

Anchor Group acquisition of minority stake in CFM Frequently Asked Questions – 14 October 2015

Question	Answer
The summary	<p>Fast-growing JSE-listed asset management company Anchor Group (“Anchor”), with over R21bn assets under management, has agreed to purchase a material minority stake in a well-established global emerging markets hedge fund manager CFM (Capricorn Fund Managers, with over R6bn (\$450m) of assets under management). The founders and management of CFM have retained majority ownership of the business, will reinvest a significant portion of the cash proceeds and, in the case of certain key managers, agreed to minimum three year employment contracts.</p> <p>For CFM and its investor base, this new partner will help the company fulfil its global growth objectives and represents a source of new assets, enhanced distribution capabilities and talent attraction. For Anchor this represents an investment into a high-performance global hedge fund business and represents an exciting new investment range for its growing client base.</p> <p>The CFM fund managers maintain significant economic interest in the business and there is no change in the management of the funds. A material part of the deal is the issue of Anchor shares to the CFM vendors (26% of the value of the transaction is in Anchor shares), further aligning the interests of all parties.</p>
What is the deal?	<p>The shareholders of CFM (represented and held through various private entities) will collectively sell 47.4% of their shares to Anchor for R348 million (\$26m). The purchase consideration is payable through a combination of cash and Anchor shares, with all existing CFM shareholders retaining a portion of their shares. There is potential for the purchase price to be adjusted depending on performance.</p>
Who is CFM?	<p>CFM, which has over R6 billion (\$450m) of assets under management, was one of the pioneers of the South African hedge fund industry. CFM has been active in managing hedge funds since 2003 with the launch of the Hollard Stable Strategy in South Africa. CFM established an office in London in 2008 which coincided with the launch of the global emerging market fund, Capricorn GEM Fund LP/Inc. This strategy, now represents more than half the AUM of the CFM Group, has an excellent track record and recently won the HFM Award for the best five year track record in Europe for a fund under US\$500 million. The compound return of the fund since inception is 11.9% per annum in US\$.</p> <p>CFM focusses on identifying transformative companies which fit into its country themes, based on experiences in South Africa. CFM covers and invests in companies situated in, among others, South America, South Africa, Malaysia, Russia, Turkey, Indonesia, India, Mexico and the Philippines.</p> <p>(continued on next page) ...</p>

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Frequently Asked Questions – 14 October 2015

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	<p>CFM takes a cautious approach to investment, with low volatility and delivery of consistent double digit returns on all funds since inception. The objective of the investment managers of the CFM funds is to achieve capital appreciation through investment in equities with low volatility. CFM looks to achieve this by:</p> <ul style="list-style-type: none"> • Focused and disciplined long/short investing within global emerging markets with eye on lower volatility and liquidity • Searching for opportunities with either significant upside potential (longs) or downside risk (shorts) • Investing in large cap stocks on recognised exchanges <p>The fund management team is close-knit and has been together since inception, with new future stars being added to the team in recent years. They were raised and educated in emerging markets and have personal experience of political change and uncertainty, currency volatility and the emergence of a new middle class. CFM believes that this experience is essential in managing funds in emerging markets.</p> <p>The CFM funds include:</p> <ul style="list-style-type: none"> • Hollard Stable Strategy (L/S Equity, South Africa) • CFM Market Neutral (L/S Equity, South Africa) • CFM Performer (L/S Equity, South Africa and Cayman) • Sanlam Flexible Fund (Long only, South Africa) • CFM GEMS fund (US\$, GBP and EUR L/S Equity, Cayman entity with team based in UK) and Lyxor UCITS
Who is Anchor?	<p>The Anchor Group is a JSE-listed financial services holding company with a market capitalisation of over R2.3 billion (US\$170m) as at 9 October 2015. Its share price has risen from R2 to over R14 in its first year of listing, reflecting the market's assessment of future growth prospects. The primary business in the group is Anchor Capital, which is South Africa's fastest growing asset manager, with R21 billion (US\$1.6 billion) of assets under management and advice. The fundamentally-driven investment team is over 20-strong and the company is the top performing equity manager in SA over the last 12 and 24 months.</p> <p>The company has a strong distribution capability, with offices throughout the country and has experienced meaningful inflows for the last four years, which is when the current management team took over the business. Assets under management and advice have grown by 150% in the first nine months of 2015. The listed status has enabled Anchor to acquire strategic distribution businesses, driving consistent growth in assets under management.</p> <p>Anchor has primarily (and initially) focussed on the long-only space in South Africa. The majority of its assets are in the high net-worth private wealth environment, but it has begun achieving meaningful penetration</p>

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	<p>into institutional markets. Anchor has expanded its capabilities into the fixed income space and it has a nascent hedge fund business (R700m in assets), which operates long-short portfolios focussed on SA investments. Anchor's client base has a strong appetite to invest funds offshore and it has a strategic objective of expanding its offshore offering.</p>
<p>Is it a concern that some of the managers are reducing their beneficial interests?</p>	<p>No there is no concern. In fact the nature of the transaction is such that the managers, if anything, are further aligning and entrenching themselves in the business of CFM.</p> <p>This is evidenced by the fact that:</p> <ul style="list-style-type: none"> • the managers have committed to reinvest a significant portion of the cash proceeds back into CFM funds for a period of two years, receiving both the upside and downside of the funds' performance • certain key managers have agreed to minimum three year employment contracts; • both before and after the transaction, the managers' economic interests in the CFM business represents a material portion of their individual wealth, with the managers post transaction interests being greater than that of most large global hedge fund businesses. • the managers (like all the sellers) are receiving Anchor shares, reinforcing their exposure to broader group performance;
<p>What changes for CFM investors?</p>	<p>Nothing. The investment team is unchanged and the fund managers have committed to the long term of CFM, as evidenced above.</p> <p>Anchor will add significant value to the CFM group, contributing vast asset management experience, corporate muscle, distribution capabilities, talent attraction and assistance in the growth of the CFM business, but there are no changes to the style, team, process, investment, philosophy or any other aspects of to how the funds are managed.</p>
<p>What is Anchor's rationale for the deal and strategy for the quantum of stake taken in CFM?</p>	<p>Besides the strategy outlined below, Anchor is passionate about quality and investment excellence. Anchor is familiar with the CFM team and they stand out as one of the highest quality hedge fund teams in SA and emerging markets. CFM is also in a high-growth phase and represents an attractive acquisition.</p> <p>Anchor's stated strategy has been to:</p> <ol style="list-style-type: none"> 1) Build high-quality asset management capability across all asset classes and geographies, both organically and acquisitively; and 2) To grow (by buying and building) a distribution network which feeds into the asset management engine. <p>With reference to (1): The CFM transaction fits squarely into Anchor's strategic intent and the CFM product range broadens Anchor's asset management capabilities. From an international perspective, CFM is a key part of Anchor's expansion and adds considerable emerging market</p>

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	<p>expertise. From a local perspective, hedge funds in SA are entering an exciting new phase, driven by changes in legislation which will broaden access to alternative assets. Exposure to one of SA's biggest hedge fund businesses, with top performing 13-year track record, places the company well to take advantage of hedge fund growth over coming years. CFM is hence highly complementary to Anchor's existing asset management business.</p> <p>With reference to (2): As part of Anchor's investment offering, CFM funds will naturally benefit from Anchor's powerful distribution growth, especially in the offshore space. The CFM funds will make an exciting addition to the products that Anchor can offer to its clients.</p> <p>As a people business, Anchor had no desire to own 100% of CFM. It is important that fund managers remain highly incentivised and retaining equity is an effective way of doing so. In turn, Anchor intends dedicating material distribution resources to the CFM business and wanted to own sufficient equity for CFM to be a material component of the Anchor Group. The final equity stake was a result of attempting to achieve the appropriate balance of these factors.</p>
<p>What is CFM's rationale for the transaction? (included herein the rationale for the selling shareholders)</p>	<p>Anchor is a highly-respected SA asset management group and is a new rising star on the SA investment scene. CFM was impressed with the growth, commitment to quality and entrepreneurial approach of the Anchor management. CFM believes that the access to experience and talent, and the synergistic fit within Anchor's distribution network will translate into a continued path of growth and success for the CFM group and most importantly the business's investors. The selling shareholders had no desire to exit fully, given the exciting growth prospects and 13 years of involvement in the business, but were prepared to partly sell down to introduce a value-adding asset management partner.</p> <p>The other attractions to CFM mirror some of the Anchor rationale explained above. The positioning within Anchor's suite of products, with respect to the Anchor distribution force, is attractive to CFM from an asset growth perspective.</p> <p>In addition, as a listed business with material balance sheet capacity, the parties were able to agree on a price which balanced the current status of the business and future growth prospects. The CFM shareholders also found exposure to the Anchor share attractive, especially considering that they will play a meaningful role in the success of the company and consequent share price action.</p>
<p>Who is selling and is anybody exiting?</p>	<p>All of the shareholders are diluting a portion of their stake. All of the shareholders are maintaining a stake in CFM and will receive a material portion of their value (26%) in Anchor shares. This portion maintains additional exposure to CFM.</p>
<p>Will the management structure change with</p>	<p>Anchor has no intention of changing the magic that has made CFM what it is today and at global investment level there will be no interference in</p>

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Anchor being the largest shareholder?	the process. Anchor and the existing shareholders will have an equal number of directors on the board.												
Does Anchor have any experience in running single managers? How can it add value to the process?	Yes Anchor has extensive experience. Anchor is a JSE listed asset management business with over R21 billion of assets under management, with an incredibly strong distribution platform. The company has raised R555 million in its first year of being listed and is expanding aggressively, both organically and through acquisition. Anchor are on a fast-track to building out their suite of asset management offerings and CFM supplements their hedge fund offering and is the first step in realising Anchor's global ambitions.												
Where does Anchor add strategic value internationally (if any)?	Anchor manages direct offshore share portfolios, but does not have specific global management experience in its current form and this is part of the attraction of the CFM partnership. However, Anchor has evidenced a strong ability to grow an asset management business and these principles are globally transferable. Anchor does not intend to make wholesale changes to a global strategy that has shown strong results.												
Do you expect flows of monies into the Capricorn managed funds? In SA? In UK? If yes any preferential rebates/side letters?	Yes inflows are expected both locally and abroad. No preferential/side letters are envisaged at this point.												
What is Anchor's plan with regard to using the CFM brand in both the UK and SA?	<p>There are no plans to change the CFM brand. CFM has developed a strong brand over seven years in the UK and it makes sense for this to be supported and developed further.</p> <p>From an SA perspective, Anchor recognises that the CFM brand stands out as one of the highest quality hedge fund teams in SA and emerging markets.</p>												
Post deal: Percentage holdings % material parties % by managers?	<p>The percentage holdings pre and post the deal are as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: center;">Pre deal</th> <th style="width: 20%; text-align: center;">Post Deal</th> </tr> </thead> <tbody> <tr> <td>Capricorn Group <i>(represented and held through various private entities)</i></td> <td style="text-align: center;">48.1%</td> <td style="text-align: center;">24.3%</td> </tr> <tr> <td>Trust Structure <i>(through which the managers gain economic exposure)</i></td> <td style="text-align: center;">51.9%</td> <td style="text-align: center;">28.3%</td> </tr> <tr> <td>Anchor</td> <td style="text-align: center;">0%</td> <td style="text-align: center;">47.4%</td> </tr> </tbody> </table>		Pre deal	Post Deal	Capricorn Group <i>(represented and held through various private entities)</i>	48.1%	24.3%	Trust Structure <i>(through which the managers gain economic exposure)</i>	51.9%	28.3%	Anchor	0%	47.4%
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Have any of the managers sold down? Who? Why?	The managers with smaller economic interests have not effectively sold down, but in order to facilitate the deal, a portion of the Trust Structure's equity <i>(through which the managers gain economic exposure)</i> was sold for a combination of Anchor shares and cash. All of the senior fund team members retain material beneficial interest in the business and are excited by the Anchor partnership. CFM believes Anchor is a rising star in the South African asset management environment and represents the												

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	ideal partner. All parties believe the right balance was achieved to take the business forward and meet the varying parties' objectives.
Have any managers increased stakes as a result of the deal?	No managers have increased their stake, although immediately prior to the deal the effective economic interest of some of the newer fund managers was increased.
Is there a lock in period for the managers? How long? Terms?	The key fund managers have signed three year employment contracts, retain their economic interest and there are lock-in periods for the Anchor shares as explained above.
How are existing investors impacted? / What changes for CFM?	Existing CFM investors will not be impacted by the transaction as CFM will maintain investment autonomy and can only gain by the partnership, with Anchor providing strategic complementary direction, as well as the many benefits outlined in the transaction rationale above.
How do the parties view the environment for hedge funds in SA and in Europe in the future?	<p>The hedge fund industry in South Africa is about to enter a period of exciting and significant change. Recent legislation provides the opportunity for hedge funds to launch as collective investment schemes in coming months. This will make them more accessible to financial advisors and the general investment public, and this could therefore see a period of strong growth in the industry.</p> <p>From an international perspective, investment in alternative strategies is at a far more advanced stage than SA. Hence the industry is on a different scale and growth potential for a small to medium sized fund is significant. We expect investors to continue to view alternative investments as an important component of investment strategies. CFM has seen significant growth in demand for and investment into its offshore funds and we expect this trend to continue.</p> <p>As is always the case, a change in regulation can always impact any part of the investment world.</p>
Will my account terms, conditions, and fee schedule being impacted in any way?	Existing CFM investors will not be impacted by the transaction and can only gain by the partnership
If I have funds invested with CFM and Anchor, will my funds be consolidated?	No, CFM will maintain investment autonomy
Will the functions and systems of investment reporting being altered in anyway?	No, CFM will maintain investment autonomy
Will my day to day dealings that I have become accustomed	No, CFM will maintain investment autonomy

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to change in any manner?	
Is this the final stages of the deal or is there more to come?	The commercial arrangements of the deal announced are the final deal. Conditions precedents and regulatory approvals still have to be met.
Where will CFM be run from? Where is mind if management?	The respective group management and infrastructure will remain unchanged.
Anchor has its own hedge fund business? What is the strategy in this respect?	Anchor has no exposure to offshore hedge funds or offshore hedge fund clients. However, Anchor has its own ambitious plans in the SA hedge fund space, after starting this division over two years ago. The bulk of this business is currently managing bespoke high-net worth client portfolios, but Anchor has SA institutional funds which are expanding. These two businesses will run side-by-side, with separate investment processes.

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