Anchor Group presentation

Results for year ended 31 December 2016

ANCHOR GROUP

What is Anchor Group?

- Listed asset management group intent on becoming a major player on SA and global landscape
- R46bn of assets under management and advice at 31 December 2016
- Core business is Anchor Capital – founding business in Group
- Four successful material acquisitions since listing:
  - RCI (66%) – private client asset management (increased to 74% post year-end)
  - The Portfolio Bureau (50%) – private clients
  - Capricorn (47.4%) – global emerging market hedge fund and long only asset management, March 2016
  - AG Capital (50%) – intermediary prime broker, December 2016
- Offices in Sandton, Durban, Pretoria, Cape Town, London, Mauritius
- 220 staff; >150 degreed across group (17 CA(SA)'s, 12 CFA's, 16 CFA delegates)

Group structure

ANCHOR GROUP

ANCHOR ASSET MANAGEMENT	ANCHOR PRIVATE CLIENTS	ANCHOR STOCKBROKING
+ ANCHOR ASSET MANAGEMENT	+ ANCHOR PRIVATE CLIENTS	+ ANCHOR SECURITIES STOCKBROKERS
+ Capricorn Fund Managers	+ Robert Cowen Investments – Growing families' wealth since 1982	+ AG CAPITAL
	+ Pbi PORTFOLIO BUREAU INVESTMENTS – AUTHORISED FINANCIAL SERVICES PROVIDER	

Financial highlights of 2016

- Assets under management and advice grew by 35% to R45.9 billion (2015: R34.1 billion)
- Operating profit of R167 million, up 108% on prior year
- 93% of profits generated in cash
- Adjusted Headline Earnings up 34% to R115.3 million (2015: R86m)
- Adjusted HEPS up 12% to 64.7 cents per share (2015: 57.7 cents)
- Dividend of 32 cents for the 2016 year (up 18.5%)
- Acquisition of 47.4% of Capricorn Fund Managers ("CFM") in March 2016
- Cash and cash equivalents balance of R169 million
- Anchor BCI Equity Fund number one in category over 3 years to 28 Feb 2017 (*)
- >R10 billion of assets managed offshore
- Average organic group increase in AUM >R500m per month in 2016
- Launch of Stockbroking division

(*) Source: Moneymate

Milestones/achievements in 2016

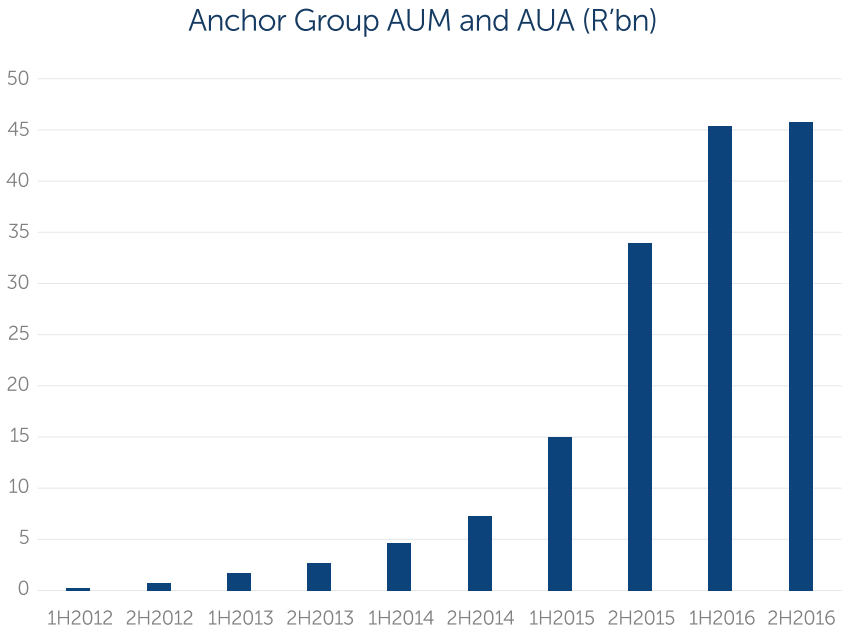
- Concluded Capricorn and AG Capital acquisitions
- Increased stake in Anchor Securities to 100%
- Launched Anchor Stockbroking
- Restructured the business into Private Clients and Asset Management
- Hired +/-15 new client-facing staff
- Launched 7 new unit trusts
- Institutional capability and first material institutional clients
- Grew new fixed income business to well over R1.4 billion
- Made significant headway with IT systems – data warehouse
- Anchor BCI Equity Fund first over 3 years to Feb 2017*
- Grew:

Offshore assets by	18%
Anchor unit trusts assets by	16%
Cape Town assets by	29%
Anchor Securities assets by	51%

- Portfolio Bureau grew profits by more than 40%

* Source: Moneymate

Growth in Assets under Management



- 35% growth for the year to R45.9 billion
- 2016 second half slower as markets and R/$ offset inflows
- Attributable share of AUM (excluding minorities and AUA) of R27.6 billion (2015: R20.9 billion)

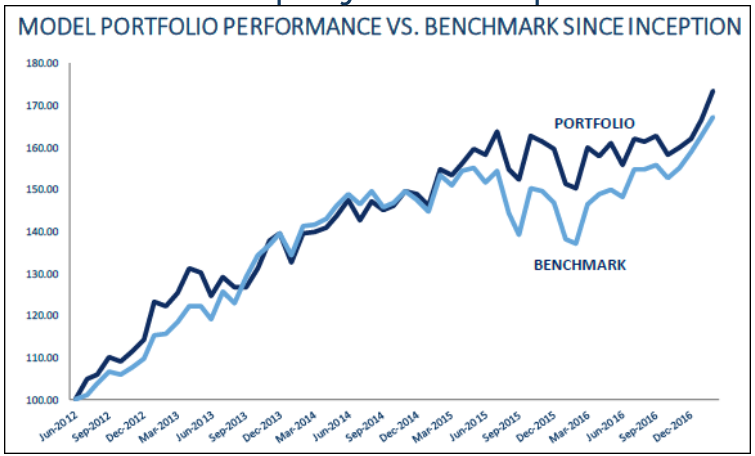
DEC 2016 reconciliation of assets under advice and management

R'bn	YTD growth	YTD growth (R'bn)	End Dec 2016	End Dec 2015
Assets under management	50%	11.3	33.8	22.5
Assets under advice	4%	0.5	12.1	11.6
Total	35%	11.8	**45.9**	**34.1**

ANCHOR GROUP

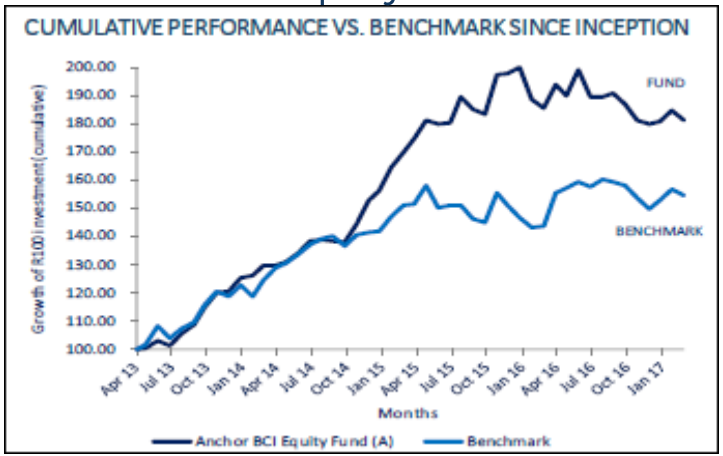
Developing a strong track record

Offshore equity model portfolio



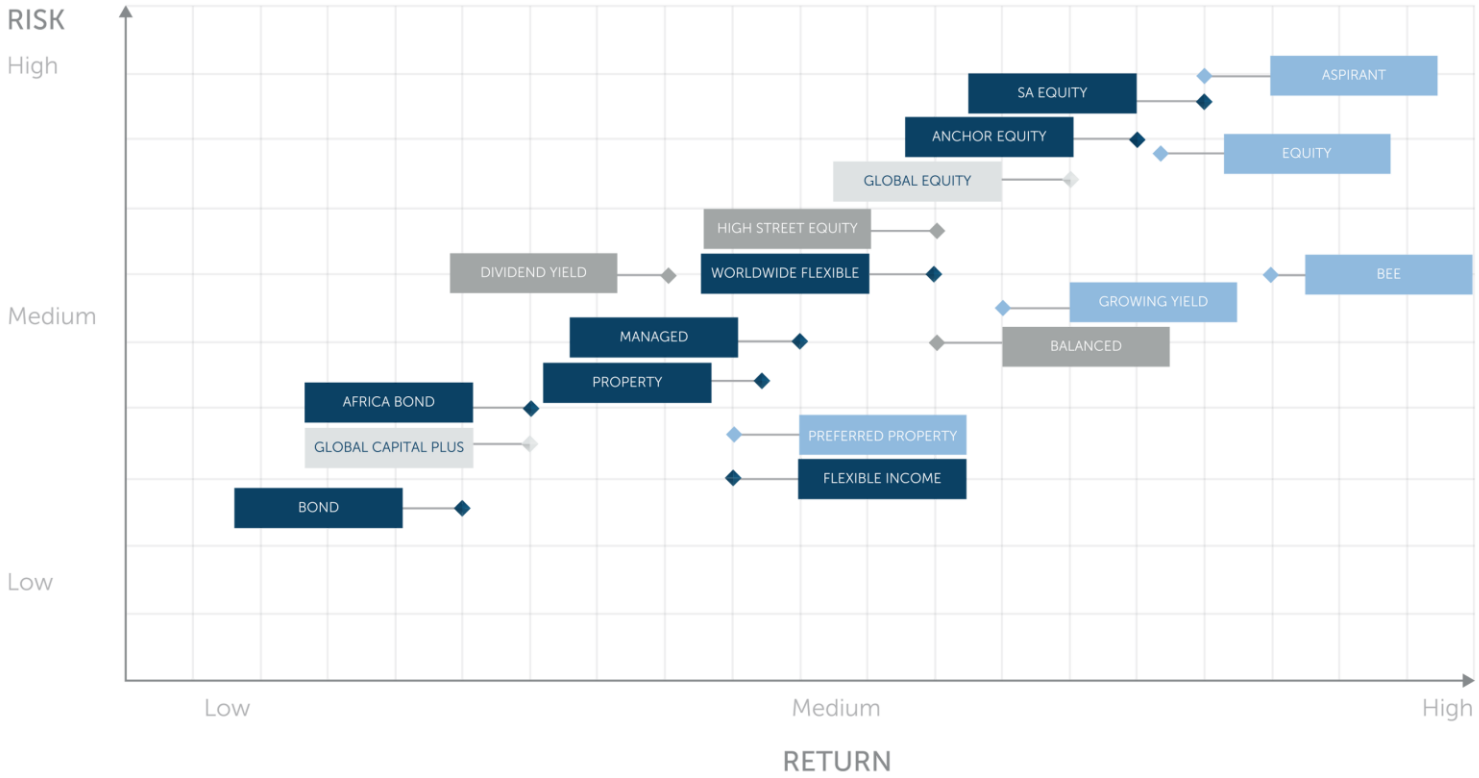
Source: Performance calculated on model portfolio

Anchor BCI Equity Fund



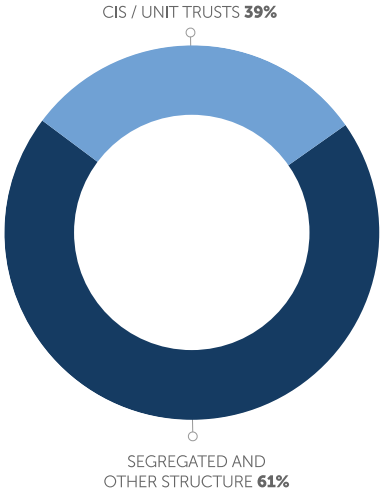
Source: Moneymate

Risk return universe – full range of products

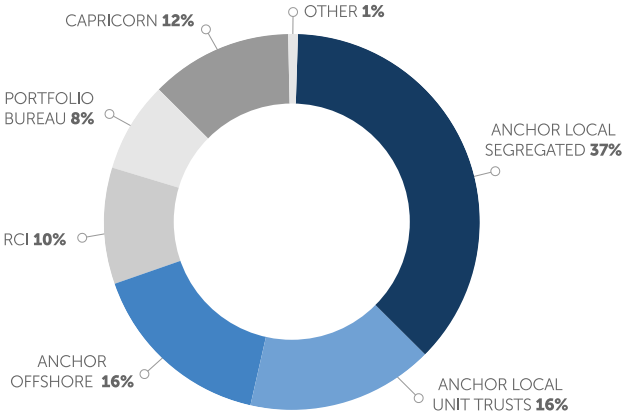


Well diversified asset mix

Structure of group AUM



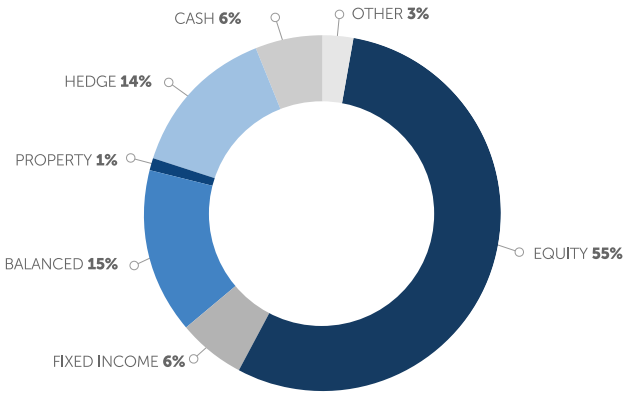
AUM mix excl minorities



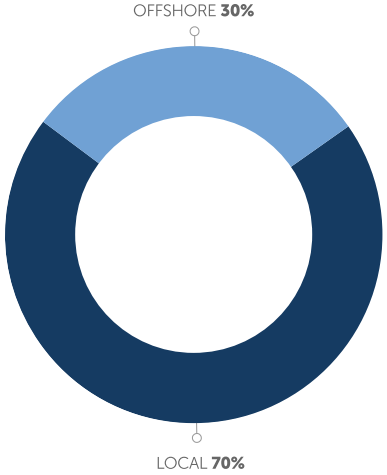
Diversified mix of local, global, balanced, fixed income, equity, cash, hedge
Over R13bn in CIS / unit trust structures

Well diversified asset mix

Group asset classes



Domicile of group AUM



Diversified mix of local, global, balanced, fixed income, equity, cash, hedge

Constantly innovating

- New products and marketing ideas in a competitive market
- Market our Intellectual Capital

ANCHOR SAYS...

VIEWS FROM ACROSS THE ANCHOR GROUP

ANCHOR

MARCH 2017

ANCHOR ASSET MANAGEMENT

Are there attractive stocks on the US market after the recent run. Identify 1-3 shares?

"Other than buying more of IBM in January 2017, I haven't bought any shares in the US this year. Most buying has been in Europe and the UK – primarily Admiral and Royal Dutch Shell. I think Royal Dutch Shell is attractive. There are four reasons – 1) Ben van Beurden has only been CEO for three years – he is an exceptional leader who will drive far higher returns on capital from Shell, 2) the oil price has begun to weaken on worries over surplus oil stocks – forcing oil speculators to reduce bullish positions in the oil markets; 3) the industry has underinvested in new oil discoveries in recent years; 4) and the valuation remains modest and the dividend yield is 7%."

David Gibb, fund manager of the three-year old Anchor BCI Worldwide Flexible Fund

The most interesting sector in the world at present is ....

"...Indian Banks. They truly have the potential to "zig" when everything else "zags". India remains the world's fastest growing major economy, whose long term secular drivers, such as demographics, debt burdens, and productivity improvement potential, all point in the right direction. Its potential to enhance GDP growth through structural reforms is enormous. Almost all other major economies are struggling to correct unsustainable trajectories in these areas. Indian Banks are approaching the end of a severe credit cycle, with the potential to grow their loan portfolios at 20% p.a. for some years to come. As "creatures of the economy," these firms are well positioned to track India's exciting growth story."

Blake Allen, global strategist based in our London office

What do we expect from SA interest rates for the rest of the year?

"Volatility in the fixed interest market subsided slightly in the first quarter of 2017. Yields on the South African benchmark bonds declined from 8.97% to 8.68 with the asset class continuing to perform strongly. For the remainder of the year, we expect a bull flattening move on the SA yield curve (further bond strength) as the Reserve Bank is likely to start cutting interest rates in Q4 2017. This view is based on the following expectations:

- Dollar strength is unlikely to be sustained as the US Fed hiking cycle matures, hence, the stronger Rand will reduce inflation pressures;
- SA's inflation outlook should improve as base effects reduce the impact of oil and last year's drought."

Mpumelelo Kondlo, specialist fixed income analyst

ANCHOR PRIVATE CLIENTS

The most recent share we have added to share portfolios is ...

"Anglo American. The company recently reported a solid earnings figure, with underlying EPS more than doubling to $1.72. Management has guided to the dividend being resumed at the end of 2017 (payable 2018). A U-turn has been made on the strategy/portfolio going forward – Anglo is now happy to keep its bulk commodities (iron ore, manganese, coal and nickel). The company engaged in disposal discussions for several assets throughout the year that ultimately went nowhere. Encouragingly, net debt reduced from $12.9 bn to $8.5 bn and Anglo is targeting net debt below $7.0 bn by year-end 2017. The Gap between spot and consensus earnings (or alternatively P/E) not as striking as near the end of last year, although FCF yield at spot still looks compelling (assisted by low capex). We have reduced our weighting in Anglo American but continue to have exposure due to high commodity prices and strong FCF yields."

Darryl Hannington, head of portfolio management

Should clients take money offshore at this exchange rate?

"Less than a year ago the USD was R16.85 and the Pound R24.38 so the current 30% appreciation of the Rand would suggest that it makes absolute sense to externalise funds. That is if the only consideration is the exchange rate. Investment is, however, not a one dimensional discipline and a number of factors need to be taken into account before taking the plunge. The appropriate asset allocation, political risk, valuations of offshore assets and the diversification opportunities offered by the much larger universe are only some of the considerations. If you are comfortable with the responses to these questions (and any others that may be necessary), then take some money offshore, but not all of it. Chartists see the Rand appreciating, so externalise your funds over time as we may be astounded at how strong the Rand becomes."

Chris Cornell, portfolio manager with more than 30 years of experience

What asset allocation would you employ with R100 of new investment?

"Assuming a private client with a balanced long term investment horizon, the following asset allocation would be appropriate. This approach would be suitable for clients looking for a balance between income and real capital growth. The levels of market risk and volatility are considered average. The client's neutral investment portfolio would ultimately be as follows: Equity – 50%; Listed property – 15%; Fixed Income – 15%; Cash – 15%; Alternatives (equity) – 5%. The neutral allocation refers to the at benchmark weightings. During periods of market outperformance expectations, one would expect to have higher weightings to high growth asset classes like equity and property in relation to fixed income and cash and vice-versa."

Paul Patterson, portfolio manager and head of our Durban office

Note: These are the personal views of a selection of our investment professionals. Anchor Capital runs a disciplined investment process and has a house view. However, portfolio managers are given a degree of discretion in personalised portfolios and we encourage vigorous debate. Hence the views of individuals may not necessarily be in line with the house view. Anchor Capital is an authorised financial services provider FSP # 39834 Reg # 2009/002925/07. Anchor Capital is part of the Anchor Group.

UNLIMITED TAX-FREE INVESTMENT*

ANCHOR

Hollard. investments

In partnership with **Hollard**, we're offering a Linked Endowment that allows you to access every Anchor investment product, at a **0% tax rate***

LOCAL SHARE PORTFOLIOS | OFFSHORE SHARE PORTFOLIOS | UNIT TRUSTS | HEDGE FUNDS | FIXED INCOME FUNDS

AT A **0%** TAX RATE*

The Hollard Linked Endowment is subject to taxation according to the "Four Funds" tax method applicable to South African Long Term Insurers, according to section 29A of the Income Tax Act of 1962. Hollard offers reduced tax recovery charges to investors by using our assessed tax loss. This advertisement does not constitute tax, legal or accounting advice. Potential investors should seek their own legal and tax advice where required.

MATERIALLY ENHANCE YOUR **AFTER-TAX RETURNS**

WHY ANCHOR?

One of SA's **top private wealth managers** with a complete range of investment options

R46 billion of assets under management and advice

JSE Listed on the JSE

WHY HOLLARD?

As SA's largest privately owned insurance group Hollard brings a **healthy balance sheet** with a capital adequacy ratio of 3.7

5 Million clients

Assets exceed R26 billion

PRODUCT FEATURES

- Create multiple policies for added **liquidity**
- Enjoy the freedom of an **open-ended endowment** – no fixed term
- **Eligible investors** include natural persons and trusts (where beneficiaries are natural persons)
- **Estate planning** made simple: no executor's fees (normally 3.99%)

CONTACT US TODAY

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Anchor Capital is an authorised Financial Services Provider FSB # 39834

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LINKED ENDOWMENT FEE

0,99% p.a.

Minimum investment of R100 000

Linked endowment fee excludes any investment management and advice fees.
* Dividend Withholding Tax remains at 20%

Collective Investment Schemes (CIS) in securities are generally medium to long term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to the future. All CIS are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request. Forward pricing is used. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. The Manager reserves the right to close and reopen certain portfolios from time to time in order to manage them more efficiently. This document should not be seen as an offer to purchase any specific product and is not to be construed as advice or guidance in any form whatsoever. Investors are encouraged to obtain independent professional investment and taxation advice.

An incredible platform to grow

- A recognised, powerful brand – presenting with the big players
- An incredible team
- Established investment team
- 18 unit trusts covering all asset classes
- Over 5,000 clients
- Strong presence in IFA market
- Top 5 investment performance (over three years)
- Tremendous work to establish institutional presence
- Around 45 quality individuals who bring in assets
- Diversified group – lots of growth engines

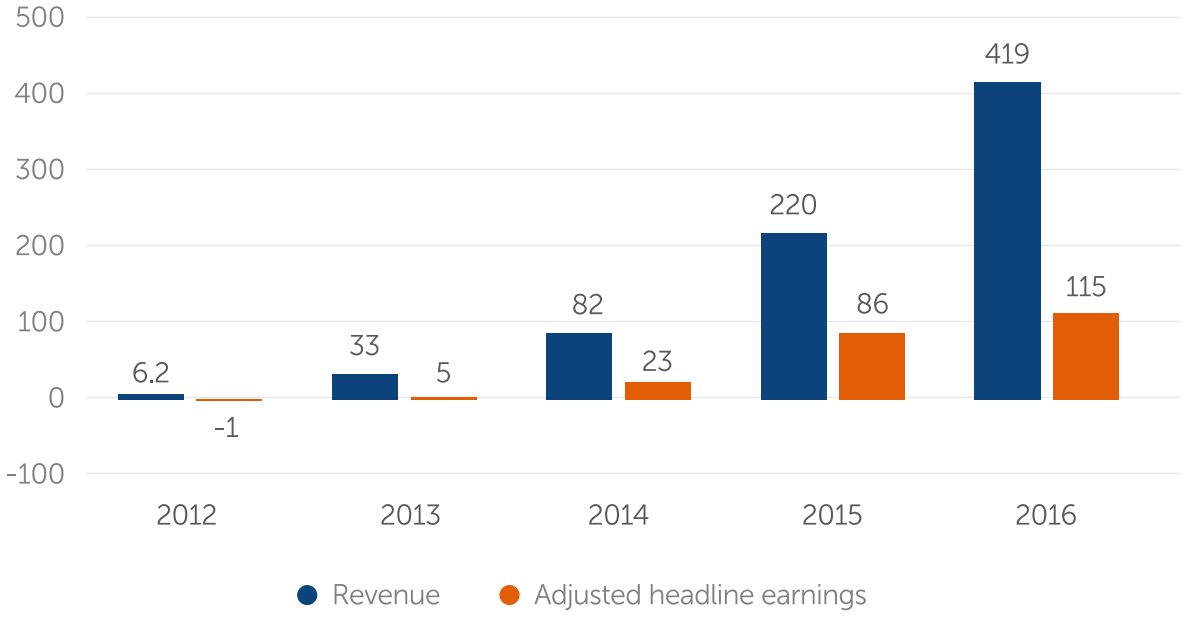
INCOME STATEMENT

Figures in R'000	% change	Audited 31-Dec-16	Audited 31-Dec-15
Revenue	85%	419 331	226 347
Operating Expenses	73%	-252 096	-145 991
Operating profit	**108%**	**167 235**	**80 356**
Total Comprehensive Income	**106%**	**173 139**	**84 250**
Adjusted headline earnings attributable to ordinary shareholders	**34%**	**115 274**	**85 979**
Earnings per share (cents)	41%	77,7	55,1
Headline earnings per share (cents)	8%	59,5	55,1
Adjusted headline earnings per share (cents)	12%	64,7	57,7
Diluted adjusted headline earnings per share (cents)	11%	63,2	57,1
Operating margin		40.0%	35.5%
Normalised tax rate		24.3%	27.8%
Yield on average assets (%)		1.01	1.06
Number of shares in issue	16%	193 455	166 163
Weighted average number of shares in issue	20%	178 120	148 967

Features of 2016 operating performance

- Strong growth in turnover (85%) and adjusted headline earnings (34%)
- Costs grew by 73%, due to new businesses and a combination of inclusion of the cost base of acquisitions and an increase in system and compliance costs to better serve clients.
- Tough conditions to grow
  - Rand strengthened from R15.47 to R13.74 to US$
  - Low single digit returns from local and global markets
  - Fund performances mediocre for 6-month period (longer term performance in top 10%)
- Positively impacted by inclusion of Capricorn for 10 months
- Operating margin of 40% (2015: 35.5%) results in strong cash generation
- 93% of operating profits generated in cash (2015: 87%)
- Other income down from R36.5m to R8.6m
  - negative return on balance sheet capital was a drag on growth – Anchor has seeded a range of unit trusts which produced a combined negative return for the reporting period (primarily due to offshore investment component, with Rand strengthening). This impacted HEPS by around 10c relative to budget.

Income statement progression (R'm)



ANCHOR GROUP

BALANCE SHEET

Figures in R'000	% Change	Audited 31-Dec-16	Audited 31-Dec-15
Assets			
Non-Current Assets			
Equipment	103%	7 806	3 847
Goodwill	81%	520 710	288 440
Intangible assets	109%	67 677	32 402
Investments in associates		341 764	30 716
Other		12 819	844
	167%	**950 776**	**356 249**
Current Assets			
Current tax receivable	49%	6 107	4 093
Cash and cash equivalents	-75%	78 184	314 487
Other financial assets	-21%	139 837	115 341
Trade and other receivables	89%	81 602	43 237
	-35%	**305 730**	**477 158**
Total Assets	51%	**1 256 506**	**833 407**
Equity			
Total Equity	50%	**1 072 491**	**713 629**
Liabilities			
Non Current Liabilities	54%	**91 794**	**59 610**
Current Liabilities	53%	**87 221**	**60 168**
Total Liabilities	53%	**179 015**	**119 778**
Total Equity and Liabilities	51%	**1 256 506**	**833 407**
Net asset value per share (cents)		557	429
Net tangible asset value per share (cents)		250	236

Other business partners

- Purchased 66% of RCI in June 2015
  - Purchased another 8% in March 2017
- High quality family office business
- Grown meaningfully since purchase

- Purchased 50% of The Portfolio Bureau in November 2015
- Quality business and big player in Cape Town
- Materially exceeded budgets since acquisitions

- AUM grown materially since acquisition
- Difficult year in 2016, offshore fund return poor, but 14-year strong track record
- Grown team to develop emerging market products

New stockbroking division

- Granted JSE-stockbroking licence in September 2016
- Natural opportunity to provide private client business with platform
- Invested in high quality team with niche focus on property franchise
- Acquired 50% of AG Capital, an intermediary prime broker
  - Platform business providing services to over 100 traders, majority of revenue is brokerage
  - Great synergies with group
  - Expected to exceed profit warranty
- Turnover of division expected to exceed R60m in 2017
- Immaterial in 2016

Attractions of business and model

- Business has built-in "inflation" of 10-15% per annum, on average
- Virtually all profits in cash, virtually no working capital
- Simple business
  - Expenses 70% rent and staff
- Around 50-60% Rand hedge
- Very little fixed investment required
- Fixed costs now in place
  - Some step-up with growth, but in principle only sales and PM costs (direct revenue drivers) will be added
- Business model has 45-50% operating margin, already at 40%
- Largely annuity earnings, +/-15% of assets have performance fees
- Sticky, diversified base which will be resilient to market fluctuations

The basic model

Assets R'm	4,000	6,000	8,000	10,000	15,000
Yield	1,20%	1,15%	1,10%	1,05%	1,00%
TO	48	69	88	105	150
Margin	40,0%	42,0%	45,0%	47,5%	50,0%
Op Profit	19,2	28,9	39,6	49.8	75
PAT	15,7	23,8	32,5	40,9	61,5

Turnover	100
Fixed costs	30
Margin	80
Incentives	21
Profit margin	49

Growth drivers and opportunities for 2017

- Growing one year older – natural growth in client base and assets
- Unified, energised private client business
- Durban making good profit
- Anchor Stockbroking
- Hedge fund performance fees and CIS
- New established portfolio managers
- Penetrating institutional market
- Top 50 client programme
- New mid-cap fund (?)
- New acquisitions – AG Capital
- Targeted offshore acquisition – have looked at some opportunities
- Partnerships

Challenges and issues

- As we get bigger, we don't want to become a bureaucracy
- Bigger asset base makes us more sensitive to market moves and currency
- Markets / performance constrained us in 2016
- Poor return on balance sheet seeding investments in 2016
- Assets need to grow faster than costs
- A strong currency and potential flat market in 2017 (not our house view)
- Astoria has lagged its underlying value – (we are the asset manager)
- Size makes maintaining culture harder
- Systems … always developing
- RDR – to be implemented over next three years
    - We do not anticipate a material impact
    - We might need to adapt certain aspects of business
    - We are nimble and this presents opportunities

Taking stock … what the future holds

- We are well on track to build the dream the founders had 5 years ago
- We have a high quality, motivated 220-strong team that continues to build trust with clients
- We have a skilled and established investment team and process
  - 20-strong investment team
- We have a well diversified range of local and global investments
  - Looking to build emerging market franchise and invest offshore
- We have consistently raised material new assets for 5 years
  - Average new assets of +/-R6bn per year for last 3 years
- As we get bigger we become more sensitive to market returns
  - 1% market move = +/-R1.4m to PAT
- Hence … organic growth prospects look promising, with leverage to markets (up and down)
- We will look to add further value by synergistic acquisitions and new innovations

2017 earnings driven by …

The key driver for the business is assets under management, which averaged R40 billion for the 2016 financial year. The 2017 financial year began with R45.6 billion of assets under management. The results for the forthcoming year will also be influenced by:

- The performance of local and global markets and Anchor's relative performance;
- The impact on assets under management from a larger distribution force;
- The exchange rate between the Rand and other currencies (we estimate across the business, including Capricorn Fund Managers, that the Rand hedge component is approximately 50-60%);
- The growth of the new stockbroking division, and
- An increase in shares in issue. The average shares in issue for 2016 were 178.1 million and the starting shares in issue at 1 January 2017 are 193.5 million.

So far in 2017 asset flows have been consistent, the SA market has seen small positive returns and while the currency has strengthened, this has been offset by returns on global markets.

STRATEGY-INVESTMENT & DISTRIBUTION

- To build a world-class investment product range across asset classes and geographies,
- To build distribution capacity and capability to generate growth in assets under management

STRATEGY 1

To build a world-class investment product range across asset classes and geographies

- Investment team complete – >20 investment professionals
- Organically and by acquisition
- Complete CIS (unit trust) product range
- Fixed Income team (started 1 September 2015)
- Hedge fund critical mass (now 12% of assets) to take advantage of new regulations and next phase of industry growth
- Globalise – businesses in Mauritius and London (target 30-40% of earnings international by end 2017)

"These initiatives are complete and the focus is now to leverage off this product offering by increasing assets under management. Any further acquisitions will focus on local distribution, offshore or allied categories."

STRATEGY 1

CIS (unit trust) product range

Over R3.6 billion of Anchor assets

Over R13 billion of group assets

FUNDS > 1 year	RECENTLY LAUNCHED
Anchor BCI Equity	Anchor Bond
Anchor BCI SA Equity	Anchor Africa Flexible Income
Anchor BCI Managed	Anchor Diversified x 3
Anchor BCI Worldwide Flexible	
Anchor BCI Flexible Income	
Anchor BCI Property	
Anchor BCI Global Equity feeder fund	
Anchor BCI Global Capital Plus feeder fund	
Various restricted funds	

STRATEGY 2

To build distribution capacity and capability to generate growth in AUM

Perform and wait

Marketing to traditional channels who outsource the asset management function to third party asset managers. This includes financial advisors, institutional investors, multi-managers and fund-of-funds. We continue to add high quality personnel to this pursuit.

Go and gather

Marketing directly to clients, primarily in the private client/wealth space. We continue to employ individuals who can attract assets and have over 45 individuals who sign on clients. We will also pursue partnerships and acquisitions of businesses which have a distribution capability and existing client base. This strategy will prevail well beyond this financial year, although it is our intention to expand materially this year.

BUSINESS STRUCTURE IN PICTURES

FULLY FLEDGED ASSET MANAGEMENT ENGINE ACROSS ALL ASSET CLASSES AND VARIOUS GEOGRAPHIC TERRITORIES

ANCHOR ASSET MANAGEMENT ENGINE

SA EQUITY	SA INCOME	SA HEDGE	OFFSHORE
Anchor Capital RCI CFM	New team, > R1bn AUM	CFM Anchor Capital	Anchor Capital Astoria CFM AN Other?

* Dominated by Anchor Capital

PERFORM AND WAIT

- Unit trusts on platforms
- Multi-managers
- Asset consultants
- Small pension funds
- Broker consultants
- Other marketing

GO AND GATHER

- 20 sales/PM's
- RCI
- Portfolio Bureau
- Astoria
- Hirsch & Colley
- New relationships

ANCHOR ASSET MANAGEMENT ENGINE

SA EQUITY	SA INCOME	SA HEDGE	OFFSHORE
Anchor Capital RCI CFM	New team, > R1bn AUM	CFM Anchor Capital	Anchor Capital Astoria CFM AN Other?

Anchor Financial Services providing pivotal role in distribution

THANK YOU