Interim results presentation

for the six months ended 30 September 2019

FY2020

ALEXANDERFORBES
Securing your financial well-being

Dawie de Villiers
Chief executive officer

Bruce Bydawell
Chief financial officer

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Agenda

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in perspective

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H1 2020 in perspective

1

The whole is greater than the sum of its parts

From a flock of birds that move in unison to a team of rowers contributing to a team win, the whole is greater than the sum of its parts. This can take place on a small or a large scale and serves as visual inspiration for the Alexander Forbes interim results report.

We combine and integrate our unique skills, expertise and offerings across Alexander Forbes. This reflects our integrated strategy to achieve one Alexander Forbes, which is beneficial to our clients, employees and shareholders.

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Macroeconomic environment

Persistently weak economic environment expected to continue in the medium term

		Last reported	Previous five years
Economic growth (GDP)[1]	▼	**(0.6)%**	1.1%
Business confidence	▼	**+25.7**	+38.2
Unemployment rate[2]	▲	**29.1%**	26.4%
Repo rate[3]	▲	**6.5%**	6.4%
JSE All Share total returns[4]	▼	**(0.75)%**	5.87%

1. Real GDP in Q3 2019 quarter-on-quarter (seasonally adjusted and annualised)
2. Employment rate in Q3 2019
3. The repo rate reached a high of 7.0% between March 2016 and June 2017
4. The price level returns for the JSE All Share: -11.37% in 2018 and 3.1% annual average from 2014 to 2018, 7.2% 2019 to date and -0.75% HY2020 (1 April 2019 – 30 September 2019)
Source: Stats SA, Bloomberg, Trading Economics and Alexander Forbes Investments

ALEXANDERFORBES

Our strategy: ‘*future proofing Alexander Forbes*’

Laying the foundation to maintain our resilience within the SA macroeconomic environment

ONE
Alexander Forbes

Establish ourselves as an integrated player

enabling integrated operating model to better serve our clients

Advice-led

Regain market share as trusted advisor

advice-led provider of integrated retirement solutions and holistic wealth management

Client-centric

Increase visibility and accessibility

our best advice throughout our members' life journeys ensures enhanced member outcomes

Focus and Simplicity

Address internal complexity

simplify our business

shift of internal capacity towards client facing capacity

Translating macroeconomic challenges into sustainable performance and higher quality of earnings

Growth vision – five key deliverables

Opportunity to improve financial well-being

Best advice for clients

- Implement holistic employee benefits programmes
- Encourage saving and investing pre- and post retirement

Measurable client benefits

- Innovative solutions to employers
- Cost effective
- Better retirement/ preservation for individuals

Pan-Africa Solutions

- Servicing clients across Africa
- Independent of in-country presence
- Leveraging Mercer partnership

Focused business model

- Consulting, investments and administration
- Reduce complexity
- Increase agility and ease of execution
- Best people in engaging culture

Capital-Light

- Exit insurance underwriting businesses
- Deliver improved return on capital
- Optimise regulatory capital

Fundamental change in the way we do business, unlocking growth through an integrated approach that focuses on best advice for our clients

Strategic initiatives on track

Delivering sustainable change through brisk but disciplined execution

Reaffirmed our strategy as ONE Alexander Forbes

- Being advice-led is a key differentiator
- Client-centric
- Focus and simplicity

Stabilising the core

- Stabilising the client base
- Good expense management during the current period
- Advice-led consulting model for pan-Africa through the ARRIVE platform gaining traction
- Regulatory financial controls

Exiting non-core

- Sale of the South African short-term insurance business well advanced
- Disposal of group risk and retail life in progress
- Disposal of interest in Zambia and Uganda and sale of Namibian short-term insurance business underway

Implementing the new operating model

- ONE Alexander Forbes
- Executive and management committees in place
- Implementation of the integrated operating model on track
- Change management – employee engagement continuing

Company performance

Stable performance during H1 2020 in a constrained environment

Operating income
up 1% ▲
to R1 588 million
up 3% for total operations[1]

Profit from operations[2]
up 3% ▲
to R403 million
up 13% for total operations[1]

Cost-to-income ratio
of 74.6% ▼
from 75.1% (Sept 2018)

Cash generated[3]
from operations
remains strong
at R489 million ▲

Headline earnings per share
up 42% ▲ to 24.5 cps

Interim dividend declared of
18 cps (2018: 18 cps)

1. Refer to note 9 discontinued operations of the condensed consolidated financial statements contained in the results announcement
2. Operating profit before non-trading and capital items
3. Cash flow generated from continuing operations

Business review

2

Retirements consulting

Stable performance in a persistently challenging operating environment

- Operating income down by 2% to R460 million
  - due to weak economy, increased competition and impact of historical client losses in the previous financial year
- Early signs of stabilisation across standalone and umbrella fund offering
  - key relationships being re-established and servicing standards improving
- Simplifying and rationalising products across our umbrella fund offering in line with our client needs

New business wins in umbrella funds
186
appointments across AFRF and AF Access

Active members in umbrella funds
up **3%**
367 570

Umbrella fund AuM[1]
up **4%**
to **R83** billion

Total number of active members [2]
down **2%**
to **927 000**

1. *Assets under management*
2. *Total number of active members across standalone and umbrella funds*

Healthcare consulting

Continued strong growth in highly competitive environment

- 12% increase in operating income to R144 million
- New business wins in competitive environment demonstrating the success of our client servicing model and integrated value proposition
- Strategic collaborations yielding positive results in, specifically in sectors where we are under-represented
- The business is well represented at policy and industry level in respect of changing legislation

30
New appointments in the current period

Membership
up 3%
216 000

Investments

Our multi-management approach provides enhanced returns at reduced risk to clients

- Operating income up 1% at R634 million
  - benefits of extended product offering
  - offset by lower average AuA and AuM year on year
- AuA[1] and AuM[2]
  - while 7% down year on year owing client losses in the second half of the previous financial year, R2bn higher since March 2019
  - total client losses in the current period down to R4 billion[2]
- Our portfolios continue to do well, despite poor market performance
  - we remained well diversified in our investments
  - our portfolios benefitted from good returns in respect of private markets, fund-of-hedge funds and offshore allocations

AuA and AuM
down **7%** yoy
to **R344** billion

New business flows of
R1.6 billion with a further **R2.9** billion pending approval

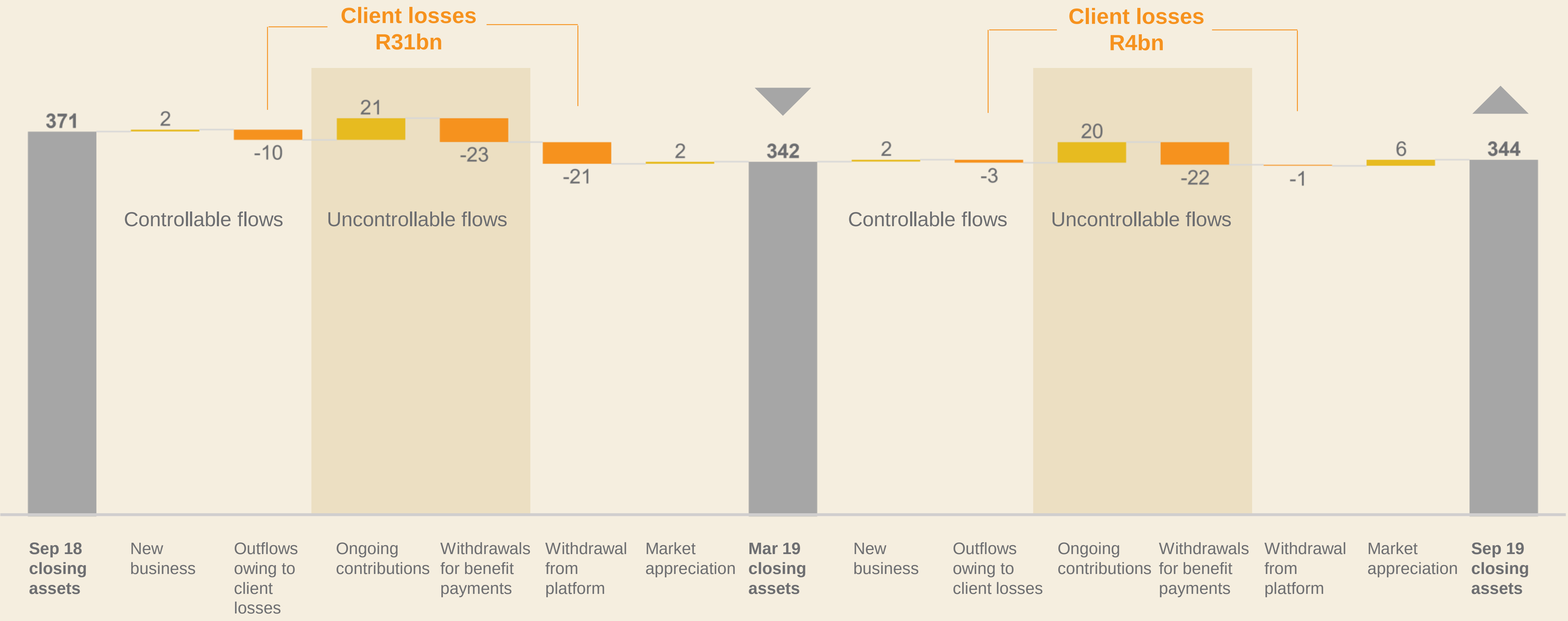
Performer, our flagship portfolio
at **R136** billion
continues to deliver returns to clients

Performer consistently ranks 1st & 2nd quartile
of Alexander Forbes Large Manager Watch Survey™

1. *Assets under administration*
2. *Assets under management*
3. *This compares to outflows from client losses of R31 billion in the second half of the previous financial year*

Investments

Movement in AuA and AuM (H2 2019 vs H1 2020)



Individual consulting

Changing member outcomes and behaviour through AFRIS and retirement benefits counselling

- Operating income up 2% to R222 million
- Decline in the preservation rate[1] to 53% owing to prevailing economic conditions
- Retention rate[2] impacted by lower preservation rate
- AFRIS, our flagship solution, showing measurable benefits through better savings and retirement outcomes for members
  - Preservation rate for funds adopting AFRIS higher at 62%
  - Retention rate higher at 32%
- Continued focus on changing savings behaviour to enhance member outcomes

Assets under advice
up **2%**
to **R72 billion**

AFRIS AuA
up **70%**
to **R4.6 billion**
since March 2019

Retention rate
for all funds
at **22%**
from 23% in the previous comparable period

Retention rate
for funds that adopted AFRIS
at **32%**
achieving better savings outcomes

1. *The percentage value of retirement funds that are transferred to preservation or retirement solutions after an employee resigns or retires from a company*
2. *Retention rate refers to the percentage of preserved assets that remain with Alexander Forbes*

Multinational consulting

Consulting activities in Botswana, Namibia, Channel Islands and the ARRIVE platform

- Operating income up 5%
  - performance from Botswana (up 9%) and Channel Islands (up 8%), offset by flat growth reported in Namibia
  - ARRIVE starting to gain traction - secured 50 mandates
- ARRIVE: solutions for clients across Africa through our advice-led platform in collaboration with Mercer
  - de-risked growth potential across pan-Africa through ARRIVE
  - delivery footprint through in-country service provider network in 49 countries across Africa

ARRIVE

solutions for clients across Africa through our advice-led platform in collaboration with Mercer

Secured mandates with
31 companies
to date and
19 broker
appointments in SA

Financial review

3

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Analysis of operating income[1]

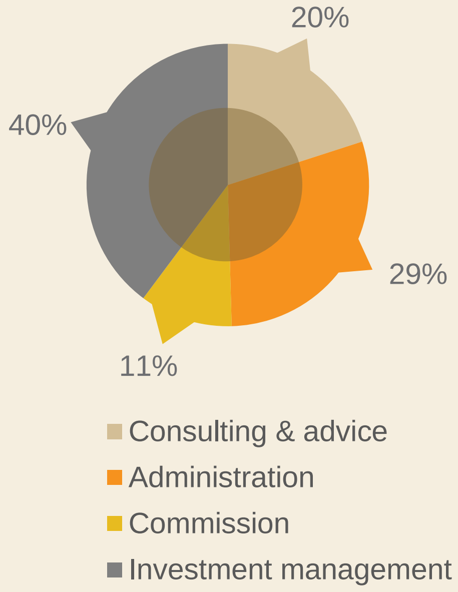
Stable result amid challenging macroeconomic environment

Operating income

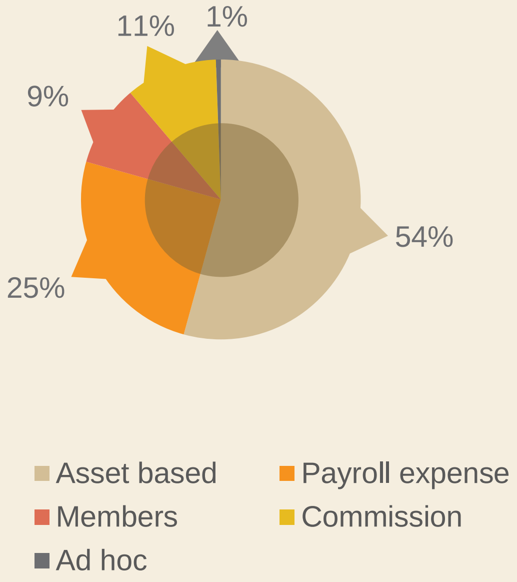
six months ending 30 September (R million)	2019	%	2018
Retirements consulting	460	(2)	471
Healthcare consulting	144	12	129
Investments	634	1	630
Individual consulting	222	2	217
Multinational consulting	123	5	117
Other	5	(29)	7
Total	**1 588**	**1**	**1 571**

Disaggregation of operating income

By type



By driver



1. *Operating income net of direct expenses*
2. *Other income relates to IT services rendered to an external third party. This third party formed part of the group historically and was disposed of in a prior year.*

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Analysis of operating expenses

Good expense management in H1 2020

Operating expenses

six months ending 30 September (R million)	2019	%	2018
Total personnel costs	749	5	713
IT costs	172	6	163
Premises	121	(3)	125
Professional fees	74	(16)	88
Insurance costs	32	10	29
Marketing & communication	37	(24)	49
Claims & bad debts	12	33	9
Other expenses	78	(1)	79
Total adjusted operating expenses	**1 275**	**1.6**	**1 255**
Penalty cost relating to termination of IT contract	–		50
Recoveries from discontinued operations (stranded costs)	(54)		(87)
Adjustment for IFRS 16 *Leases*	(36)		(38)
Total	**1 185**	**0.4**	**1 180**

Operating expenses

- Well controlled
- Reduction in non-recurring penalty cost relating to termination of IT contract in prior period
- Cost-to-income ratio reduced to 74.6% from 75.1%

Stranded costs

- Costs allocated from central functions that could not be separated and included in the sale of AF Insurance
- While the stranded cost exposure is being closely managed, this is likely to place pressure on the cost-to-income ratio

Summary IFRS income statement *(items below profit from operations)*

Profit from operations up 3% reflecting muted top-line growth and disciplined cost control

six months ending 30 September (R million)	2019	%	2018
Profit from operations before non-trading items and capital items	403	3	391
Non-trading and capital items	(42)	(83)	(247)
Operating profit	361	>100	144
Investment income	84	-10	93
Finance costs	(72)	7	(67)
(Loss)/profit from accounting for policyholder investments	(6)	<100	20
Profit before taxation	367	93	190
Income tax expense	(117)	(15)	(137)
Profit for the period from continuing operations	250	>100	53
Profit/(loss) from discontinued operations (net of tax)	92	>100	(93)
Profit/(loss) for the period	342	>100	(40)
Profit/(loss) attributable to:			
Owners of the company	296	>100	(43)
Non-controlling interest	46	>100	3

- Decrease owing largely to the non-recurring software development assets write-off (R147m) in the previous comparable period and a reduction in consulting expenses
- Includes R38m associated with the finance lease liability resulting from the adoption of IFRS 16 *Leases*
- Effective normalised tax rate of 31% due to net exempt income, unutilised tax losses and disallowed expenses

Discontinued operations

Disposal of AF Insurance well-advanced, other business in progress

H1 2020 performance

- Increase in operating income (up 13%) driven by higher gross written premium (in both short- and long-term insurance) and lower loss ratio
- Reduction in operating expenses (down 3%) due to allocations that result from the transitional services relating to the AF Insurance
- The stranded costs[1] incurred due to the anticipated sale are included in the operating expenses of the continuing operations

Update on disposals

- Disposal of AF Insurance well advanced
  - Competition Commission approval received, awaiting Prudential Authority approval
  - Transaction expected to close early in 2020
- Separate disposals of the group risk business in South African, the Namibian short-term insurance business as well as the Zambian and Ugandan interests underway

- The anticipated disposal of the short-term insurance business will be reported in our full year results
- While the profit on sale will be dependent on the final date of the transaction closing, the salient details of the transaction include:
  - Sale proceeds of R1 938 million plus interest (6% p.a.) from 1 April 2019 to closing
  - Net asset value of the business of R728 million[2]
  - Net asset value will increase by the retained profits for the year to the date of the sale
- The base cost of this business is negligible because the business was built by Alexander Forbes and the associated capital gains tax payable on the sale will be applied to the proceeds

1. Costs that would previously be absorbed by the discontinued operations but will remain following disposal (these costs include allocations of central shared costs, premises costs and IT costs)
2. Disclosed in our annual financial statements for the year ended 31 March 2019, includes goodwill associated with the business of R445 million resulting from the 2007 private equity transaction

Headline earnings and dividend per share

Interim dividend of 18 cps declared during the period

six months ending 30 September	2019	%	2018
Weighted average number of shares in issue (million)	1 223	(2)	1 245
Headline earnings per share (cents)	24.5	42	17.3
Earnings/(loss) per share (cents)	24.2	>100	(3.5)
Normalised headline earnings per share	**27.2**	43	19.0
Interim dividend	**18**	–	18

Excluding the non-recurring software development assets write-off and other headline adjustments, headline earnings improved by 39% to R299m

Calculation of weighted average number of shares

million	Sept 2019
Shares in issue	1 333
Treasury shares	(104)
Normalised weighted average shares	**1 229**
Policyholder treasury shares	(6)
Weighted average number of shares in issue[1]	1 223

Share cancellation

- The group cancelled 53m AFH shares, acquired in previous periods as part of the share buyback programme. These shares were withdrawn on the JSE on 26 August 2019

African Rainbow Capital (ARC) flip-up

- On 20 January 2017 shareholders approved the transaction that introduced ARC as an empowerment shareholder
  - ARC invested in the African operations by acquiring 10% of Alexander Forbes Limited for a total cash consideration of R753 million
- As part of this transaction, ARC has a flip-up to the listed entity (AFH) that occurs in February 2020. This is non-dilutive to existing shareholders

1. Net of treasury shares

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Cash flow, available cash and balance sheet

Robust balance sheet supported by strong cash flow generation of the underlying operations

Cash generated[1]
from operations
remains strong
at R489 million

Tangible net asset value
up 3%
to R2 965 million

Average equity
down 2%
to R5 769 million

Available cash resources
R715 million

Return on tangible NAV
23.6%
from 12.2% (in March 2019)

Return on equity
12.1%
from 5.9% (in March 2019)

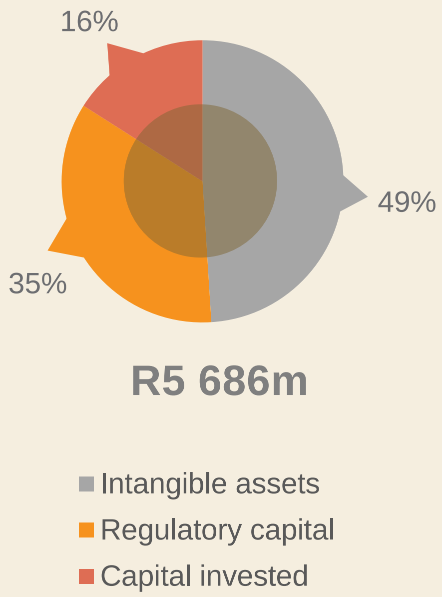
1. *Cash flow generated from continuing operations*

Our capital reduction journey

Commenced with our capital reduction journey to reduce surplus capital over the next 18 months

- Capital reduction plans include
  - Distribution of available capital above our solvency cover ratio
  - Maintain target dividend cover of 1.5 to 2.0 times
  - Exit of insurance business to release regulatory capital and intangible value associated
  - Restructure of businesses to reduce inefficient regulatory capital
  - Reduction in surplus capital through distribution
- Future acquisitions to be considered through capital efficient borrowing structures

H1 2020 Capital composition



- Our equity includes intangible assets[1] (49% of NAV) that relates to the private equity transaction in 2007
- Regulatory capital – based on the prudential standards for Solvency Assessment and Management together with applying a cover ratio of 1.2 times

1. Internally generated and does not represent invested capital

Concluding remarks

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Outlook

The benefits of our strategy will take time to reflect fully in our results

- Provide clients with outstanding service and solutions using our advice-led approach
- Client retention and winning new business
- Engage our best people and improve culture
- Finalise the full implementation of the integrated operating model
- Embed our integrated service model
- Conclude the sale of the insurance business, while managing stranded costs
- Convert the Alexander Forbes sponsored umbrella funds to being privately administered
- Continue to simplify and rationalise our product offering

We are confident that through our new integrated value proposition, our clients will benefit from our best advice and enhanced member outcomes. And it will reflect favourably in the quality of our earnings and the future performance of our business.

Measuring our success

Our targets over the medium-term

Operating income
Improving top line growth through core business

Target:
8%-10%[1]

Cost to income
Operating model to introduce efficiencies and improve productivity

Target:
<70%

Return on equity[2]
Capital-light model

Target:
>14%

1. 5 year compound annual growth rate
2. Return on equity (including intangible net assets in the calculation of equity value)

Thank you

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Alexander Forbes Group Holdings Limited
Tel: +27 11 269 0000 115 West Street, Sandown
P.O. Box 787240, Sandton, 2146, South Africa

www.alexanderforbes.co.za