ARC INVESTMENTS

This policy refers to the valuation of investments in the The ARC Fund as applied by the General Partner. It has been reviewed by the Board of ARC Investments and found appropriate.

Valuation policy

Understanding the portfolio

The ARC Fund portfolio can be categorized into two distinct categories:

Early stage businesses

Certain businesses within the portfolio are start-up businesses and in the early stage of their growth trajectory. Given where they are in their life cycle, there is a lower confidence level in terms of projected cashflows and profitability and ability to demonstrate their delivery of the 16% hurdle compared to more mature businesses. Moreover, some of these businesses, given the stage they were at on their j-curve, these businesses would also require time and more attention in unlocking their ability to deliver fully on the UBI strategy. As such, the valuation considerations of these businesses in spite of being in the portfolio for a period of over a year and thus being eligible for revaluation, may be applied somewhat differently and would require a higher level of judgement than for mature businesses.

Mature businesses

Mature businesses by their nature typically have a higher probability to deliver on expected cash flows and profitability at the time of investing. These investments are thus subjected to the fair value measurement principles articulated below.

Fair value measurement of the investment in the ARC Fund

The basis of valuation of the Investment in the ARC Fund is dependent on the basis of valuation of all investments in the ARC Fund Portfolio. The basis of valuation of all investments in the ARC Fund Portfolio and consequently the Investment at fair value through profit or loss (FVTPL), is fair value. Fair value is determined at the end of each quarter. All investments are valued in accordance with the valuation policy outlined below.

The sum of the individual instruments plus the cash and net assets in the ARC Fund make up the investment in the ARC Fund. The valuation of the individual assets is in line with IFRS 13, therefore the sum of these represents the IFRS 13 fair value of the investment in the ARC Fund.

The General Partner values the investment portfolio in accordance with its valuation policy. The valuation policy considers the International Private Equity and Venture Capital Valuation Guidelines (IPEV Guidelines) and is consistent with the below detailed valuation approach, which will be consistent year on year except where there have been changes in circumstances in relation to an investment, and therefore the impact of such change would be disclosed.

Basis of valuation and approach

The fair value approach of the investments in the ARC Fund was determined as at the measurement date in accordance with the principles of IFRS 13, Fair Value Measurement. Fair value is defined as the price that would be received for an asset in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that a hypothetical transaction to sell an asset takes place in the principal market or in its absence, the most advantageous market for the asset.

For listed investments which are suitably liquid investments, the available market prices (calculated at spot on reporting date) will be the basis for the measurement of the IFRS Portfolio Value for identical instruments.

Where investments in listed assets are thinly traded, due consideration needs to be given to the fact that the price at which the share trades may not be representative of the fair value of these investments. As such ARC management may duly consider whether the cost of the investment or an appropriate fair value may not be a better representation of the fair value than the quoted market price on the exchange.

For unlisted investments, the primary valuation methodologies applied are the income approach (IA) and discounted cash flow (DCF), compared against a market approach (MA), where appropriate.

The General Partner uses its judgement to select the valuation technique most appropriate for an investment. The use of multiple valuation approaches on an investme nt is encouraged. On a specific investment, a single valuation technique or approach may be appropriate (e.g. when valuing an asset using quoted prices in an active market for identical assets).

If multiple valuation techniques or approaches are used to measure fair value, the results of the various valuation methods are evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

In determining the fair value of an investment, the General Partner uses its judgement. This includes consideration of those specific terms of the investment which may impact its fair value. In this regard, the General Partner would consider the economic substance of the investment, which may take precedence over the strict legal form. The General Partner would take the results of each of the valuation methods applied into account in concluding the final value of an investment.

Foreign investments are those considered to be in jurisdictions outside of South Africa. These are valued in the local currency of the country of investment and translated to Rand at the spot rate at the valuation date.

Lack of control/minority interest: To the extent that an investment is a minority interest and is not able to be easily realised, an appropriate minority discount would be considered. However, to the extent that the ARC Fund has certain rights in respect of an investment (such as minority protections or Board representations) these rights would be considered in the IFRS Portfolio Value of the investment in arriving at a control premium adjustment.

Restriction on trading: To the extent that the ARC Fund is restricted from disposing of the investment for a period of time, this restriction would be considered in the IFRS Portfolio Value of the investment in arriving at a marketability discount adjustment.

Income approach methodology

When applying the income approach, the General Partner will consider the appropriateness of any sensitivity and/or scenario analyses.

Discounted cash flow m ethodology

The discounted cash flow method is used to derive the enterprise value of the investment using reasonable assumptions on the estimations of expected future post-taxation cash flows and the terminal value (free cash flows to the firm), and discounting to the present value by applying the appropriate risk adjusted rate that captures the risk inherent to the projections weighted average cost of capital (WACC). To arrive at an appropriate equity value, an adjustment for net indebtedness will be made. Where appropriate, an adjustment to the valuation would be made for surplus non-operating assets and liabilities in the investment.

In some valuations (for example, insurance and banking valuations), the use of free cash flow to equity might be preferred.

The length of period for which it would remain appropriate to use this valuation technique will depend on the specific circumstances of the investment and is subject to the judgement of the General Partner.

Market approach methodology

If a multiple approach is used, where appropriate, the General Partner would apply an Enterprise Value (EV)/earnings before interest, taxation, depreciation and amortisation (EBITDA) or price/earnings (P/E) multiple that is appropriate and reasonable, based on comparable companies and taking account of the size, risk profile and earnings prospects of the underlying company. In other cases, where appropriate, EV/EBITDA and price/book value may also be considered.

The General Partner as Fund Manager of the portfolio assets is contractually bound to perform fair valuation of the Portfolio Companies on a quarterly basis and provide quarterly accounts and valuation reports with respect thereto to the partners of the ARC Fund after approval by the Board of Directors of the General Partner on recommendation for such approval by the Audit and Risk Committee of the General Partner with the support, guidance and direction of the Investment Committee. Whilst the best judgement is used in determining the fair value of these investments, there are inherent limitations in any valuation technique involving securities of the type in which the ARC Fund invests. Therefore, the fair values presented herein may not be indicative of the amount which the ARC Fund could realise in a current transaction.