



ARC

INVESTMENTS

2022

Integrated Annual Report

MATERIAL MATTERS

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Determining materiality

Material matters refer to elements that could significantly impact the Company's ability to create value in the short-, medium- and long-term. The process to determine materiality takes cognisance of relevant financial and non-financial risks, opportunities and factors that could affect strategy implementation, performance, growth prospects and governance of the Company and its related entities.

Our material matters



Capital allocation should be targeted at investments where returns on capital employed exceed our required return rate



Growth in assets under management



B-BBEE Maintaining our **Black ownership status** is a key competitive advantage



Enhancing stand-alone investee company performance by **exploiting synergy opportunities**



Maintaining and leveraging **good stakeholder relations** and networks



Global societal issues which impact our businesses

OUR STRATEGY	OUR CAPITALS IMPACTED	OUR KEY RISKS		
<ul style="list-style-type: none"> Build Optimise Grow 	<ul style="list-style-type: none"> Financial Capital Human Capital Social and relational Capital Intellectual Capital Manufactured Capital Natural Capital 	<ul style="list-style-type: none"> Country/Geographical/Global Investment Financial Regulatory Reputational Human Capital 		
MATERIAL MATTER	RISKS AND OPPORTUNITIES	OUR RESPONSE	STRATEGIC IMPACT	CAPITALS IMPACTED AND OUTCOME



CAPITAL ALLOCATION

Funds are directed to achieve strategic objectives and meet required internal hurdle rate.

Stakeholders affected:

- Investee companies
- Shareholders
- Funders

FINANCIAL INVESTMENT

Risks

- Failure of major investments
- Partnership risks
- Non-adherence to the investment framework
- Inability to raise capital
- Interest rate increases

Opportunities

- Optimising financial returns through an optimal capital allocation model
- Exit framework based on following elements:
 - portfolio assets that contribute less than 2% of total Fund value;
 - are no longer a strategic fit;
 - are likely not to meet the required hurdle rate and ex-growth; and
 - where cash can be freed up to fund priority future opportunities over the medium term

- Implementation of the investment policy that guides the capital allocation
- Monitoring of outcomes and considering adjustments to the investment portfolio, where relevant

BUILD

- Optimal use of capital underpins sustainable growth
- Judicious capital allocation enhances ARC Investments' ability to raise capital from investors and/or funders

FINANCIAL SOCIAL

- Enhances investment case and sustainability of the business
- Inspires stakeholder confidence in the leadership of the business



GROWTH IN ASSETS UNDER MANAGEMENT (AuM)

Growth in existing assets demonstrates effective capital allocation and improves the financial viability to acquire new assets.

This is a key indicator of value creation and supports share price movement as well as the Company's ability to raise capital.

Stakeholders affected:

- Investee companies
- Shareholders
- Funders

FINANCIAL REPUTATIONAL INVESTMENT

Risks

- Failure of major investments
- Partnership risks
- Non-performance of major assets
- Liquidity risk
- Poor economic growth

Opportunities

- Disposing of portfolio assets will bolster our cash position, which would support investments in new growth assets
- Driving synergies between relevant businesses will increase AuM
- As ARC Investments builds its reputation as a leading investment holding company, it creates the possibility of forming new partnerships to grow AuM

- Our investment philosophy favours a balance of late-stage new and disruptive enterprises and established businesses, backing good investee company leadership
- Engaging investee company leadership through regular management meetings and/or Board meetings

GROW OPTIMISE

- Enhances our investment case and ability to attract capital for new investments

FINANCIAL SOCIAL

- Proof that the Group's value proposition is relevant to all stakeholders
- Supports the ARC Fund's growth ambitions
- Supports an increase in the share price and capital appreciation for shareholders

MATERIAL MATTERS

MATERIAL MATTER	RISKS AND OPPORTUNITIES	OUR RESPONSE	STRATEGIC IMPACT	CAPITALS IMPACTED AND OUTCOME
 MAINTAINING OUR BLACK OWNERSHIP STATUS IS A KEY COMPETITIVE ADVANTAGE				
<p>Maintaining the B-BBEE status of the ARC Fund is key to the value proposition offered to investee companies.</p> <p>Long-term share price appreciation and returns ensure that the broad base of black shareholders in UBI (individuals and groups) continues to benefit through this relationship.</p> <p>Stakeholders affected:</p> <ul style="list-style-type: none"> - Shareholders - Investee companies - Communities 	<p> REGULATORY</p> <p> REPUTATIONAL</p> <p>Risks</p> <ul style="list-style-type: none"> - Adverse changes to the BEE codes <p>Opportunities</p> <ul style="list-style-type: none"> - Information sharing roadshows to stakeholders, in particular Black shareholders, to ensure that they remain invested 	<ul style="list-style-type: none"> - Proactively engaging with the BEE Commissioner to keep the Company abreast of any potential changes to legislation - The Group pro-actively communicates with its empowerment shareholders on an ongoing basis and provides updates on the financial health of the UBI Group 	<p> GROW</p> <ul style="list-style-type: none"> - Our solid empowerment credentials allow us to continue offering value to both investee companies as well as shareholders 	<p> FINANCIAL</p> <ul style="list-style-type: none"> - Access to lucrative investment opportunities - Delivering on our value proposition to investee companies <p> SOCIAL</p> <ul style="list-style-type: none"> - Better informed shareholders, keeping broad-base structure intact
 ENHANCING STAND-ALONE INVESTEE COMPANY PERFORMANCE BY EXPLOITING SYNERGY OPPORTUNITIES				
<p>Investment decisions consider both the strength of the stand-alone business and potential synergy opportunities.</p> <p>Opportunities for synergy lead to enhanced value creation at investee company level and further strengthens the ARC Investments' business case.</p> <p>Stakeholders affected:</p> <ul style="list-style-type: none"> - Shareholders - Investee companies 	<p> FINANCIAL</p> <p> INVESTMENT</p> <p>Risks</p> <ul style="list-style-type: none"> - Non-performance of investee companies - Investee company leaders failing to exploit significant synergy opportunities <p>Opportunities</p> <ul style="list-style-type: none"> - Introducing relevant investee company leaders to explore specific synergy opportunities which carry significant commercial prospects - Within the Financial Services part of the investment portfolio, opportunities exist to encourage interaction between leaders in the same sector (e.g. asset management) 	<ul style="list-style-type: none"> - ARC hosts an annual Business Partner Conference to create a platform where interaction among investee company leadership is facilitated - It provides the opportunity for the investee company leaders to engage and explore synergy opportunities 	<p> OPTIMISE</p> <p> GROW</p> <ul style="list-style-type: none"> - Opportunity to explore joint corporate activity, partnerships or strategic alliances among relevant investee companies, which could result in a reduced number of companies in the portfolio - Where synergy opportunities make sense, the possibility of close collaboration or corporate activity may arise - Synergies may enhance the growth potential of relevant investee companies 	<p> FINANCIAL</p> <p> INTELLECTUAL</p> <p> MANUFACTURED</p> <ul style="list-style-type: none"> - Improved investor confidence - Enhances ARC Investments' value and the value of the Company's brand

MATERIAL MATTER	RISKS AND OPPORTUNITIES	OUR RESPONSE	STRATEGIC IMPACT	CAPITALS IMPACTED AND OUTCOME
 MAINTAINING AND LEVERAGING GOOD STAKEHOLDER RELATIONS AND NETWORKS				
<p>Good stakeholder relations are imperative for sustainable success.</p> <p>The Company is likely to succeed where it offers value to stakeholders and realises value from them.</p> <p>Stakeholders affected:</p> <ul style="list-style-type: none"> - Investee companies - Funders - Shareholders - Sanlam - Regulatory bodies - Media - Communities 	<p> REPUTATIONAL</p> <p>Risks</p> <ul style="list-style-type: none"> - Shareholders <ul style="list-style-type: none"> · Widening discount to net asset value · Non-performance of major investments - Investment partners <ul style="list-style-type: none"> · Investment partners who are embroiled in governance issues · Politically exposed people · Adverse changes to BEE codes - Human capital <ul style="list-style-type: none"> · Leadership and key management risks · Staff incentives and retention · Skills and resourcing capacity <p>Opportunities</p> <ul style="list-style-type: none"> - Deriving value from the relationship requires the Company to clarify expectations with stakeholders - Ongoing opportunities to facilitate interaction between key stakeholders, i.e. investee company leaders or senior representatives to identify value unlock opportunities that could be mutually beneficial 	<ul style="list-style-type: none"> - Stakeholder relations are managed at an executive level to prioritise engagements with stakeholders - Management is considering specific initiatives to deepen its stakeholder relations offering 	<p> GROW</p> <ul style="list-style-type: none"> - Stakeholder relations will be directed to support Company strategy implementation 	<p> SOCIAL</p> <p> INTELLECTUAL</p> <ul style="list-style-type: none"> - Enhances the Company brand - Strengthens relations with key partners - Supports employees morale
 GLOBAL SOCIETAL ISSUES WHICH IMPACT OUR BUSINESSES				
<p>Our objective of adding value to stakeholders becomes even more pertinent in times of turmoil and hardship.</p> <p>Societal and global issues may impact the performance of our investee companies and their ability to achieve performance targets.</p> <p>Stakeholders affected:</p> <ul style="list-style-type: none"> - Communities - Investee companies 	<p> COUNTRY, GEOGRAPHIC/GLOBAL</p> <p> HUMAN CAPITAL</p> <p> FINANCIAL</p> <p>Risks</p> <ul style="list-style-type: none"> - Disruption to societal order which adversely impacts worker productivity - Heightened challenges to maintain adequate levels of cyber security <p>Opportunities</p> <ul style="list-style-type: none"> - The Group's broad partner network to respond appropriately in times of crises 	<ul style="list-style-type: none"> - Prioritise cash management, review capex programmes and support investee companies, as needed - Maintaining a well-diversified portfolio potentially minimises the adverse impact of major global and societal events - Stronger focus on ESG to assist with managing any adverse impact on the portfolio 	<p> BUILD</p> <ul style="list-style-type: none"> - The investment case for adequate portfolio diversification has once again been demonstrated 	<p> SOCIAL</p> <p> INTELLECTUAL</p> <p> HUMAN</p> <p> FINANCIAL</p> <ul style="list-style-type: none"> - Employee productivity maintained - Investee company performance is maintained