african phoenix
investments

Supplementary frequently asked questions regarding combined Circular to Ordinary and Preference Shareholders[1]

15 March 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 General Meeting (GM) on 20 March 2019.

   Shareholders should consider the Circular issued on 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 with access to additional sources of capital;
   - Establish a B-BBEE 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 or the benefit of the Preference Share repurchase (implemented through either the Scheme Repurchase or the Voluntary Repurchase)?**

[1] Terms not defined herein bear the meaning assigned to them in the Circular

The African Phoenix capital structure was inherited from the previous holding company, African Bank Investments Limited (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. 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. Therefore, the proposed Preference Share repurchase provides the Preference Shareholders with a liquidity event.

In addition, 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 API for a cash consideration of R37.50 per Preference Share and consequential delisting of all 13 523 029 issued African Phoenix Preference Shares from the Main Board of the JSE.

Should the Scheme Repurchase not be implemented for any reason whatsoever (including if the condition referred to in 5 below is not fulfilled), the Voluntary Repurchase of up to all of African Phoenix's Preference Shares from Preference Shareholders that elect to participate for the cash consideration of R37.50 per Preference Share, may become operative. The proposed Voluntary Repurchase can only be implemented if the Scheme Repurchase is not implemented. Under the Voluntary Repurchase, the Preference Shareholders may elect to sell their Preference Shares to African Phoenix, or failing which they will retain their Preference Shares.

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

5. How will the Voluntary Repurchase be implemented?

The Voluntary Repurchase will only become operative if the Scheme Repurchase (ie special resolution number 1) is not adopted by the requisite majority of Shareholders at the GM or in the event that the Scheme Repurchase is not implemented for any reason whatsoever, including, pertinently that the Board may exercise its discretion and resolve not to proceed with the Scheme Repurchase for any reason. In this regard, the Circular provides that if less than 75% of the Preference Shareholders (present and voting at the meeting) vote in favour of special resolution number 1, such lack of Preference Shareholder support will be instructive in the Board exercising its discretion not to proceed with the Scheme Repurchase.

Furthermore, the Voluntary Repurchase is (in addition to the fulfilment or waiver, where applicable, of the Voluntary Repurchase Conditions set out fully at paragraph 15 of the Circular) subject to special resolution number 2 being adopted by the requisite majority of Shareholders at the GM.

6. What is the "default position" in terms of the Voluntary Repurchase?

The "default position" in terms of the Voluntary Repurchase is that if Preference Shareholders fail to make an election to sell their Preference Shares in terms of the Voluntary Repurchase, they will retain their Preference Shares.

7. How did the Board arrive at the Scheme Repurchase Consideration and Voluntary Repurchase Consideration of R37.50 and were the rights of Preference Shareholders considered?

The Board undertook an in-depth analysis of what a fair valuation of the Preference Shares would be considering the rights of both Preference Shareholders and Ordinary Shareholders. In furtherance of this analysis, the Board consulted its financial adviser Rand Merchant Bank (RMB) who considered the proposed valuation. Following consultations with RMB, the Board conducted various confidential engagements with certain Preference Shareholders and Ordinary Shareholders. Once the Board had considered the feedback from Shareholders, the advice received and performed its own analysis, the Board proposed a Repurchase Consideration of R37.00 per Preference Share. Thereafter, the Board approached Ernst & Young (EY), as the independent expert, to provide a fairness opinion in respect of the Repurchase Consideration. After conducting various discussions with the Board, the management team and RMB, EY performed an independent analysis (as more fully set out in their independent expert's report as attached to the Circular) and came to the conclusions set out in the independent expert's report. As a result of the delay between the voluntary transaction and cautionary announcement released on 7 September 2018 and the issuance of the Circular, the Board increased the proposed Repurchase Consideration from R37.00 to R37.50 per Preference Share.

8. In the event that the Scheme Repurchase is not implemented but the Voluntary Repurchase and the Black Fund Manager's (BFM) Structure are implemented, what are the prospects of the Preference Shareholders who elect to not participate in the Voluntary Repurchase receiving any dividends?

The Company's primary aim is to create and sustain long-term value for Shareholders. This is actioned by preserving capital for investments in line with the Company's classification as an investment holding company. Over the medium term and through its capital commitment to the API Capital Fund the Company intends to build an investment portfolio. To the extent that cash proceeds from investments are available and there are no opportunities that meet the investment criteria of the API Capital Fund, the Board will consider the distribution of dividends.

9. What is the rationale for the 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 each of the members of the management team are set out in the Circular.

The Board expects that the 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.

10. How does the proposed BFM Structure compare to other similar structures in the market?

In finalising the BFM Structure the Board considered similar structures in the market and tried to optimize the structure proposed for the API Fund. In this regard the Board received advice from RMB and Webber Wentzel and the Board sought to remedy the concerns it (and the market in general) identified in similar structures by enhancing the alignment of interests between the General Partner and Shareholders, focusing on controlling costs in the BFM Structure, and enhancing the corporate governance framework in the BFM Structure. Some of the key differences between the BFM Structure and the other similar structures include, *inter alia*, greater alignment of interests between the General Partner and Shareholders being achieved through the General Partner's incentives being linked to both NAV and the API share price (as more fully discussed in 13 below), the ability of the Limited Partner (being African Phoenix) to terminate the mandate of the General Partner without cause at any time and the establishment of an advisory committee of the API

Fund (constituted of representatives from the General Partner and the Limited Partner (API) who will broadly manage the relationship between the General Partner and the Limited Partner (API)). Although a market comparison may not be definitive in determining whether the BFM Structure is an improvement on other structures in the market, the Board believes that the BFM Structure's competitive cost structure, greater alignment of interests between the General Partner and Shareholders including though long term incentivisation based on NAV and the API share price and stronger corporate governance framework will position the API Fund optimally to achieve its objective. However, there can be no certainty that the API shares will not trade at a discount to NAV however this is something that the Board intends to continuously monitor and focus on.

11. What are the A and B Shares for?

If the Proposed Transactions are implemented (and accordingly all the Preference Shares are repurchased) 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 accordance with 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 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.

12. 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 with identifying suitable assets for the API Capital Fund in accordance with the investment guidelines approved by the Board and Shareholders. After further investigations and due diligence, the General Partner's Investment Committee, which will comprise a majority of independent non-executive members with more than 60 years of collective investment experience in private equity, will make all investment decisions.

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 Board and Shareholders, and

API will report periodically to shareholders in accordance with the JSE Listings Requirements and it proposed Investment Policy.

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 Board) and one member representing the General Partner. The committee will monitor and review compliance with the Partnership Agreement, advise on any conflicts of interest, review the valuation of investments as well as provide strategic direction to the General Partner on a non-binding basis.

Additional oversight will reside with Shareholders and the Board who will have the authority to terminate the mandate of the General Partner with the API Capital Fund at any time, should it be deemed necessary in their view, which right of Shareholders is proposed to be entrenched in the API MOI, as set out in the Circular. The 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 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.

13. Please explain the management arrangements?

- The BFM will own 1% of the share capital (A Ordinary Shares) of African Phoenix (in accordance with section 15 of the JSE Listings Requirements) which will be implemented through a share purchase in the market.
- The long term alignment between the General Partner and Shareholders in relation to performance will be achieved 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, subject to the performance hurdles being met. 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 (as discussed more fully in 19 below).

14. 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 at least 51% of the 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.

15. 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. 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 Ordinary Shares which will be acquired by the General Partner in the market, and is customary in traditional private equity structures.

16. Will more funding be committed to the API Capital Fund by African Phoenix in the future after the R500 million is committed? Who determines the quantum and timing?

Additional capital commitment to the API Capital Fund after the initial capital commitment must be authorised by the Board and Shareholders. The BFM believes that the initial capital commitment will sustain some three investments over a 9-18 months period.

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

The amendment of the African Phoenix 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.

18. 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 with a medium to long term horizon. Through the implementation of the BFM Structure, the Company expects to be able to execute on these and other opportunities it is investigating and generate value for Shareholders.

19. How did the Board get comfort in relation to the independent expert reports (Annexures 1 and 2) in the Circular?

The Board had regular meetings and interactions with the independent expert in relation to preparation of the independent expert reports. This included interactions in relation to providing information and the assumptions underlying the payment of preference dividends, the rights attached to the Preference Shares and the management arrangements. The independent expert presented their findings to the Board, which included a detailed discussion on the process followed, the methodology applied and assumptions used. Through further debate, interrogation and engagement, the Board was comfortable with the approach and findings. The Board reviewed the independent expert reports, which were in line with the findings presented.

20. How was the Minimum Base Amount of 19 million which forms part of the Fund Management Fee calculated?

As part of the implementation of the BFM Structure, personnel previously employed by African Phoenix will be employed by API Capital Proprietary Limited, the General Partner of the API Capital Fund. All costs associated with, *inter alia*, these personnel, office space, the establishment of the investment committee of the API Capital Fund (as detailed in paragraph 33 of the Circular) will be borne by API Capital Proprietary Limited using the Management Fee received. The R19 million is therefore a cost based calculation, effectively splitting the current running cost of African Phoenix between African Phoenix and the General Partner.

21. The Performance Participation takes into account the increase in the Company's market capitalisation (as envisaged in terms of the B Share terms). From which date will this increase be measured for purposes of the Performance Participation?

The Performance Participation is primarily (75%) based on the increase in Invested NAV of the API Capital Fund. The opening balance of the Invested NAV is zero and the Hurdle Amount will be calculated from the date that the first investment is made by the API Capital Fund. The remaining 25% of the Performance Participation is based on the increase in the African Phoenix market capitalisation. A volume weighted average price up to the date of first investment by African Phoenix into API Capital Fund will be used as the "opening market capitalisation".

22. Can I still buy and sell my shares?

Yes, for now you can trade your shares, however, Preference Shareholders should note that if the Scheme Repurchase is approved and becomes unconditional, the listing of the Preference Shares will be suspended prior to the ultimate delisting of the Preference Shares as set out in the Circular. Shareholders are referred to the detailed timetable included in the Circular.

23. Is there a more convenient manner of accessing the documents available for inspection in terms of the Circular?

The documents available for inspection can also be accessed by Shareholders through a virtual data room. In order for Shareholders to receive access to the virtual data room, Shareholders are requested to send an e-mail to investor@phoenixinvestments.co.za.

24. As a Shareholder, what do I do next?

- In accordance with the Companies Act and the Listing Requirements, the GM 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 actions Shareholders will need to take are 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 adviser, CSDP, accountant or other professional advisor.

25. 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.