

ANNEXURE 1: INDEPENDENT EXPERT REPORT

13 November 2020

PRIVATE AND CONFIDENTIAL

The Independent Directors
Anchor Group Limited
25 Culross Road
Bryanston
Sandton
2191

INDEPENDENT EXPERT REPORT REGARDING THE SCHEME OF ARRANGEMENT (THE “SCHEME”) TO BE PROPOSED BY THE BOARD OF DIRECTORS OF ANCHOR GROUP LIMITED (“ANCHOR” OR THE “COMPANY”) BETWEEN ANCHOR AND ITS SHAREHOLDERS (THE “TRANSACTION” OR “SCHEME”) TO ACQUIRE ALL OR A PORTION OF THE ISSUED SHARE CAPITAL OF ANCHOR FOR A CASH CONSIDERATION OF R4.25 AND THE COMPARABLE OFFER TO BE MADE TO SHARE INCENTIVE SCHEME PARTICIPANTS HOLDING UNEXERCISED, VESTED SHARE OPTIONS IN TERMS OF THE SHARE INCENTIVE SCHEME WITH AN EXERCISE PRICE OF LESS THAN R4.25 PER SHARE AND WHO HAVE ELECTED NOT TO WAIVE THEIR RIGHT TO A COMPARABLE OFFER IN TERMS OF SECTION 125(2) OF THE COMPANIES ACT

Capitalised terms contained herein shall bear the meanings ascribed thereto in the circular to Anchor shareholders dated on or about 16 November 2020, unless otherwise defined herein.

Dear Independent Directors,

1. Introduction

In an announcement published by Anchor on the Stock Exchange News Service of the Johannesburg Stock Exchange (“SENS”) on Friday, 13 November 2020 (the “Announcement”), holders of ordinary shares in the issued share capital of Anchor (“Anchor Shares” or “Shares”) were advised that the Board of directors of Anchor (“the Board”) had proposed a scheme of arrangement between Anchor and its shareholders (the “Shareholders”) in terms of which, the Shareholders will be entitled to elect that all or some of their Shares are repurchased for a cash consideration of R4.25 per Scheme Share (the “Scheme Consideration”), or that they elect to retain all or some of their Shares, and failing election shall be deemed to have elected that all of their Shares are repurchased for a cash consideration of R4.25 per Scheme Share.

Following implementation of the Scheme and the Delisting Resolution being approved by Shareholders Anchor will be delisted from the JSE Limited (“JSE”).

The Scheme will be implemented with reference to paragraphs 1.14 to 1.16 of the JSE Listings Requirements and in terms of section 114(1)(e), read with section 115 of the Companies Act 71 of 2008 (“the Companies Act”), to be proposed by the Anchor Board of directors between Anchor and Anchor shareholders (the “Scheme Participants”), at the Scheme Consideration and upon the terms and subject to the conditions set out in the circular to Anchor shareholders to be dated on or about 16 November 2020 (the “Circular”) which will include a copy of this Independent Expert Report.

Anchor Shares forming the subject matter of the Scheme are collectively referred to as the “Scheme Shares”.

Subject to the Scheme becoming operative and the Delisting approved by shareholders, Capricorn Capital Partners Investments Proprietary Limited (“CCPI”) and Masimong Group Holdings Proprietary Limited (“Masimong”) have undertaken to subscribe for additional shares in Anchor to partially settle the bridge loan to be raised by Anchor to fund the Scheme Consideration. In the interest of good governance, CCPI, Masimong and Michael Teke will not vote on the Scheme. The salient terms of the Masimong and CCPI subscription and the bridge loan have been set out in paragraph 8 of the Circular.

As at the date of this Independent Expert Report, the share capital of the Company comprises the following:

- Authorised share capital comprising 1 000 000 000 Anchor Shares;
- Issued share capital comprising 217 386 093 Anchor Shares; and
- 4 753 181 Treasury Shares.

The material interests of the directors of Anchor are set out in paragraph 17.3.1 of the Circular and the effect of the Scheme on those interests are set out in section 17.3.3 of the Circular.

2. Scope

The Scheme will constitute an “affected transaction” as defined in section 117(1)(c)(iii) of the Companies Act. It will be implemented in accordance with the Companies Act and the Companies Regulations, 2011 (the “Regulations”) and will be regulated by the Takeover Regulation Panel (“TRP”).

An Independent Expert Report is required to be obtained by the Independent Board of Anchor (the “Independent Board”) to express an opinion, dealing with the matters set out in sections 114 of the Companies Act and regulations 90 and 110 (1) of the Regulations, on whether the terms and conditions of the Scheme are fair and reasonable to Anchor shareholders (“Fair and Reasonable Opinion”). The Independent Expert must meet all the requirements of section 114(2) of the Act.

In addition, in terms of paragraph 1.15(d) as read with Schedule 5 of the JSE Listings Requirements the board of directors of Anchor is required to appoint an independent expert to provide a fairness opinion with regard to the fairness of the Scheme (“Fairness Opinion”).

DG Capital Proprietary Limited (“DG Capital”) has been appointed by the Independent Board as the independent expert to advise, in accordance with the Companies Act on whether the terms of the Scheme are fair and reasonable as far as the Anchor Shareholders and the Share Incentive Scheme Participants are concerned and by the Anchor Board as the independent expert to provide the Fairness Opinion.

The Fair and Reasonable Opinion and the Fairness Opinion are collectively referred to as the “Independent Expert Report” or “Opinion”.

3. Responsibility

Compliance with the JSE Listings Requirements, the Companies Act and the Regulations is the responsibility of the directors of the Company. DG Capital’s responsibility is to report on the terms and conditions of the Scheme as they relate to the Anchor Shareholders.

We confirm that our Independent Expert Report has been provided to the Independent Board for the sole purpose of assisting the Independent Board in forming and expressing an opinion with regard to the Scheme for the benefit of the Anchor Shareholders and the Share Incentive Scheme Participants.

We understand that the Independent Expert Report will be used by the Independent Board and the Board to satisfy the requirements of the Companies Act and the Regulations and the JSE Listings Requirements.

4. Definition of the terms “fair” and “reasonable”

The “fairness” of a transaction is based on quantitative considerations. A transaction may be said to be fair if benefits received by shareholders, as a result of a transaction, are equal to or greater than the value ceded by shareholders.

In the Transaction, the Scheme would be considered “fair” if the Scheme Consideration is greater than or equal to the fair value of one Anchor share or unfair if the Scheme Consideration is less than the value of one Anchor share.

The “reasonableness” of a transaction is based on both quantitative and qualitative considerations. The terms of the Scheme will be considered reasonable if the Scheme Consideration is greater than the market price of the Company’s securities at the time that the corporate action was announced. In addition, other qualitative considerations may be taken into account when considering the reasonableness of the terms of the Scheme. Therefore, even though the Scheme Consideration may differ to the market price of the Company’s securities, the Scheme may still be considered “reasonable” after considering other significant qualitative factors.

This Independent Expert Report does not purport to cater for an individual Anchor Shareholder’s position but rather the general body of Anchor Shareholders being asked to vote in favour of the Scheme. An Anchor Shareholder’s decision in this regard may be influenced by their particular circumstances (for example taxation and the original price paid for the shares).

5. Sources of information

In arriving at our Opinion, we have relied on information from the following sources:

- We obtained an understanding of the terms and conditions of the Scheme as set out in the Announcement, the Circular and Anchor Presentations;
- The audited and unaudited draft financial information of Anchor and its subsidiary companies (“Group”) comprising the annual financial statements for the years ended 31 December 2019, 2018 and 2017;
- The unaudited interim financial results of Anchor for the six months ended 30 June 2020;
- The Anchor management accounts for the 8 months ending 30 August 2020;
- Forecast financial information for Group for the financial years ending 31 December 2020 to 31 December 2025 as provided by Anchor management;
- Discussions with Anchor management regarding the historic and forecast financial information;
- Discussions with Anchor management and its advisors on prevailing market, economic, legal and other conditions which may affect underlying value;
- Publicly available information relating to Anchor that we deemed to be relevant, including Company announcements, analysts’ reports and media articles;
- The Anchor Shares 30, 60 and 90 day VWAP as at Thursday 12 November 2020, being the date preceding the date of the Announcement;
- Publicly available information relating to industries and companies that we deemed relevant and comparable; and
- Information and assumptions made available by and discussions held with the directors, the Independent Board, management of the Company and their advisors.

Where practical, we have verified the reasonability of the information provided to us for the purpose of supporting our Opinion, whether in writing or obtained through discussions with the directors and management of Anchor and its advisors. Where possible, such information has been substantiated by reference to supporting documentation and other corroborating evidence.

Whilst our work has involved an analysis of the financial information, as provided to us, our engagement does not constitute, nor does it include an audit or review in accordance with International Standards on Auditing. We have not and we do not assume responsibility or liability for such information.

6. Procedures

In arriving at our Opinion, we have, amongst others, undertaken the following procedures in evaluating the fair and reasonableness of the Scheme:

- Considered the rationale for the Scheme, as represented by Anchor management and set out in the Circular;

- Reviewed the terms and conditions of the Scheme as set out in the Announcement and the Circular;
- Held discussions with Anchor management on the prospects of the underlying businesses within the Group;
- Reviewed the Anchor presentation with regard to the Transaction prepared by Anchor management and their advisors;
- Reviewed publicly available information relating to Anchor that we have deemed relevant;
- Reviewed and analysed the historic financial information of Anchor;
- Reviewed and analysed the Group management accounts, budget and forecast financial information for the Group for the financial years ending 31 December 2020 to 31 December 2025. In this regard, we assessed the forecast trends in line with historical performance as well as held discussions with management to assess the reasonableness of the assumptions applied in the forecast;
- Compiled forecast free cash flows for each of Anchor's underlying operations by using the historic and forecast financial information as detailed above and applied DG Capital's assumptions of weighted average cost of capital ("WACC") to the forecast cash flows to produce discounted cash flow ("DCF") valuations for each of Anchor's underlying operations;
- Performed sensitivity analyses on key assumptions included in the DCF valuations;
- Compiled forecast cash flows for Anchor's head office costs by using historic and forecast information provided by Anchor management and applied DG Capital's assumptions on working capital requirements, regulatory capital requirements and cost of capital;
- Aggregated the valuations of Anchor's subsidiary and associate companies and head office to determine a sum-of-the-parts ("SOTP") valuation;
- Reviewed and analysed the Group's balance sheet at 31 August 2020 and adjusted the SOTP valuation for non-operating assets, non-operating liabilities and interest-bearing liabilities;
- Performed a market approach valuation for Anchor utilising local South African listed peer comparable companies;
- Reviewed Anchor's historic traded share price and trading volumes on the JSE to ascertain liquidity and volatility of the Anchor share price. Compared historical and current share prices of Anchor to the Scheme Consideration;
- Evaluated the specific risks associated with Anchor and its underlying operations;
- Considered the fact that Anchor's shares are tightly held and trading volumes are low;
- Considered the fact that the Scheme Consideration is to be settled in cash;
- Considered that fact that Scheme participants will be given the election to retain their Anchor shares. In this regard it was noted that there are no proposed amendments to the MOI of Anchor to provide for any minority protections other than the protections provided for in terms of the Companies Act and there is no guaranteed future liquidity event;
- Considered the fact that Anchor shareholders representing 46.75% of Anchor shareholders (excluding the Remaining Shareholders) have provided irrevocable undertakings to vote in favour of the Scheme and 47.72% of Anchor shareholders (including the Remaining Shareholders) have provided irrevocable undertakings that they intend to retain their Shares;
- Evaluated the relative risks associated with the Company, its business model and the industries in which it operates;
- Considered the terms and conditions and vesting profile of the Anchor Share Incentive Scheme as well as the impact of the Anchor Share Incentive Scheme on the valuation of Anchor;
- Considered the impact of COVID-19 on Anchor's recent trading performance and the forecast financial information provided by Anchor management. It was noted that Anchor's financial performance has shown resilience to the uncertainty resulting from COVID-19 with no material changes in operations or profitability as a result thereof to date;
- Obtained letters of representation from Anchor management asserting that we have been provided with all relevant information, that no material information was omitted and that all such information provided to us is accurate in all respects; and
- Considered other relevant facts and information relevant to concluding this Independent Expert Report.

Based on the results of the procedures mentioned above, we determined the fairness and reasonableness of the Scheme to Anchor shareholders. We believe the above considerations justify the Opinion outlined below.

7. Valuation Methodology

In considering the Scheme, DG Capital performed an independent valuation of Anchor to determine whether the Scheme Consideration represents fair value to Anchor shareholders.

Anchor is a financial services holding company providing inter alia, asset management, wealth management, investment advice and stock broking services. Anchor provides a broad range of local and international investment solutions to individuals, financial advisors and institutions. It has three primary divisions – Private Clients, Asset Management and Stockbroking. Anchor has R65 billion of assets under management and advice as at 30 June 2020.

DG Capital performed a valuation of Anchor on a SOTP basis aggregating the DCF valuation of each of Anchor's underlying subsidiary and associate companies and head office (taking into account specific considerations of each operating entity) to determine whether the Scheme Consideration represents fair value to the Anchor Shareholders.

The discounted cash flow ("DCF") valuation (income approach) was the primary valuation methodology utilised. Our DCF valuation was supplemented with the market approach (based on financial data for comparable publicly traded South African peer companies) as a secondary methodology to support the results of the DCF valuation.

The DCF valuation was performed taking cognisance of risk and other market and industry factors affecting Anchor's operations, including but not limited to the operating environment in which Anchor operates, the current economic climate and the overall returns of asset managers in the current environment and how these might impact on forecast yield on assets under management and advice and operating margins. Prevailing market and industry conditions were also considered in assessing the risk profile of Anchor.

Key value drivers for the DCF included the WACC (discount rate), specifically:

- A South African market risk premium was applied in our calculations;
- A risk-free rate based on 10 year South African government bonds;
- Beta, based on selected comparable companies;
- Current gearing (in this regard cognisance was taken of the fact that Anchor has almost no debt on its balance sheet both historically and as at 30 August 2020); and
- Company specific risks associated with each underlying operation.

Other key value drivers included the future growth rate of the business (including market growth and net new inflows of assets under management and advice), yield achievable on assets under management and advice, profit margins, an assessment of non-recurring transactions included in historical results and working capital investment.

External value drivers considered include key macro-economic parameters such as GDP growth, inflation and prevailing market and industry conditions in which Anchor operates.

We have applied a minority discount to the equity value of Anchor as no controlling interest is being acquired.

We performed sensitivity analyses in respect of the key assumptions. This included stress testing the material assumptions applied in the valuation such as, inter alia, WACC assumptions, revenue assumptions of market growth in assets under management and advice, net new inflows of assets under management and advice and yield achieved on assets under management and advice, terminal growth rate and minority discount applied.

8. Underlying information and assumptions and reasonableness thereof

Our Opinion is based on the following key assumptions:

- Anchor's businesses to be ongoing under current business plans and management;
- The Scheme will be legally enforceable; and

- The Scheme will have the legal, accounting and taxation consequences described in discussions with and materials furnished to us by representatives and advisors of Anchor.

We satisfied ourselves as to the appropriateness and reasonableness of the information and assumptions employed in arriving at the Opinion by:

- Placing reliance on audit reports in the financial statements of Anchor;
- Conducting analytical reviews of historical and forecast financial information;
- Determining the extent to which representations from management were confirmed by documentary and audited financial evidence, as well as our understanding of Anchor and the economic environment in which it operates.

9. Qualitative considerations

In arriving at our Opinion with respect to the reasonability of the Scheme, we considered, inter alia, the following key qualitative considerations:

- Rationale for the transaction as set out in the Circular and based on discussions with members of the Anchor Board and Independent Board;
- Historic trading prices of Anchor in the 30-day, 60-day and 90-day period prior to the date of the Announcement;
- The trading liquidity of Anchor shares;
- Reliance can be placed on the financial information of Anchor as presented by Anchor management;
- The Scheme provides Anchor shareholders with the opportunity to exit an illiquid share at a premium;
- The Scheme provides Anchor shareholders with an election to retain all or some of their Anchor shares in the unlisted entity.

10. Opinion

We have considered the terms and conditions of the Scheme as set out above and based on the aforementioned, we are of the opinion, subject to the limiting conditions set out below, that the indicative market value per Anchor Share as of the date of the Opinion on a going-concern basis is between R 3.65 and R4.23 per Anchor Share with a most likely value of R3.94 per Anchor Share.

The Scheme consideration falls above our valuation range per Anchor share.

The valuation range above is provided solely in respect of this Independent Expert Report and should not be used for any other purposes.

Based on our analysis and after taking into consideration all qualitative and quantitative considerations, we are of the opinion that the terms of the Scheme are fair and reasonable to the Anchor shareholders.

This Independent Expert Report is based on the information available to us up to 6 November 2020 including in respect of the financial, regulatory and other conditions and circumstances existing and disclosed to us at the date thereof. Accordingly, it should be understood that subsequent developments may affect this opinion, which we are under no obligation to update, revise or re-affirm.

11. Comparable offer to Share Incentive Scheme Participants

As set out in paragraph 5.3 of the Circular, Anchor has approached the Share Incentive Scheme Participants with unexercised vested Share options with an exercise price of less than R4.25 per Share in order to obtain their written consent to the waiver of their right to a comparable offer under section 125(2) of the Companies Act ("Comparable Offer").

The Share Incentive Scheme Participants with unexercised vested Share options with an exercise price of less than R4.25 per Share who waive their right to a Comparable Offer, will not be made a Comparable Offer pursuant to the Scheme. In relation to those Scheme Participants with unexercised vested Share options with

an exercise price of less than R4.25 per Share who do not waive their rights to a Comparable Offer, Anchor will make a Comparable Offer (in cash) to them at an offer price equal to the difference between the Scheme Consideration and the exercise price payable by each such Scheme Participant in respect of each unexercised vested share option with an exercise price of less than R4.25.

As the Comparable Offer price of R4.25 is the same as the Scheme Consideration offered to all Scheme Participants it is considered to be fair and reasonable to offer the same consideration to the Share Incentive Scheme Participant with unexercised vested Share options with exercise prices of less than R4.25 who elect not to waive their rights to the Comparable Offer.

12. Limiting Conditions

This Independent Expert Report is provided to the Independent Board in connection with and for the purpose of the Scheme for the sole purpose of assisting the Independent Board in forming and expressing an opinion for the benefit of the Anchor Shareholders. This Independent Expert Report is prepared solely for the Independent Board and therefore should not be regarded as suitable for use by any other party or give rise to third party rights.

The forecasts on which we have relied relate to future events and are based on assumptions, which may not remain valid for the whole of the relevant period. Consequently, this information cannot be relied upon to the same extent as that derived from audited financial statements for completed accounting periods. We express no opinion as to how closely actual results will correspond to those forecasted by the management of Anchor.

We relied upon the accuracy of the information used by us in deriving our Opinion, albeit that, where practicable, we have corroborated the reasonableness of such information and assumptions through, amongst other things, reference to historic precedent, our knowledge and understanding and discussions on the assumptions inherent therein with management.

Whilst our work has involved an analysis of the annual financial statements, interim reports and management accounts, forecasts and other information provided to us, our engagement does not constitute, nor does it include an audit conducted in accordance with applicable auditing standards. Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of any information provided to us in respect of the Scheme.

Our Independent Expert Report expressed is necessarily based upon information available to us, the financial, regulatory, securities market and other conditions and circumstances existing and disclosed to us as at the date hereof. We have furthermore assumed that all conditions precedent, including any material regulatory and other approvals required in connection with the Scheme have been or will be properly fulfilled. Subsequent developments may affect our Independent Expert Report, and we are under no obligation to update, revise or reaffirm such.

This Independent Expert Report is provided in terms of the Companies Act. This Independent Expert Report does not constitute a recommendation to any Anchor shareholder as to how to vote at any Shareholders meeting relating to the Scheme or on any matter relating to it. We assume no responsibility to anyone if this Independent Expert Report is used or relied upon for anything other than its intended purpose. Should an individual Anchor shareholder have any doubts as to what action to take, such Shareholder should consult an independent advisor.

The valuation of companies and businesses is not a precise science and conclusions arrived at, will, in many cases, be subjective and dependent on the exercise of individual judgement.

13. Independence, Competence and Fees

We record that DG Capital holds no shares in Anchor, directly or indirectly.

We further record that DG Capital has the necessary competence to act as the independent expert for the purpose of this Independent Expert Report. The directors, partners, officers and employees of DG Capital

allocated to this assignment have the necessary qualifications, expertise and competencies to provide this Independent Expert Report.

The total fee payable in respect of the preparation of this Independent Expert Report is R450,000 excluding VAT, payable in cash and is not contingent on the approval by Anchor Shareholders of the Scheme.

14. Consent

DG Capital consents to the use of our name, the inclusion of this Independent Expert Report and the reference to our Independent Expert Report in the Circular to be issued to the Anchor Shareholders in the form and context in which it appears and in any required regulatory announcement or documentation.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Lior Goldstein', written over a horizontal line.

Lior Goldstein
Director

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