee terms of reference, committee updates and our adherence to the King III principles, please see the full governance report on our website.

The full governance report also contains the remuneration report and chapters on risk and regulatory management.

[www.alexanderforbes.co.za/investor-relations/integrated-reports](http://www.alexanderforbes.co.za/investor-relations/integrated-reports)

## ALEXANDER FORBES GROUP HOLDINGS LIMITED BOARD OF DIRECTORS

Group audit committee	Group nominations committee	Group remuneration committee	Group social, ethics and transformation committee	Group capital oversight committee	Group acquisitions committee
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### Key focus areas of the board committees in 2017

#### Nominations committee

- Oversight of the identification and procedure for the appointment of suitable directors to the board
- Made recommendations to the board for the group chief executive appointment
- Received reports on talent and succession management
- Considered the directors retiring by rotation at the 26 August 2016 AGM, in terms of their skills, expertise and contribution, and agreed that the chairman report to the board that a recommendation be made to shareholders that the directors be re-elected
- Considered and evaluated each of the board members on an individual basis as per the guidance given by King III
- Assessed and confirmed the effectiveness of the chairman's leadership
- Assessed and confirmed the competence and independence of the group company secretary
- Received feedback on the committee's self-assessment report
- Received updates on executive recruitments
- Adopted a gender diversity policy for recommendation to the board for approval
- Amended the committee's terms of reference whereby the committee annually reviewed executive performance in terms of execution of strategy
- Discussed diversity issues in the business, the importance of awareness and training

#### Remuneration committee

- Considered and approved the basis of short-term incentive bonus pools available for allocation and related performance measures to be applied
- Approved ex gratia payments for the interim group chief executive and executive chairman for temporary additional services performed
- Considered the implications of an executive benchmarking review
- Received updates on projects aligning the group's employee grading and proficiency levels
- Considered and agreed the overall payroll increase to be applied for the year
- Considered and approved the non-executive director fee increase for recommendation to shareholders at the company's annual general meeting
- Performed its annual self-assessment and received and considered the report in this regard
- Approved the allocation framework and measures for the third tranche allocations for the long-term incentive plan (LTIP)
- Discussed and reviewed the group executives' performance scorecards and approved their increases, bonuses and LTIP awards for the year ended 31 March 2016
- Approved the package to be offered to the prospective group chief executive
- Reviewed the group scorecard for 2017/18
- Approved the proposed extension of the employees' retirement age
- Performed the annual review of its terms of reference and annual work plan and approved same
- Revisited the retrenchment policy and guide
- Considered retention and restraint mechanisms
- Approved the 2017 bonus pool funding

#### Acquisitions committee

- Considered business acquisitions and disposals, and considered details presented by management thereon
- Guided the process of acquisitions and disposals and, where appropriate, made recommendations to the board for its further consideration

#### Social, ethics and transformation committee

- Ethics
- Transformation
- Health and safety
- Socio and economic responsibilities
- Sustainability
- Labour
- Consumer relationships

#### Audit committee

- External auditor appointment and independence
- Internal controls
- Whistle-blowing
- Combined assurance
- The going concern status of the group
- Governance of risk
- Internal audit
- Evaluation of the expertise and experience of the group chief financial officer (GCFO) and the finance function
- Internal financial controls

#### Group capital oversight committee

- Reviewed its terms of reference and annual work plan
- Reviewed solvency and liquidity assessments as well as consolidated dashboards for the group and identified subsidiaries
- Considered dividend recommendations and capital allocation in terms of solvency and financial soundness
- Oversaw capital adequacy and management of insured entities
- Considered the group's capital structure and balance sheet management
- Received and considered the group's own risk solvency assessment (ORSA) and consolidated supervision reports, staying abreast of FSB developments in this regard
- Received updates on stress and scenario testing
- Received feedback from the SAM steering committee



# OUR BOARD OF DIRECTORS

## Non-executive directors

### **Matthews Sello Moloko (Non-executive Chairman)**

Appointed: 3 December 2007

Qualifications: BSc (Hons), PGCE, AMP (Wharton)

Committee responsibilities: chairman of the social, ethics and transformation committee; member of the remuneration committee

### **William Simon O'Regan**

Appointed: 31 July 2014

Qualifications: BusSci (Hons), fellow of the Faculty of Actuaries (UK) and fellow of the Institute of Actuaries (Australia)

Committee responsibilities: member of the remuneration and nominations committees

### **David John Anderson**

Appointed: 10 October 2014

Qualifications: Dip All, Dip SM, FASFA, FAIM, ANZIIF (fellow) CIP, AAMI CPM, MAICD

Committee responsibilities: member of the social, ethics and transformation and group capital oversight committees

## Independent directors

### **Mark Derrick Collier**

Appointed: 1 August 2011

Qualifications: HND/BA Business Studies, Dip M, M Inst

Committee responsibilities: lead independent director, chairman of the remuneration and nominations committees; member of the audit committee

### **Deenadayalen Konar**

Appointed: 1 February 2008

Qualifications: BCom, PG Dip in Acc, CA(SA), MAS (Illinois, USA), Cert in Tax Law, DCom, CRMA

Committee responsibilities: chairman of the audit committee

### **Busisiwe Jacqueline Memela**

Appointed: 1 July 2015

Qualifications: BA (Social Science); Masters in Public Administration;

Committee responsibilities: member of the social, ethics and transformation, remuneration and nominations committees

### **Hilgard Pieter Meyer**

Appointed: 9 June 2011

Qualifications: BCom, FASSA, AMP (Oxford)

Committee responsibilities: chairman of the capital oversight committee; member of the remuneration and nominations committees

### **Rabojane Moses Kgosana**

Appointed: 21 April 2015

Qualifications: BCompt, BCompt (Hons), CA(SA)

Committee responsibilities: member of the audit, group capital oversight and social, ethics and transformation committees

## Executive directors

### **Andrew Atta Darfoo (Group Chief Executive; Acting Chief Executive Officer, Institutional Clients)**

Appointed: 1 September 2016

Qualifications: BSc (Ec), MBA, ACMA, CGMA

### **Bruce Patrick Bydawell (Acting Group Chief Financial Officer)**

Appointed: 30 April 2017

Qualifications: B.Com, CA(SA), CFA

### Directorate changes:

- Mr AA Darfoo was appointed Group Chief Executive on 1 September 2016.
- Mr DM Viljoen resigned from the board and as Group Chief Financial Officer on 30 April 2017. Mr BP Bydawell was appointed as acting Group Financial Officer on the same date.
- Mr MS Moloko served as executive director and Chairman of the board from 8 February 2016 until the appointment of the Group Chief Executive on 1 September 2016, when he reverted to the position of non-executive director and Chairman of the board.

*Standing left to right: Rabojane Moses Kgosana, David John Anderson, William Simon O'Regan, Bruce Patrick Bydawell, Hilgard Pieter Meyer and Deenadayalen Konar*

*Seated left to right: Mark Derrick Collier, Matthews Sello Moloko, Busisiwe Jacqueline Memela and Andrew Atta Darfoo*

# OUR EXECUTIVE COMMITTEE

**Andrew Atta Darfoo**

Group Chief Executive

Tenure with the company:  
1 September 2016

**Thabo Mashaba**

Group Chief Human Resources Officer

Tenure with the company:  
1 April 2012

**Vishnu Naicker**

Group Chief Risk Officer

Tenure with the company:  
1 April 2008

**Stephen Price**

Group Chief Operating Officer

Tenure with the company:  
13 July 1999

**Sugendhree Reddy**

Chief Executive Officer:  
Retail Clients

Tenure with the company:  
1 August 2015

**Lynn Stevens**

Group Chief Marketing Officer

Tenure with the company:  
1 August 2010

**Bernhard Schluep**

Chief Executive Officer:  
Emerging Markets

Tenure with the company:  
1 April 2017

**Bruce Patrick Bydawell**

Acting Group Chief Financial Officer

Tenure with the company:  
1 August 1998



*From left to right:* Bruce Patrick Bydawell, Thabo Mashaba, Sugendhree Reddy, Bernhard Schluep, Andrew Atta Darfoor, Stephen Price, Lynn Stevens and Vishnu Naicker.

Changes in structure and membership:

- Due to a restructure of the committee Mr G Stobart, Mr B Eliot and Ms J Salvado ceased to be members with effect from 14 September 2016.
- Mr G Stobart resigned with effect from 1 November 2016.
- Mr P Edwards resigned with effect from 31 March 2017.
- Due to a change in duties Mr L Pillay ceased to be a member of the committee with effect from 1 April 2017.
- Mr B Schluep was appointed as Chief Executive Officer: Emerging Markets with effect from 1 April 2017.
- Mr D Msibi resigned with effect from 30 April 2017.
- Mr DM Viljoen resigned as Group Chief Financial Officer with effect from 30 April 2017. Mr BP Bydawell has been appointed as acting Group Chief Financial Officer with effect from 30 April 2017.



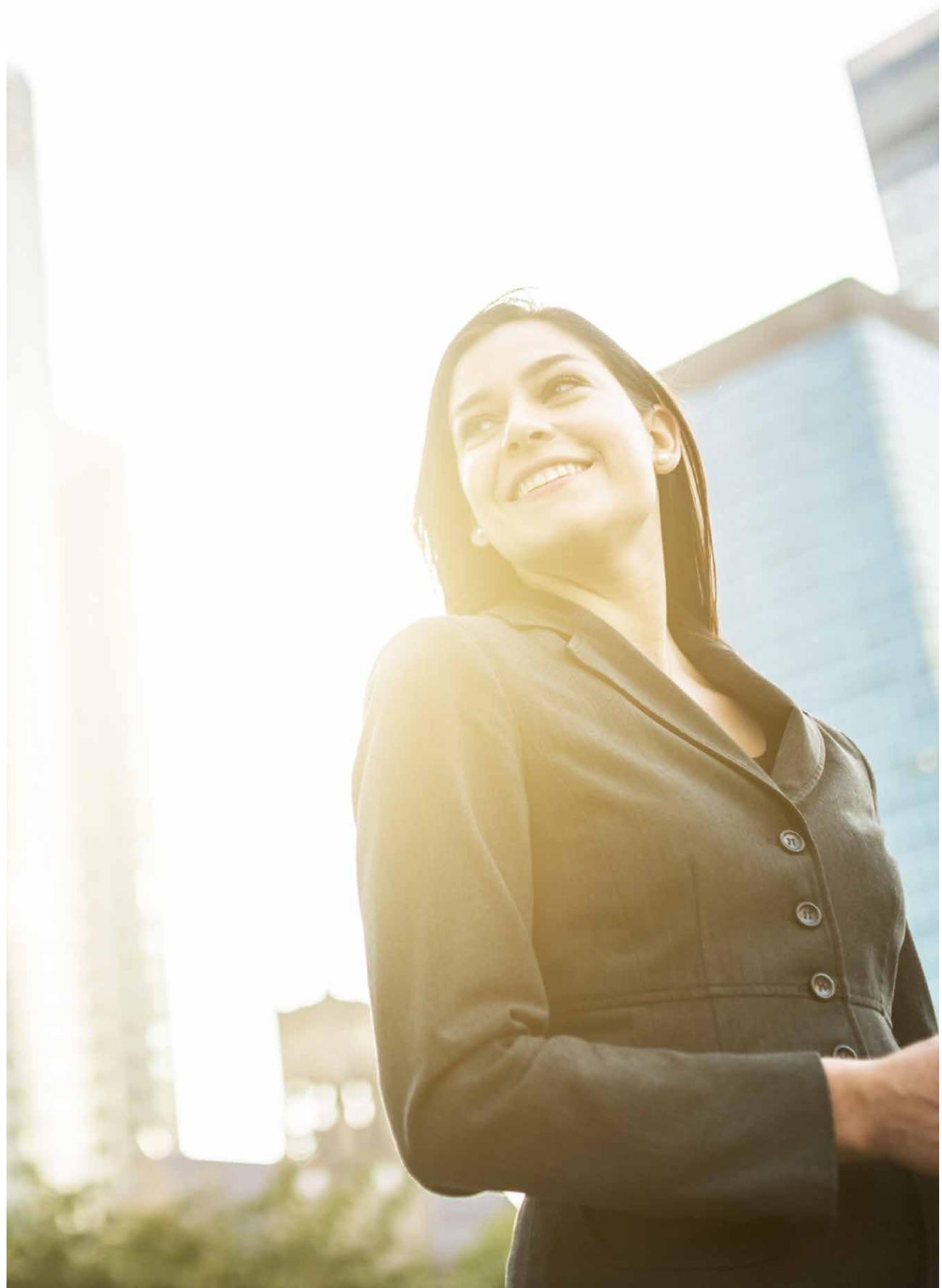
# HOW WE CREATE VALUE

Our business model and  
integrated value proposition

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Our external  
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# OUR BUSINESS MODEL AND INTEGRATED VALUE PROPOSITION



## Social capital

Investors

Clients (institutional and individual customers)

Employees

Trustees

Regulators

Government

Intermediaries

Communities

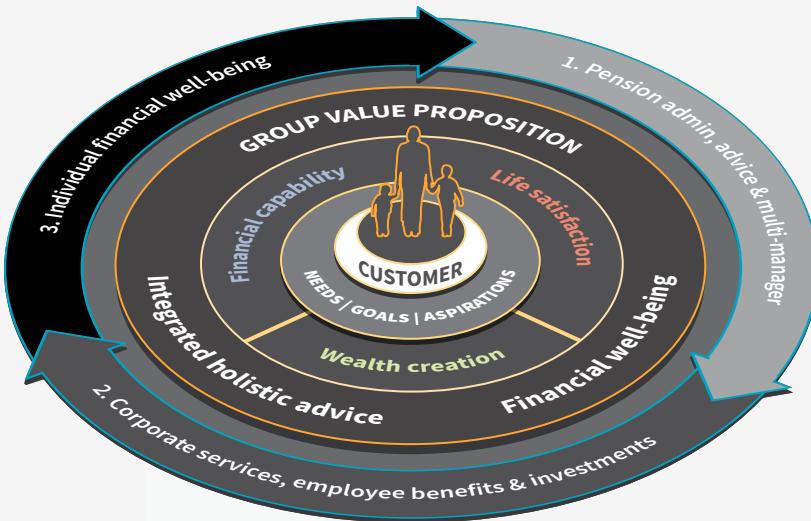


We rely on a number of inputs ...



## ... to deliver our value proposition ...

We conduct many activities that support the delivery of our products and services. Our value proposition is to deliver our solutions as the outcome of sound, holistic financial advice and, in doing so, support our clients' financial well-being now and into the future.



## ... in order to achieve our desired outcomes ...

### Financial capital

**R3.4 billion** net operating income

**R704 million** normalised profit after tax

**R509 million** dividends paid

### Human capital

**R1.5 billion** in total payroll costs paid in 2017

**60** internal promotions

Employment equity score of **8.75** out of 15.00

### Social capital

**R1.65 billion** paid out in gross claims

**R2.1 billion** paid to preferential procurement suppliers

**R22 million** spent on enterprise development

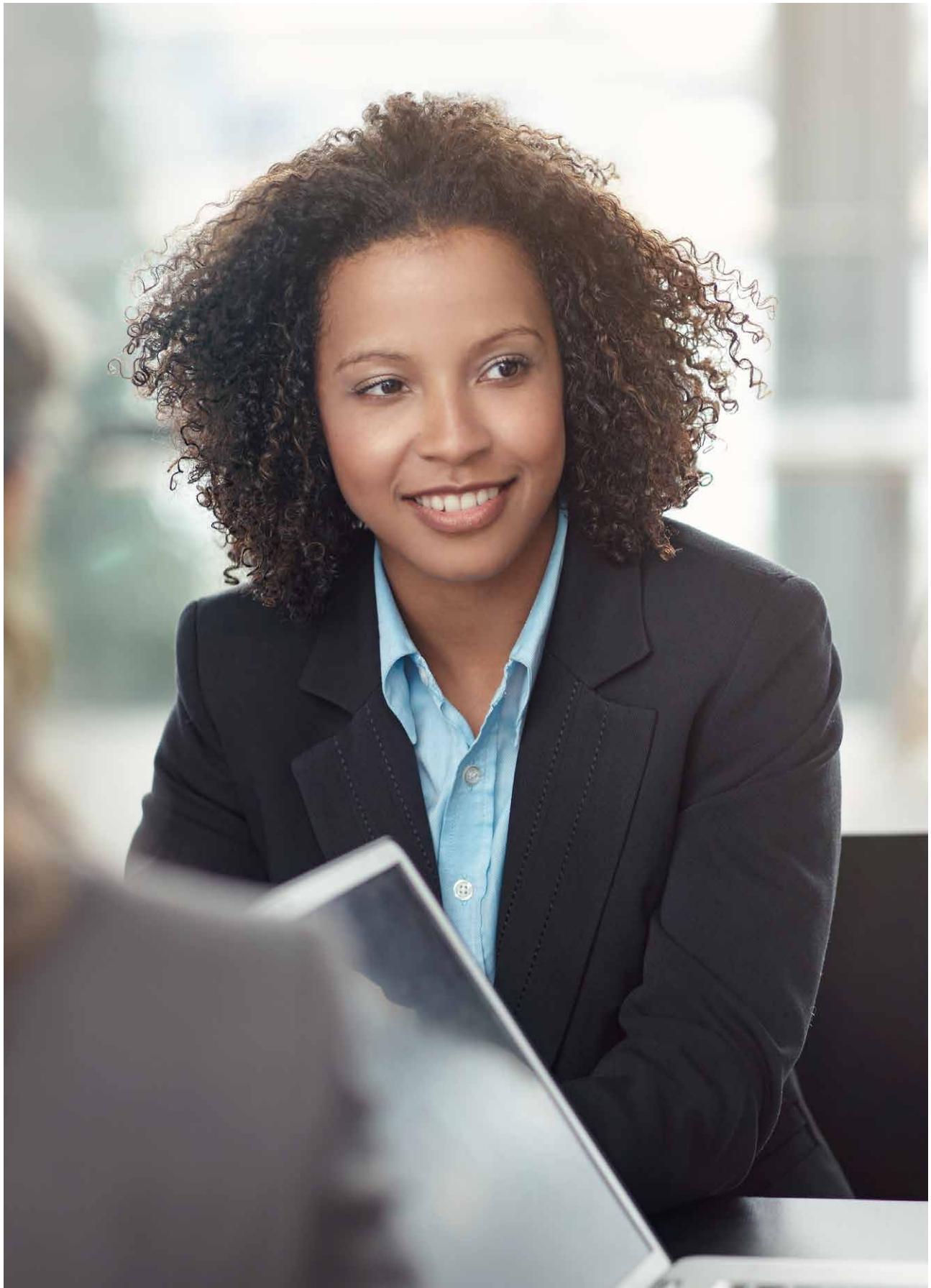
**R4.3 million** invested in communities

## ... and, in doing so, support our clients' financial well-being for their lifetimes

Building Africa's culture of long-term savings

Supporting 1.4 million clients' financial well-being and peace of mind

Preserving wealth and managing clients' key risks



# OUR EXTERNAL OPERATING CONTEXT

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## Political environment

The operating environment remained challenging for the financial services sector, with Brexit, the US election and President Trump's economic policies having a negative impact on the South African economy. More critically, South Africa remained in a state of transition with continued uncertainty around the country's macroeconomic outlook.

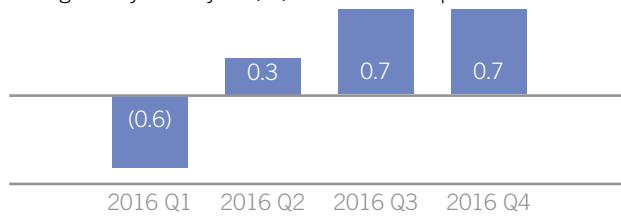
On 30 March 2017 President Jacob Zuma reshuffled his cabinet, which included the removal of finance minister Pravin Gordhan and his deputy, Mcibisi Jonas, from office. In quick succession the rand weakened against major currencies – having strengthened over the last few months – and the government of South Africa's debt rating was downgraded by Moody's, Fitch and S&P.

The political environment in most of the countries in which emerging markets operates is currently stable.

Going into 2018, Alexander Forbes, like other financial services organisations, is expected to be impacted by ongoing economic and political uncertainty which will impact consumer and business confidence. Slowed business growth and a weak rand will further hamper growth in short-term insurance businesses in South Africa and within our emerging markets businesses.

## Low SA growth environment

GDP growth year on year (%) constant 2010 prices



Source: Stats SA

## SA inflationary environment

SA consumer price inflation (%)



Source: Stats SA

## Economic environment

The economic environment has a direct correlation to our business model, particularly in the institutional clients business. One-third of our revenue has historically been linked to the financial markets and more than 50% of the trading result is also impacted by factors such as wage inflation, employment statistics and GDP growth, which are key indicators to recurring revenue lines. Stronger structural growth opportunities exist within our retail business lines, but with linkage to consumer confidence and sentiment.

2016 was a low growth year in South Africa; the economy grew just 0.3%, compared with 2015. At the end of 2016 unemployment was 2% higher year on year. The youth (aged 15 – 34) remain the most vulnerable in the labour market with an unemployment rate of 37.1%, which is more than 10% above the national average. Increases in unemployment have a strong correlation with funds being withdrawn from pension savings and declining member numbers, both of which affected us again this year. Wage inflation generally has a positive impact on our business as fees increase with increasing pension contributions.

According to the Old Mutual Savings and Investment Monitor confidence in the South African economy plummeted to 31% in 2016 from 55% in 2015 and debt levels have increased to 16%

## SA labour market contraction

Unemployment rate SA (%)



Source: Stats SA

## SA wage inflation

SA wage inflation (%)



Source: Rand Merchant Bank

## OUR EXTERNAL OPERATING CONTEXT | CONTINUED

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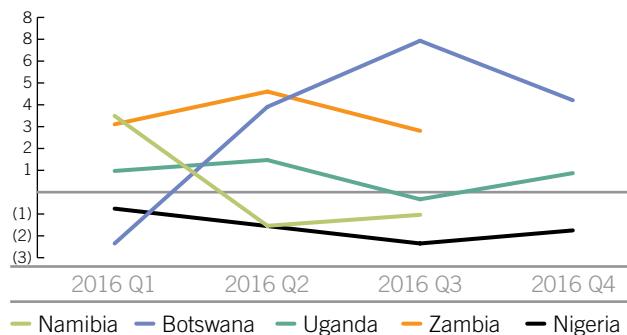
of income (2015: 12%). 41% of property owners consider their primary residence to be part of their retirement nest egg, and the use of pension and provident funds has decreased.

In the sub-Saharan countries in which Alexander Forbes has an established presence, economic growth has also been slow.

The uncertain and subdued economic outlook in South Africa and some of the other emerging market countries will continue to influence business performance across our retail and institutional businesses, as well as our ability to grow assets under management and associated fees. Risks include retrenchments in our client base, withdrawals from retirement funds, increasing incidents of disability claims, less discretionary money within households impacting purchasing decisions across protection and insurance solutions as well as discretionary investment products.

### Emerging markets GDP growth rates

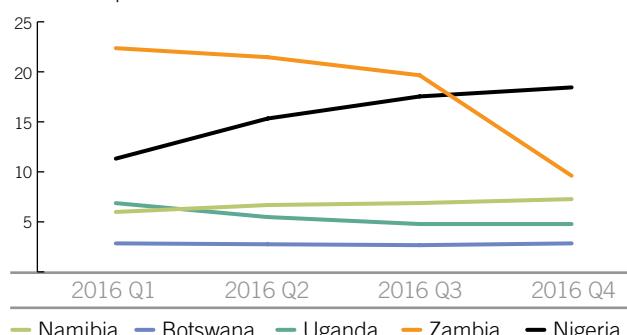
GDP growth (%)



Source: Rand Merchant Bank

### Emerging markets inflation rates

Consumer price inflation (%)



Source: Rand Merchant Bank

### Competitive environment

The local financial services environment remains highly competitive with a large number of mature players and new entrants that are positioning themselves as either low-cost providers or aiming to simplify the client experience. Larger, mature providers are differentiating or modernising their product sets or looking to add additional value by combining services.

### Employee benefits and retirement funds

The industry as a whole has experienced muted growth against the macro backdrop of slow economic growth and weak employment. Overall, there has been a trend of freestanding arrangements converting to umbrella arrangements. This has been driven by the desire of employers to simplify their arrangements and reduce the overall costs relating to the provision of retirement savings arrangements. We expect this trend towards umbrella funds to continue.

Within the umbrella industry there is increased competition with several new entrants into the market already having launched products, or announced plans to do so. We do, however, expect some market consolidation, given the need for umbrella funds to achieve scale to provide viable administration services and wider value-add services.

Other key issues are a focus by regulators on reducing costs and charges, increased transparency, and the introduction of new technologies. We therefore expect further reductions in charges as well as broad industry investment into new technologies that improve the customer experience.

### Long-term insurance

Long-term insurers have also faced tough economic conditions in recent times. Slow economic growth and lower wage growth have resulted in less disposable income for consumers, resulting in reductions in new business, an increase in claims and an increase in lapsed policies. Several insurers have reported worse-than-expected morbidity rates, linked to economic conditions. The impact of this environment has been felt mainly by group disability income insurance schemes, as fewer claimants return to work. It is expected that this trend will continue for some time.

During the year muted equity returns continued to affect both policyholders and shareholders. A weak employment market, negative economic outlook and credit downgrades are expected to suppress future earnings.

## Regulatory and legislative environment

As a group we are subject to a great deal of draft and new legislation and regulation. Key regulatory impacts that we are anticipating in the short to medium term are discussed below.

### Financial Sector Regulation Bill 2016

Implementation of this Bill is aimed for April 2017 but it will be phased in over a few years. This Bill provides for Phase 1 of the Twin Peaks model of financial regulation for financial institutions. A Prudential Authority will be established to provide prudential regulation and a Market Conduct Authority to provide market conduct regulation of financial institutions. We have a good understanding of the requirements of the Bill and the attendant Levies Bill.

### Conduct of Financial Institutions Bill (COFI)

COFI forms the basis of Phase 2 of the Twin Peaks model of financial regulation. In Phase 2 existing sectoral legislation will be reviewed, amended and ultimately replaced with COFI to ensure comprehensive governance of financial institutions. The aim is to table COFI in Parliament in the 2018 calendar year.

### Insurance Bill 2016

This Bill consolidates the long-term and short-term prudential regulatory framework for long-term and short-term insurers and forms part of the Twin Peaks model. An implementation date in the second half of the 2017 calendar year has been proposed. The Bill deals with, inter alia: (a) financial soundness and oversight through higher prudential standards, insurance group supervision and stronger reinsurance arrangements; (b) micro-insurance; (c) strengthening of governance, risk management and internal control for insurers; and (d) alignment with international standards. Amendments are also being made to the Regulation and the Policyholder Protection Rules. This Bill will work together with the Taxation Laws Amendment Bill, which also gives effect to the Insurance Bill.

The Insurance Bill will impact on the long-term and short-term insurers in our business. We have provided our comment on the Bill and are required to understand its impact on our business with a view to making the necessary adjustments to ensure compliance and cohesion with strategy.

### Retail distribution review (RDR)

A status update on RDR was published by the Financial Services Board (FSB) in December 2016. The 2016 update deals with

the status of RDR Phase 1 regulatory instruments and the current FSB thinking on Phases 2 and 3. Phase 1 regulatory instruments include:

- general Code of Conduct for authorised financial services providers (FSPs) and representatives issued under the Financial Advisory and Intermediary Services Act (FAIS);
- determination of fit and proper requirements for FSPs under FAIS;
- financial advisory and intermediary services regulation issued under FAIS;
- regulations issued under the Long-term and Short-term Insurance Acts; and
- policyholder protection rules under the Long-term and Short-term Insurance Acts.

All of the above are in themselves significant pieces of new regulation, which we are coming to grips with. We have provided our comments on these and engaged with industry bodies where necessary.

RDR aligns to treating customers fairly (TCF) and introduces significant reforms to the distribution and intermediary remuneration landscape. It will lead to reduction in platform rebates and disruption in the independent financial adviser landscape. There are 55 specific proposals to be implemented in phases, 14 of which are destined for Phase 1.

The RDR proposals need to be carefully considered so as to ensure our strategies are achieved with maximum alignment to RDR, and much thought and action is required to ensure we maximise the effect of the RDR proposals as far as our strategies and customers are concerned.



Full information regarding all the legislation and regulations that affect our business – both in South Africa and within emerging markets – is available online in the full governance report.

[www.alexanderforbes.co.za/investor-relations/integrated-reports](http://www.alexanderforbes.co.za/investor-relations/integrated-reports)



# OUR STRATEGY

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Material  
matters  
impacting  
our strategy

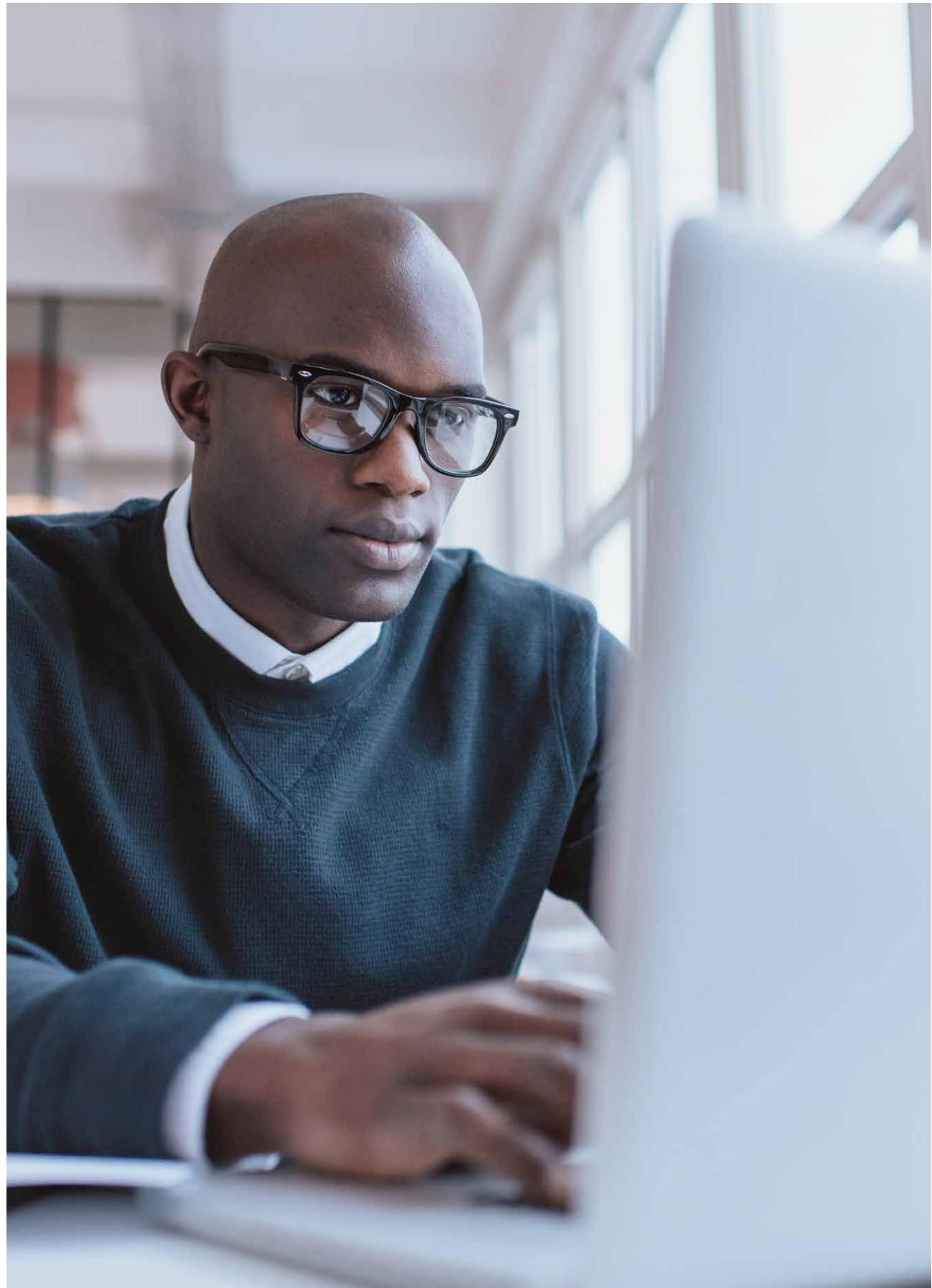
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# Q&A WITH THE CHIEF EXECUTIVE

## **Q: In your first six months at Alexander Forbes, what have your impressions been?**

**A:** In my first six months I have been extremely privileged to meet with a significant number of key stakeholders, including shareholders, investors, clients, suppliers and the regulator. I have also actively engaged with our colleagues across all of our territories and spent time in our call centres listening to interactions with our customers. Overall, I heard many positive stories, but I also heard about areas for improvement.

Alexander Forbes is a strong business with a great brand and rich legacy. On the positives, we have loyal client relationships, dedicated and talented colleagues and a number of leading businesses in our group. However, the business has not delivered on its immense potential and needs to address a number of structural issues to reposition for the future.

I believe that I understand the issues well and am focused on addressing them with clarity, pace and urgency. This is part of our ongoing transformation journey. The very essence of our transformation is focused on evolving our value proposition to have a clear focus on our customers, helping them achieve a lifetime of financial well-being.

## **Q: How would you describe Alexander Forbes's approach to creating value?**

**A:** Value to me is all about making sure we are there for our customers – both corporates and end consumers. For corporates, this means getting the basics right: allowing them to exercise their fiduciary responsibilities and helping them to enable their employees to be happier and more productive. For the consumer it means offering educational financial advice and ensuring that they have a plan for their future. In demonstrating our value to our customers we add value to all our stakeholders in a sustainable way.

We are therefore focused on creating value through being a trusted partner for financial solutions at every stage throughout the life journey. For a lifetime goes to the heart of helping customers protect themselves financially; it means helping them to use the assets they have built up over their lifetimes to ensure they are able to retire with peace of mind.



“Over the five-year period to 2022 we want to achieve revenue growth at or above market and deliver positive operating leverage. This should translate into improved operating profit growth, margin enhancement and improved cash flows.”

**Q: How did Alexander Forbes perform over the 2017 financial year?**

**A:** Overall our performance was satisfactory, showing resilience in the context of a challenging economic and political backdrop in South Africa and other markets we operate in. In my view this demonstrated strong resilience. We delivered positive operating leverage, improved margins at both a group and divisional level, delivered growth in profitability, improved expense efficiency and sustained growth in our dividend payout alongside payment of a special dividend. Over the course of the past three or so years we have paid out close to 15% of our market capitalisation in dividends – also satisfactory. Over the course of the year we also set upon our business transformation with vigour, clarity and speed. We were able to attract a number of new leaders into the business, whilst building on internal strengths.

While more needs to be done, we are clear on our priorities, execution focus and ambition in unlocking value across the group.

**Q: What is the group's vision and strategy moving forward?**

**A:** Our vision is to be a globally distinctive pan-African financial services leader. Our five-pillar strategy revolves around growing each of our businesses in a more integrated and collaborative manner, improving operational efficiency and embracing digital to improve the overall client experience. We also want to expand the penetration or retailisation of our member base with the concept of lifetime integrated and holistic solutions and advice.

In terms of key strategic focus areas the strategy across the group is centred around five clear priorities: (i) getting ‘back in the boardroom’ and improving cross-sell; (ii) making umbrella the core institutional growth engine to drive access to end consumers; (iii) driving SME penetration; (iv) using financial well-being to target the end consumer, leveraging data analytics and portfolio pricing; and (v) driving asset accumulation strategy across the group.

**Q: The strategy focuses on an integrated customer value proposition – what difference will this make to your clients?**

**A:** Historically we have engaged with our clients only at certain key events – for instance at retirement or at retrenchment. We are now focused on evolving our customer relationship to go beyond this. Our value proposition is about engaging with our customers at all stages of their life journeys to help them make the right financial decisions. We will do this by building stronger

client relationships; by providing education and sound financial advice; and by delivering relevant, innovative financial product solutions. Everything we do is to help our customers achieve a lifetime of financial well-being and security.

**Q: A key part of your strategy is emerging markets. How will you deliver this?**

**A:** The emerging markets business has performed well over the last few years and I believe that this business has strong structural opportunities to continue to grow, both organically and inorganically. In the short term we intend to grow our business in markets where we see attractive opportunities. We will also consider inorganic activity to expand into new geographies where we believe this makes sense. We will be extremely cautious and disciplined on this.

Across our emerging markets business the majority of our customers are, what I would call, emerging middle class and they are increasingly demanding a broader range of retail solutions delivered to them in the manner of their choosing, typically digitally. To meet this demand we have developed, and will continue to develop, a number of leading-edge consumer solutions. In the corporate space we are already penetrating the SME sector, which is a direction in which we plan to drive the South African operations. We therefore intend to bring the DNA of our emerging markets SME strategy back to South Africa.

**Q: What will your focus be in financial year 2018?**

**A:** While we believe the economic outlook will remain challenging for the foreseeable future, we will focus on managing and controlling ‘what is in our hands’. This means an absolute focus on the customer with a clear brand strategy and customer value proposition. It means growing our business lines by leveraging our market-leading institutional platform, improving margins and taking the necessary tough decisions to improve structural expense efficiency, as well as solidifying how we collaborate with our strategic partners Mercer and African Rainbow Capital to accelerate the execution of our strategy.

We will also continue to focus on maintaining our solid capital position with strong cash generation while returning capital to shareholders.

We have loyal and dedicated colleagues and I am both humbled and proud to be leading them into the next chapter in the evolution of Alexander Forbes.

# AMBITION 2022

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Our strategy puts our clients first and focuses on securing their lifetime financial well-being. Importantly, we now have a detailed set of actions, budgets and timelines for each strategic objective and business unit. We believe that the business now has a good strategy and a solid plan for achieving it.

## Vision

**To be a globally distinctive pan-African financial services leader.**

Serving our stakeholders ...

**clients, investors,  
employees, society**

... through our brand, which is known to all our stakeholders as the brand that will secure their financial well-being, for a lifetime.

## Value proposition

Securing our clients' financial well-being by providing peace of mind.

## Strategy

Grow institutional financial services and asset management capability

Grow retail financial services capability, including offshore

Expand across select sub-Saharan African and emerging market geographies

Strive for excellence across service, operational and technology enablement

Innovate and create internal capacity to disrupt ourselves through innovation

**Ambition 2022** is our five-year business transformation strategy, which focuses on generating strong cash flow plus growth.

Our 2022 financial targets are:

- 8% – 10% annual revenue growth
- 7% – 9% annual cost growth
- 10% – 12% annual operating profit growth
- Maintain dividend cover at 1.5x
- Increase return on equity from 12% to >14%



1 Get 'back in the boardroom' and improve cross-sell

2 Make umbrella the core institutional growth engine to drive access to end consumers

3 Drive SME penetration

4 Use financial well-being to target the end consumer, leveraging data analytics and portfolio pricing

5 Drive asset accumulation strategy across the group

# MATERIAL MATTERS IMPACTING OUR STRATEGY

In 2016 we conducted a comprehensive materiality analysis. This involved consulting with executives representing each of the four stakeholder groups regarding the key issues that most concerned each group. From these we created a list of potential material issues, which were then refined into a final list by executive management.

During the year under review we reconfirmed our four stakeholder groups, which are linked to our four material themes, as well as the set of associated key issues, in consultation with executive leadership. This integrated report is structured to report against these material issues.

## Clients

Our clients are the cornerstone of our strategy: they buy our products and services and provide our revenue. If we add value to our clients, by understanding their unique requirements and aspirations and delivering holistic and integrated solutions, we are able to add value to each of our other key stakeholders.

## Employees

Our employees are critical to fulfilling our commitment to our clients. Through their skills, experience and hard work we are able to deliver on our customer value proposition.

## Investors

Our investors are the owners of Alexander Forbes. Their confidence and capital is what allows us to grow and to realise our strategic ambitions.

## Society

Alexander Forbes is part of broader society and various communities. Beyond being a responsible corporate citizen, we view this society – from where we draw many of our business resources – as our partner in creating value.

### Issues identified

- Building our brand
- Delivering a holistic solution
- Ensuring a quality experience
- Optimising channel distribution strategy
- Maintaining our position of thought leadership
- Developing innovative financial products and services to meet clients' needs

- Creating a compelling employer value proposition
- Managing for high performance
- Ensuring continual development
- Safeguarding employees' wellness
- Building a diverse and inclusive workplace

- Strategic resource allocation
- Controlling costs
- Maintaining investor confidence

- Investing responsibly
- Actively practise transformation
- Contributing meaningfully towards social protection
- Environmental stewardship

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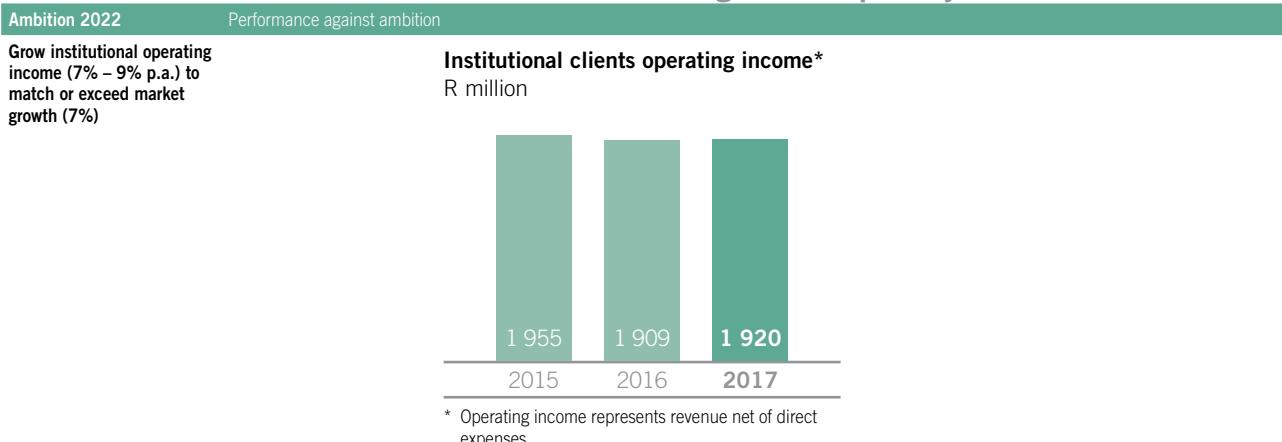
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# PERFORMANCE AGAINST OUR STRATEGY

achieved   in progress   not achieved

## Grow institutional financial services and asset management capability



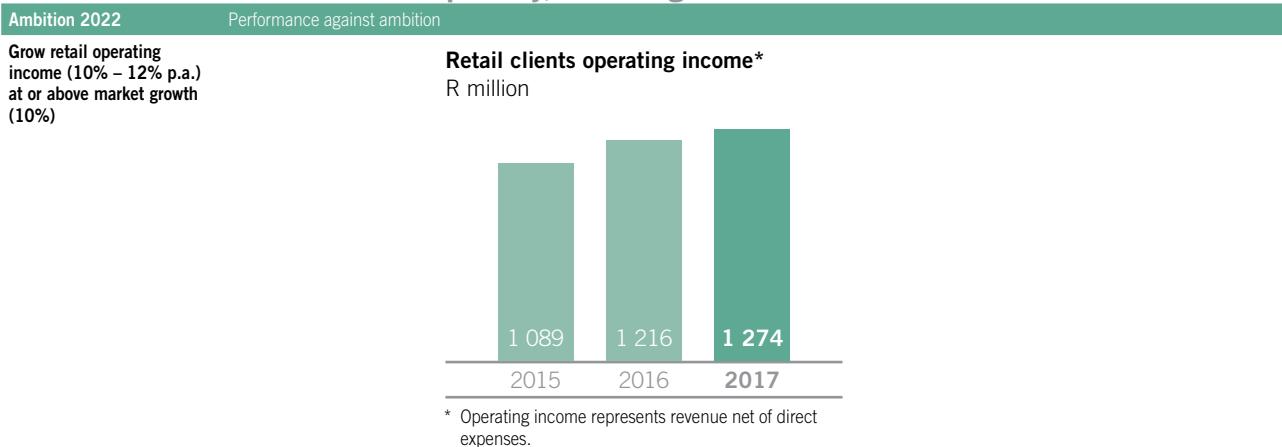
Actions	Progress	2017 progress	2018 plans	Ambition 2022	Risks
Aggressively grow umbrella as anchor institutional revenue driver		<ul style="list-style-type: none"> <li>■ Launch of our InFund Preservation and annuity umbrella solution in October 2016</li> <li>■ Launch of our group retirement annuity solution in February 2017</li> <li>■ Over 50 new clients joined our umbrella funds</li> </ul>	<ul style="list-style-type: none"> <li>■ Drive new business through the restructuring of the new business approach and redefining the principles of team measurement</li> <li>■ Roll out the group value proposition to umbrella fund clients</li> <li>■ Retailise the umbrella fund core</li> <li>■ Refine the market approach with a plan to increase participation in the SME sector</li> <li>■ Develop mid-term road map for migration of unified Alexander Forbes Retirement Fund/ core offering to open architecture</li> </ul>	<ul style="list-style-type: none"> <li>■ Increased market share</li> </ul>	<ul style="list-style-type: none"> <li>■ External risks: political changes and macroeconomic economy</li> <li>■ Internal risks: staff retention, which is being mitigated by restraint programmes</li> </ul>
Get 'back in the boardroom' and improve cross-sell to end consumers		<ul style="list-style-type: none"> <li>■ Launch of various employer solutions to meet the needs identified through interaction with the boardroom including AFRIS (Alexander Forbes Retirement Income Solutions) and financial well-being value proposition</li> </ul>	<ul style="list-style-type: none"> <li>■ Increase the number of boardroom engagements</li> <li>■ Assign strategic relationship partners to key institutional clients</li> <li>■ Extend our group value proposition to a broader customer base</li> <li>■ Greater integration with the retail division and retail solutions</li> </ul>	<ul style="list-style-type: none"> <li>■ More boardroom touchpoints and solutions</li> </ul>	<ul style="list-style-type: none"> <li>■ External risks: political changes and macroeconomic economy</li> <li>■ Internal risks: staff retention which is being mitigated by restraint programmes</li> </ul>
Improve operational efficiency in administration and address standalone retirement fund profitability issues		<ul style="list-style-type: none"> <li>■ Implement process enhancements in respect of contributions</li> <li>■ Aggressive roll-out of Alexander Forbes online to employers linked to retirement funds for the submission of electronic claims</li> <li>■ Streamline the claims process to more effectively reduce turnaround times and number of claims through a centralised time</li> <li>■ Continued analysis of client profitability</li> </ul>	<ul style="list-style-type: none"> <li>■ Operational efficiency enhancements in line with the Sapiens project</li> <li>■ Execute plans for unprofitable clients taking into account end-to-end pricing</li> <li>■ Extend our administration platform and value proposition to self-administered retirement funds</li> </ul>	<ul style="list-style-type: none"> <li>■ Efficiencies achieved via Sapiens environment with corrected pricing</li> </ul>	<ul style="list-style-type: none"> <li>■ Internal risk: delivery of Sapiens solution</li> <li>■ Client acceptance of revised offering and pricing</li> </ul>

Actions	Progress	2017 progress	2018 plans	Ambition 2022	Risks
<b>Expand our other institutional products and services</b>	>	<ul style="list-style-type: none"> <li>■ Launch of AFRIS in April 2017. AFRIS is our institutional living annuity solution available to standalone retirement fund clients</li> <li>■ Launch of the death benefit consulting solution to retirement funds and employers</li> <li>■ Expand the Africa employee benefit solutions to South African companies operating in Africa</li> <li>■ Launch of beneficiary fund administration services to complement our existing beneficiary fund consulting services</li> </ul>	<ul style="list-style-type: none"> <li>■ Roll-out of our solutions to our clients and the markets</li> <li>■ Introduce strategic relationship management for key institutional clients</li> <li>■ Roll out the group value proposition to standalone retirement fund clients</li> <li>■ Expand beneficiary fund offerings to the market</li> </ul>	<ul style="list-style-type: none"> <li>■ Diversification of employee benefit consulting and administration services</li> </ul>	<ul style="list-style-type: none"> <li>■ External risks: political changes and macroeconomic economy</li> <li>■ Internal risks: staff retention which is being mitigated by restraint programmes</li> </ul>
<b>Leverage the traditional core to optimise asset capture from pension fund business</b>	>	<ul style="list-style-type: none"> <li>■ Identify clients and allocate strategic resources to support clients in developing the appropriate solution to meet their unique requirements and to facilitate the conversion of those assets</li> </ul>	<ul style="list-style-type: none"> <li>■ Embed the approach and ensure scale for execution of the strategy</li> <li>■ Require differentiated contribution (DC) advice model, i.e. Managed DC</li> <li>■ Evolve AF Investments' investment philosophy and value proposition</li> </ul>	<ul style="list-style-type: none"> <li>■ Increased assets under management and advisement</li> </ul>	<ul style="list-style-type: none"> <li>■ Perceived independence concerns of customers</li> </ul>
<b>Expand to focus on external pension fund assets and external non-pension fund assets</b>	>	<ul style="list-style-type: none"> <li>■ Identify clients who would be a match to the value proposition</li> <li>■ Strengthened strategic relationships with external consulting houses</li> <li>■ Collaborate with Mercer on opportunities within the long-term insurance sector</li> </ul>	<ul style="list-style-type: none"> <li>■ Launch revised investments value proposition in line with our restructured operating model</li> <li>■ Build capacity for liaising with external consulting houses</li> <li>■ Enhance direct sales capability</li> <li>■ Identify and develop plans to approach clients on our solutions</li> <li>■ Build capability through our advisory to develop bespoke solutions for long-term insurers in conjunction with Mercer</li> </ul>	<ul style="list-style-type: none"> <li>■ Increased assets under management and advisement</li> </ul>	<ul style="list-style-type: none"> <li>■ Bandwidth across existing sales force</li> <li>■ Failure to attract suitable long-term insurance actuarial skills</li> </ul>
<b>Expand alternatives and passives offering</b>	>	<ul style="list-style-type: none"> <li>■ Manage range of existing passive offerings</li> <li>■ Investigate partnerships for offering alternatives</li> <li>■ Collaborate with Mercer on global alternatives for South African clients and local alternatives for global clients</li> </ul>	<ul style="list-style-type: none"> <li>■ Review alternatives and passives offering, their design and purpose, in line with our revised investment value proposition</li> <li>■ Seek partnerships or acquisition opportunities to accelerate development</li> <li>■ Roll out our offering to our clients and the market</li> <li>■ Build capability through our advisory to develop specialist alternatives capability (best-practice framework)</li> </ul>	<ul style="list-style-type: none"> <li>■ Increased assets under management and advisement</li> </ul>	<ul style="list-style-type: none"> <li>■ Limited alternative offering opportunity</li> <li>■ Ability to find deal flow in private markets space</li> <li>■ Potential to erode margins through passive-only offering</li> </ul>

## PERFORMANCE AGAINST OUR STRATEGY | CONTINUED

achieved   in progress   not achieved

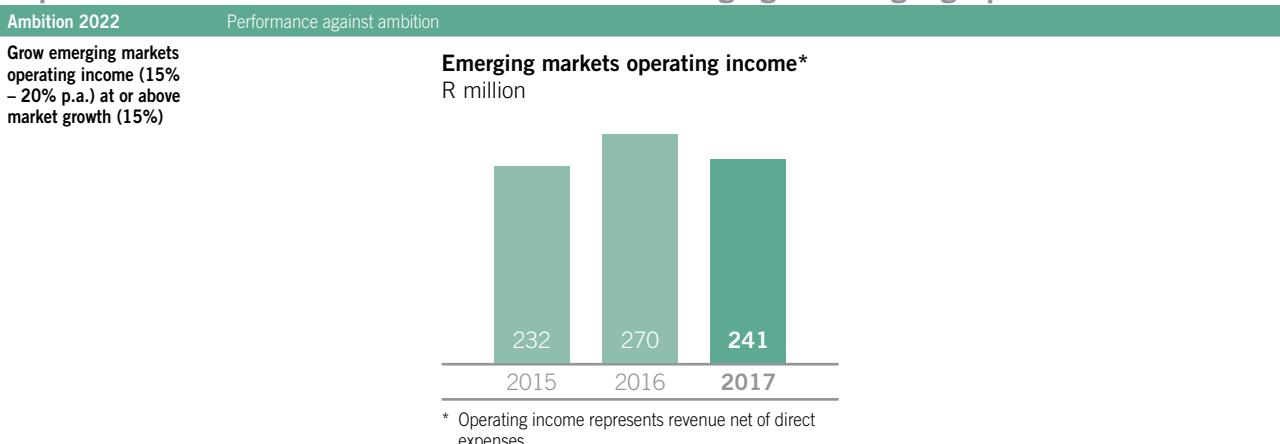
### Grow retail financial services capability, including offshore



Actions	Progress	2017 progress	2018 plans	Ambition 2022	Risks
<b>Expand the 'rock pool' beyond the &gt;R500 000 customers of our top corporate clients</b>		<ul style="list-style-type: none"> <li>■ This strategy remained a challenge during the current year</li> <li>■ 146 financial well-being days were held during the year and 1 259 member education presentations, reaching 18 722 employees</li> </ul>	<ul style="list-style-type: none"> <li>■ With the customer at the centre of the institutional value proposition, access to the institutional member has been made easier</li> <li>■ The target for 2018 is to hold 100 financial well-being days and 100 digital well-being events, 2 245 member education sessions and 81 campaigns to clients nearing retirement age. We anticipate that these initiatives, combined with on-site sales and service presence, will enable us to improve penetration into the member base</li> </ul>	10% – 15% penetration into active member base	Delivery of the customer value proposition
<b>Optimise digital channels</b>		<ul style="list-style-type: none"> <li>■ During the year the retail division finalised its selection of its optimal distribution channels, tied agency and future IFA/broker channels</li> <li>■ The number of existing tied agents was expanded to optimal levels within specific product areas and the business expanded its existing relationships with IFAs and brokers</li> <li>■ The IFA channel strategy was expanded to include IFA support across both institutional and retail businesses</li> </ul>	<ul style="list-style-type: none"> <li>■ Development of the tied agency strategy and expansion of the tied agency</li> <li>■ Expand IFA support of AF products across all retail product lines, particularly in the wealth and investment areas where support is currently low</li> </ul>	Optimal distribution levels, with robust internal and external channels supporting AF products	Regulatory changes may impact the speed and manner of adoption of digital strategies
<b>Define and develop longer-term solutions to attract a new generation of customer</b>		<ul style="list-style-type: none"> <li>■ During the current year we have defined the customer value proposition which has been aligned to institutional</li> <li>■ The future digital capabilities have been defined, with business requirements completed</li> <li>■ A product gap analysis has been completed and will be used to inform future product development</li> </ul>	<ul style="list-style-type: none"> <li>■ The customer value proposition will be embedded in the business and in the customer experience</li> <li>■ The project to implement the new operating system into the business will be under way providing future capabilities to engage with clients via multiple channels</li> </ul>	Clients are engaged via multiple channels, offering innovative products best suited to client needs	Delays in the implementation of the system could delay timelines

Actions	Progress	2017 progress	2018 plans	Ambition 2022	Risks
<b>Build a strong Alexander Forbes brand</b>	➤	<ul style="list-style-type: none"> <li>■ Alexander Forbes is considered a credible thought leader in financial services</li> <li>■ Audit of all communications across client base</li> <li>■ Targeted and themed digital campaigns</li> <li>■ Financial well-being worksite activations</li> <li>■ Streamlined member education presentations to member base</li> </ul>	<ul style="list-style-type: none"> <li>■ Expand media presence to include publications targeted at individuals</li> <li>■ Consistent communications to all customers across the entire base</li> <li>■ Targeted campaigns aimed at segmented clients</li> <li>■ Financial well-being worksite activations including roll-out of financial well-being statements to targeted institutions</li> <li>■ Reconceptualised member education presentations across multiple communication channels</li> </ul>	<ul style="list-style-type: none"> <li>■ Best practice in media relations, reputation management, marketing and client communications to support group strategy</li> </ul>	<ul style="list-style-type: none"> <li>■ Weakened operational performance due to macroeconomic and competitive challenges that may attract negative media publicity</li> <li>■ Systems dependency to digitally render initiatives and deliver a holistic client experience</li> <li>■ Resource bandwidth</li> </ul>

## Expand across select sub-Saharan African and emerging market geographies



Actions	Progress	2017 progress	2018 plans	Ambition 2022	Risks
<b>Anchor a broad pension fund spectrum on a simple product offering</b>	✗	<ul style="list-style-type: none"> <li>■ New strategy</li> </ul>	<ul style="list-style-type: none"> <li>■ Expansion into one or two African countries</li> </ul>	<ul style="list-style-type: none"> <li>■ Be the globally distinctive pan-African financial services leader</li> </ul>	<ul style="list-style-type: none"> <li>■ Digital disruption; widely delayed economic recovery on the continent</li> </ul>
<b>Maintain growth in SADC markets (Namibia and Botswana)</b>	✗	<ul style="list-style-type: none"> <li>■ New strategy</li> </ul>	<ul style="list-style-type: none"> <li>■ Delivery of two new innovative products</li> <li>■ Cost-efficient diversification of client base</li> </ul>	<ul style="list-style-type: none"> <li>■ Be the undisputed leader in umbrella fund value propositions in the SADC region</li> </ul>	<ul style="list-style-type: none"> <li>■ Digital disruption</li> </ul>
<b>Targeted expansion in line with growth objectives in West Africa</b>	✗	<ul style="list-style-type: none"> <li>■ New strategy</li> </ul>	<ul style="list-style-type: none"> <li>■ Establish inroads for platform hub in Nigeria/Ghana</li> </ul>	<ul style="list-style-type: none"> <li>■ Established platform hubs in East, West and North Africa</li> </ul>	<ul style="list-style-type: none"> <li>■ Very high multiples asked in acquisitions</li> </ul>
<b>Improve retail market penetration on the back of institutional business</b>	✗	<ul style="list-style-type: none"> <li>■ New strategy</li> </ul>	<ul style="list-style-type: none"> <li>■ Increase the retail division's share of revenue to &gt;8%</li> </ul>	<ul style="list-style-type: none"> <li>■ Increase retail share of revenue to &gt;40%</li> </ul>	<ul style="list-style-type: none"> <li>■ Digital disruption; widely delayed economic recovery on the continent</li> </ul>

## PERFORMANCE AGAINST OUR STRATEGY | CONTINUED

achieved   in progress   not achieved

### Strive for excellence across service, operational and technology enablement

Ambition 2022	Performance against ambition				
Actions	Progress	2017 progress	2018 plans	Ambition 2022	Risks
<b>Build excellence across operations and administration through technological enablement and process excellence</b>		<p>This is a new strategy. The operations and technology division will achieve this strategy by establishing and tracking the AF Operational Index. The index measures the group's average cost of administering a member across all institutional and retail products and services per annum. The index has been baselined as at 31 March 2017 and will be managed to target a growth rate that is commensurate with group revenue growth and inflation, thus contributing to overall operational group leverage.</p>	<ul style="list-style-type: none"> <li>■ Accenture have completed their work on the digital architecture with the internal team and are now scoping implementation of the board-approved digital strategy</li> <li>■ Enhance the stability of the digital IT environment</li> <li>■ Single digital entry point</li> <li>■ Single digital identity</li> <li>■ Digital UX redesign</li> <li>■ Enterprise core capabilities and future digital operating model</li> </ul>	<p>Digital enabled business with full digital delivery capability</p>	<ul style="list-style-type: none"> <li>■ Internal risks: resource allocation, budget planning and skills set shortage</li> <li>■ External risks: natural and political disasters, major macroeconomic shifts</li> </ul>
<b>Digital enablement through mobile and web releases, search engine management and search engine optimisation, social media strategy and USSD roll-out</b>		<ul style="list-style-type: none"> <li>■ Accenture have completed their work on the digital architecture with the internal team and are now scoping implementation of the board-approved digital strategy</li> <li>■ Enhance the stability of the digital IT environment</li> <li>■ Single digital entry point</li> <li>■ Single digital identity</li> <li>■ Digital UX redesign</li> <li>■ Enterprise core capabilities and future digital operating model</li> </ul>	<ul style="list-style-type: none"> <li>■ To continue delivering the digital strategy to the group as planned, where mobile and web are seen as an enterprise asset to orchestrate various underlying capabilities, applications and architecture into a unified interface for Alexander Forbes's clients, aligned to our group client value proposition</li> </ul>	<p>Digital enabled business with full digital delivery capability</p>	<ul style="list-style-type: none"> <li>■ Internal risks: resource allocation, budget planning and skills set shortage</li> <li>■ External risks: natural and political disasters, major macroeconomic shifts</li> </ul>
<b>Group-wide modernisation programme:</b> <ul style="list-style-type: none"> <li>■ Establish a group enterprise programme management office (EPMO)</li> <li>■ Define the future business and enterprise architecture, and finalise future state</li> <li>■ Set in place group data programme</li> <li>■ Establish an enterprise change management capability</li> </ul>		<ul style="list-style-type: none"> <li>■ A contract with Sapiens has been concluded to provide new line of business systems, digital enablement, enterprise data and business intelligence services over the next 36 months according to a detailed scope of work and programme</li> <li>■ The EPMO is fully established to deliver group-wide project execution, prioritisation and governance</li> <li>■ The enterprise architecture centre of excellence has been established to architect group-wide blueprints (target states) and road maps (plans to get from current state to target state) that support the realisation of the Alexander Forbes strategic pillars while increasing enterprise agility</li> <li>■ Immediate focus is to define a group data strategy supported by an effective data governance programme to enable the organisation to harness the data asset, drive better decision-making and sharing data across the group whilst ensuring data quality and integrity are maintained. The journey will include implementing policies, standards and a group data model required to manage our data as a strategic asset</li> </ul>	<ul style="list-style-type: none"> <li>■ The next few years will offer Alexander Forbes an exciting opportunity to digitally enable our organisation and bring in 'best-in-class' capabilities to help us achieve our strategic objectives. The modernisation team will be key in enabling and executing this change across all the business units</li> </ul>	<p>New enterprise-wide technology platform delivering the Alexander Forbes client value proposition complete with single view of client and all regulatory enablement</p>	<ul style="list-style-type: none"> <li>■ Internal risks: resource allocation, budget planning and skills set shortage</li> <li>■ External risks: natural and political disasters, major macroeconomic shifts</li> </ul>

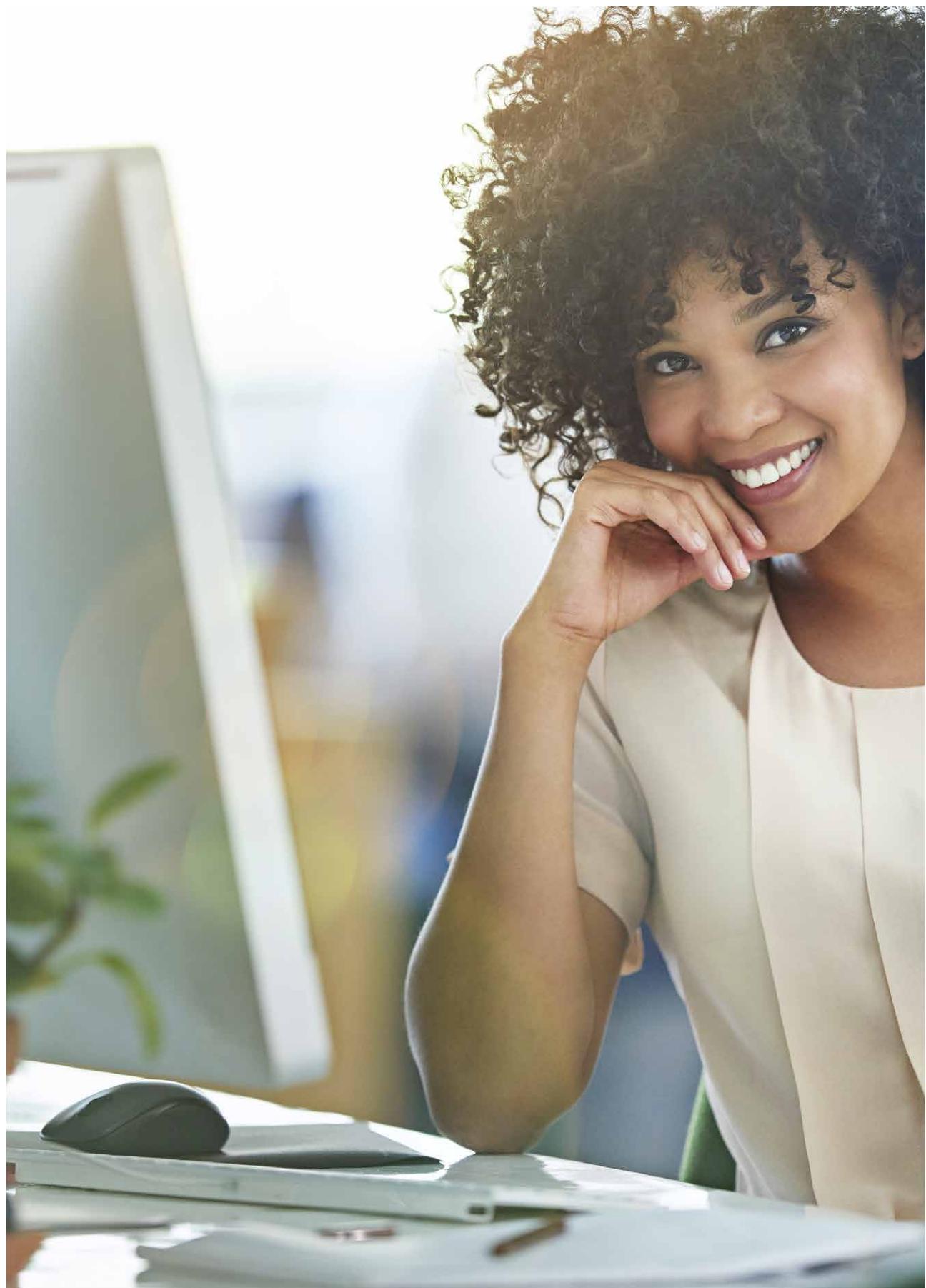
Actions	Progress	2017 progress	2018 plans	Ambition 2022	Risks
<b>Working with strategic partners:</b> <ul style="list-style-type: none"> <li>■ Assessing all support and operational services within the group and defining a future insourced vs outsourced model</li> <li>■ Reviewing all outsourced services arrangements</li> </ul>		<ul style="list-style-type: none"> <li>■ Work identifying all such services and outsource providers is under way, with future work on building business cases around each service or opportunity to either in- or outsource</li> <li>■ A review of vendor partners and ongoing vendor management in the IT division has commenced</li> </ul>	<ul style="list-style-type: none"> <li>■ Reorganising certain functions within the group will create positive operating leverage, which will deliver greater shareholder value</li> </ul>	<ul style="list-style-type: none"> <li>■ Enhanced efficiency through utilising partners that can offer greater cost and scalability advantages than performing services in-house.</li> <li>■ Insourcing of key services (currently outsourced) that are critical to control as part of the Alexander Forbes client value proposition and risk management framework</li> </ul>	<ul style="list-style-type: none"> <li>■ Regulatory constraints prevent commercially viable insourced or outsource arrangements</li> </ul>
<b>Profitably grow the member base:</b> <ul style="list-style-type: none"> <li>■ Create capacity in administration and support services to profitably grow both organically and inorganically</li> <li>■ Support client pillars in new business acquisition</li> <li>■ Specifically target a range of pre-identified large clients in the admin-only space</li> </ul>		<ul style="list-style-type: none"> <li>■ The institutional and retail administration areas have been reorganised around specific product sets and functions</li> <li>■ Group-wide support around managing operational risk, system support and operational finance has been finalised. This creates clear accountability and allows capacity to be brought on seamlessly to support growth initiatives</li> <li>■ Partnerships and acquisitions are being looked at in conjunction with various group initiatives</li> </ul>	<ul style="list-style-type: none"> <li>■ A pipeline of targeted new business is being developed with a specific segment and with a client value proposition that will enhance chances of success as opposed to competing in open tender processes where price is largely the determinant</li> </ul>	<ul style="list-style-type: none"> <li>■ Grow the total member base at market or above market growth rates across all segments profitably</li> </ul>	<ul style="list-style-type: none"> <li>■ Macro conditions inhibit long-term formal sector employment growth</li> <li>■ Delivery of the modernisation programme fails to provide scalability</li> </ul>
<b>Client service proposition and commercial viability:</b> <ul style="list-style-type: none"> <li>■ Commercial review of administration clients to ensure correct service levels and commensurate pricing</li> <li>■ Full 360-degree independent client survey</li> <li>■ Closing, liquidating and dormant funds to be reduced</li> </ul>		<ul style="list-style-type: none"> <li>■ Optec is contributing to the group's asset accumulation strategy and also relooking some key administration client relationships</li> </ul>	<ul style="list-style-type: none"> <li>■ Review of client segmentation and viability of smaller administration clients</li> <li>■ Revisiting client fees in respect of services which have changed over time due to client-driven requirements or regulatory requirements</li> </ul>	<ul style="list-style-type: none"> <li>■ Creating sustainable and profitable administration business earning margins commensurate with the services and risks inherent in the administration of retirement benefits</li> </ul>	<ul style="list-style-type: none"> <li>■ Loss of unprofitable clients</li> <li>■ Regulatory complexity of closing and liquidating portfolios</li> </ul>

## PERFORMANCE AGAINST OUR STRATEGY | CONTINUED

achieved   in progress   not achieved

### Innovate and create internal capacity to disrupt ourselves through innovation

Ambition 2022	Performance against ambition					
	Actions	Progress	2017 progress	2018 plans	Ambition 2022	Risks
<b>Create a culture of experimentation, innovation and collaboration.</b>						
<b>Implement five betterment innovations with NOPAT of R10 million per annum and one investment case</b>						
<b>Create an internal 'sandbox' for experimentation and incubation, with guided processes to develop skills and filters to identify winning ideas</b>			<ul style="list-style-type: none"> <li>■ Pilot programme under way with staged roll-out from June 2016. Several innovations approved and awaiting incubation/commercialisation</li> </ul>	<ul style="list-style-type: none"> <li>■ Group-wide roll-out of internal innovation programme, with dedicated innovation executive appointed</li> <li>■ Three commercialised business unit innovations</li> </ul>	<ul style="list-style-type: none"> <li>■ Business unit innovations implemented annually, with more than 50 experiments perpetually operational</li> </ul>	<ul style="list-style-type: none"> <li>■ Low appetite in the group for experimentation; this is being managed through cultural programmes</li> </ul>
<b>Centralised group innovation team to drive innovation in three to five key theme areas, as well as explore emerging technology trends</b>			<ul style="list-style-type: none"> <li>■ Group innovation team appointed, to be fully available from July 2017</li> <li>■ Possible key themes currently under exploration</li> </ul>	<ul style="list-style-type: none"> <li>■ Group innovation division minimum viable product in market</li> <li>■ Prototypes/use cases under development for each key theme</li> </ul>	<ul style="list-style-type: none"> <li>■ Commercialised innovation within each identified key theme</li> </ul>	<ul style="list-style-type: none"> <li>■ High failure rate of new products; this is being managed through early identification of issues</li> </ul>
<b>Focus on strategic partnerships within the global innovation ecosystem (start-ups, fintechs and researchers) within three to five key themes</b>			<ul style="list-style-type: none"> <li>■ Several partner discussions in progress, including a global accelerator/venture capital programme</li> <li>■ Identification of appropriate 'search' themes and framework for selection under way</li> </ul>	<ul style="list-style-type: none"> <li>■ Ensure commercialisation of first strategic partnership</li> </ul>	<ul style="list-style-type: none"> <li>■ Robust portfolio of partners within each theme</li> </ul>	<ul style="list-style-type: none"> <li>■ Poor cultural fit and lack of change management skills</li> </ul>



# MANAGING RISK

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Risk management at Alexander Forbes is about protecting our ability to create value and ensuring we preserve that value for our stakeholders. In doing so we pursue opportunities, while minimising potential negative consequences. Sound risk management is an important enabler of our strategic intent, enhancing our ability to perform against our stated objectives.

The board of directors holds ultimate accountability for risk management; however senior management is responsible for developing and implementing risk strategy. This includes acting as the custodian of policies and procedures for risk mitigation, and ensuring compliance. The individuals heading various business units, lines or subsidiaries are held accountable for the risks they take.

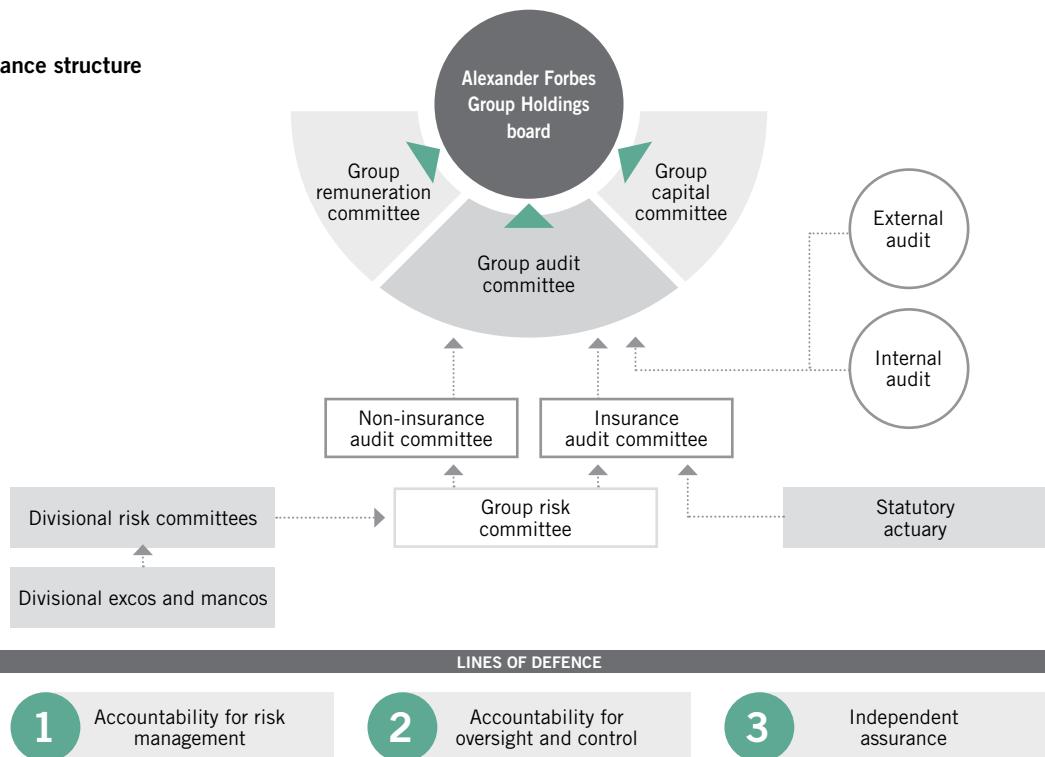
Risk management is built into decision-making structures and processes at both the operational and top management levels. Independent parties (those who do not approve or take risk) review decisions around risk mitigation strategies within the constraints of the group's risk appetite measures. These reviews include stress tests to key variables and systemic shocks.

Contingency plans are in place for unexpected or worst-case scenarios.

The group manages risk along three lines of defence:

- **The first line of defence** is centred on day-to-day management responsibility and accountability for managing risks. Management's role, through various operational committees, is to provide oversight including strategy implementation, performance measurement, risk management, company controls and governance processes.
- **The second line of defence** comprises our formal enterprise risk management (ERM) framework, including our policies and minimum standards. Objective oversight provided by risk and independent audit committees continuously challenges risk management in terms of its performance and reporting.
- **The third line of defence** comes from the oversight and assurance provided by internal audit and external audit on the adequacy and effectiveness of risk management governance and internal control.

**Risk governance structure**



## Risk appetite

Alexander Forbes's risk appetite – the amount of risk we are willing to accept in pursuit of our objectives – defines parameters within which we can operate. Our risk appetite therefore serves as a valuable reference point for important business decisions and setting strategies. Our risk appetite has been broadly defined around four key risk measures, with thresholds and metrics agreed at a group level:

- **Capital:** The group will hold the larger of the economic capital requirement and the regulatory capital requirement.
- **Earnings:** The group's earnings at risk will not exceed 20% of the earnings projected over a 12-month forward-looking period.
- **Operational:** The group will pursue a commercial balance between the costs of mitigating actions and the expected future financial and non-financial losses that may arise from the occurrence of operational risk events.
- **Liquidity:** The group's liquidity requirements for each relevant business/entity will be based on the best operational cash flow estimates over a 12-month forward-looking period, taking into account any minimum regulatory capital requirements that may apply.

During the year these measures remained unchanged from previous years. However, we migrated to a new risk management system in order to improve the way the group tracks and reports on risk. The new system tracks a newly defined set of key risk indicators, flagging any material deviations and enabling us to identify and mitigate emerging risks more timely. It also enables greater flexibility in setting tolerance thresholds according to changing circumstances and objectives.

## Group risk heat map

<b>1</b>	Uncertain global economic conditions impacting unemployment and capital flows (strategic risk)
<b>2</b>	Internal and external fraud (operational risk)
<b>3</b>	Cyber risk and consequential data fraud/theft (operational risk)
<b>4</b>	Regulatory developments with adverse impact on business model and profitability
<b>5</b>	Strategic execution risk
<b>6</b>	Key system failures
<b>7</b>	Threat of new entrants with competitive business lines into the financial services industry
<b>8</b>	Recruiting, motivating and retaining the right people
<b>9</b>	Failure to implement and execute the group's modernisation programme
<b>10</b>	Inadequate customer value proposition

## Own risk and solvency assessment

The Financial Services Board (FSB) requires all insurance companies and insurance groups to complete an own risk and solvency assessment (ORSA) as part of the Comprehensive Parallel Run (CPR) of the proposed new insurance regulations, the Solvency Assessment and Management (SAM) regime. The ORSA process aims to investigate the adequacy of insurers and insurance groups' risk management and assess the current and future solvency under normal and severe stress scenarios.

### Key results

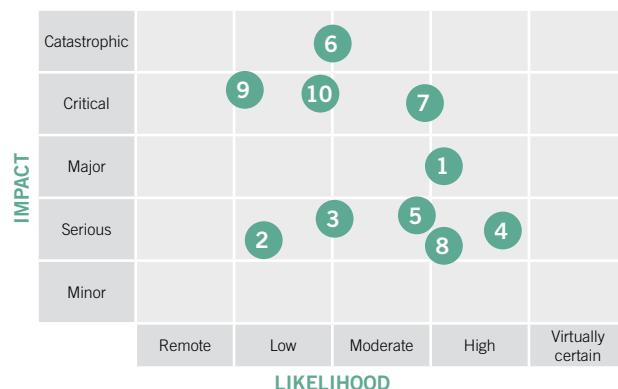
The Alexander Forbes group ORSA was conducted at group level and completed and submitted to the FSB in November 2016. The key findings of the ORSA are summarised below:

- The group's risk management and governance practices reflect its ability to manage and contain risks in relation to meeting its strategic objectives and is sufficiently robust.
- The group (and its insurance entities) are expected to remain solvent over the business planning period.
- The group's solvency is expected to remain above target solvency levels in the event of severe stressed events and maintain its ability to generate dividends.

### Further developments

The ORSA revealed focus areas to be targeted in the foreseeable future, including:

- improved linkage of strategic aims and risk metrics to further enable risk-based decision-making;
- enhanced efficiency and consistency in the ORSA process through the centralisation of risk and capital functionality; and
- continuing embedding of the ORSA in the business.



# OUR INVESTMENT THESIS

## 1 Continued growth in operating income and profit

- Operating income from continued operations
  - five-year CAGR of 7.5% to March 2017
- Operating profit before non-trading and capital items
  - five-year CAGR of 5.2%
- Last 12 months' trading
  - 1.2% growth in operating income
    - 0.5% growth in operating expenses
    - 3.1% growth in profit from operations
    - 0.7% operating leverage



## 2 Predictable and recurring revenue stream

- Client retention in the high 90s
- Institutional**
- 63% fee and commission income from consulting and administration
  - 34% from investment activities
  - 3% from insurance activities
- Retail**
- 60% fee and commission income from consulting and administration
  - 29% from investment activities
  - 11% from insurance activities



## 3 Trusted brand

- Market leader across our core institutional clients business
- Prioritisation of clients at the core of the business strategy
- Service excellence:
  - 10th consecutive PMR.africa Diamond Arrow Award in consulting and administration
  - Winner of the Africa Best Employer Brand



## Strong strategic partners

- Partnerships with Mercer and African Rainbow Capital (ARC) provide opportunities for growth
- Having ARC as a shareholder provides opportunity to enhance our growth prospects through deal flow and collaborative development
- We recently launched the Alexander Forbes Mercer Investments joint venture. This co-ordinated approach to our investment solutions will greatly enhance our global portfolios as well as our local offering for our clients



## Cash generative with high dividend yield

- High cash conversion ratio
- Collection of cash largely under our control
- Investment in growth strategies mainly through the income statement
- Dividend cover of 1.5x
- Declared an interim dividend of R228 million (17 cents per share) and a final dividend of R309 million (23 cents per share)
- Declared a special dividend of R309 million (23 cents per share)



## Capital 'lite' balance sheet

- Group solvency capital requirement of R1.1 billion
- Normalised return on total net asset value: 35.2%
- Normalised return on capital employed: 15.7%



# PERFORMANCE REVIEW

Clients

**48**

Employees

**60**

Investors

**68**

Society

**80**

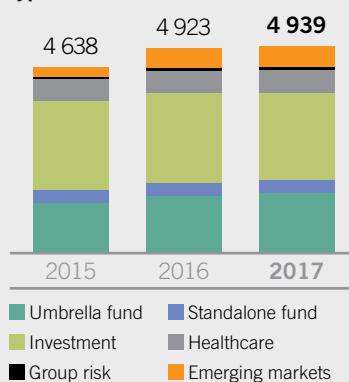




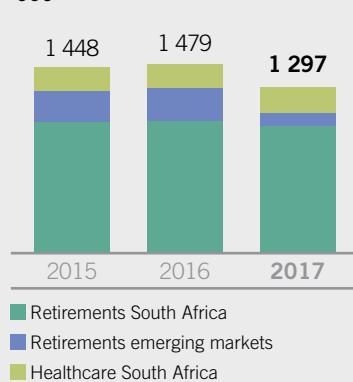
# CLIENTS

Our clients are the cornerstone of our strategy: they buy our advice-led solutions and provide our revenue. If we add value to our clients, by understanding their unique requirements and aspirations and delivering holistic and integrated solutions, we are able to add value to each of our other key stakeholders.

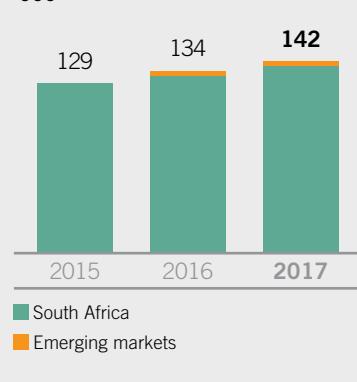
**Institutional client numbers by type**



**Institutional client members by type**  
'000



**Retail client numbers by type**  
'000



## Highlights

- Innovative InFund Solutions launched
- Client retention remains high – more than 97% of institutional clients and 85% of retail clients stayed with us during 2017
- R9.9 billion in new asset management business
- Emerging markets achieved R1.25 billion assets under management in Botswana umbrella fund (after the loss of a large client)

## Our approach

Our clients remain at the centre of our group strategy and Ambition 2022. We have worked hard this year to understand them better, to improve our customer offerings and interfaces, and to centralise our customer touchpoints. Across the group, we have almost 5 000 institutional clients, more than 1.2 million client members, and over 140 000 retail clients.

## Challenges

- Alexander Forbes's brand is still not strong in the retail market
- Loss of a large client, the Botswana Public Officers Pension Fund, within the emerging markets business
- Low-margin and cyclical nature of public sector business



<b>Key risks</b>	<b>Mitigating actions</b>
<b>The risk of inherent volatility in earnings and its impact on growth</b>	<ul style="list-style-type: none"> <li>■ Dedicated, focused and regular monitoring of clients at risk data</li> <li>■ Regular monitoring of key opportunities and pipeline win and conversions</li> <li>■ Regular monitoring of key financial metrics</li> <li>■ Improved activity to understand cost to serve at a more granular level</li> <li>■ Further cascade into the organisation a deeper understanding of how to work towards better operating margin</li> </ul>
<b>The risk of inappropriate or unclear value proposition, product set and price points</b>	<ul style="list-style-type: none"> <li>■ Current project under way to review end-to-end value proposition in key business areas</li> <li>■ Dedicated focus on product suite and offering and the product future of the group</li> <li>■ Improved activity to understand cost to serve at a more granular level and its influence on pricing</li> </ul>
<b>The risk of member-level access strategies not being successful</b>	<ul style="list-style-type: none"> <li>■ Collaborative efforts between retail and institutional divisions</li> <li>■ Targeted funds approach to understand where institutional clients can benefit the most from our retail offerings</li> <li>■ Executing specific initiatives to get ‘back in the boardroom’</li> </ul>
<b>The risk of delayed innovation in business applications, tools and customer-facing solutions</b>	<ul style="list-style-type: none"> <li>■ Methodical approach and execution of priority operations and technology activities to deliver key innovations across the group</li> <li>■ Lean approach in build and testing solutions</li> <li>■ Rapid deployment of best-in-class applications and tools</li> </ul>

Our guiding ambition is one of client-centricity across the group and we have made substantial progress this year in creating a client-centric operating environment. We have restructured the business from our formerly siloed approach into client-centric retail, institutional and emerging markets divisions that enable a cross-cutting view of clients. This allows us to offer our clients a comprehensive range of solutions across our institutional and retail portfolios in South Africa and other emerging market countries.

#### **Supporting our focus on our clients' financial well-being: our digitisation and modernisation strategy**

Our customer value proposition requires operational and technological excellence and we continue to develop and enhance our digital strategy in anticipation of customers' needs. Our modernisation strategy entails the roll-out of online and mobile functionality, which will improve the user experience in line with our clients' evolving digital preferences and expectations.

We have budgeted approximately R1 billion over the next five years to support our digitisation and modernisation strategy. We expect to have a fully operational single group-wide view of our clients within three years.

In March 2017 Alexander Forbes entered into an agreement with Sapiens International Corporation, a leading global provider of software solutions for the insurance industry. Under the agreement Sapiens will provide a wide range of offerings – including key components of the Sapiens Digital Suite – to power Alexander Forbes's client proposition and enhance its digital capability. We look forward to the benefits that this new partnership will provide to our product and service offerings.

## CLIENTS | CONTINUED

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A key aspect of our client-centric strategy is our ‘back in the boardroom’ member access strategy, which entails accessing retail members through our existing institutional client base. This requires that our institutional and retail teams work together to deliver high-quality solutions to both institutional clients and the potential retail members within.

The operations and technology division has embarked on a process of consolidating administration and technological support across all divisions. This process is giving the group a better understanding of the ways we currently serve our clients while highlighting areas of opportunity. It allows us to extract maximum value out of technology investments, and also frees up the retail, institutional and emerging markets divisions from administration and operational support so that they can be wholly client-focused.

In June 2016 we brought in-house the administration of beneficiary funds and trusts, which has enabled us to expand our offering from consulting to support and administrative services. This better positions Alexander Forbes to provide

financial services to the market in a broader way, creating opportunities for new business and new revenue.

A new group public sector division has been created as a strategic enabler to support the group’s vision and growth initiatives in the public sector across the institutional, retail and emerging markets divisions. The division will work in close collaboration with our key partners, Mercer and ARC.

During the year we also streamlined our investment capabilities within Alexander Forbes Investments (previously Investment Solutions), creating a single, centralised division of investment experts within the group and integrating the advice, implementation and management aspects of our asset management business. We are confident that the revised structure will unlock value and better position us to serve our institutional customers with an integrated value proposition.

Our emerging markets business – like the rest of the group – has undergone a year of restructure and consolidation. We have focused on repositioning the business for a weaker corporate market by concentrating on the SME and retail markets.

During 2017 we commissioned an independent third-party survey of Alexander Forbes’s clients’ needs and priorities. The research offered 14 insights and action points that have informed our approach to implementing our vision of client-centricity.

### Independent client research

**03** Relate to people and their unique style and focus on being relevant to people’s lives

**06** Understand the world from the customer’s view and solve for the customer through their lens

**09** Evolve with customers and their circumstances, environments and expectations

**12** Deliver a consistent and connected experience across all facets of Alexander Forbes

**01** Appreciate where people are in balancing security and flexibility across both today and tomorrow

**04** Seek to solve for the broader ‘customer’ and be flexible in constantly adapting that view

**07** Ensure Alexander Forbes has a clearly articulated purpose and that underlying actions support it

**10** Engage customers at the right time in the right format and at the right level

**13** Own customer balance and outcomes and embrace that as a reason for existence

**02** Understand people’s biases and context and how these influence their overall well-being journey

**05** Work with people to put in place shock absorbers for life’s expected and unexpected moments

**08** Assist employers to embrace the benefits of their employees’ well-being and assist in facilitating this

**11** Cut through the noise by simplifying the customer experience and guiding through industry complexity

**14** Rethink benchmarks and competitors and embrace customer-led design and innovation

## Performance summary

Indicator	Change	2017	2016*	2015*
Total number of institutional clients	0% ➔	<b>4 939</b>	4 923	4 638
Total number of members under administration	12% ➔	<b>1 297 020</b>	1 479 405	1 447 872
Total number of retail clients	6% ➗	<b>142 330</b>	134 142	129 501
Institutional client retention rate (%)	0% ➔	<b>97</b>	97	97
Retail client retention rate (%)	1% ➔	<b>85</b>	86	86
Net promoter score (NPS) for umbrella fund clients in South Africa (rating from -100 to 100)	18% ➗	<b>65</b>	55	47
Financial well-being (number of financial well-being days)	>100% ➗	<b>146</b>	7	-

\* Prior-year numbers have not been restated for discontinued operations.

During the first three quarters of 2017, to address a very challenging economy and competitive environment, our focus within the institutional division was client retention. We revisited and refreshed our pricing model and enhanced our umbrella fund offerings. This paid off, allowing us to maintain our strong levels of client retention at 97%. We also gained 162 new institutional clients (2016: 211) in a competitive environment.

Although Alexander Forbes Investments lost a significant client during the year client retention remains high, with a 92% retention rate of institutional clients and a 95% retention rate of institutional assets under management (AuM). The business also gained R9.9 billion of new asset management business from several high-profile clients, with closing investment AuM increasing by 3.2% (a 3.1% increase in institutional AuM and a 3.9% increase in retail AuM).

Having successfully consolidated our public sector strategy at the institutional level, we will now move to position this enabler team at group level. The challenges presented by an unstable political climate and a lack of decision-making within the public sector limits our ability to move forward with new projects, however, our plan is to remain adaptable and to leverage our

brand positioning and strategic relationships to convert our sizeable pipeline for new business growth.

Alexander Forbes Health maintained a client retention rate of 98% on its broker business. A significant portion of health revenue faces regulatory constraints on medical schemes commission, but over the last three years the business has benefited from inflationary increases to this cap. Following the loss of a significant public sector client in 2016 the focus of the health business has been on repositioning the health risk management section to a smaller and leaner operation. The business model was successfully redesigned to a variable cost model, which incorporates the use of independent contractors.

The retail side of the business faced a particularly difficult year in 2017, realising only muted growth in revenue. While we retained profitability by reducing expenses, we did not invest sufficiently in the year under review, particularly in our sales force. However, the wealth business increased clients by 8% to 61 907 clients at year-end. Client retention at wealth and investments remained high at 85%, although we continue to experience partial withdrawals of investments by clients. Assets under advisement grew by 4% to R64.7 million and assets under administration increased by 3% to R59.8 million. Average retail assets under management grew by 7% to R51.6 million.

Within Alexander Forbes Life retail we are pleased to have gained 1 411 new clients and notable growth in new business. The business remains sub-scale and in the year ahead our focus will be on increasing sales into our institutional member base.

162 new institutional clients

Institutional client retention rate: 97%

26 825 new retail clients, 26% up on 2016

Retail client retention rate: 85%

## CLIENTS | CONTINUED

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AF Insurance, our short-term insurer, increased clients by 2% to 81 306. Lapses were higher than budget in the year at 20%, partly due to the focus on multi-claimants as part of initiatives to reduce the loss ratio. The financial loss ratio for the year was 71.5%, below the 72% target. Interventions during the year focused on better underwriting rules, risk pricing and procurement.

Our emerging markets business lost a major public sector client, the Botswana Public Officers Pension Fund, due to the client insourcing its pension administration. The loss was anticipated, and we were able to prepare by taking corrective action. In addition, excluding the loss of that client, our member base in emerging markets grew 10% in 2017, indicating that our core strategies are working.

### **Building our brand**

The Alexander Forbes brand is associated with trust and expertise, backed by solid performance and service. We serve a diverse array of clients, each with unique needs and interests. While the institutional market is deeply relationship-based, the retail sector requires quick adaptation to fast-moving consumer demands, while strengthening relationships with the individual. The public sector is characterised by long lead times, frequent turnover and requires significant investment in relationship-building.

We continued to reinforce our brand and maintain our thought leadership position within the financial services sector through targeted interventions and consistent media engagement.

During 2017 we focused on mapping the Alexander Forbes customer lifetime journey with the intention of better understanding our clients and their priorities. We also moved to centralised measuring and tracking of our customer experience – a function that previously fell within the domain of each division.

### **Awards won in 2017**

Alexander Forbes takes pride in building our reputation through the merit of our solutions and service. During 2017 we won the following awards:

- The PMR.africa Diamond Arrow Awards for Large Administrators, Top National Fund Administrator, and Top Retirement Fund Consulting and Actuarial Firm – each for the 10th consecutive year
- 2016 Fund of Hedge Funds (Multi-strategy) Award at the annual HedgeNews Africa awards ceremony
- Alexander Forbes Health – BHF Titanium Industry Award for excellence in healthcare advisory services for two years in a row
- Actuarial Firm of the Year and Employee Benefits Consultant of the Year at the 7th Annual Imbasa Yegolide Awards
- 3rd Africa Best Employer Brand Awards: Africa Best Employer Brand
- At the 2016 Think Business Investment Awards, Alexander Forbes was awarded:
  - Pension Administrator of the Year
  - Occupational Scheme of the Year
  - Individual Pension Scheme of the Year
- The group was recognised in the Sunday Times Top Brand Survey as 4th in the long-term insurance category and 5th in the short-term insurance category
- Nominated in the top three BCI Africa Awards
- Legends of Transformation Honorary Award at the 16th Oliver Empowerment Awards

- In 2017 Alexander Forbes was mentioned in a total of **2 780 media items** across print and broadcast media platforms, with an advertising value equivalent of **R101 million**.
- About **63%** of these media items were classified as thought leadership pieces.

### Delivering a holistic solution

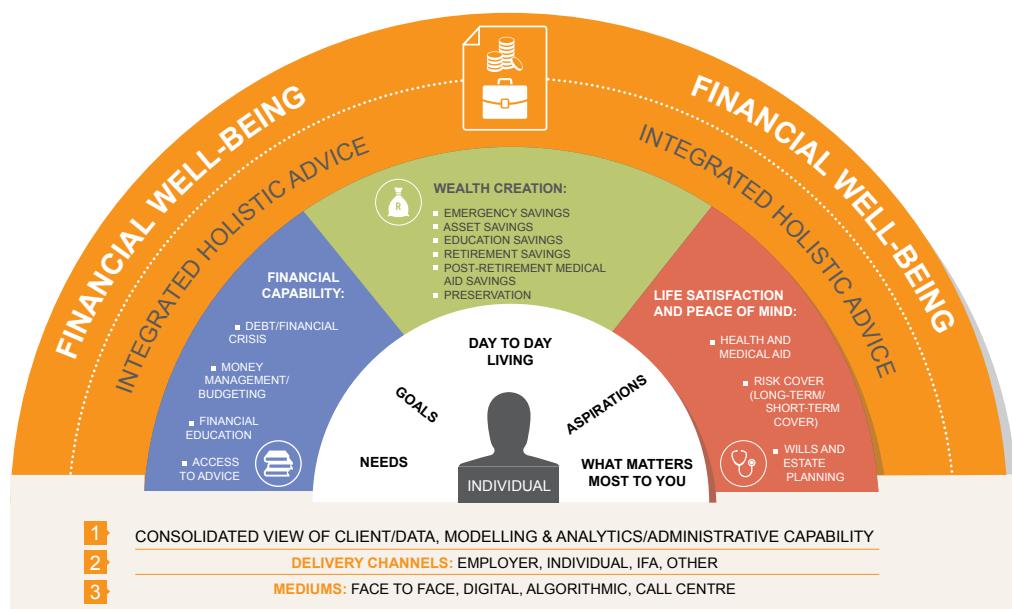
While our retail and institutional divisions pursue different types of clients, we are cognisant that serving one client base well impacts our ability to access the other and vice versa. Institutional members that have had a good experience with Alexander Forbes will be more inclined to turn to the group for individual advice and products, and satisfied retail clients will be more likely to advocate to their employer for our institutional products.

This year we intensified our financial well-being days – in both number and scope. Learning from the experience of our pilot in 2016, we lightened the offering in 2017, making the days lower cost and easier to set up. We also partnered with debt

counsellors to provide debt counselling services during those days. In 2017 we held 146 well-being days, at 138 employers, which generated 2 139 leads. We also continued with our ongoing on-demand member education services at our institutional clients.

In 2018 our target is 100 financial well-being days and 100 digital well-being campaigns. These will drive financial well-being online and digitise our customers' journey. Initially we will use campaign codes to direct potential customers to our website, allowing them to access the financial well-being journey. Thereafter we will provide ongoing digitally-based interventions, education, awareness and solutions.

### FINANCIAL WELL-BEING DELIVERED THROUGH A HOLISTIC BENEFITS PLATFORM



## CLIENTS | CONTINUED

### Ensuring a quality experience

Customer experience is increasingly becoming a differentiator as products become more commoditised and financial services are no exception. Alexander Forbes has identified this as an opportunity to enhance our competitiveness. As such, client satisfaction is critical to our business. We measure it predominantly through net promoter scores (NPSs) and client retention.

All our employees are expected to diligently attend to clients' needs and meet expected service levels, including responding to all concerns or queries on the same business day. We are comfortable that our clients are satisfied with our service, but competition remains a challenge and as such we strive constantly to improve our service and enhance our overall customer experience.

The NPS is a key customer satisfaction measure. It measures customer likelihood to recommend Alexander Forbes based on an interaction with us, both at the end of an interaction as well as at a relationship touchpoint. NPSs range from -100 to 100, with scores over 50 considered excellent. The score is generated monthly to monitor and manage operational activities.

### STAKEHOLDER PROFILE

#### Joanne Janse van Vuuren

Retail client

Joanne's first association with Alexander Forbes was in 1999, as the group administered her then employer's pension fund. Happy with the service she was receiving she then consulted an Alexander Forbes financial planning consultant (FPC) to discuss her personal investments. Upon retiring in 2014, with the assistance of her FPC, Joanne transferred her employee provident fund to an Alexander Forbes provident preservation fund, which she still has. Her same FPC manages her other investment portfolios with other investment houses.

*'I find Alexander Forbes very professional. I have a good feeling that my funds are well managed. They send me quarterly updates on my portfolio (although I can get these more regularly if I go online, which I don't require). Most importantly of all, my FPC is accessible at any time. He meets with me once a year to go through my portfolio, although I can meet with him more regularly if I wish to.'*

Net promoter scores	2017	2016	2015
<b>Relationship NPS measure*</b>			
Umbrella fund clients	65	55	47
Consulting	52	46	47
<b>Transactional NPS measure**</b>			
Operations and administration	49	43	26
AF Individual Client Administration (AFICA)	57	53	53
Financial planning consultants (FPCs)	70	59	71
AF Insurance (AFI)	42	36	31

\* All existing customers are asked to indicate their likelihood to recommend AF.

\*\* Based on a recent interaction with AF customers are asked to indicate their likelihood to recommend AF.

Our NPSs have shown a positive trend in 2017, which we attribute to increased service efficiency and a focus on customer service. We did not set specific targets for our NPSs in 2017, but we plan to set targets in 2018 that will include both NPSs and other customer satisfaction measures.

In 2017 Alexander Forbes Insurance participated for the first time in the South African Customer Satisfaction Index (SAcsi), an independent national NPS benchmark of customer satisfaction of the services and products available to South African consumers. The index is based on a cause-and-effect model, which measures cumulative customer satisfaction as a result of customer expectations, perceptions of quality and perceptions of value. SAcsi findings indicated that our customers are loyal and have high expectations. Alexander Forbes Insurance scored above NPS industry average, scoring 31% (NPS industry average: 24%) and was placed second on the SAcsi NPS ranking.



#### Alexander Forbes Investments client satisfaction

During 2017 Alexander Forbes Investments conducted its fourth independent client survey, run by Confluence. The survey assessed the opinions of consultants and trustees and culminated in a single metric that measures performance and allows Alexander Forbes to monitor client satisfaction in key areas.

Our ratings in four major areas were as follows (with our score indicated in brackets):

- Our core business (82%)
- Our reputation on compliance (71%)
- How we perform and charge (62%)
- Our level of service (75%)

Our overall excellence score was **75%**.

Most of our scores were lower than in 2016, but were still considered high. Scores between 51% and 75% are considered acceptable, and scores over 75% are exceptional. We were pleased that when asked during the survey for the first thing that came to mind about Alexander Forbes Investments, most people (62%) had positive comments, such as 'efficient', 'reliable', 'innovative' and 'trustworthy'. Declines in the metrics must be seen in the context of a general economic low point, and we are comfortable with our performance, although we will always strive to improve where we can.

## CLIENTS | CONTINUED

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Treating complainants fairly is at the core of the complaints management framework. We commit to ensuring that each is acknowledged within 24 hours and resolved timeously and efficiently. For 2017 we are pleased to report that our complaints management process has matured and become more centralised.

We have an 'omnichannel' approach to logging complaints: online via the website, via telephone, social media platforms, e-mail, fax and post. The majority of our complaints are resolved within five working days. The resolution of a complaint is not only a valuable opportunity for improvement in processes and service, but can also result in an increase in customer satisfaction. Our goal is to increase our logging of complaints as these are an invaluable source of client information to the business.

Alexander Forbes Insurance complaints	2016	2015	2014
<b>Ombudsman for short-term insurance – AFI</b>			
Number of complaints	108	112	179
Overturn ratio	13.89%	14.06%	26.79%
<b>Ombudsman for long-term insurance – AF Life</b>			
Number of complaints	10	10	7
Wholly or partially in favour of the complainant	3	1	3

AFI's total number of complaints to the ombudsman and share of total complaints reduced in 2016. The reduction is indicative of an improved and effective internal complaints-handling process. AF Life's contribution to the share of the total number of complaints was minimal for both years. The majority of complaints related to repudiated claims. Complaint trends in the retirement or employee benefit space indicate that customers would prefer proactive communication during the withdrawal claim process. We have initiated measures to improve customer communication in this regard.

### Optimising distribution channel strategy

As the group adopts a client-centric view, it is important that our products are sold accordingly. To this end our unified sales and service centre went live on 1 April 2016 and our salespeople have been reorganised into pods, each of which sells an entire customer solution. These pods create a cross-selling lead source as part of the group's move towards offering integrated and holistic advice.

Outside of this lead source, distribution channels continue to run independently. All consultants undergo extensive training to equip them to convey the value represented by the group in its entirety as opposed to a specific product or service.

The AF Life business has increased the distribution capabilities in both the internal call centre and the tied agency.

These channels reached capacity during 2017 and have been successful in driving new business flows. The total life policy sales of 2 469 policies is an increase of 267% over the prior year.

In 2017 we continued the roll-out of our retail sales academy, deepening our employees' understanding of the nature of the retail market, and developing sales and business management skills. We intend that our retail academy will facilitate the accreditation of our salespeople. Certificates are awarded for sales training, management training and service training.

Our products and services are distributed through the following channels:

- Tied agents
- Multi-tied agents
- Independent financial advisers (IFAs)
- Brokers
- White-labelling partnerships
- Outbound call centre distribution
- Internet (self-service)

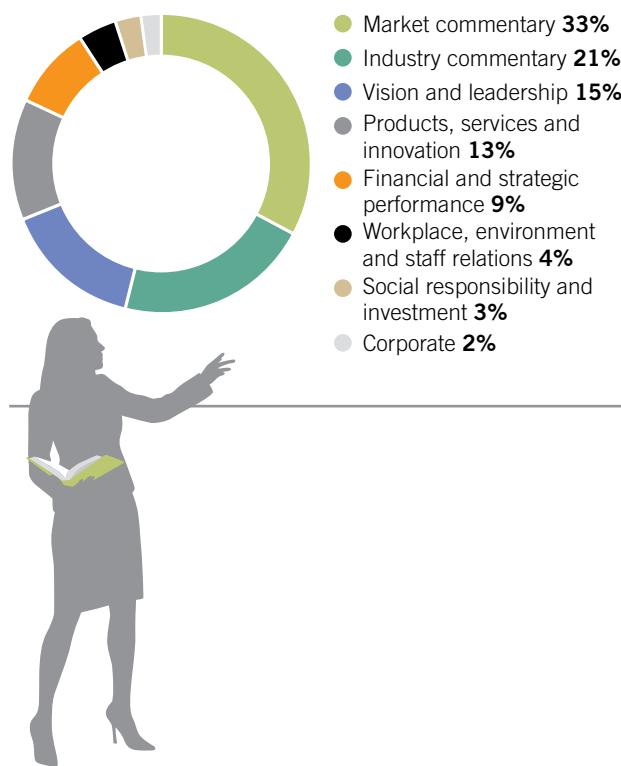
### Maintaining our position of thought leadership

We pride ourselves in offering our clients education, advice and products that are in line with global best practice. In a rapidly evolving environment, maintaining our reputation for thought leadership is an important means to securing client and investor trust.

Our series of thought leadership publications helps current and potential clients to understand the latest developments within the financial services sector and the associated implications. Benefits Barometer, for example, provides an annual review of South Africans' savings, particularly the role that employee benefits play in social protection and financial well-being.

In 2017 approximately 63% of media coverage about Alexander Forbes was assessed as thought leadership. The graph below outlines which areas/reputational drivers received the most commentary in the media.

#### Reputational driver % of total media commentary



### Developing innovative financial products and services to meet clients' needs

Remaining competitive requires that we continually adapt our products and services to the changing environment, and develop new solutions to meet new opportunities. This entails both enhancing our product offerings, and increasing our digital and technological capabilities so as to provide superior client services and experience offerings.

#### Strategic international and local partnerships for enhanced client offerings

Mercer Africa Limited, Alexander Forbes's largest shareholder since 2014, is founded on the idea that benefit and retirement programmes that are tailored to individuals also produce results for their employing organisation. Our partnership with Mercer exposes Alexander Forbes to cutting-edge international approaches to client-orientated solutions, significantly enhancing our service offerings to our clients.

African Rainbow Capital (ARC), a 10% shareholder of Alexander Forbes Limited since January 2017, is a significant new empowerment partner. Our partnership with ARC will assist in our SME penetration strategy in South Africa as well as expansion into core and new markets within Africa, particularly the public sector. This will enable us to achieve our 2022 double-digit growth ambition and firmly take our position as a distinctive pan-African financial services provider.

In June 2016 we launched our new retail retirement annuity product: 'Just Retirement with Profits'. This is a simple non-underwritten living annuity product with profit, launched in partnership with Just Retirement. The product has placed R105 million in premium business to date.

During 2017 Alexander Forbes Financial Services launched InFund Solutions – the InFund Preservation and InFund Living Annuity – for its umbrella fund members. This marks a significant evolution for the division's flagship product, allowing members to preserve their money within the fund despite changes in circumstances. This provides substantial benefit to members, who will now have one solution as they change jobs, build up their savings and eventually retire. The result is a retail product at the price of an institutional product.

## CLIENTS | CONTINUED

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Between the launch in September 2016 and 31 March 2017, 147 members have utilised the InFund Preservation solution, keeping their money in the fund upon leaving their employer. A further 40 members chose to receive a living annuity from the fund through the InFund Living Annuity.

This product is a seamless solution across the institutional and retail divisions – a classic example of retailisation, where we have moved the focus from the institution to the individual. In addition, this enhanced solution is in line with National Treasury's retirement reform proposals that ask trustees to guide members through the retirement process.

The retail division will launch the AF Life age-rated premium pattern onto its products. We have also recently launched a new retail product: the Alexander Forbes Retirement Income solution. This has been designed to meet the recommendations of the proposed retirement funds' default regulations. The product leverages our strong institutional relationships and will be taken to the boards of trustees of our advised and administered retirement funds, with the intention that it forms part of their default annuity strategy. The product is favourably priced, with increased customer longevity and higher capture potential driving asset accumulation, which is core to achieving the group's 2022 ambition.

We also focus on continuously refreshing existing products and solutions, such as Life Gauge – a consulting tool currently used by 615 of our institutional clients. We have developed and are currently testing our new version of Life Gauge, which includes a number of enhanced features, which we anticipate will be operational by August 2017.

We have also successfully partnered with three advisory/consulting houses to create solutions. These partnerships have resulted in additional AuM of R4.2 billion to date, with another R11 billion in the pipeline.

### **Investment Solutions' Public Sector Money Market Unit Trust**

This portfolio is a new investment solution for the public sector, aimed at municipalities and other public sector entities that hold cash. It is a money market portfolio that seeks to preserve capital, enhance yield and provide immediate liquidity, while being cognisant of the investment limitations applicable to public sector entities.

The portfolio complies with the prudential investment guidelines applicable to the Municipal Finance Management Act (MFMA) and the Public Finance Management Act (PFMA), and is managed on a multi-manager basis, which means we select and combine different asset manager portfolios, aiming to provide the most efficient return.

In the rest of Africa, we focused on shifting clients from standalone funds into umbrella funds, where our ability to service the members and cross-sell is much greater.

One of our new product strategies has been to enter the small- and medium-sized enterprise (SME) market, targeting businesses that employ 50 people or less. Within the first three months of the launch of this strategy we acquired 21 new SME clients across Africa.

### **STAKEHOLDER PROFILE**

#### **The Industrial Development Corporation (IDC)**

**Public sector client**

The IDC is a State-owned enterprise, established in 1940 as a national development finance institution intended to promote economic growth and industrial development.

The IDC entrusts Alexander Forbes with various aspects of its financial advisory requirements: retirement and pension funds, health and medical aid, investments and insurance, as well as several of our retail products.



## Looking ahead

Despite the challenging environment, which required significant internal focus during the year to reorientate to a more client-centric and integrated operating model, by the last quarter of 2017 we were able to start focusing externally with the launch of a number of new solutions and innovations, setting the platform for the years ahead.

Looking ahead to 2018, we will continue with our client-focused strategy and financial well-being to better understand our clients' unique needs and circumstances. Our aim is to reach a position where we interact regularly on-site with our corporate and institutional clients so as to engage face to face with their employees.

In terms of our distribution strategy, our immediate aim is to move away from multi-tied agents to tied agents, so that our sales force sells only Alexander Forbes-approved products, under our branding. We are also building the basis of a targeted independent financial adviser (IFA) distribution channel strategy that will enable a focus on IFAs and brokers across both the retail and institutional divisions.

Within AF Investments we intend to arrange and articulate our current set of product portfolios to better meet our clients' needs. The retail and investments teams are working together to develop a new IFA strategy and build the investment capability to support that.

In the public sector we are changing the way we build and maintain government relationships in order to cushion the group against political volatility. One way in which we intend to drive this is through strategic partnerships and alignments with smaller, empowered entities.

Looking ahead, our focus will remain on our retail access strategy and demonstration of our customer value proposition at an individual client level. Our clarified strategy allows for better execution and better implementation of an integrated and holistic customer value proposition through innovative products and services. As the group settles into its new structure, we can focus our energies on implementing the modernisation programme, as well as innovation and research and development, to improve our client offerings.



# EMPLOYEES

**Our employees are critical to fulfilling our commitment to our clients. Through their skills, experience and hard work we are able to deliver on our customer value proposition.**

## Performance summary

Indicator	Change	2017	2016*	2015*
Total number of salaried employees	17% ↓	<b>3 554</b>	4 267	4 111
Total payroll (Rbn)	48% ↓	<b>1.5</b>	3.0	2.6
Employee engagement index	6.5% ↓	<b>54.4</b>	60.9	63.8
Employee turnover (%)	2.4% ↑	<b>12.9</b>	10.5	9.6
Average training expenditure per employee (R)	3% ↓	<b>6 387</b>	6 585	6 641
Productivity: revenue per employee (Rm)	23% ↓	<b>1.0</b>	1.3	1.2

\* Prior-year numbers have not been restated for discontinued operations.

### Highlights

- New leadership brings new skills and thinking to the group and offers exciting opportunities for change
- Recognised 1 397 colleagues' achievements through SuperSERVE awards
- Redefined the values of the group to refresh the company culture

### Challenges

- Availability of scarce skills resources, particularly in pockets such as actuarial and sales
- Employee engagement score declined as a result of the changes during the year
- Discomfort in shifting employees' historic mandates and priorities

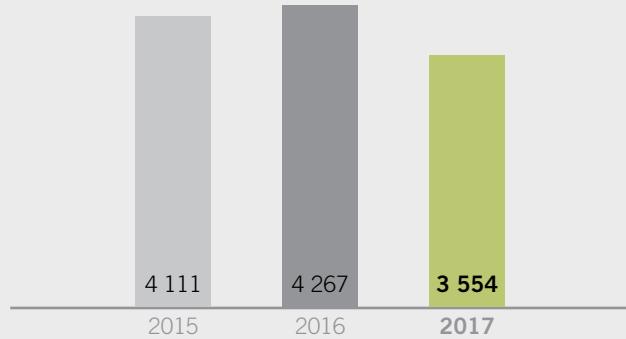
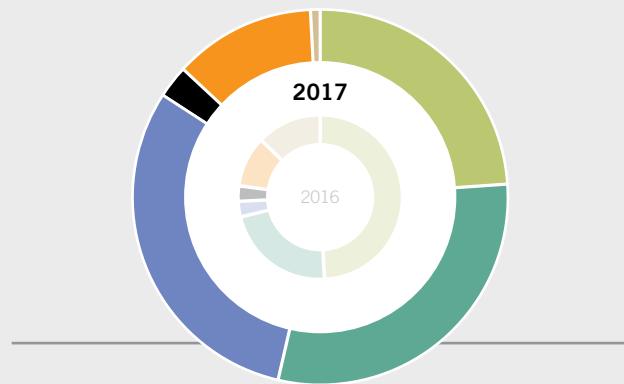
### Our approach

2017 has been a period of significant transition as we have successfully shifted towards operating as a leaner, more focused group that no longer operates in silos, but instead offers a single group customer proposition. As a result, there were a number of changes to senior management to better support this transition and bring in the skills sets necessary to deliver our revised growth strategy. Over the period we continued to keep our employees as a key priority in ensuring their productivity and well-being.

Human resources (HR) operates within the group's shared services function. The responsibility for implementing HR strategy is a dual accountability between group HR and the business divisions. The central shared services resource manages tasks such as hiring, employee induction and exits, and administration of leave. It is also responsible for group-wide leadership, talent management and development strategies.

The move towards the shared services model has accompanied a shift in priority away from transactions towards broader value-creating activities. For example, we now have a more holistic focus on talent management and skills acquisition, not simply new hires. We believe that this will enhance the business's overall ability to create value.



**Total number of salaried employees****Total number of salaried employees**

Our total headcount decreased in 2017 from 4 267 to 3 554 people. This was in the most part due to the sale of Alexander Forbes Compensation Technologies and our share of Lane Clark & Peacock in the UK. Structural changes saw a significant portion of institutional employees moving into the group-wide operations and technology team.

	<b>2017</b>	2016	2015
● SA institutional	<b>851</b>	2 099	1 986
● SA retail	<b>1 060</b>	942	948
● Operations and technology	<b>1 081</b>	129	152
● Shared services	<b>107</b>	129	89
● Emerging markets	<b>431</b>	428	402
● Alexander Forbes International Limited	<b>24</b>	540	534
<b>Total</b>	<b>3 554</b>	<b>4 267</b>	<b>4 111</b>

“Making a positive difference  
in the lives of our customers.”

**1** COMMITMENT  
ONE BUSINESS

## EMPLOYEES | CONTINUED

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Key risks	Mitigating actions
<b>The risk of key people leaving the organisation, taking key intellectual property (IP) with them or the firm's inability to recruit and retain top talent</b>	<ul style="list-style-type: none"> <li>■ Continuing with our skills development initiatives and internship programme</li> <li>■ Regular monitoring of attrition rates in key areas</li> <li>■ Dedicated project under way on remuneration approach and structures</li> </ul>
<b>The risk of cultural misalignment and its effect on morale and, ultimately, performance</b>	<ul style="list-style-type: none"> <li>■ Regular employee survey initiatives</li> <li>■ Revised performance management programme to focus on more holistic employee well-being</li> <li>■ Deep-dive cultural assessments being undertaken with key action plans</li> </ul>

## Our performance

### Creating a compelling employer value proposition

Alexander Forbes's employee value proposition (EVP) includes offering competitive market remuneration and rewards that contribute towards the financial well-being of our employees now and into the future. We are constantly looking for ways to attract talented employees and work actively to nurture our internal talent pipelines. We believe that by offering competitive benefits and a work environment that encourages collaboration and innovation, as well as by engaging frequently with our employees, we offer a strong EVP. This was reflected in Alexander Forbes being recognised as an Africa Best Employer Brand 2016 at the third Africa Best Employer Brand Awards.

In 2017 salaries across the group increased by approximately 3%. While our employee engagement revealed that there was some sentiment that this increase should have been greater, we performed a benchmarking exercise that indicated that Alexander Forbes is competitive in its total rewards package. On top of basic salary, employees receive benefits as part of their guaranteed pay.

This year, recognising the need to strengthen the group's incentive structures, particularly at a senior level, we began to design various 'lock-in' structures for key people. Towards the end of 2017 we identified critical roles, offering appropriate retention plans.

One measure of EVP is employee turnover, which increased again this year to 12.9% (from 10.5% in 2016), but is still well in line with the industry. Management turnover increased from 9% in 2016 to 13% in 2017 at junior and middle management levels, and from 9% to 12% at senior management. We attribute most management turnover to the period of change and significant restructuring within the group, and we expect that these levels will decrease in the coming year.

This year we introduced an acting allowance policy and enhanced our maternity leave policy, reducing the period of employment after which the policy comes into effect from three years to one year. We also increased the group retirement age from 60 to 62, after benchmarking against the industry.

## Remuneration

The Alexander Forbes remuneration philosophy seeks to enable the business to attract, motivate and retain talented high-performing people. Our remuneration policy provides for a mix of fixed (or guaranteed) and variable pay. This mix is aligned with market best practice and consists of the following components:

### Guaranteed pay

This is aligned with market levels and provides the individual with appropriate security and reward in terms of salary and market-related benefits, including retirement funding, medical aid, and death, disability and funeral cover. Our guaranteed pay is typically benchmarked against the 50th percentile of the financial services market. This allows exceptional performers to earn up to the 75th percentile in total through short-term incentives, subject to the individual's performance, the group's performance and the available funds in the bonus pool.

### Short-term incentives (STIs)

Our STI scheme aims to reward performance for meeting short-term organisational targets. Objectives and measures are derived from the overall annual strategic objectives and cascaded through group, divisional and individual scorecards to ensure that everyone is working toward the same overarching objectives. Individual and corporate performance targets, both financial and sustainability-related, are tailored to the needs of the business and reviewed regularly to ensure they remain appropriate.

The quantum of the incentive is subject to the size of the incentive pool (which is dependent on net profit), a policy of incentive capping (Level 1 to 3 employees are generally offered a 13th cheque, while some employees from Level 3 to 5 are eligible to receive up to 200% of their on-target bonus as their incentive), our performance measurement scorecard and bonus deferral for divisional managing directors and any other identified roles.

### Long-term incentives (LTIs)

The Alexander Forbes conditional share plan applies to executive directors, senior managers and other key executives and managers of the company. Conditional shares are awarded on a sliding scale at a level that is appropriate relative to guaranteed pay. The incentives are offered over a period of three or more years and are designed to align performance with achieving the group's long-term objectives; act as a retention mechanism for senior executives; and drive a culture of continuous and sustained growth and improvement within Alexander Forbes. To align shareholders' and executives' interests, the vesting of conditional shares is conditional on achieving performance conditions measured over a period appropriate to the strategic objectives of the company.

Employee share ownership includes the forfeitable share plan (FSP) and the Employee Share Ownership Plan (ESOP), each of which is designed to enhance the ownership of the company and to align employee interests with the company while supporting their financial well-being through regular dividends.

The ESOP exists for the benefit of all permanent employees in South Africa who are not part of the executive long-term incentive plan, and there is a significant weighting to qualifying black women employees, who enjoy 70% of the beneficial interest. The ESOP shares represent approximately 2.9% of the issued ordinary capital of the group. In 2017, R4.5 million in ESOP distributions were made to employees.



For more detailed information on our remuneration policy and practices, please see the full governance report at

[www.alexanderforbes.co.za/investor-relations/integrated-reports](http://www.alexanderforbes.co.za/investor-relations/integrated-reports)

## EMPLOYEES | CONTINUED

### Maintaining a positive work environment

During 2017 Alexander Forbes welcomed a new chief executive, as well as various other senior executives. Under this guidance the group has restructured and refreshed its strategic ambition. This has involved – at an employee level – changes to historic mandates as well as a move from a direct line of control management to matrix accountability.

These changes are crucial to the success of the group. During this period we are pleased that there have been no significant retrenchments in South Africa arising from the restructuring and business consolidation processes, although some people have been redeployed within the business.

#### Our values:

- 1 Collaboration    2 Integrity
- 3 Customer first    4 Trust

The restructuring has, however, been reflected in the engagement levels of our employees. Our annual employee engagement survey showed our engagement index score declining to 54.4 from 60.9 in 2016. The primary areas of concern were remuneration and benefits, care and concern for employees, and recognition of achievements. We are addressing these by reviewing our rewards and benefits strategy, as well as promoting greater consistency across fairness.

The changes at senior management level have afforded the group with a unique opportunity to bring in new and fresh thinking, including international insight and perspective.

As the group embarks on a new strategic era a key component will be to ensure that the right culture and values are in place to support the strategic execution.

#### Culture diagnostic

In November 2016 we initiated an **organisational culture diagnostic**. Employees participated in an electronic survey to allow us to uncover insights into the current and desired organisational culture.

The diagnostic showed that our current culture is predominantly results-based, while our target culture – agreed upon by most employees – is more purpose-orientated. Going into 2018, we have been taking a bottom-up approach to articulating and reinforcing the group's desired culture.



To address employees' questions and concerns, and to ensure that our employees are included in driving the group's strategic priorities, the new chief executive embarked on a significant number of roadshows to engage with employees across the group and to describe the group's revised strategic vision and the need for change within the business. These roadshows have been followed up with regular video messages and leader-led engagement sessions with employees. We also continue to engage with our employees through a variety of events, internal newsletters, publications and communiqués.

#### **Managing for high performance**

All employees receive at least two formal performance reviews each year. These are facilitated by the HR department and delivered by line management. In 2017 we continued to improve on the quality of these discussions and on the frameworks and KPIs against which employees are measured. We intend that this will improve the objectivity of the review process and will help us to manage performance more tightly. The outcome of performance reviews is linked directly to employees' rewards through our short-term incentive scheme. (See the remuneration report, page 63 for additional detail.)

#### **SuperSERVE winning team: Autosave App**

Taking aim at the freelance space and burgeoning gig economy, actuarial student Fria Hiemstra, business and procurement specialist Jadie Naicker, maths whizz Amy Harding and marketing maven Katherine Madley developed an idea that addressed a brand new market for financial well-being.

The four have created a retirement and emergency savings app aimed specifically at entrepreneurs and the freelance market, and entered their business case into Alexander Forbes's innovation programme. The team was awarded both a prize and an exploratory budget to further develop the product.

In our SuperSERVE recognition programme employees are encouraged to nominate colleagues who best embody the group's values in their daily work. Rewards range from 'badges' to public recognition and cash prizes.

During 2017, 1 284 employees were awarded silver SuperSERVE awards, 90 were awarded gold awards and 23 employees were awarded platinum SuperSERVE awards – the highest level – in a formal event held in July 2016. Each of the individual platinum winners received a cash prize of R15 000.

#### **Ensuring continual development**

Part of our EVP is offering our employees the opportunity to grow professionally. The courses we offer include the Duke University leadership development programme, Harvard's manager mentor programme, diversity management training and managing generations.

In 2017 we partnered with Degreed, which is an online learning platform that our employees will use in 2018, for their own training and development, at their own speed. Degreed offers various courses in business administration. The group also awarded 82 bursaries to employees' children and 403 company bursaries. The company bursaries enable full-time employees to study post-matric and university qualifications that will develop their own proficiency and advance the employees' careers within the group.

**R22.7 million** spent on training in 2017

**2 819** employees trained

**R6 387** spent on training per employee

## EMPLOYEES | CONTINUED

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Furthermore, 60 recent graduates participated in our internship programme (60% black) and 108 participated in our learnership programme (96% black) – a 33% increase from 2016.

25 learners joined the retail team and 83 joined the institutional cluster. Both the internship and learnership programmes are 12 months in duration. The internship programme is aimed at university graduates and the learnership at school leavers (matriculants).

In 2016 the retail clients division launched its retail academy, which aims to enhance employees' technical skills and personal development. The main focus areas of training within the retail academy are:

- Upskilling staff on product and sales training
- Client service training in the insurance claims and call centres
- Management training
- Induction and development training programme for business development consultants and well-being consultants.

### Safeguarding employees' wellness

We are cognisant that our employees' work/life balance is important to their overall well-being. Happy employees are productive employees. We support our employees with flexible

working hours on a case-by-case basis when the nature of their job allows.

Our headquarters in Sandton offers employees gym facilities, a physiotherapist, a spa and a wellness clinic. A series of wellness events during the year grant employees access to voluntary HIV counselling and testing as well as other medical check-ups and information, including glucose and cholesterol tests. All employees participate in medical aid schemes, which provide access to a range of benefits including a disease management programme.

We have partnered with ICAS to offer our employees access to counsellors who can provide advice on legal, marital and other social issues via telephone, e-mail and face-to-face meetings. To provide our parent employees peace of mind, we offer a space-subsidised crèche at our group headquarters, which 27 children of our employees attend.

**2 002** employees in SA took advantage of the holistic health risk assessments we offer at our headquarters – up from 700 in 2016

**565** employees made use of the confidential wellness hotline

**31%** of our staff are registered for the group's e-Care online system



In 2016 we launched our financial well-being programme to our employees, encouraging them to learn more about protecting and growing their personal wealth; evaluating their own financial habits; and recommending tools and products for investing, saving and risk coverage. We did not hold an employee financial well-being day in 2017, but we plan to do so again in 2018.

Our employees are all trained in the Occupational Health and Safety (OHS) Act during their induction and regularly during the year by group health and safety co-ordinators and OHS team members. During 2017 the group experienced ten work-related injuries and no work-related fatalities. The group applies the OHSAS 18001 management system but has not yet been accredited in this regard.

#### **Building a diverse and inclusive workplace**

We are committed to building a diverse workforce that reflects our clients, our investors and the countries we serve. This means bringing together a mix of skills, experience, culture, gender, age and race. It also means taking a focused approach to recruiting, developing, retaining and promoting black talent.

	2017	2016	2015
% black employees	<b>71</b>	68	66
% women employees	<b>63</b>	58	56
% black women employees	<b>45</b>	43	42

While we are generally pleased with the transformation taking place within our workforce, meeting our targets at middle and senior management levels remains a challenge. See page 82 'Actively practise transformation' for further detail of our transformation agenda.

• **505** new employees in 2017 in South African operations, of whom **89%** were black and **50%** were black women. **56%** of all new recruits were female.

• **60** internal promotions, **65%** of whom were black employees.

This year the board of directors introduced a gender diversity policy aimed to increase representation of women at the most senior management levels. The policy requires that 30% of the board should comprise women within three years.

In 2017 we also ran diversity management workshops for all employees. These comprise an externally facilitated, two-day course and aim to equip employees with skills to tolerate and manage working in a diverse work environment.

#### **Looking ahead**

In the coming year we plan to launch our Future Leader Programme (FLP), which aims to create a healthy pipeline of next-generation leaders by developing, fast-tracking and retaining young professionals in the organisation.

The programme will comprise three six-month rotations through core Alexander Forbes business areas (both local and within emerging markets), and then a final six-month upskilling and settling rotation in the best-fit area. The programme participants will be limited to those aged between 25 and 33 years, with at least two years' working experience.

Over the next three years we anticipate that the FLP will provide between 15 and 20 candidates to fill divisional leadership gaps at junior and middle leadership levels – producing leaders with outstanding customer and management skills, deep functional expertise, strategic thinking, innovation, ambition and leadership ability.

In 2018 we will also launch the CEO bursary programme. This will be administered by the Alexander Forbes Community Trust, based on a new invested endowment of R4 million. The proceeds will fund students to study qualifications within the financial services industry at different universities in South Africa. The first students are expected to enrol in January 2018.

A priority for the coming year will be to address the low employee engagement scores. We will focus on providing direct access to the chief executive, through roadshows, videos and correspondence. We will also roll out a change management initiative to help employees to understand, be a part of, and make a meaningful contribution to fulfilling the strategic ambition of the group. We are also improving performance management by changing our philosophy, and the system of – and the manner in which we set – key performance indicators.



# INVESTORS

## Performance summary

Indicator	Change	2017	2016*	2015*
Headline earnings per share (cents)	8% ↓	<b>53.4</b>	58.1	31.9
Normalised headline earnings per share (cents)	4% ↓	<b>59.7</b>	62.2	59.4
Operating income from continuing operations (Rm)**	1% ↑	<b>3 435</b>	3 395	3 276
Profit from operations (Rm)	3% ↑	<b>933</b>	905	892
Net profit for the year (Rm)	80% ↑	<b>1 574</b>	874	359
Normalised profit after tax (Rm)***	4% ↑	<b>704</b>	680	485
Final dividend (cents)	5% ↑	<b>23</b>	22	12
Average AuA and AuM (Rbn)	2% ↑	<b>345</b>	339	322

\* Restated for discounted operations.

\*\* Operating income represents revenue net of direct expenses.

\*\*\* Excluding discontinued operations.

## Highlights

- 1.2% growth in operating income
- Disciplined expense management, with costs growing 0.5%
- 3.1% growth in profit from operations with improved margin of 27.2% (up from 26.7% in 2016)
- Normalised profits excluding discontinued operations increased 3.5%
- Good cash conversion resulting in a 23 cents final dividend
- Special dividend of 23 cents
- Core business growth in financial services
- Retail business gaining traction

## Challenges

- Weak economic and business environment in South Africa and the rest of Africa
- Loss of significant client (BPOPF) in Africa
- Poor group risk underwriting results
- New business growth behind market
- Unemployment driving significant cash outflows

## Our approach

The Alexander Forbes board takes overall responsibility for investor relationships, ensuring investors have a sound understanding of the group's value. Management and the chairman of the board interact with investors through a variety of channels including webcasts, analyst briefings and one-on-one meetings in order to provide clear information on our half- and full-year results.

The group maintains an investor relations function that reports to the group CFO. Our formal reporting to investors is in line with best-practice governance and regulatory requirements and includes our integrated reports, annual financial statements, results announcements and our annual general meeting.

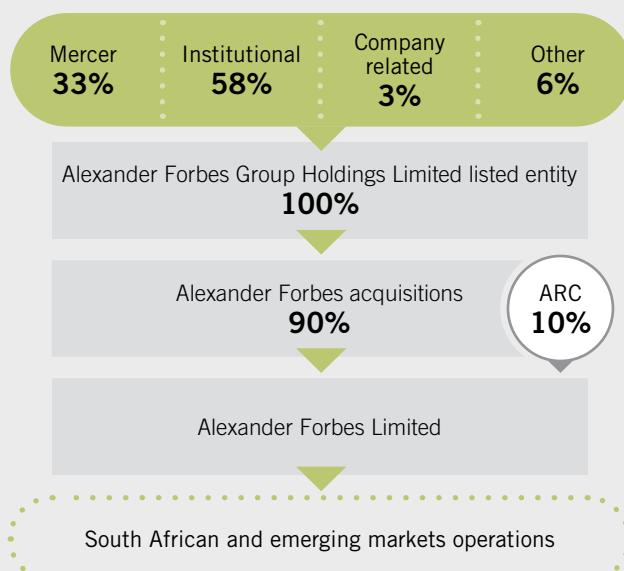
In order to improve the access and understanding of our group in the investor community, the group held an investor day on 13 June 2017.



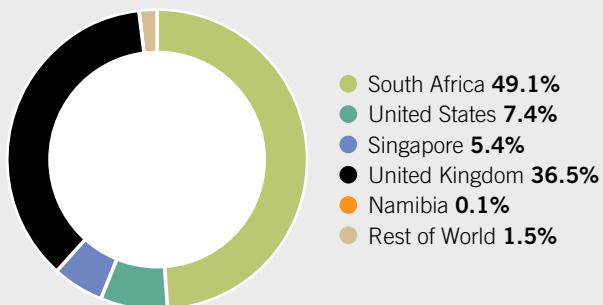
The presentations and webcast of our investor day held are available online at

[www.alexanderforbes.co.za/investor-relations/presentations](http://www.alexanderforbes.co.za/investor-relations/presentations)

On 20 January 2017 our shareholders approved a transaction introducing African Rainbow Capital (ARC), a wholly-owned subsidiary of Ubuntu-Botho Investments Proprietary Limited, as an empowerment shareholder, with a 10% shareholding in wholly-owned subsidiary Alexander Forbes Limited (AFL). Our three most significant shareholders at the Alexander Forbes Group Holdings level are Mercer Africa Limited, Liberty Life and the Government Employees Pension Fund. Of the institutional shareholders, 73% are South African.



#### Institutional shares by geography



#### African Rainbow Capital (ARC) – our new shareholder and strategic partner

ARC invested in Alexander Forbes's African operations by acquiring 10% of wholly-owned subsidiary Alexander Forbes Limited (AFL) for a total cash consideration of R753 million.

Johan van Zyl, the co-CEO of ARC described the transaction as a landmark investment by ARC which has a 10- to 20-year vision to build a South African base and expand into the rest of Africa. 'For us, investing in Alexander Forbes is key to executing on that vision since the group is a recognised market leader in South Africa and selected markets in Africa.'

We believe that having ARC as a shareholder provides strategic advantage in the South African context and will enhance the growth prospects of the group through deal flow, collaborative development and transformation in the South African financial services industry.



More information on our shareholding structure is available in the annual financial statements at

[www.alexanderforbes.co.za/investor-relations/financial-statements](http://www.alexanderforbes.co.za/investor-relations/financial-statements)

## INVESTORS | CONTINUED

Key risks	Mitigating actions
<b>South African economic recovery</b>	We believe that the long-term growth prospects for South Africa remain positive. As such it is important to manage through the period of low economic growth. We continue to manage costs aggressively while investing in efficiency.
<b>Ongoing margin pressure</b>	The South African financial services industry will continue to see reduced margins in line with international trends. Alexander Forbes focuses on delivering value to our clients through a better understanding of their needs and delivering services that will enhance their financial well-being. We pride ourselves in providing an appropriate selection of investments and financial services that are fit for purpose. Through scale we ensure that costs are well managed and margins are protected.
<b>Achieving operational efficiency</b>	As a financial services provider, a significant portion of our costs are personnel costs. In this context we continue to look for structural changes to enhance the productivity and efficiency of our service delivery. In this year we have concluded agreements with Sapiens to transform our host systems and enhance our ability to deliver seamless administration to our member base. This will also provide an improved digital interface for self-service and delivery. Importantly, it will provide ongoing opportunity for efficiency enhancements over the next five years and beyond.
<b>Evolving regulatory environment</b>	Global and local regulatory enhancements continue to ensure improved outcomes for the users of financial products and services as well as ensuring the financial soundness of the providers. Our customers remain the centre of our vision and mission and as such we support and remain committed to regulatory reform.

### Shareholder performance measures

	2017			2016	2015
	Actual	% change	Normalised	Normalised	Normalised
Earnings per share (cents)	114.5	(4)	59.3	61.9	59.4
Headline earnings per share (cents)	53.4	(4)	59.7	62.2	59.4
Return on equity (%)	22.9	(11)	12.1	13.6	13.8
Return on capital employed (%)	23.9	(13)	15.3	17.6	17.9

### Our performance

The group's core trading results increased by 3.1% for the year ended 31 March 2017. This increase is a result of a 1.2% growth in operating income and 0.5% growth in operating expenses. Operating leverage of 0.7% was achieved through aggressive cost containment. We define operating leverage as the difference in growth of operating income against growth of operating expenses.

The sale of the international consulting partnership in the UK (LCP) gave rise to an extraordinary profit which is adjusted for in headline earnings. As a result the group has reported normalised earnings per share of 114.5 cents, which is 101.2% higher than the previous year and headline earnings per share of 53.4 cents, which is 8.1% lower than the previous year.

A normalised representation of the results reflects a growth in profit from continuing operations of 3.5% to R704 million. The weighted average number of shares has remained largely unchanged.

The results should be seen in the context of the sale of LCP, whose results are included for eight months of the current year as opposed to the full 12 months of the previous financial year.

### Mercer – leveraging our relationship

We continue to strengthen our relationship with Mercer, the world's largest human resources consulting firm. Marsh & McLennan Companies (MMC), through its wholly-owned subsidiary, Mercer Africa, is the largest single shareholder of Alexander Forbes since it acquired a 34% stake of the group at the time of its 2014 listing (current shareholding: 33%).

We have recently launched the Alexander Forbes Mercer Investments joint venture. This co-ordinated approach to our investment solutions for our clients will greatly enhance our global portfolios as well as our local offering.

Both Mercer and Alexander Forbes have dedicated resources applied to finding additional areas of collaboration which will be driven towards enhancing our customer value proposition.

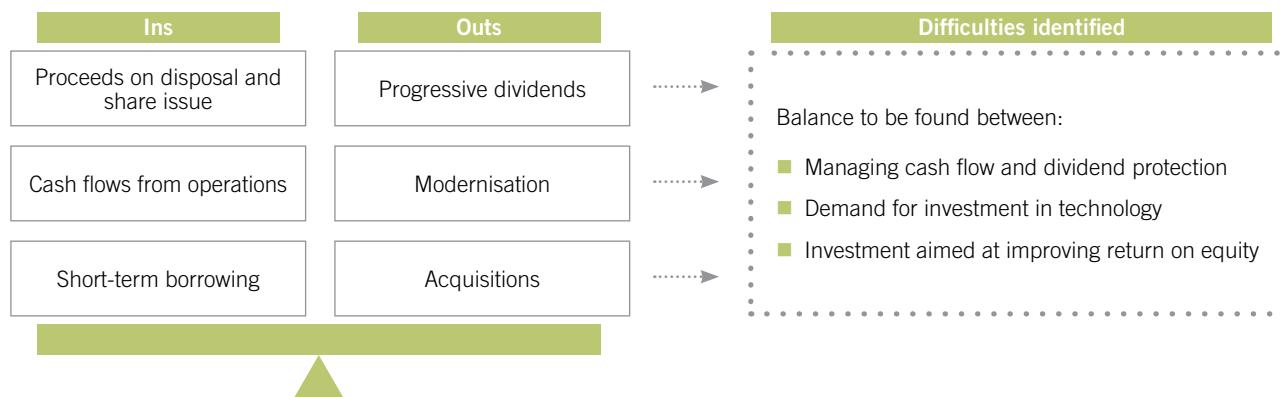
## Strategic resource allocation

In line with our strategy and Ambition 2022 we have further enhanced our operating structure to ensure that there are clear mandates for each of the business divisions and that these divisions are resourced appropriately to achieve their goals. Importantly, financial reporting, measurement criteria and targets over the next five years have been defined in line with the new structure.

## Funding structure and regulatory capital

In the context of the available cash on the group's balance sheet (R2.3 billion), the board has approved a long-term capital strategy that incorporates the group's ability to generate strong cash flows in the future. It is anticipated that, in the next five years, the period over which we have defined our ambition, the group will be required to allocate an estimated R7 billion in cash generated. The capital allocation process aims to balance the demands of capital required within the business against capital return to shareholders. Our target capital allocation over the next five-year period to 2022 is anticipated as follows: dividends, acquisitions, investments, special dividends and buy-backs.

### Group capital allocation considerations



Balance between targeted spending and net shareholder enrichment through income from dividends and growth in share price.

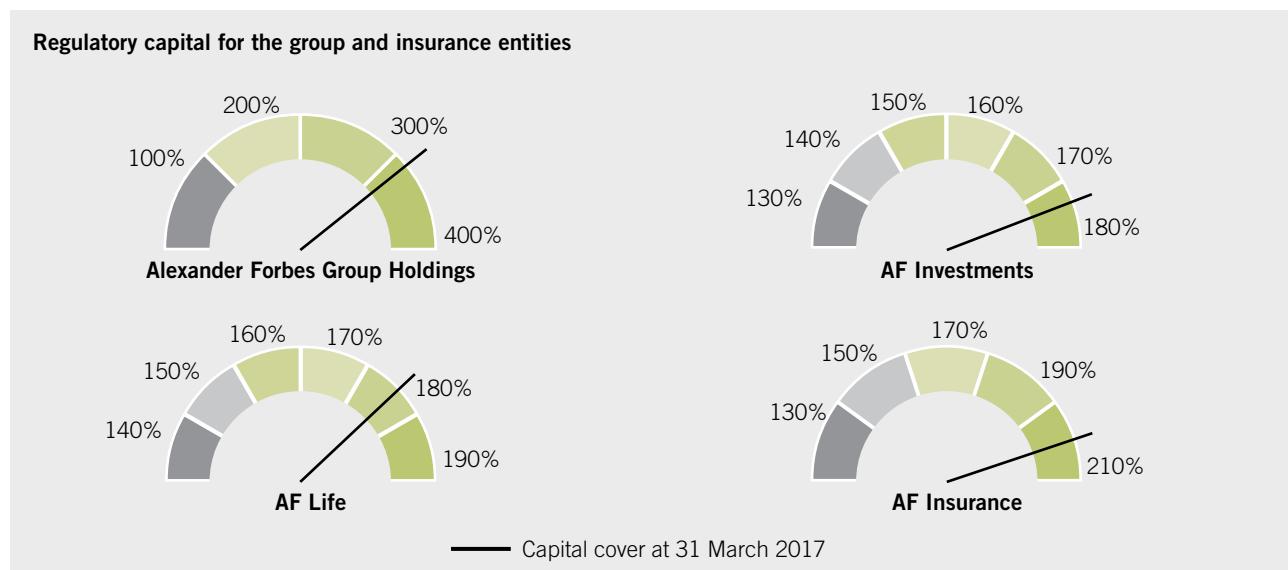
### Group target capital allocation to 2022



## INVESTORS | CONTINUED

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The group's capital structure is managed within regulatory bounds, specifically in anticipation of requirements expected to be legislated under SAM. These standards impose more stringent requirements on long-term and short-term insurers, with additional regulatory requirements on the ultimate holding company of insurance groups. Alexander Forbes has positioned its capital to meet these requirements in advance of the legislation which is expected to be promulgated during 2018. The capital cover of the group and insurance entities as at 31 March 2017 is reflected below.



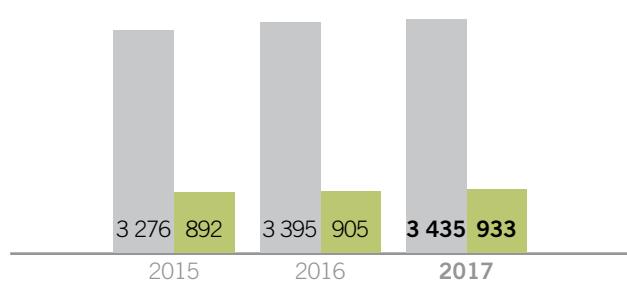
The group maintains a R1 billion unsecured revolving credit facility that is renewable annually. The facility provides limited financial leverage and the group continues to manage its capital structure as efficiently as possible while ensuring compliance with the regulatory requirements.

### Quality and sustainability of revenues and profits

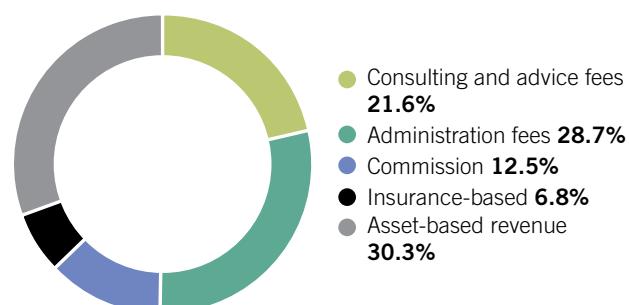
Approximately 77% of Alexander Forbes's revenue base is considered recurring or predictable in nature. The recurring fee income comprises asset-based income, fees for services rendered in month administration (either on a fee-per-member or percentage of salary contribution), consulting fees and commission income.

#### Operating income and profit

- Total operating income
- Total profit from operations



#### Group revenue by type



### Maintaining and growing our market-leading institutional business

The institutional clients division delivered R1 920 million of operating income, which is 0.6% higher than the prior year. Business units within this division have been adjusted to align with our strategy and include:

- Consulting – actuarial consulting, healthcare actuarial and consulting
- Retirements – fund administration to standalone and umbrella retirement funds, beneficiary trust consulting and administration
- Investments – investment services including a range of investment portfolios, advice-led solutions and alternative investments
- Group risk – long-term life insurance

Growth in operating income was impacted by the macroeconomic and political environment in South Africa as well as below-expectation performance across group risk underwriting. The overall increase in expenses was contained at 0.5% as a direct result of improved efforts around cost containment and operational efficiency. As a result profit from operations increased by 0.6% to R465 million for the year ended 31 March 2017.

#### Institutional clients

Rm	2017 Actual	% growth	2016	2015	2014	CAGR %
<b>Operating income</b>						
Consulting	<b>802</b>	<b>(2.0)</b>	818	793	757	1.9
Retirements	<b>421</b>	<b>12.3</b>	375	351	322	9.3
Investments	<b>640</b>	<b>(0.2)</b>	641	727	675	(1.8)
Group risk	<b>57</b>	<b>(24.0)</b>	75	84	69	(6.2)
<b>Total</b>	<b>1 920</b>	<b>0.6</b>	1 909	1 955	1 823	1.7
<b>Operating profit</b>						
Consulting	<b>74</b>	<b>(8.6)</b>	81	82	78	(1.7)
Retirements	<b>100</b>	<b>26.6</b>	79	72	89	4.0
Investments	<b>276</b>	<b>–</b>	277	349	317	(4.5)
Group risk	<b>15</b>	<b>(40.0)</b>	25	31	27	(17.8)
<b>Total</b>	<b>465</b>	<b>0.6</b>	462	534	511	(3.1)
<b>Margin (%)</b>						
Consulting	<b>9.2</b>	<b>(6.8)</b>	9.9	10.3	10.3	
Retirements	<b>23.8</b>	<b>12.8</b>	21.1	20.5	27.6	
Investments	<b>43.1</b>	<b>–</b>	43.2	48.0	47.0	
Group risk	<b>26.3</b>	<b>(21.1)</b>	33.3	36.9	39.1	
<b>Total</b>	<b>24.2</b>	<b>0.1</b>	24.2	27.3	28.0	

## INVESTORS | CONTINUED

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### Growing retail clients

The wealth and investments segment of the retail clients business is focused on generating revenue through the offering of financial advice, as well as the administration and management of investments. This segment incorporates financial planning consultants (FPCs), AF Individual Client Administration (AFICA), AF Preservation Fund and the retail assets under management in AF Investments.

Growth in operating income of this segment showed an increase of 5.1% to R797 million for the year ended 31 March 2017. Of this income 64% is asset-based income and a further 36% relates to consulting and advisory fees also linked to asset values.

The retail insurance businesses comprise AF Insurance, which provides short-term insurance solutions to individuals and the AF Life individual insurance business. The growth of short-term insurance was impacted by both the economic environment as well as claims experience. Gross written premium increased by 8.0% to R1.5 billion for the year ended 31 March 2017. The business continues to grow ahead of competitors, based on an enhanced product offering and good service levels.

#### Retail clients

Rm	2017 Actual	% growth	2016	2015	2014	CAGR %
<b>Operating income</b>						
Wealth and investments	<b>797</b>	<b>5.1</b>	758	673	569	11.9
Retail insurance	<b>477</b>	<b>4.1</b>	458	416	360	9.8
<b>Total</b>	<b>1 274</b>	<b>4.8</b>	1 216	1 089	929	11.1
<b>Operating profit</b>						
Wealth and investments	<b>378</b>	<b>14.9</b>	329	271	233	17.5
Retail insurance	<b>88</b>	<b>(4.3)</b>	92	85	77	4.6
<b>Total</b>	<b>466</b>	<b>10.7</b>	421	356	310	14.6
<b>Margin (%)</b>						
Wealth and Investments	<b>47.4</b>	<b>9.3</b>	43.4	40.3	40.9	
Retail insurance	<b>18.4</b>	<b>(8.2)</b>	20.1	20.4	21.4	
<b>Total</b>	<b>36.6</b>	<b>5.6</b>	34.6	32.7	33.4	

## Emerging markets

Alexander Forbes Emerging Markets (AFEM) currently operates in five countries across Africa: Namibia, Botswana, Zambia, Uganda and Nigeria. Economic growth in all of these markets remained well below the longer-term potential. The impact of global economic developments in the current financial year contributed to rising risk aversion, increasing pressure on the economies, currencies and investment markets of our emerging markets countries.

With the Government of Botswana insourcing its Public Officers Pension Fund (BPOPF) in 2016, AFEM lost one of its largest clients and net revenue consequently declined by 10.7% for the year. Excluding the BPOPF impact, net revenue grew at 2.0%. Downsizing and redundancy costs in Botswana contributed to the overall cost growth of 2.0%. Members under administration naturally decreased as a result of the above-mentioned client loss in Botswana. Further measures to improve the operating leverage in Botswana included reducing overheads alongside a buildout of retail consumer lines to enhance revenue. We expect to realise the impact of these initiatives in the next financial year.

AFEM's total profit from ongoing operations declined by 51% to R32 million for the year ended 31 March 2017.

## Emerging markets

Rm	2017 Actual	% growth	2016	2015	2014	CAGR %
Operating income	241	(10.7)	270	232	200	6.4
Operating profit	32	(50.8)	65	55	39	(6.4)
Margin (%)	13.3	(47.4)	24.1	23.7	19.5	

## Controlling costs

The management and board of Alexander Forbes have been focused on managing costs in the business over the past few years. The intensity of cost and operational efficiency has been a stronger focus in the past year as a key part of the strategy to build a more resilient business model and address structural and expense efficiencies. A continued drive to deliver positive operating leverage across all business units has been put in place.

## Expenses

Rm	2017 Actual	% growth	2016	2015	2014	CAGR %
Employee costs	1 428	(3.8)	1 484	1 428	1 249	3.4
Payroll costs	1 257	1.9	1 234	1 158	1 037	
Bonus and profit share	171	(31.6)	250	270	212	
Share scheme costs	16	(27.3)	22	16	–	
Premises (excluding IFRS adjustment)	269	4.3	258	245	223	4.8
IT costs	267	24.8	214	202	177	10.8
Professional fees	103	8.4	95	74	84	5.2
Insurance costs	68	(1.4)	69	75	77	(3.1)
Subtotal	2 151	0.4	2 142	2 040	1 810	4.4
% of total costs	86%		86%	86%	85%	
Other costs	351		348	344	329	1.6
<b>Total operating expenses</b>	<b>2 502</b>	<b>0.5</b>	<b>2 490</b>	<b>2 384</b>	<b>2 139</b>	<b>4.0</b>

## INVESTORS | CONTINUED

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### Maintaining investor confidence

It is clear that since listing in July 2014, the group has underperformed when compared with the initial investment thesis and delivery of shareholder return. The contributing factors to this underperformance include factors that are outside of management's control (such as the muted South African economic conditions), but also those that are within management's control (such as slower-than-expected retail penetration and structural cost management).

The board and executive management are clear on the path forward under a refreshed strategy for the group alongside a crystal clear investment thesis of 'cash flow plus growth'. In delivering on the refreshed strategy under Ambition 2022, the group is focused on:

- Leveraging its market-leading institutional businesses to drive retail and emerging market growth
- Delivering positive operating leverage with a focus on maintaining cost per member per month by at least 2% below inflation and improving structural and operating efficiency
- Building a strong ecosystem to drive growth with effective strategic partnerships with Mercer and African Rainbow Capital

### Modernisation programme

On 7 April 2017 the group announced that a significant software development agreement had been concluded with Sapiens. Under this agreement Sapiens will provide a wide range of offerings both in the end-to-end host administration and key components of the Sapiens Digital Suite. This project, which is due to be developed in phases over the next four years, will power Alexander Forbes's client proposition and enhance its digital capability.

The financial commitment relating to this contract amounts to \$51 million over the next four financial years. The costs of development will be capitalised and depreciated over the expected useful life of the system. The single host system will allow for rationalisation of our current disparate systems and is expected to deliver a net reduction in costs over the next five years.

### Normalised profit

The group's normalised results are presented to reflect the basis upon which management manages the group and reflects the economic substance of the group's performance. The adjustments between the IFRS summary consolidated income statement and the normalised results are as follows:

- **Accounting for property lease** – The accounting treatment for long-term leases, particularly at the Sandton head office, continues to have a small positive impact on the operating profit growth rate while the absolute value is an expense of R26 million for the year ended 31 March 2017.
- **Capitalisation of intangible assets and the related amortisation** – Non-trading and capital items include the ongoing accounting amortisation of intangible assets amounting to R117 million for 2017 and R124 million in the prior financial year. The capitalisation of intangible assets and the related amortisation resulted from the required accounting treatment at the time of the private equity acquisition of the group under common control in 2007.
- **Accounting for Alexander Forbes shares held in policyholder investment portfolios** – In terms of IFRS as presently constituted, any Alexander Forbes shares acquired by underlying asset managers and held by the group's multi-manager investment subsidiary for policyholders (the shares) are required to be accounted for in Alexander Forbes's consolidated financial statements as treasury shares and results in the elimination of any fair value gains or losses made on the shares.
- **Investment income and taxation payable on behalf of policyholders** – The group's tax rate compared to profits before tax appears high as a result of taxation payable on behalf of policyholders being included in this amount (refer to the investment income discussion as well as note 8 in the full financial statements available online). The normalised results exclude the policyholder tax expense and the related investment income which directly offset this tax expense.

## SUMMARY CONSOLIDATED NORMALISED RESULTS

For the year ended 31 March 2017

### Shareholder performance measures

Rm	Actual 2017	Lease costs	Intan- gibles	Headline adjust- ment	Cell- captive result	Treasury shares	Policy- holder tax	Normal- ised 2017	%	2016
<b>Continuing operations</b>										
Operating income net of direct expenses	3 435							<b>3 435</b>	1	3 395
Operating expenses	(2 502)	<b>26</b>						<b>(2 476)</b>		(2 460)
<b>Profit from operations before non-trading and capital items</b>										
Non-trading and capital items	933	<b>26</b>						<b>959</b>	3	935
Non-trading and capital items	(137)		<b>117</b>		<b>(30)</b>			<b>(50)</b>		(7)
<b>Operating profit</b>		<b>796</b>	<b>26</b>	<b>117</b>	<b>(30)</b>			<b>909</b>	(2)	928
Investment income	178						<b>(22)</b>	<b>156</b>		93
Finance costs	(89)							<b>(89)</b>		(69)
Reported profit/(loss) arising from accounting for policyholder investments in treasury shares	(2)						<b>2</b>			
Share of profit of associates (net of income tax)	4							<b>4</b>		4
<b>Profit before taxation</b>		<b>887</b>	<b>26</b>	<b>117</b>	<b>(30)</b>	<b>2</b>	<b>(22)</b>	<b>980</b>	3	956
Income tax expense	(266)	<b>(7)</b>	<b>(33)</b>		<b>8</b>		<b>22</b>	<b>(276)</b>		(276)
<b>Profit for the year from continuing operations</b>										
Discontinued operations	621	<b>19</b>	<b>84</b>		<b>(22)</b>	<b>2</b>		<b>704</b>	4	680
Discontinued operations	953			<b>(782)</b>				<b>171</b>		270
<b>Profit for the year</b>		<b>1 574</b>	<b>19</b>	<b>84</b>	<b>(782)</b>	<b>(22)</b>	<b>2</b>	<b>875</b>	(8)	950
<i>Attributable to:</i>										
Equity holders	1 465	<b>19</b>	<b>88</b>	<b>(782)</b>	<b>(22)</b>	<b>2</b>		<b>770</b>	(4)	805
Non-controlling interest holders	109		<b>(4)</b>					<b>105</b>	(28)	145
	1 574	<b>19</b>	<b>84</b>	<b>(782)</b>	<b>(22)</b>	<b>2</b>		<b>875</b>	(8)	950
Earnings per share (cents)	114.5							<b>59.3</b>	(4)	61.9
Weighted average number of shares in issue (millions)	1 280						<b>19</b>	<b>1 299</b>		1 299

## INVESTORS | CONTINUED

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### Looking ahead

The group's strategy, Ambition 2022, is focused on helping customers achieve a lifetime of financial well-being and security. This is delivered through a five-pillar strategy supporting the group's vision of becoming a globally distinctive pan-African financial services leader. In summary, the strategy will:

- Leverage our market-leading institutional businesses to drive retail and emerging market growth
- Deliver positive operating leverage with a focus on maintaining cost per member per month by at least 2% below inflation and improving structural and operating efficiency
- Build a strong ecosystem to drive growth with effective strategic partnerships with Mercer and African Rainbow Capital

As part of Ambition 2022 we have defined clear financial targets which we will be working towards over the five-year period:

Metric	Target
Annual revenue growth	8% – 10%
Annual cost growth	7% – 9%
Annual operating profit growth	10% – 12%
Return on equity (ROE)	>14%
Maintain dividend cover at	1.5 times

The completion of two significant transactions – the sale of our share in LCP and the ARC shareholding – has provided us with capital for investments and acquisitions, which will be a key focus in the year ahead. An acquisitions subcommittee of the board has been established to oversee this process and we are considering a pipeline of potential investments.

The group has emerged as a leaner, customer-focused business that is well positioned to create substantial value for shareholders in its next growth phase as a leading financial services group in South Africa and other select emerging markets.





# SOCIETY

We are committed to being a responsible corporate citizen with regard to our community, our society and our environment. Achieving our ambition means working consistently to create sustainable value for all of our stakeholders – those that are directly affected by our business and those that are indirectly affected.

## Performance summary

Indicator	Change	2017	2016	2015
Number of asset managers assessed through MARS	17%	<b>20</b>	17	–
B-BBEE scorecard level	0%	<b>2</b>	2	2
Total CSI expenditure (Rm)	14%	<b>4.3</b>	5.0	4.4
Electricity consumption at head office (KWh)	1%	<b>8 266 929</b>	8 203 799	8 634 176
Water consumption at head office (kL)	7%	<b>43 395</b>	46 783	39 284

## Highlights

- In the latest Principles for Responsible Investment assessment, Alexander Forbes Investments' score for strategy and governance was an 'A' and for listed equity, we achieved an 'A+'.
- We maintained our Level 2 B-BBEE rating
- Over 5 000 disadvantaged people benefited from our community programmes
- Electricity and water consumption will now be better managed within a new group facilities function

## Challenges

- Uncertainty surrounding the gazetting of the new Financial Sector Code makes it difficult to develop and execute long-term transformation strategies
- Transformation, particularly at mid and senior management levels, remains a challenge



## Our performance

Key risks	Mitigating actions
<b>The risk of not responding to and/or implementing regulatory change in a way that will be compliant and that will support the business model or strategy</b>	<ul style="list-style-type: none"> <li>■ New, centralised approach and project management office (PMO) focus on regulatory change</li> <li>■ Centralised PMO planned for roll-out</li> <li>■ Standardised impact assessments and implementation approach</li> </ul>
<b>The risk of not meeting B-BBEE targets and dedicated transformation focus</b>	<ul style="list-style-type: none"> <li>■ Granular, regular monitoring of our performance against EE targets</li> <li>■ Focus on leadership programmes at the relevant levels</li> <li>■ Review of procurement process to enhance responsible buying</li> </ul>
<b>The risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events which gives rise to breaches or loss events</b>	<ul style="list-style-type: none"> <li>■ Completed assessments of major operational risks across the group to support the group's own risk and solvency assessment submission</li> <li>■ Conducted off-site testing of the group's business continuity programme</li> <li>■ Continued the implementation of the group's risk-based anti-money laundering programme</li> <li>■ Refinement of group's regulatory compliance approach and methodologies</li> </ul>

### Investing responsibly

Alexander Forbes views responsible investing as an investment practice that integrates factors that may materially affect the sustainable performance of assets, including those of an environmental, social and governance (ESG) nature. As stewards of our clients' capital, and bound by the Pension Funds Act, Alexander Forbes Investments has a role to play in safeguarding our clients' capital by ensuring that we, as well as the asset managers we select, consider and evaluate the risks and opportunities arising from ESG factors. Responsible investment is a permanent agenda item during monthly investment committee meetings.

- Alexander Forbes Investments is a signatory to the United Nations Principles for Responsible Investment (PRI) and endorses the Code for Responsible Investing in South Africa (CRISA).
- In the latest PRI assessment our score for strategy and governance was an 'A' and for listed equity we achieved an 'A+'. This is the highest attainable rating, achieved by only 10% of the 790 asset managers reporting globally.

Since the start of our responsible investment journey, we have focused on engaging with asset managers who manage equity portfolios in an attempt to understand how they incorporate responsible investment into their processes. We provide asset managers with detailed proxy voting guidelines in line with the requirements of King III, CRISA and PRI.

In 2016 we embarked on a responsible investing due-diligence roadshow, where we met with both equity and fixed income managers, discussing how they consider ESG aspects in their investment processes. This inaugural trip focused on assessing ESG integration across equity investments and in 2017 the scope was broadened to include ESG integration across fixed income investments. During the 2017 roadshow we met with asset managers who collectively manage approximately 94% of our local assets under management.

Outside of due-diligence trips, we require incumbent asset managers to provide evidence of ESG integration in their investment process, examples of material ESG risks within their portfolios and examples of any ESG-related engagements with investee companies during regular report-backs to the broader investment team. We also have ad hoc engagements with our

## SOCIETY | CONTINUED

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incumbent asset managers outside of regular report-backs and due-diligence trips, on any topical issues including those raised in the media. Over the last year our manager research team conducted over 250 report-backs with local asset managers, where ESG considerations were an agenda item.

The research conducted during the due-diligence meetings is a key component in assessing asset managers' approaches to responsible investing and in assigning an ESG rating. The ESG rating assigned is based on the following factors:

- People (ESG application across the investment team)
- Philosophy and process (ESG integration within the investment process)
- Integration of third-party research
- Engagement and activism
- Risk management
- Conviction (in the asset managers' commitment to investing responsibly).

We include this ESG rating as an explicit factor in our Manager Assessment and Ranking System (MARS™) which scores factors such as people, process and philosophy to provide an overall assessment of the quality of an asset manager. We have a MARS I model for each portfolio which spans traditional specialist asset class portfolios, balanced and absolute return multi-asset class portfolios.

In 2017 we also completed our fifth responsible investing questionnaire with a record number of asset managers participating (71 asset managers, in a 60/40 local/global split). Our responsible investing survey, which examines how

managers are progressing in their commitment to incorporating ESG considerations within their investment process, is the only one of its kind in South Africa.

In 2017,  
**20** asset managers  
were assessed through  
MARS (2016: 17).  
This covers asset managers  
representing over **94%**  
of our local assets  
under management  
(2016: 90%).

At the start of 2015 the World Wide Fund for Nature South Africa (WWF-SA) and Investment Solutions, now Alexander Forbes Investments, established a partnership to drive environmental sustainability in investment portfolios and to support the investment industry towards positive environmental impact transformation over the long term.

In 2017 we launched an environmental questionnaire with the intention of enhancing the quality and content of environmental discussions between asset managers and companies. The questionnaire was a step towards building an industry standard that is focused on the E in ESG.

The questionnaire was sent to 14 leading asset managers and we received completed questionnaires from 32 companies. Alexander Forbes Investments and the WWF analysed the information to identify standout environmental risks. The result has been improved alignment and co-ordination in company engagements on key environmental issues.

### Actively practise transformation

Transformation is about more than meeting broad-based black economic empowerment (B-BBEE) regulatory requirements; it is an important aspect of our responsibility to society. We see diversity as an important competitive value proposition and thus take a deliberate approach to developing and recruiting black and female talent, to supporting black business and to empowering previously disadvantaged communities.

Transformation is overseen by the group's social, ethics and transformation (SET) committee. It is a regular feature on the group executive committee's agenda and is included in senior management's performance scorecards.

Alexander Forbes is assessed against the Financial Sector Codes (FSC) and once again achieved a Level 2 in its latest assessment conducted in April 2017. However, an amended FSC is close to being finalised and is expected to be gazetted soon. While we are as yet unsure of the final form of the amended code, the element targets have been increased and it is likely that Alexander Forbes – similarly to most of its peers – will not retain its current empowerment level in its 2018 assessment.

### Gap analysis over two periods

	Target	2017	2016	Variance
Ownership	14 + (3)	16.39	16.24	0.15
Management control	8.00	4.92	6.16	(1.24)
Employment equity	15.00	8.75	9.17	(0.42)
Skills development	10.00	9.04	9.00	0.04
Preferential procurement	16.00	15.55	15.05	(1.07)
Enterprise development	15.00	15.00	15.00	0.00
Socio-economic development	3.00	3.00	3.00	0.00
Access to financial services	14.00	10.79	12.73	(1.94)
Overall score	100.00	87.84	90.89	(4.72)
Empowerment contribution level		2	2	

Level 2 = +85 on the scorecard.

During 2017 the group conducted an independent assessment to gauge how it was performing against (a) the generic B-BBEE Code and (b) the proposed amended FSC. Under the former we were measured at a Level 4 and under the latter a Level 6. This revealed the challenge that lies ahead in terms of empowering our business, but it also showed the areas where we need to focus our transformation efforts: procurement, skills development and consumer education.

#### *Ownership*

Based on the principle of continuing consequences, following our listing we retained an effective verified black ownership of 39%, which grants us maximum points for this element.

Our empowerment equity partners are Shanduka, the Staff Share Trust and the Alexander Forbes Community Trust, the last of which is categorised as a broad-based scheme in terms of the B-BBEE legislation. Collectively, these control a 4.26% shareholding. The trust holds a 0.3% equity stake in the group, translating into shares worth approximately R31 million. Our employee share ownership scheme (ESOP) (see page 63 for more detailed information), which owns an effective 2.9% of the group, is a continued commitment to economically empower black women in line with the B-BBEE scorecard.

During the year under review African Rainbow Capital (ARC) acquired 10% of Alexander Forbes Limited (a wholly-owned subsidiary of the group) as a strategic empowerment partner.

#### *Management control*

The changes to senior management affected the group's management control score, which fell from 6.16 to 4.92. The group intends to take the opportunities presented by turnover at senior levels to appoint black executives.

#### *Employment equity*

For our performance with regards to diversity and inclusion in the workplace, see the employees section, page 60.

#### *Skills development*

We contribute to the fight against youth unemployment through our learnership and internship programmes, which exposed 168 participants to the financial industry in 2017, where they gained work experience and mentorship. One of our focus areas for the year ahead is increasing the absorption rate of these interns.

R32 million spent on skills development for black people, of which:

R19 million benefited black women  
R68 000 benefited employees with disabilities

For more on our efforts to develop our employees, see 'Ensuring continual development', page 65.

## SOCIETY | CONTINUED

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### *Preferential procurement*

During 2017 we launched a campaign to create awareness around preferential procurement. A group guideline in this regard has been shared with employees and all suppliers were informed of our B-BBEE policy. All our suppliers have been strongly encouraged to comply with Alexander Forbes's B-BBEE requirements, particularly with regards to their level of black ownership. Many of our suppliers are now compliant with the group's policy.

Total measured procurement spend	R'000	%	Points achieved
Procurement spend from all suppliers	2 160 291	99	8.00
Procurement spend from QSE or EME	359 761	17	3.00
Procurement spend from 50% black-owned suppliers	257 586	12	2.47
Procurement spend from 30% black-women-owned suppliers	144 417	7	2.08
			15.55

### *Enterprise development*

In 2017 the group continues to be recognised for its investment of R12 million in 2015 into the ASISA Enterprise Development Fund, which will count towards the scorecard for a period of five years.

In addition, as part of the group's enterprise and supplier development initiatives we continue to offer free operational space to eight B-BBEE service providers at our Sandton office and one provider at our Durban office. These enterprises provide goods and services to Alexander Forbes and its employees such as coffee, deli food, dry cleaning and fitness services. In 2017 this equated to R9.4 million in recognised enterprise development support, which is calculated using the equivalent rental and maintenance costs that the providers would ordinarily be charged.

### *Socio-economic development*

Our efforts with regards to socio-economic development are executed through our corporate social investment (CSI) programme. For more detail, see 'Community development through corporate social investment', alongside.

### *Contributing meaningfully towards social protection*

Our aim is to help people attain peace of mind through securing their financial well-being, now and in the future. While we

achieve this primarily through the advice and financial products we provide to our clients, we also extend our impact to support the broader well-being of society.

### *Building financial well-being throughout society*

We pride ourselves on using our knowledge of the financial services sector to positively impact the societies in which we operate. Our strategic partnerships with Mercer and ARC ensure that we remain at the cutting edge of local and global trends and thought leadership in financial services and asset management.

We share this knowledge by publishing our research in an accessible manner. In 2017 approximately 63% of media coverage about Alexander Forbes was assessed as thought leadership. In addition, every year we publish our 'Benefits Barometer' which provides an overview of the employee benefits landscape in South Africa. This year we deliberately wrote and structured the report to be more accessible.

Providing holistic financial solutions to our clients requires that our current and potential clients have sufficient knowledge to make appropriate financial decisions. To ensure this the group holds member education sessions around financial literacy at various institutional clients throughout the year. In 2017 our member education unit delivered 1 259 presentations, reaching 18 722 employees.

### *Community development through corporate social investment*

Our community investment is an important demonstration of our company values and our commitment as a group to building a better South Africa for all. While each business division has a small discretionary budget to sponsor charitable initiatives, group CSI is managed through the Alexander Forbes Community Trust. The six trustees meet twice a year to review activities of the trust and report to the group's SET committee. In addition, trustees conduct two site visits per year to gauge the impact of the CSI programmes.

In 2017 the trust received R4.2 million from the company.

In addition, as a shareholder of the company, the trust received dividends of R1.7 million and over R200 000 in interest income, totalling R5.5 million in income.



- Total spend of **R4.3 million** by the Alexander Forbes Community Trust, including:
  - R2.1 million on In 4 Life
  - R1.5 million on bursaries
  - R0.7 million on employee volunteerism projects and discretionary donations
- 28** beneficiaries received tertiary bursaries
- 8 991** meals served by In 4 Life projects
- 7 385** after-school classes attended across In 4 Life projects

Our flagship programme, In 4 Life, continues to offer support to orphans, vulnerable children and their families from early childhood development through to tertiary education. The programme supports eight non-profit organisations (NPOs) in communities across Gauteng, KwaZulu-Natal, Eastern Cape and Western Cape. Six of these offer day- and after-school care, and two offer disability care. These partners report back to the trust on a quarterly basis through a newly developed web-based reporting system, which assists the group to understand and measure impact, and allows the NPOs better to track their own outcomes and impacts. This system became operational in 2017.

The total number of children supported decreased by 20% year on year because the trust did not allocate funding to Hlengimipilo Primary School in 2017. The trust continues to provide stipends through the In 4 Life community projects, indirectly creating 62 jobs, two more than in 2016.

During 2017 the trust funded 18 students (for the 2016 academic year) studying towards various bachelor's degrees, mainly in commerce, accounting and actuarial science. The trust also partnered with the Maharishi Institute, financially supporting 10 final year students studying Bachelor of Business Administration degrees, bringing the total number of bursaries offered to 28. All 10 students from Maharishi passed at the end of the 2016 academic year, and four were recruited in the group's internship programme. In addition, all 13 In 4 Life interns recruited since 2012 have been offered permanent positions at Alexander Forbes.

	2017	2016	2015	2014
Children	3 607	5 170	5 483	6 063
Adults	1 729*	1 513	1 711	1 582
Total	5 331	6 683	7 194	7 645

\* Including 62 project staff members: administrators and caregivers.

#### In 4 Life Community Programme

1

#### In 4 Life Tertiary Bursary Programme

2

#### Project Capacity-building Programme

3

#### Employee Volunteerism Programme

4

## Alexander Forbes Community Trust

## SOCIETY | CONTINUED

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### Katha Day Care Centre

Katha is a community project that supports and cares for orphans and vulnerable children in Katlehong on the East Rand. It is our biggest CSI beneficiary. The centre offers four programmes:

- **Early childhood development** – foundation stage development interventions for children aged 3 – 6 years.
- **Isibindi safe park** – addresses child- and youth-headed households. Katha cares for children before and after school, provides meals and homework assistance, and offers life skills training and psycho-social support.
- **The drop-in-centre** offers information and a range of supportive community services relating to vulnerable children and poverty alleviation.
- **After-school classes**

The project has been running for 15 years and has grown to a staff of 65, many of whom are trained child and youth care workers.

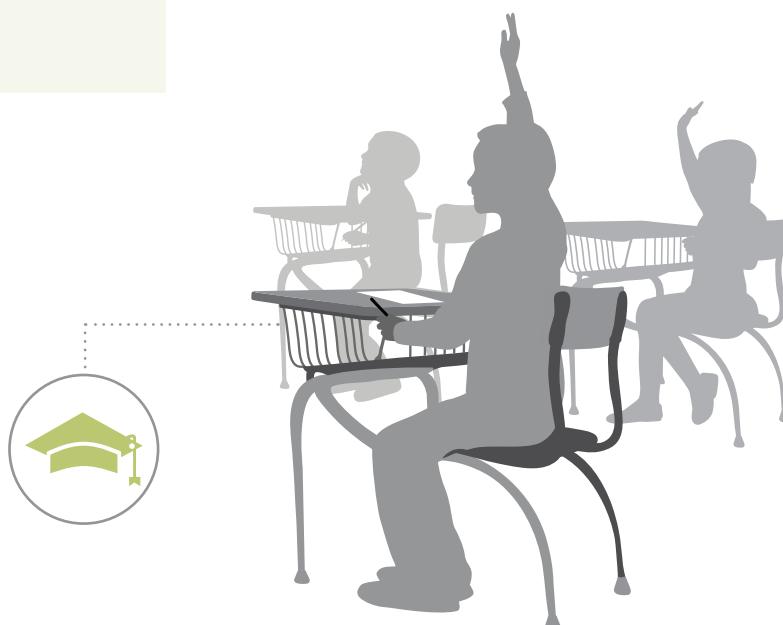
*'Alexander Forbes Community Trust has helped us to transform young minds, ignite the will to perform and create an impact in the community. To date three young Katha beneficiaries have completed their university degrees with the support of Alexander Forbes and have gone on to do internships and join the Alexander Forbes working team as full-time employees. Phambili Alexander Forbes Trust, Phambili.'*

Katse Matsebe, Programme Manager

In addition to financial support, bursars also benefit from mentoring and coaching with Alexander Forbes line managers and quarterly sessions addressing issues affecting youth. We were pleased this year to launch our Junior Board mentorship programme. Unfortunately, due to budget constraints, we were only able to host two In 4 Life bursars for vacation work in June and were not able to launch our job shadowing initiative as planned. We hope to host more vacation students in 2018 and to launch the job shadowing programme.

The #FeesMustFall movement negatively impacted our bursars, resulting in lower pass rates. The average pass rates of our bursary students fell from 90% at the end of 2015 to 61% at the end of 2016. Seven bursary recipients of a total of 18 did not pass their subjects at the end of 2016. Their bursaries have not been renewed, but no penalty has been imposed to pay back the trust. #FeesMustFall protests also resulted in some students not attending lessons and practicums offered by Headway, a beneficiary of the trust.

We encourage Alexander Forbes employees to get involved in supporting community initiatives, including In 4 Life. In 2017 employees at five of our South African offices supported Nelson Mandela Day through donations and community work. We also aimed to host at least one community-related event per quarter, which we achieved. During 2017 these included donating stationery, upgrading the vegetable garden at Katha, and tours to SABC and Volkswagen SA manufacturing plant.



### *Environmental stewardship*

Highlights	Change %	2017	2016	2015
Electricity consumption at head office (KWh)	0.8	<b>8 266 929</b>	8 203 799	8 634 176
Municipal water consumption (head office) (KL)	7	<b>43 395</b>	46 783	39 284
Diesel consumption (generators) – head office (l)	86	<b>9 538</b>	66 726	39 548
Paper consumption – head office (tonnes)		<b>51</b>	–	–
Recycling – head office (kg)	25	<b>22 982</b>	18 422	16 035
Waste to landfill – head office (kg)	36	<b>106 600</b>	165 950	130 851
Data centre's power usage efficiency rating (total energy entering data centre (KW)/total energy used by data centre (KW))	–	<b>1.6</b>	1.6	–

As a service-based business, the group's direct environmental impact is limited. Nonetheless, we strive to make the most efficient use we can of our natural resources. Our greatest impacts lie in the electricity, water and paper consumed in our buildings as well as the general office waste generated.

The four-star green star rating of our Sandton head office by the Green Building Council of South Africa was renewed during the year. Refurbishments during the year to our Durban office has offered electrical and water efficiencies in that building.

This year we began to establish baseline data for the group's water and electricity consumption, using consumption figures from all of our sites. We hope to use this baseline data to define and measure future reduction targets. Measurement of waste production remains limited to our head office. Our consumption trends are consistent, affected mostly by the weather.

South Africa continues to experience extreme water shortages during the year. We are conscious that, as a group, we must do our part in conserving this resource. In this regard, we are

proud that only recycled water is used in the bathrooms at our head office in a full recycle process. In 2017 the group experienced one unfortunate water leak incident at our head office due to a burst pipe. Due to the lack of stop valves on the line a considerable amount of water was lost from the fountains before the leak could be brought under control. This water was replenished with municipal water.

Our electricity consumption remains fairly constant, having dipped significantly only in years when we were affected by load shedding. Our data centre's energy efficiency profile is measured in terms of a power usage efficiency rating. In 2017 it remained at 1.6, well ahead of the industry norm of 3.0. Our head office remains the only site on which we operate a recycling and waste measurement programme. The total volume of recycled waste in 2017 was 107 tonnes.

None of our sites are situated on, or adjacent to, biodiverse habitats and the group received no environmental fines or penalties during the year. None of our sites are covered by recognised environmental management systems.

## SOCIETY | CONTINUED

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### Conducting ethical business

Conducting business ethically and protecting against fraud and corruption is an important component of preserving the trust of our key stakeholders. Our code of ethics and ethics policy are accessible to all employees on the company's intranet. In 2017 we also published an internal ethics awareness training video on the intranet. By year-end 2 300 employees had signed a commitment to the code through our internal e-learning platform.

Our independently managed whistle-blowing programme enables concerned individuals to anonymously report conflicts of interest, fraud and corruption. We ensure that, where appropriate, management makes independent investigations and takes appropriate follow-up action on such reports.

#### Dealing with fraud and corruption

Any business that conducts financial transactions is inherently vulnerable to exploitative behaviour including attempts of fraud, corruption and conflicts of interest and, unfortunately, Alexander Forbes is no exception. In 2017 we experienced:

- **29** instances of crime (2016: 20), mostly relating to theft of assets, such as employee laptops
- **R0.8 million** (2016: R2 million) in total crime exposure
- **R2.9 million** (2016: R1.3 million) incurred losses, of which R2.3 million related to the settlement of an external fraud matter, and was covered by the group's errors and omissions insurance

During 2017 Alexander Forbes focused on acting to close various gaps highlighted in its 2016 financial crimes assessment. This included increasing and centralising the group's forensic capacity. Another financial crimes assessment will be conducted in the coming year.

In 2017 the whistle-blowing line received seven allegations regarding fraud or corruption (the same as in 2016) which were all investigated. In each case the complaint was reviewed and appropriate corrective action was taken. A further 16 reports were made regarding ethical matters, such as diversity, discrimination or misuse of company resources (2016: six).

### Looking ahead

As part of our ongoing commitment to integrating ESG considerations into our investment process, we will be focusing more on including ESG factors when selecting, engaging with and monitoring asset managers in the fixed income space, in addition to the work we are already doing with our managers in the equity space. We have also initiated a number of projects to investigate how we can better report on how asset managers are voting proxies and better engage with asset managers on ESG risks within their portfolios, and look forward to taking these into 2018.

In 2017 our approach to transformation was based on an understanding that the FSC would be aligning to the generic codes and we have planned accordingly. We are looking forward to the publication of the finalised amended FSC so that we will be in a position to formulate a cohesive transformation strategy.

Finally, the group has designed and approved a new property efficiency and renovation plan which will come into effect during the next year. The plan commits the group to reducing its space density and carbon footprint across all divisions, introducing greater technological efficiency into all of its buildings, optimising its real estate and delivering a consistent customer experience through improved service delivery. We have also begun to implement measurements to quantify the group's carbon footprint.



More information available online at

[www.alexanderforbes.co.za/investor-relations/integrated-reports](http://www.alexanderforbes.co.za/investor-relations/integrated-reports)

# ADMINISTRATION

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Images: Getty Images