

ANCHOR GROUP LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 2009/005413/06)

("Anchor" or "the company" or "the group")

ISIN: ZAE000193389

JSE share code: ACG

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

#### HIGHLIGHTS

Top quartile investment performance and compelling longer-term track record.

Assets under management and advice grew by 8% to R49.4 billion (R45.8 billion at 31 December 2016).

Turnover up 21% to R245 million (R202 million to 30 June 2016).

Adjusted HEPS down 39% to 22 cents per share (35.9 cents per share to 30 June 2016).

Comprehensive income for the half year of R53.8 million (R81.2 million to 30 June 2016).

Cash and cash equivalents and short-term investments balance of R198 million (R217 million at 31 December 2016).

#### COMMENTARY

Anchor began managing assets in 2012 and has grown rapidly to reach group-wide AUM ("assets under management and advice") at 30 June 2017 of R49.4 billion, up from R45.8 billion on 31 December 2016. These are primarily private client and retail assets, with recent growth in the corporate and institutional markets.

The asset management subsidiary Anchor Capital Proprietary Limited ("Anchor Capital"), which is the primary business in the group, runs segregated portfolios (both locally and internationally) and has a series of funds in both the Collective Investment Scheme ("CIS") and hedge categories. The long-term strategy of Anchor is to become a major player in South African asset management and allied categories, with an increasing focus on offshore investment. This will be achieved by both organic and acquisitive growth.

#### INTRODUCTION

Anchor took significant steps forward in the first 6 months of 2017, with meaningful asset growth, first quartile investment performance and new initiatives delivering ahead of expectations. This was against a challenging backdrop in South Africa, with slow economic growth, local confidence levels low and investors taking a cautious stance. The much stronger currency also weighed on the market and the combined effect has been a flat local market for the last three years. The All-Share Index was at a lower level on 30 June 2017 than 12 months prior. This has been a difficult operating environment for the investment industry, with activity levels well down on the previous year. Anchor has reacted proactively to this environment, attracting over 500 new high net worth private clients in this reporting period and diversifying income streams and increasing global exposure. Flat markets, lower activity levels, increased costs, a much stronger than average Rand and a change in mix has had a negative impact on margins. In addition, there were performance fees in the first half of last year that were not repeated in the first half of this year. The company is well placed to take advantage of a more positive environment.

## RESULTS

Anchor grew its AUM in the first half of 2017 in difficult market conditions. The total AUM at 30 June 2017 were R49.4 billion (R35.2 billion assets under management and R14.3 billion assets under advice). AUM were up R3.6 billion (+8%) for the first half. Anchor does not own 100% of all of its subsidiaries. If one only includes Anchor's attributable share of assets under management the R35.2 billion reduces to R29.1 billion (up 5.4% on 31 December 2016: R27.6 billion).

Anchor continued growing turnover in the first six months of 2017, but came under operating margin pressure, resulting in a decline in profits for the six month period compared to 30 June 2016. This was primarily due to a reduction in performance fees and the impact of flat market conditions and a strong Rand. The average Rand/USD exchange rate for the period of R13.25 was 13% stronger than the comparative period (R15.16), which negatively impacted Rand turnover. The turnover of the group grew by 21% to R245 million (2015: R202 million) for the half year ended 30 June 2017. The turnover of business consolidated in the prior period decreased, but the inclusion of newly consolidated businesses (Anchor Securities Stockbroking and AG Capital) saw group turnover increase.

The yield on average assets under management (R47.6 billion) for the period was 1.02% (1.01% for year ended 31 December 2016). Anchor continued to attract organic net inflows in excess of R500 million per month.

Costs grew by 60% to R172 million (2016: R108 million). There was a like-for-like cost increase of 6%, with newly consolidated businesses adding the remainder. The margin of these new businesses is expected to increase going forward. The group also continued to invest in new distribution staff and partnerships throughout the country to accelerate future growth; and operations, compliance and system costs to enhance the client experience.

Operating profits declined by 22% to R73 million (2016: R94.3 million). The resultant operating margin was 30% (2016: 47%), with no performance fees for the period.

The share of losses from equity accounted associates was -R0.8 million (2016: R10.4 million). Capricorn Fund Manager's Proprietary Limited ("Capricorn Fund Managers") offshore operations declined in contribution.

Comprehensive Income declined by 34% to R53.8 million (2016: R81.2 million).

Adjusted headline earnings per share declined by 39% to 22 cents (2016: 35.9 cents), with 13% higher average shares in issue.

Adjusted headline earnings are calculated by the group in order to reflect the sustainable cash-equivalent earnings of the group. The adjustment in headline earnings is for amortisation of book purchases, which is as a non-cash flow item. In 2016, we excluded share based-payment expenses, which are an IFRS requirement but are not a cash flow expense. We have restated the published comparative number in 2015 from 34.6 cents per share to 35.9 cents per share to make the numbers comparable.

Shareholders equity grew to R1.09 billion (31 December 2016: R1.08 billion), as a result of the profit generated and the issue of new shares. The net asset value per share is 555 cents. Cash and other liquid instruments were R97 million at 30 June 2017.

## OPERATIONAL REVIEW

Although Anchor is a relatively young business, it has in a short period firmly established itself as one of the leading private client asset managers in South Africa and is investing heavily in growing its institutional business.

Anchor Capital operates in two separate businesses, namely Anchor Asset Management and Anchor Private Clients, with each having their own business leader. Each business has its own focus of delivering to clients and growing into the respective target markets. Anchor-branded CIS assets (8% of AUM) have grown to R3.9 billion (R3.6 billion at 31 December 2016) and total CIS assets to over R13.5 billion.

Anchor Capital has been managing assets for five years and from inception has always invested meaningfully in a high quality investment process, with the backbone of a strong 20+ investment team. The group has 17 CA(SA)'s, 14 CFA charter holders and 14 CFA-candidates. This investment is producing results and the company is developing a very credible track record. The Anchor BCI Equity Fund is in the top performing fund in SA in its category over three and four years (source: Moneymate). Investment performance in 2017 has been pleasing, with local and global equity and managed funds in the top quartile of their CIS categories. The best performance has been in offshore markets in 2017, with the High Street segregated model portfolio up 17.6% in US dollars and the Anchor Global Equity Fund up 17.1% in US dollars.

During the first half the JSE-All Share Index was up 1.9% and the spot Rand/USD exchange rate strengthened by 4.6%, negatively impacting the assets under management held directly offshore (measured in Rands). As Anchor increases in size, so it becomes increasingly sensitive to market returns and exchange rates. To counter this, Anchor is focused on growing annuity revenue streams and increasing the mix of asset classes.

Anchor Capital is focused on growth and the company continues to add new wealth managers and distribution personnel to market its services. Regional offices in Cape Town, Durban and Pretoria are now all at critical mass, supplementing the well-established Johannesburg base. Financial advisor support is strong and the breadth of clients continues to increase. The company continues to develop innovative partnership initiatives to enhance its distribution capabilities.

The SA growth outlook is soft and low levels of confidence have made gathering new assets more difficult, but the group continues to grow assets every month. The broader investment offering, ever-growing investment track record and diversity of businesses, places us well to continue on a growth path.

Portfolio Bureau produced solid growth for the period, AG Capital performed ahead of budget and the new stockbroking business produced a profit in its first full six month period. The contribution from Capricorn Fund Managers was lower than the prior period with a low level of performance fees. The Capricorn Fund Managers investment performance was disappointing in 2016, but fund performance has been positive in 2017 and the company is exploring the launch of a long only global emerging market fund, to leverage off the long term investment performance of an experienced team.

Anchor has a well-articulated strategy of expanding its business through organic and acquisitive growth. The asset management engine is established and the emphasis is on increasing distribution capabilities. In this period it has increased its presence on distribution platforms and developed relationships with new sources of assets under management. Anchor is still a fraction of the size of the large SA asset managers and is targeting many years of growth ahead. Our journey is still in its early days.

## PROSPECTS

Anchor views the financial performance in this period as disappointing, with the operating margin below historic levels. Management is targeting higher margins. In this period the asset base continued to grow and the client experience was a positive one. These factors underpin the future growth prospects of the business. Management is focussed on delivering on key metrics and creating a great long-term business.

The key driver for the business is AUM, which averaged R47.2 billion for the period, with the second half of the financial year beginning with R49.4 billion. The results for the full year will also be influenced by:

- The performance of local and global markets and Anchor's relative performance;
- The exchange rate between the Rand and other currencies (we estimate that the Rand hedge component is approximately 50-60%); and
- An increase in shares in issue. The average shares in issue for 2016 was 178.1 million and the shares in issue at 30 June 2017 was 193.5 million.

A presentation on the results under review is available on [www.anchorgroup.co.za](http://www.anchorgroup.co.za).

### Condensed consolidated statements of comprehensive income

Figures in R' (000)	% change	Unaudited 30-Jun-17	Unaudited 30-Jun-16	Audited 31-Dec-16
Revenue	21%	245 436	202 271	419 331
Operating Expenses	60%	(172 389)	(108 020)	(252 096)
Operating profit	(22%)	73 047	94 251	167 235
Other income		7 082	(2 129)	8 643
Finance costs		(2 465)		(973)
Fair value gain on acquisition of former associate				30 645
Accounting gain/(loss) on acquisition of former associate	(120%)	(587)	2 920	1 661
Share of profits/(loss) from associates	(108%)	(824)	10 401	7 763
Profit before taxation	(28%)	76 253	105 443	214 974
Taxation expense	(10%)	(22 161)	(24 538)	(42 994)
Profit for the six-month period / year	(33%)	54 092	80 905	171 980
Other Comprehensive income				
Net foreign currency translation differences for foreign operation	(228%)	(342)	267	1 159
Total Comprehensive Income for the six-month period / year	(34%)	53 750	81 172	173 139
Total comprehensive income attributable to:				
Owners of the parent	(40%)	36 905	61 371	139 505
Non-controlling interest	(15%)	16 845	19 801	33 634
	(34%)	53 750	81 172	173 139
Profit attributable to:				
Owners of the parent	(39%)	37 247	61 104	138 346
Non-controlling interest	(15%)	16 845	19 801	33 634
	(33%)	54 092	80 905	171 980

Earnings per share (cents)	(46%)	19,3	35,6	77,7
Diluted earnings per share (cents)	(46%)	19,1	35,4	75,9
Headline earnings per share (cents)	(42%)	19,6	33,9	59,5
Diluted headline earnings per share (cents)	(42%)	19,4	33,7	58,1
Adjusted headline earnings per share (cents)	(39%)	22,0	35,9	64,7
Diluted adjusted headline earnings per share (cents)	(39%)	21,8	35,8	63,2
Earnings and headline earnings per share				
Reconciliation of Earnings:				
Earnings attributable to shareholders	(33%)	54 092	80 905	171 980
Non-controlling interest	(15%)	16 845	19 801	33 634
Earnings attributable to ordinary shareholders	(39%)	37 247	61 104	138 346
Gain on bargain purchase of subsidiary	76%		(2 920)	(1 661)
Fair value gain/(loss) on acquisition of former associate		587		(30 645)
Headline earnings attributable to ordinary shareholders	(35%)	37 834	58 184	106 040
Equity settled share option costs	27%	2 928	2 312	5 656
Net Amortisation on Book Purchases Acquired	43%	1 793	1 251	3 578
Adjusted headline earnings attributable to ordinary shareholders	(31%)	42 555	61 747	115 274
Reconciliation of Number of Shares in issue:				
Number of shares in issue	10%	194 436	176 562	193 455
Weighted average number of shares in issue	13%	193 436	171 793	178 120
Share incentives and contingent purchase considerations	(25%)	560	746	4 253
Diluted weighted average number of shares in issue	13%	194 996	172 539	182 373

\* Restated, refer to the results commentary for an explanation of the restatement.

Condensed consolidated statements of financial position

Figures in R' (000)	% Change	Unaudited 30-Jun-17	Unaudited 30-Jun-16	Audited 31-Dec-16
<b>Assets</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment	105%	8 091	3 955	7 806
Goodwill	92%	525 212	274 185	520 710
Intangible assets	78%	80 719	45 423	67 677
Investments in associates	(13%)	310 463	355 446	341 764
Other financial assets		11 998	796	10 744
Deferred tax	356%	1 988	436	2 075
	38%	938 471	680 241	950 776
<b>Current Assets</b>				
Cash and cash equivalents	(54%)	76 838	166 848	78 184
Other financial assets		122 108	19 244	139 837
Trade and other receivables	7%	84 455	78 453	81 602
Current tax receivables	79%	10 096	5 648	6 107
Amounts receivable on stockbroking activities	100%	207 726	-	-
	86%	501 223	270 193	305 730
<b>Total Assets</b>	<b>51%</b>	<b>1 439 694</b>	<b>950 434</b>	<b>1 256 506</b>
<b>Equity and Liabilities</b>				
<b>Equity</b>				
Share Capital	25%	909 010	727 646	904 010
Reserves	4%	7 175	6 884	5 590
Retained income/(loss)	66%	157 755	95 170	149 526
Equity Attributable to Equity Holders of Parent	29%	1 073 940	829 700	1 059 126
Non-controlling interest	(25%)	18 358	24 498	18 365
	28%	1 092 298	854 198	1 077 491
<b>Liabilities</b>				
<b>Non Current Liabilities</b>				
Deferred Tax	91%	23 889	12 476	16 974
Other financial liabilities	6%	35 737	33 830	74 820
	29%	59 626	46 306	91 794
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Trade and other payables	(54%)	17 636	38 664	45 039
Other financial liabilities		41 353	2 680	31 305
Current tax payable	124%	19 256	8 586	10 877
Amounts payable in respect of stockbroking activities	100%	209 525	-	-
	476%	287 770	49 930	87 221
<b>Total Liabilities</b>	<b>261%</b>	<b>347 396</b>	<b>96 236</b>	<b>179 015</b>
<b>Total Equity and Liabilities</b>	<b>51%</b>	<b>1 439 694</b>	<b>950 434</b>	<b>1 256 506</b>
Net asset value per share		565	484	557
Net tangible asset value per share		251	303	250

Condensed consolidated statements of cash flows

Figures in R' (000)	Unaudited 30-Jun-17	Unaudited 30-Jun-16	Audited 31-Dec-16
Cash flows from operating activities			
Cash generated from operations	42 335	50 227	157 260
Interest income	7 082	(4 501)	6 748
Finance costs	2 465		(973)
Tax paid	(22 797)	(32 405)	(85 620)
Net Cash from operating activities	29 085	13 321	77 415
Cash flows from / (utilised in) investing activities			
Purchase of equipment	(285)	(1 675)	(4 121)
Cash inflow on business combination	41 381	37 536	12 254
Proceeds on sale of associate			5 200
Net movement in financial assets	17 728	99 017	(34 444)
Increase in investment in associates	(31 301)	(320 175)	(237 057)
Net Cash from / (utilised in) investing activities	27 523	(185 297)	(258 168)
Cash flows from / (utilised in) financing activities			
Increase in stated share capital/ share capital	5 002	92 400	10 829
Increase/(decrease) in financial liabilities	(16 963)	(1 400)	44 976
Dividend paid	(45 651)	(66 496)	(110 944)
Net Cash from / (utilised in) financing activities	(57 612)	24 504	(55 139)
Total cash and cash equivalents movement for the six-month period / year	(1 004)	(147 472)	(235 892)
Cash and cash equivalents at the beginning of the six-month period / year	78 184	314 487	314 486
Effect of exchange rate movement on cash balances	(342)	(167)	(410)
Total cash and cash equivalents at end of the six-month period / year	76 838	166 848	78 184

Condensed consolidated statement of changes in equity

Figures in R' (000)	Share capital / Stated Capital	Foreign Currency translation reserve	Share based payments reserve	Shares to be issued Reserve	Total Reserves	Retained income / (loss)	Total attributable to equity holders of the group / company	Non-controlling interest	Total equity
Group									
Balance at 01 January 2016	635 946	8	4 580	-	4 588	70 673	711 207	2 423	713 630
Changes in equity									
Issue of shares to acquire subsidiary	91 700						91 700		91 700
Acquisition of subsidiary CFM SA					32 164				32 164
Share based payments			2 037		2 037		2 037	-	2 037
Dividends Paid						(36 607)	(36 607)	(29 889)	(66 496)
Total comprehensive Income for the six month period			-			61 104	61 104	19 801	80 905
Other comprehensive income		259			259		259		259
Total changes	91 700	259	2 037	-	2 296	24 497	118 493	22 076	140 569
Balance at 30 June 2016	727 646	267	6 617	-	6 884	95 170	829 700	24 499	854 199
Issue of shares to acquire subsidiary	176 364						176 364		176 364
Acquisition of subsidiary AG								1 816	1 816
Share based payments			3 619		3 619		3 619	-	3 619
Dividends Paid						(22 886)	(22 886)	(21 562)	(44 448)
Sharebuy back CFM Malta SA				(4 800)	(4800)		(4 800)		(4 800)
Changes in ownership interest control not lost				(1 005)	(1 005)		(1 005)	(220)	(1 225)
Total comprehensive Income for the six month period						77 242	77 242	13 833	91 075
Other comprehensive income		892			892		892		892
Total changes	176 364	892	3 619	(5 805)	(1 294)	54 356	229 426	(6 133)	223 293
Balance at 01 January 2017	904 010	1 159	10 236	(5 805)	5 590	149 526	1 059 126	18 366	1 077 492
Issue of shares during the year	5 000						5 000		5 000
Share based payments			3 086		3 086		3 086	-	3 086
Dividends Paid						(29 018)	(29 018)	(16 633)	(45 651)
Changes in ownership						-	-	(220)	(220)
Total comprehensive Income for the six month period						37 247	37 247	16 845	54 092
Other comprehensive income		(1 501)		(1501)		(1501)			(1 501)
Total changes	5 000	(1 501)	3 086	-	1 585	8 229	14 814	(8)	14 806
Balance at 30 June 2017	909 010	(342)	13 322	(5 805)	7 175	157 755	1 073 940	18 358	1 092 298

Condensed consolidated segmental information (R' 000)

30 June 2017	Anchor Group and other non asset management entities	Anchor Capital and other Asset Management entities	Eliminations	Total
Revenue	6 471	246 906	(7 941)	245 436
Operating expenses	(8 881)	(174 244)	10 736	(172 389)
Operating profit	(2 410)	72 662	2 795	73 047
Other Income	21 797	(1 519)	13 196	7 082
Fair value adjustment associate acquisition	(587)			(587)
Share of profits from associates	(824)		-	(824)
Finance cost		(3 777)	1 312	(2 465)
Profit before tax	18 563	66 779	(9 089)	76 253
30 June 2016	Anchor Group and other non asset management entities	Anchor Capital and other Asset Management entities	Eliminations	Total
Revenue	30 518	200 450	(28 697)	202 274
Operating expenses	(7 520)	(107 247)	6 747	(108 020)
Operating profit	22 998	93 203	(21950)	94 251
Other Income	(8 731)	6 602	-	(2 129)
Share of profits from associates	944	9 457	-	10 401
Bargain Purchase	2 920		-	2 920
Profit before tax	18 131	109 262	(21 950)	105 443

30 June 2017	Anchor Group and other non asset management entities	Anchor Capital and other Asset Management entities	Eliminations	Total
Assets	983 358	657 416	(201 080)	1 439 694
Non Current Assets	874 673	257 103	(193 305)	938 471
Current Assets	108 685	400 313	( 7 775)	501 223
Liabilities	47 662	326 745	(27 011)	347 396
Non Current Liabilities	19 022	61 367	207 381	287 770
Current Liabilities	28 640	265 378	(234 392)	59 626
Equity	935 696	330 671	(59 159)	1 092 298

30 June 2016	Anchor Group and other non asset management entities	Anchor Capital and other Asset Management entities	Eliminations	Total
Assets	795 053	206 477	(51 096)	950 434
Non Current Assets	658 303	80 831	(58 893)	680 241
Current Assets	136 750	125 646	7 797	270 193
Liabilities	40 250	47 923	8 063	96 236
Non Current Liabilities	36 418	2 952	6 936	46 306
Current Liabilities	3 832	44 971	1 127	49 930
Equity	754 803	158 554	(59 159)	854 198

#### BASIS OF PREPARATION AND ACCOUNTING POLICIES

The accounting policies and method of measurement and recognition applied in the preparation of these condensed consolidated unaudited interim results are in terms of International Financial Reporting Standards ("IFRS") and are consistent with those applied in the audited annual financial statements for the year ended 31 December 2016.

These unaudited results are prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in terms of the minimum disclosure requirements set out in International Accounting Standards ("IAS") 34 - Interim Financial Reporting, as well the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act of South Africa.

These unaudited results have been compiled under the supervision of the Financial Director, Omair Khan CA (SA).

The directors are not aware of any matters or circumstances subsequent to 30 June 2017 that require any additional disclosure or adjustment to the financial statements. The interim results have not been reviewed or reported on by the company's auditors.

FAIR VALUE HEIRACHY

The following items in the Statement of Financial Position are carried at fair value through Profit and Loss:

	Level 1	Level 2	Level 3
Non-current Assets			
Other financial assets		11 998	
Current Assets			
Other financial assets		122 108	

Other financial asset are listed and unlisted investments.

At level 3 is an unlisted investment. The significant judgements and assumptions involved in the valuation have not changed since last reported. The value in use was determined by discounting the future cash flows generated from the continuing use and was based on the cash flows that were projected on actual operating results and a 5 year forecast Cash flows beyond this were extrapolated using a constant growth rate of 8%, and discounted using a rate between 15% to 20%.

DIVIDEND AND SHARE REPURCHASE

As stated, the company has a long-term intention of paying out approximately half of its earnings as a dividend as a listed business. Given present circumstances, including the operating conditions and the decline in the share price, the directors are of the view that the best allocation of capital in the short-term is for Anchor to repurchase its own shares. Authority to repurchase shares was given at the last annual general meeting. The company intends to repurchase shares over the next six months and a final decision for a year-end dividend will be made in early 2018.

For and on behalf of the Board

Peter Armitage  
Chief Executive Officer

Mike Teke  
Chairman

15 August 2017

DIRECTORS

Executive Directors: Peter Armitage (Chief Executive Officer), Todd Kaplan (Chief Operating Officer), Omair Khan (Financial Director)

Non-executive directors: Mike Teke (Chairman), Paul Nkuna (Lead independent), Alastair Adams (Independent), Nick Dennis (Independent), Kajal Bissessor (Independent)

There were no changes to the Board of Directors in the period under review.

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DESIGNATED ADVISOR

Java Capital

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