



ARC INVESTMENTS

2022

Integrated Annual Report



STAKEHOLDER ENGAGEMENT

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The Company believes that creating sustainable value for itself enhances its ability to create value for others. The stakeholder universe spans a broad spectrum, from institutional, regulatory and corporate entities to societal stakeholders and shareholders that benefit from, and impact on, our operations and our ability to create value.

OUR STAKEHOLDER UNIVERSE



EMPLOYEES

ARC Investments has no full-time employees or executive management. The Company, through its Partnership Agreement with UBI GP Co as General Partner and in turn its Investment Services Agreement with ARC, draws on experienced leadership teams to implement the agreed ARC Fund strategy.

Assessment of stakeholder relations

We utilise a three-point scale to indicate our view of the quality of our stakeholder relations.

Scale **1** **2** **3**

- 1 A relationship exists but needs improvement
- 2 Satisfactory relationship exists
- 3 Strong relationship exists

ARC Investments' key stakeholders, along with reciprocal expectations and primary requirements to sustain relations follow below:

SHAREHOLDERS, INVESTORS AND FUNDERS	
Engagement methods	
SENS announcements, investor conferences, investor roadshows, the Integrated Annual Report, the ARC and ARC Investments websites, financial results announcement events and UBI shareholder newsletters.	
UBI shareholders	
Why they are important to us	Quality of relationship 1 2 3
Broad-based empowerment credentials comprise a key part of our value proposition to investee companies. We need Black shareholders to remain on board to keep our empowerment proposition to stakeholders intact.	Mutually beneficial with healthy engagement through regular interaction and robust dialogue.
Stakeholder priorities	Our response
<ul style="list-style-type: none"> • Sustained wealth creation, which is characterised by growth in the UBI share price and dividend payments • Diversification of their investment portfolio • Capital appreciation and dividend payments in ARC Investments • Regular updates on the performance and growth of assets in the ARC Fund 	<ul style="list-style-type: none"> • Updates through quarterly newsletters • Growth in share price • Parent company UBI declaring dividends to its shareholders
Key risks and opportunities identified through the stakeholder engagement process	
Risks	Opportunities
<ul style="list-style-type: none"> • Shareholders who exit may devalue the broad-based empowerment status • Lack of market-related returns to shareholders • Institutional client concerns or lack of knowledge about the broad-based nature of ARCI's empowerment status 	<ul style="list-style-type: none"> • Regular shareholder communication to keep shareholders informed of progress at UBI, ARC and ARC Investments strengthens the relationship
JSE investor community (institutional and retail investors)	
Why they are important to us	Quality of relationship 1 2 3
<ul style="list-style-type: none"> • Shareholders and funders provide access to capital, which the Company invests to grow the Fund • Sustained stakeholder interest in ARC Investments supports the share price and may reduce the discount to NAV • Recognition that the Company is a competitive wealth-creation vehicle • Continue to broaden the group of prospective shareholders • Institutional shareholders remain long-term shareholders 	Healthy engagement through quarterly interaction and robust dialogue.

STAKEHOLDER ENGAGEMENT

Stakeholder priorities	Our response
<ul style="list-style-type: none"> • Generating market-related returns • Narrowing the discount to NAV at which ARC Investments' shares trade • Improved portfolio focus • Review of management fee structure • Generating free cash flow within key portfolio companies • Regular and balanced disclosure of investee company performance 	<ul style="list-style-type: none"> • Regular updates and JSE shareholder engagement opportunities • Strengthening portfolio focus through disposals • Identifying synergistic opportunities among relevant investee companies in the portfolio • Review and implement revised management fee structure • Adequate planning for capital requirements
Key risks and opportunities identified through the stakeholder engagement process	
Risks <ul style="list-style-type: none"> • Lack of understanding of ARC Investments' investment case • Lack of market-related shareholder returns • Inability to reduce the discount to NAV • Reputational damage • As minority shareholders, ARC Investments is limited in the extent to which it can disclose financial information of investee companies used for purposes of external valuation 	Opportunities <ul style="list-style-type: none"> • Capacity to deploy capital where it will add most long-term growth • Key portfolio assets generating free cash flow, which will improve investor sentiment • Disposals at close to NAV will strengthen confidence in valuations • Consistent engagement with the investment community • Engagement among key investee companies and investors to strengthen the understanding of the specific investment cases

UBI AND ARC EMPLOYEES		
Engagement methods Quarterly newsletter, weekly meetings of the ARC Executive Committee and the respective teams.	Why they are important to us Engaged and committed employees ensure the implementation of our strategies.	Quality of relationship 1 2 3 Healthy, engaged and productive.
Stakeholder priorities	Our response	
<ul style="list-style-type: none"> • Accountability and execution • Clear strategy, good leadership and a productive work environment • Appropriate rewards and incentives • Business performance • Opportunities for training, development and career advancement 	<ul style="list-style-type: none"> • Meetings addressed by the co-CEOs, with participation from all executives • The Human Resources Executive addresses the team on relevant matters • A multi-pronged performance management system rewards desired behaviours and promotes a high-performance culture 	
Key risks and opportunities identified through the stakeholder engagement process		
Risks <ul style="list-style-type: none"> • Employees are not adequately engaged and committed • Lack of accountability on key investment execution 	Opportunities <ul style="list-style-type: none"> • An attractive employee proposition to attract and retain skilled staff • Regular communication on key matters • Regular interaction between leadership and employees 	

MEDIA		
Engagement methods Regular media releases, responding to media queries promptly, facilitating access for journalists to Company leadership and inviting key media to Company financial results presentations.	Why they are important to us <ul style="list-style-type: none"> Accurate, fair and balanced reporting on the performance of ARC Investments enhances the Company's reputation An enhanced reputation supports broader stakeholder interests 	Quality of relationship 1 2 3 Healthy and productive.
Stakeholder priorities		Our response
<ul style="list-style-type: none"> Transparency as a listed entity Availability of spokespeople to address media queries, timeous response and access to leadership Clarity and consistency in governance matters Being informed via a media statement of business performance and corporate activity 		<ul style="list-style-type: none"> Issuing media statements Availability of Company leadership for media commentary Monitoring media coverage
Key risks and opportunities identified through the stakeholder engagement process		
Risks <ul style="list-style-type: none"> Downsizing of staff in newsrooms leads to relatively junior journalists covering complex investment matters, resulting in unintended misrepresentation of the Company and consequent reputational damage 	Opportunities <ul style="list-style-type: none"> Ongoing availability of key spokespeople to provide timeous commentary on the Company's business case and performance 	

COMMUNITY		
Engagement methods The Company aligns itself with the activities of the Ubuntu-Botho Community Development Trust, the Sanlam Foundation and the four community trusts.	Why they are important to us <ul style="list-style-type: none"> Positive impact on society Gaining societal support and strengthening relations Sharing our vision of building a Black business of substance and scale 	Quality of relationship 1 2 3 Well-established and of value.
Stakeholder priorities		Our response
<ul style="list-style-type: none"> Leadership who takes responsibility for commercial success, as well as working towards delivering social impact Cash injection into each of the community trusts for social infrastructure Progress on financial inclusion 		<ul style="list-style-type: none"> All community-related stakeholder relations activities receive focused attention through the Ubuntu-Botho Community Development Trust and the Sanlam Foundation
Key risks and opportunities identified through the stakeholder engagement process		
Risks <ul style="list-style-type: none"> The public perception that the Company may be indifferent to key societal challenges or needs 	Opportunities <ul style="list-style-type: none"> Strong community relationships will support mutually beneficial outcomes for community developments 	

STAKEHOLDER ENGAGEMENT

INVESTEE COMPANIES

Engagement methods

The Company continues to enjoy healthy engagement with these stakeholders. ARC Investments conducted two ESG surveys among the investee companies over the past two years to progress on ESG matters and assist in increasing ESG knowledge levels to support decision-making. Furthermore, the Company now, for the first time, has compiled case studies on key investee companies, which will be made available on the Company's website, with abridged versions published in this Integrated Annual Report.

Why they are important to us

- Investee companies drive the financial performance of the ARC Fund, which is the sole asset of the Company
- Value creation is assessed on a stand-alone individual investee company basis, as well as by way of joint efforts and synergy opportunities between respective and relevant investee companies

Quality of relationship

1 2 3

Mutually beneficial.

Stakeholder priorities

- Stable and quality empowerment credentials
- Benefits of the network of investee companies in the ARC Fund
- Business success at UBI and ARC level
- Business synergies leading to growth in client pools
- Access to funding, should it be required

Our response

- The ARC Fund is represented on the Board of almost all its investee companies and provides support and guidance at an executive and Board level
- Regular engagement between investee company leadership and the relevant General Partner representatives
- Hosting an annual Business Partner Conference to provide a platform for investee company leadership to engage
- Facilitating engagement between investee company leadership where synergy opportunities exist

Key risks and opportunities identified through the stakeholder engagement process

Risks

- Investments fail to achieve targeted returns
- Lack of appropriate disclosures and governance

Opportunities

- Putting ARC Investments' broad business network and synergy leverage to work

REGULATORY BODIES

Why they are important to us

- Creating a conducive and regulatory environment in which to thrive
- Clear and consistent guidance on rules and policies to satisfy compliance

Quality of relationship

1 2 3

The Company has adequate engagements with regulatory bodies

Stakeholder priorities

- Consistent compliance with all rules and policies
- Deepening stability of the financial system
- Non-participation in empowerment fronting
- Contribution to economic growth and employment

Our response

- General Counsel and Chief Operating Officer engage BEE Commissioner
- Strict regulatory compliance

Key risks and opportunities identified through the stakeholder engagement process

Risks

- Non-compliance could adversely impact licences of companies to operate

Opportunities

- The Company's established track record assists us with obtaining timely access and cooperation from the relevant authorities

UBI, ARC AND ARC INVESTMENT BOARDS	
Why they are important to us <ul style="list-style-type: none"> • Robust debate at Board level ensures consistent and acceptable governance practices • Strong leadership facilitates robust discussion which is aligned to the overall business strategy 	Quality of relationship 1 2 3 Transparent and credible relations with the respective Boards.
Stakeholder priorities <ul style="list-style-type: none"> • Adherence to the approved governance framework • Implementation of Board-approved strategy • Achieving budgeted financial performance • Management capability to deliver on the strategic outcomes 	Our response <ul style="list-style-type: none"> • Conducting board meetings professionally • Adherence to agreed frameworks, budgets and ethical conduct
Key risks and opportunities identified through the stakeholder engagement process	
Risks <ul style="list-style-type: none"> • Lack of agreed governance frameworks • Misalignment between the Board and management on key strategic objectives 	Opportunities <ul style="list-style-type: none"> • Utilising the Board's vast skills and experience • Where appropriate and relevant, utilise individual Board members' extensive networks

SANLAM		
Engagement methods Scheduled engagement between Sanlam leadership and Company representatives.	Why they are important to us <ul style="list-style-type: none"> • Clarity on key strategic matters to ensure we continue to add value as the empowerment partner • Opportunities for co-investment in the Financial Services industry to sustain healthy growth 	Quality of relationship 1 2 3 Transparent and credible relations.
Stakeholder priorities <ul style="list-style-type: none"> • Retaining our position as a broad-based Black empowerment investor • Effective leveraging of our expanded network to respond favourably to strategic opportunities • Certainty that the Company is a long-term investor and not putting Sanlam's empowerment status at risk • Alignment on key strategic matters 	Our response <ul style="list-style-type: none"> • Identifying co-investment opportunities to enhance stakeholder value creation • Alignment of key strategic growth opportunities 	
Key risks and opportunities identified through the stakeholder engagement process		
Risks <ul style="list-style-type: none"> • Non-alignment on key strategic matters • Lack of engagement or clarity on key strategic matters may result in inadequate value being contributed as an empowerment partner 	Opportunities <ul style="list-style-type: none"> • Co-investment opportunities • Market-related funding arrangements to ensure a long-term stable empowerment partner 	