



INDEPENDENT COMPETENT PERSONS REPORT

B-BBEE MANDATED INVESTMENTS

EXAMPLE COMPANY

PRIVATE AND CONFIDENTIAL

TO: CLIENT NAME

FROM: ALTERNATIVE PROSPERITY

DATE: 03 APRIL 2018

Introduction

Example Company has requested Alternative Prosperity to provide it with an analysis of its Broad-Based Black Economic Empowerment (B-BBEE) ownership, with specific reference to mandated investments as defined in the Department of Trade and Industry (DTI) Codes of Good Practice, hereafter referred to as the Codes.

Our services included the following:

1

An evaluation of the underlying investors within Example Company to determine the extent to which black economic interest and voting rights as well as black female economic interest and voting rights flow through mandated investments as defined in the Codes.

2

Presentation of this competent persons report to the verification agency of Example Company or its subsidiaries for inclusion in its current verification.

Definitions

The term Mandated Investments is defined in the Codes to include the following:

- Investments made by or for collective investment schemes as defined in the Collective Investment Scheme Control Act of 2002
- Investments made by or for a pension fund as defined in the Pension Fund Act of 1956
- Investments made by or for long term insurers as defined in the Long Term Insurance Act of 1998 out of policyholder funds
- Investments made by or for a medical scheme as defined in the Medical Schemes Act of 1998 out of member funds
- Investments made by or for a friendly society as defined in the Friendly Societies Act of 1956
- Investments made by or for a bank as defined in the Banks Act of 1990 from depositor funds as opposed to own reserves
- Investments made by or for a mutual bank as defined in the Mutual Banks Act of 1993 from depositor funds as opposed to own reserves

The term 'Competent Person' is defined as "a person who has acquired through training, qualification and experience the knowledge and skills necessary for undertaking any task assigned to them under the codes."

Measurement Principles

The following provisions in the Codes are relevant to the results presented below:

Paragraph 3.4.5. of Code 100, Statement 100 reads as follows:

“ A Measured Entity electing not to exclude Mandated Investments when it is entitled to do so, may either treat all of that ownership as non-black or obtain a competent person’s report estimating the extent of black rights of ownership measurable in the Measured Entity and originating from that Mandated Investment

This report constitutes an estimate by a competent person as defined above.

Competencies and Independence

Alternative Prosperity has assembled a multi-disciplinary team who are experts in the following areas:

- B-BBEE ownership – with specific reference to the Codes
- Financial Services – functioning of markets, pension funds, life offices, collective investment schemes, etc
- Financial valuations, financial modelling, etc
- Actuarial – specifically fund liabilities and statistical extrapolation techniques
- Legal – with specific reference to B-BBEE
- Data extraction, analysis and modelling
- Systems development and communications to support the above

We deployed the following primary staff on this assignment:

None of the below staff have any material interest in the business affairs of Example Company that could be reasonably expected to impede their independence.

Trevor Chandler

Chairman and Head Research and Policy
B-Compt Hons

Trevor is a leading expert on B-BBEE, including the Codes. Trevor is currently a director of Alternative Prosperity. He has more than 20 years' experience in assurance, finance, risk management and corporate governance related professions, and was previously responsible for B-BBEE and Sustainability for the Sanlam Group reporting to board level sustainability and risk committees.

Trevor also contributed to the development of the Codes B-BBEE ownership provisions through his leadership of a Life Offices Association (LOA) task group formed for this purpose. The contribution of this task group to the development of the DTI codes was formally recognized by the previous Minister of Trade and Industry.

Trevor currently represents the Association for Savings & Investment South Africa (ASISA) on the Financial Sector Charter Council Board, which is the body that oversees B-BBEE in the financial sector. He is also a member of the National Integrated Reporting Task group which is defining standards for integrated reporting in South Africa, in association with SAICA, the IOD, ASISA, the JSE and a number of other stakeholders. Trevor is part of the CRISA task group which recently defined responsible investment standards for application by pension funds, asset managers and other role players in the investment value chain.

Trevor acted as review partner on the assignment.

Christiaan v/d Merwe

Managing Director CA(SA), CFA

Christiaan started his career at PricewaterhouseCoopers Inc. as an article clerk where-after he specialised in the valuation of companies and trademarks. In 2004 he joined the Exceed Group as a business consultant specialising in B-BBEE and was invited as one of the founding members of ABVA in 2006, as a direct result of comment made relating to the ownership element of the Codes.



His responsibilities were primarily that of COO managing all verification work and conducting site visits. Over the years Christiaan has been responsible for numerous reviews of B-BBEE ownership transactions in the listed environment, both on a pre and post execution basis. Christiaan is currently Managing Director of Alternative Prosperity, a niche consultancy specialising predominantly in the areas of Sustainability, Responsible Investment and B-BBEE aimed at the large corporate and not for profit sectors. Christiaan was responsible for much of the research on mandated investors which supports our findings. He also acted as project leader and coordinator.

Dawie Malan

Director: Finance ACMA, GCMA



Dawie holds an honours degree in Management Accounting from the University of Stellenbosch. He was a management accountant for the Spier Group between 2004 and 2007 involved mainly in reporting to top management.

Thereafter he qualified as a Global Chartered Management Accountant with CIMA. He founded an accounting practice that he ran between 2007 and 2012 specialising in financial reporting and tax administration. Currently he is the Financial Director of Alternative Prosperity. Dawie was responsible for data extraction and modelling on this assignment.

Methodology

Context

Capital markets typically rely heavily on the use of financial intermediaries, and the ability to trade rapidly and largely anonymously. These attributes do not make for an easy fit with the need to measure black economic empowerment. A substantial proportion of the shares of many issuer companies are indirectly held via financial institutions.

To date, the B-BBEE framework in South Africa has largely failed to deal with these characteristics of modern capital markets. Typically, only sizeable and self-identifying B-BBEE shareholders have been measured. This has resulted in systematic underestimation of black participation in public companies in South Africa.

The aim of this section is to explain the principles for measuring the extent of B-BBEE share ownership, through indirect/Mandated Investment vehicles, that were applied by Alternative Prosperity in its analysis of the underlying black beneficiation within Mandated Investment schemes.

Key Measurement Principles

The analysis presented in this report is supported by a formal methodology which prescribes specific protocols that inform the measurement of each of the underlying categories of Mandated Investment. This methodology was compiled in conjunction with AQRate Verification Services to ensure compliance to the Codes.

Only Mandated Investments through pension schemes, collective investment schemes and life office policyholder funds were included in the scope of this review.

The methodology is underpinned by the following basic principles.

Key Overall Principles

Where the B-BBEE status of beneficiary shareholders could not be determined, the most conservative treatment would be to regard unidentified shareholders as non-B-BBEE shareholders. This principle is followed throughout the methodology.

All measurement of economic interest was done on the basis of proportionate value. The headcount of black versus white participants in Mandated Investment schemes are therefore irrelevant to the calculation methodology. Participant's proportionate ability to appoint fiduciaries of the various schemes informed our assessment of voting rights.

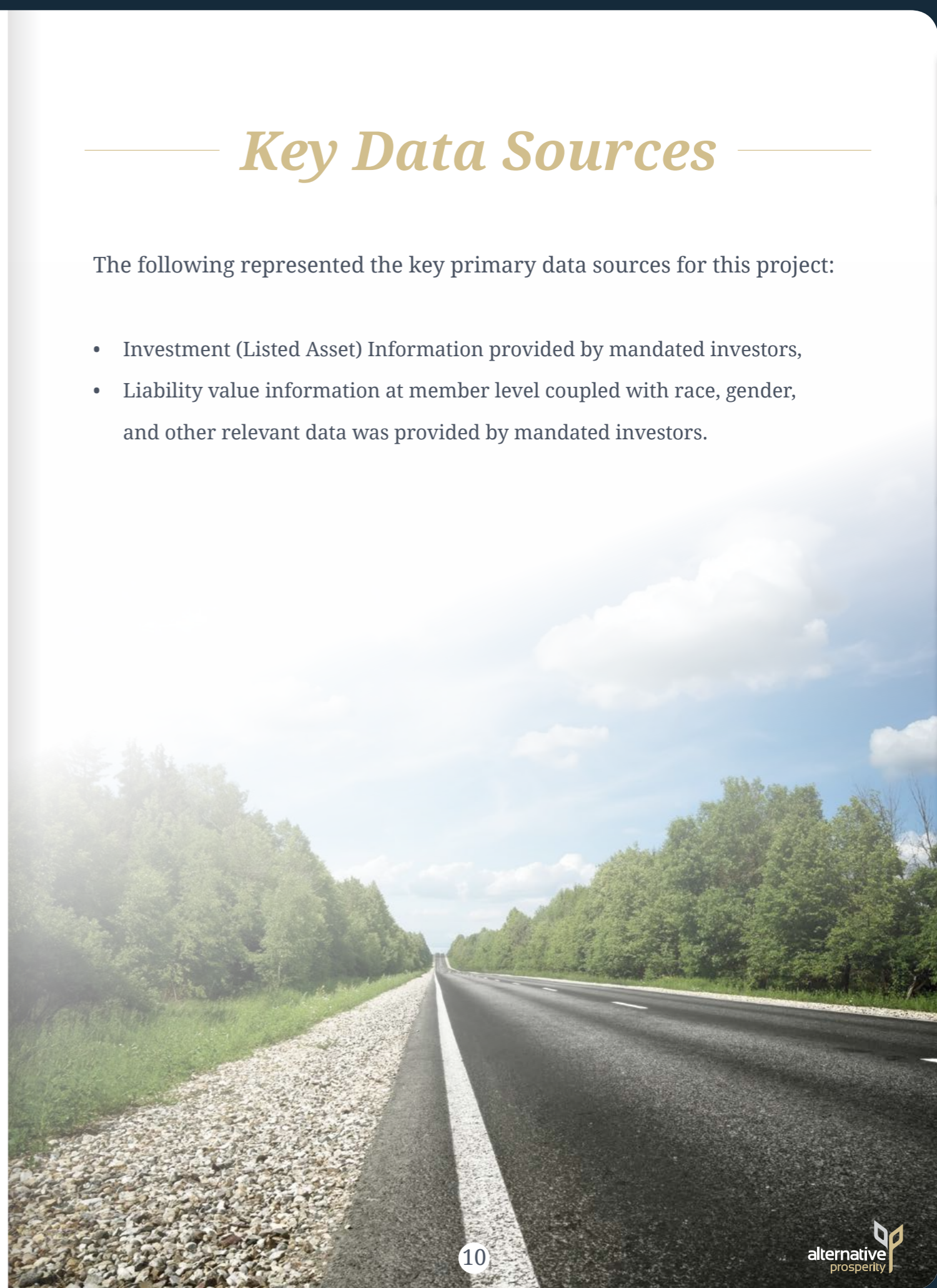
Only vested rights were taken into account when determining proportionate shares in the various schemes, in order to calculate the economic interest of the members. This in turn was used to calculate the aggregate portion of black economic interest of the fund. The reason that only vested rights are taken into account is that unvested participation cannot be justified in the calculation of direct economic interest under the Codes and thus the same principle should be applied to mandated investors in products such as smoothed bonus endowment schemes and where future entitlement to income flowing from the capital is based on continued participation e.g. defined benefit pension schemes.

The above results were then applied to Example Company on a flow through basis, with reference to its share register dated 23 February 2018.

Key Data Sources

The following represented the key primary data sources for this project:

- Investment (Listed Asset) Information provided by mandated investors,
- Liability value information at member level coupled with race, gender, and other relevant data was provided by mandated investors.



Conclusion

7.1 BLACK PEOPLE AND BLACK FEMALE ECONOMIC INTEREST AND VOTING RIGHTS

Through the procedures applied above, Alternative Prosperity was able to reach the following conclusion with respect to black beneficiation through Mandated Investment schemes invested in Example Company as at 23 February 2018:

	Number of ordinary shares	% of issued shares
Total Mandated Investments identified	123 456 789	0,00%
Voting rights deemed to be held by black people on a flow through basis	12 234 567	0,00%
Voting rights deemed to be held by black women on a flow through basis	123 456	0,00%
Economic Interest deemed to be held by black people on a flow through basis	12 123 456	0,00%
Economic Interest deemed to be held by black women on a flow through basis	123 456 789	0,00%
Issued ordinary shares	123 123 123¹	100.00%

¹ Total number of ordinary shares as confirmed with the Computershare share register as at 23 February 2018.

7.2 REALISATION AND NET VALUE

No acquisition debt as defined in the Codes was held by the mandated investors identified in 7.1 as at the measurement date.

8. LIMITATION OF USE AND INTELLECTUAL PROPERTY

This report was prepared exclusively for the use of Example Company for the purposes of calculating its B-BBEE ownership in accordance with the Codes as at 23 February 2018. The content of this document may not be replicated or applied commercially in any way by Example Company or any other party, without express permission from Alternative Prosperity.

Furthermore, this document may not be published or distributed to any party, without the permission of Alternative Prosperity. Example Company is however entitled to provide this document to its approved B-BBEE verification agency for the purposes of including the above findings in their B-BBEE certificate.



Trevor Chandler

03 April 2018



alternative
prosperity

*unlocking our
common future*

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