

Frequently asked questions regarding combined circular to ordinary and preference shareholders

18 February 2019

1. What are the proposed transactions?

The proposed transactions contemplate the potential repurchase of up to all of the preference shares and implementation of a black fund manager structure, provided that the requisite shareholder authorisations are obtained.

The shareholders will be able to vote on the resolutions required to implement the proposed transactions at the EGM on 20 March 2019.

Shareholders should consider the circular issued today, 18 February 2019.

2. What will a successful outcome of the proposed transactions mean for African Phoenix?

The proposed transactions would be a significant step towards realising the company's investment strategy primarily because the company expects that they will:

- Simplify the current capital structure with only one class of shares (to the extent that all the preference shares are repurchased);
- Preserve capital for investments which is in line with the investment holding classification;
- Provide a permanent capital structure to provide access to additional sources of capital;
- Establish a B-BEEE investment platform which gives African Phoenix access to unique investment opportunities that are not typically available to public market investors;
- Fund investments while enhancing the B-BBEE status of investee companies with no dilution in value for African Phoenix Shareholders;
- Establish the long-term alignment of interests between African Phoenix, the black fund manager and African Phoenix shareholders; and
- Efficiently position African Phoenix's capital structure in anticipation of the updated insurance regulations which will apply to the company as a result of African Phoenix's holding of The Standard General Insurance Company Limited (Stangen).

3. What is the rationale for the preference share repurchase (implemented through either the Scheme Repurchase or the Voluntary Repurchase)?

The African Phoenix capital structure was inherited from the previous holding company, African Bank Investments Ltd (the old ABIL). The legacy preference shares structure was applicable to that structure as they were part of the traditional preference shares funding model used in the old African Bank holding structure. As African Phoenix departed from all banking related activities and its strategy is now

that of an investment holding company and, as a result, the purpose for which the preference shares were created is no longer relevant to African Phoenix.

The proposed preference share repurchase (to the extent that all preference shares are repurchased) will result in a simplified capital structure with a single class of listed shares, which will align shareholders' interests.

Provided that the requisite shareholder authorisations are obtained, the preference share repurchase will be implemented through either the Scheme Repurchase or, to the extent that the Scheme Repurchase is not implemented for any reason, the Voluntary Repurchase.

4. How does the Scheme Repurchase and the Voluntary Repurchase work and what are the terms for the preference shareholders and African Phoenix?

The Scheme Repurchase has been proposed concurrently with the Voluntary Repurchase, on the condition that the Voluntary Repurchase will only be implemented if the Scheme Repurchase is not implemented for any reason.

The Scheme Repurchase allows the repurchase of all of African Phoenix preference shares by the Board for a cash consideration of R37.50 per preference share and consequential delisting of all 13 523 029 African Phoenix preference shares from the Main Board of the JSE.

Should the Scheme not be implemented for any reason, the Voluntary Repurchase of up to all of African Phoenix's Preference Shares from Preference Shareholders that elect to participate at the cash consideration purchase price of R37.50 per preference share, may become operative. Under the Voluntary Repurchase, the Preference Shareholders may elect to sell their Preference Shares to African Phoenix or to retain their Preference Shares.

The cash consideration for either repurchase will be funded out of the current African Phoenix cash reserves.

5. What is the rationale for the Black Fund managers (BFM) structure?

African Phoenix is an investment holding company with an experienced management team consisting of Siya Nhlumayo, Shafiek Rawoot, Kamo Mudimbu and Alu Sithebe. Brief *curricula vitae* of the each members of the management team are set out in the Circular.

A BFM structure will provide for the following and further enhance value to the investment holding company:

- reinvigorating the current listed, permanent capital structure to provide access to additional sources of capital;

- establishing a B-BBEE investment platform which gives African Phoenix access to unique investment opportunities that are not typically available to public market investors;
- funding investments while enhancing the B-BBEE status of investee companies with no dilution in value for African Phoenix Shareholders;
- establishing the long-term alignment of interests between African Phoenix, the General Partner and African Phoenix Shareholders; and
- efficiently positioning African Phoenix's capital structure in anticipation of the updated insurance regulations which will be applicable to the Company as a result of African Phoenix's holding of Stangen.

6. What are the A and B shares for?

If the Proposed Transactions are successful there will be A ordinary shares and B ordinary shares. The current ordinary shares will be renamed as the A shares. They will remain listed on the JSE and trade as A ordinary shares, with no changes to their rights and terms.

The B shares will not be listed and do not have general voting or participation rights. They will be issued to the General Partner's management team and will convert to A ordinary shares based on the performance of the management team over the 6-year measurement period measured and converted in terms of the terms attaching to the B shares, which are set out in the Circular. The issuance of the convertible B shares will be used as an incentive that is intended to align the interests of the General Partner and the management team with those of shareholders. Through the conversion of the B shares to the A shares, there is no forced liquidity event necessary to settle the long term performance of the management team as is the case with traditional private equity structures.

7. How will the General Partner be managed? What corporate oversight will there be?

The General Partner will be governed by strong governance principles. The General Partner will be tasked to identify suitable assets for the API Capital Fund in accordance with the investment guidelines approved by the African Phoenix board and shareholders. After further investigations and due diligence, the General Partner's Investment Committee, which will comprise a majority of independent non-executives with more than 60 years of collective investment experience in private equity, will make all investment decisions which will also be considered by the General Partner's board.

In terms of the partnership agreement, the General Partner will prepare quarterly reports and audited annual financial statements of the API Capital Fund in respect of each accounting period, which will be reported to the African Phoenix board and shareholders.

An advisory committee will also be constituted for the API Capital Fund. This committee will comprise of two representatives of the Limited Partner (being directors of the African Phoenix board) and one member representing the General Partner. The committee will monitor and review compliance with the limited partnership agreement, advise on conflicts of interest and review valuation of investments as well as provide strategic direction to the General Partner on a non-binding basis.

Additional oversight will reside with the ordinary shareholders and the African Phoenix board who will have the authority to terminate the mandate of the General Partner to the API Capital Fund at any time, should it be deemed necessary in their view. The African Phoenix Board and shareholders will also have the authority to approve capital commitments to the API Capital Fund (after the initial capital commitment) as and when the capital is available to African Phoenix.

At the annual general meeting of the company for the year immediately preceding the sixth anniversary of the commencement date of the API Capital Fund, the African Phoenix board will review the performance of the General Partner and, if appropriate, will recommend either the continuation or replacement of the General Partner's mandate for approval by shareholders at such annual general meeting by way of an ordinary resolution.

8. Please explain the management arrangements?

- The BFM will own 1% of the share capital (A ordinary shares) of African Phoenix which will be implemented through a share purchase in the market in accordance with section 15 of the JSE Listings Requirements.
- The long term performance alignment would be implemented through the issue of B shares, which could be converted into A shares (if the performance conditions are met at the end of the 6-year measurement period), therefore not requiring liquidity or forced exit of portfolio investments. The performance measurement is linked to both a growth in Invested NAV (75% weighting) and an increase in market capitalisation of African Phoenix (25% weighting) measured at the end of a six year period. The General Partner's incentivisation and participation is therefore aligned with the long term growth of African Phoenix as opposed to short term gains.
- The Fund Management Fee has been set at levels that only cover operating costs.

9. What is the investment strategy of the BFM?

The General Partner will adopt an investment mandate that will:

- Target medium sized companies with a sustainable track record for strong cash flow generation, high earnings growth potential with strong management teams. As a general rule, target investments of not less than R80 million or investments not greater than R250 million;
- Invest in eight to ten investee companies in various sectors to reduce portfolio concentration risk;

- Target returns of 25% on an internal rate of return basis, of predominately SA unlisted assets;
- Actively manage and partner with portfolio company management to deliver on investment objectives;
- Seek to invest in at least 51% of value of funds under management in companies that have at least 25% direct Black shareholding; and
- Focus on transactions in South Africa and Sub-Saharan Africa. The API Capital Fund may, however, invest in portfolio companies with interests and/or operations elsewhere in the world.

10. What is the initial capital commitment by African Phoenix?

African Phoenix will acquire a limited partnership interest in a private equity fund, which will be established as a South African *en commandite* partnership known as API Capital Fund.

African Phoenix will make an initial capital commitment of R500 million in cash. In this regard, African Phoenix will advance an initial capital contribution of R10 000 to the API Capital Fund on the Commencement Date (post the requisite shareholder approvals being obtained), with the balance to be contributed into the Fund's bank account thereafter, pursuant to a capital call notice from the General Partner as contemplated in the Partnership Agreement. The General Partner will make an initial capital commitment of 0.01% of the R500 million made by African Phoenix. This capital commitment is in addition to the 1% of A shares, which will be acquired by the General Partner in the market.

11. Will more funding be remitted to the API Capital Fund from African Phoenix in the future after the R500 million is depleted? Who determines the quantum and timing?

The African Phoenix board and shareholders will have the authority to approve additional capital commitment to the API Capital Fund after the initial capital commitment. The BFM believes that the initial capital commitment will sustain some three investments over a 9-18 months period.

12. Why is it necessary to amend African Phoenix's Memorandum of Incorporation (MOI)?

The amendment of the African Phoenix's MOI is required to facilitate the proposed transactions in that it will enable:

- The creation of a new class of unlisted, non-voting, non-participating convertible ordinary shares, being the "B Shares". The creation of the B shares is required to settle the team's performance participation entitlements at the end of the 6-year measurement period;
- the re-classification of the existing 1 427 005 272 ordinary shares as "A Shares", to distinguish the ordinary shares from the B shares. The "A shares" will have the same rights and terms as current ordinary shares;

- the removal of all references to the Preference Shares from the MOI to the extent that all preference shares are repurchased either through the Scheme Repurchase or the Voluntary Repurchase, as the case may be; and
- the incorporation of the shareholders' right to, at any time, resolve by ordinary resolution, to terminate the General Partner's mandate to act as General Partner of the API Capital Fund.

13. Has African Phoenix identified any possible investable assets?

Since the disclosure of the company's revised strategy in 2017, African Phoenix has received several unsolicited investment opportunities which require equity risk capital from an active investor with B-BBEE credentials who can invest over the medium to long term. Through the implementation of the BFM structure, the company expects to be able to execute on these opportunities and deliver value to shareholders.

14. Can I still buy and sell my shares?

Yes, these transactions do not limit the trading of the shares. Shareholders are referred to the detailed timetable included in the Circular.

15. As a shareholder, what do I do next?

- In accordance with the Companies Act and the Listing requirements, a General meeting will be convened on 20 March 2019 in order for shareholders to consider and, if deemed fit, vote in favour of resolutions approving the proposed transactions.
- The detailed action shareholders will need to take is set out in the Circular, which is available on the Company's website. If shareholders are in doubt, they should consult their Broker, banker, legal advisor, CSDP, accountant or other professional advisor.

16. Who do I talk to for more information about the transactions?

- It is African Phoenix's intention to keep all stakeholders well-informed
- We will continue to update the website www.phoenixinvestments.co.za
- Specific questions can be directed to investor@phoenixinvestments.co.za
- Shareholders are also advised to seek appropriate professional advice as required in relation to the proposed transactions.