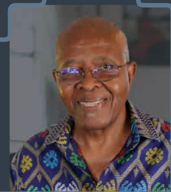
ARC
INVESTMENTS

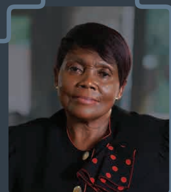


2024

RISK





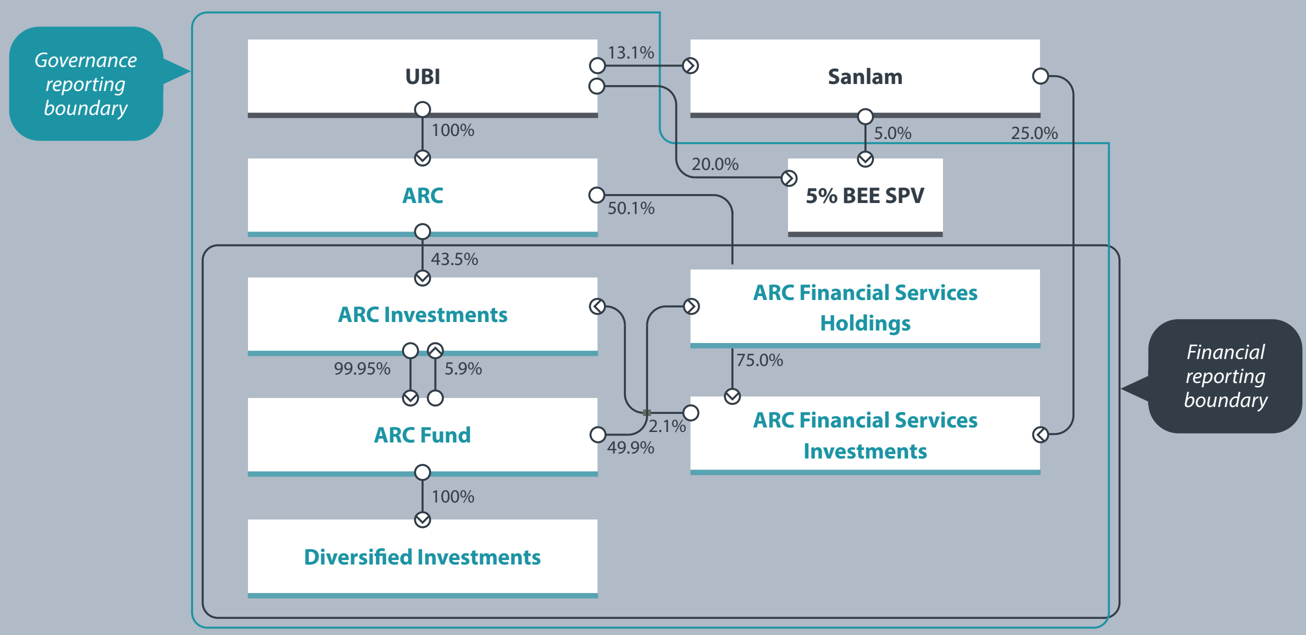
REPORT

RISK REPORT

ARC Investments Limited is an investment holding company that acquires minority interests in quality unlisted and listed businesses at a discount by leveraging its compelling empowerment credentials. The Company manages a portfolio of xx mainly South African investments, valued at Rxx million. ARC Investments Limited forms an integral part of the Ubuntu-Botho Investments (UBI) Group structure. The Company is incorporated in the Republic of Mauritius and listed on the Johannesburg Stock Exchange (JSE), with a secondary listing on A2X.

> The diversified nature of the ARC Fund investment portfolio serves as an essential mitigant against excessive concentration risk within particular sectors of the economy. It again contributed to a resilient portfolio performance notwithstanding a particularly weak economy.

REPORT BOUNDARY AND SCOPE



RISK REPORT

OVERVIEW

The responsibility and accountability for implementing an effective policy framework to enable proper risk assessment, management and oversight rests with the ARC Investments Board. The Audit and Risk Committee assists the Board in carrying out these duties, with input from the relevant Board Committees.

The risk in the Fund and its underlying investee companies' ecosystem is predominantly determined by the performance of the South African economy and related market conditions. **The following factors impacted the operating environment:**

- sovereign credit risk;
- societal/global issues;
- poor management of public funds and related allegations of grand-scale corruption and how it affects business sentiment;
- investment market performance;
- the high interest rate environment;
- increase in global inflation and yield curve rates;
- volatile exchange rates;
- disruption in the supply chain;
- prolonged status as a grey-listed country (refers to a global attempt to prevent illicit funds from being channelled toward terrorism);
- electricity and water outages;
- the risk of potential sanctions or loss of trade agreement with South Africa; and
- climate change and the impact on investee companies.

Refer to page xx in the Integrated Annual Report for more information on the operating context.

THE ENTERPRISE RISK MANAGEMENT JOURNEY

An established risk identification process enables the management team to follow well-defined steps towards establishing the risks to the business, developing action plans to mitigate the risks and identifying possible opportunities resulting from those risks.

RISK PHILOSOPHY

Ethical leadership and a high calibre of human capital are the cornerstones of the Company's risk management philosophy, as these ensure entrepreneurial flair, sensible business decision-making, sound corporate reputation and effective governance.

RISK TOLERANCE

The Company encourages the taking of controlled risks, the seizing of new opportunities and the use of innovation to further the interest of the organisation and achieve its objectives, provided that the resultant exposures are within the pre-defined risk tolerance range of the Company. The assumption of any substantial risk outside its predetermined tolerance levels requires specific discussion and approval at the Board level.

Actions that may result in any of the following outcomes constitute prohibited risk:

- non-adherence to applicable laws and regulations;
- censure/fines by regulatory bodies;
- threat to the existence of the Company;
- engaging in activities that impair objectivity and independence in decision-making; and
- creation of a material level of adverse publicity and reputational damage.

RISK REPORT

RISK APPETITE

Being a listed investment holding entity, the Company's investment philosophy is predicated on a moderate risk approach on a combined-portfolio level considering:

- an appropriate balance between early-stage (start-up) businesses, which generally carry a relatively higher business risk and increased uncertainty in terms of cash generation and cash flow cycle, and more mature businesses, which generally display relatively lower business risk, as well as a history of cash flow generation and a more predictable cash flow cycle;
- capable and experienced investment partners with an alignment of interest between the ARC Fund and the leadership at the respective investee companies;
- a market-appropriate blend of risk and return profile of the investment portfolio;
- potential concentration risk within the portfolio;
- financial ratios relevant to measuring performance ;
- the risk-reward profile of prospective opportunities;
- liquidity risk, including the availability of funding and the capital and cash flow needs of the underlying investments; and
- current and expected future funding costs.

Our approach considers a wide spectrum of risks including:

- Investment
- Country/Geographical/ Global
- Financial
- Partnership and Relationship
- Regulatory
- Governance
- Reputational
- Operational
- Human Capital

For more information on our investment philosophy, refer to page 9 in the Integrated Annual Report

RISK GOVERNANCE AND MANAGEMENT PROCESSES

Given that UBI GP Co, as the General Partner, has the responsibility to manage the ARC Fund, it applies the same principles and standards for risk management as approved by the ARC Investments Board. The ARC Fund's approach to risk management is an ongoing coordinated process that identifies, assesses, controls and monitors risks, to increase the probability of success and reduce the likelihood of failure.

GOVERNANCE AND OVERSIGHT

The ARC Investments Board has overall responsibility for the entire risk management process, as well as the effectiveness of the process.

The Board provides oversight regarding risk management by:

- monitoring the extent to which management has established effective risk management in the organisation;
- approving the Company's risk appetite;
- reviewing and assessing risk within the Company's portfolio and considering it against the ARC Investments' risk appetite; and
- being apprised of the most significant risks and whether management is responding appropriately and timeously.

Risk management processes

Source: ISO 31000: 2018

Assurance processes

The Company and the ARC Fund use four levels of oversight to achieve a high level of combined assurance.

Level 1
Management oversight

Level 2
Risk management, compliance and legal

Level 3
External assurance: external auditor and BEE verification agencies

Level 4
Audit and Risk Committee

EMERGING RISKS

ARC Investments and the ARC Fund recognise effective identification and monitoring of, and response to emerging risks as a critical component of the Group's value creation and value preservation efforts. The Company takes cognisance of the following emerging risks to the extent that they have a bearing on the Company itself, as well as on its underlying investee companies:

1. misinformation and disinformation
2. Extreme weather events
3. Social polarization
4. Cyber insecurity

RISK REPORT

EFFECTIVENESS OF RISK MANAGEMENT

Our approach to risk management is to support and assist the management of our respective investee companies with the achievement of their strategic objectives. This would naturally include a focus on the execution of the risk management process. Risks are analysed and evaluated based on their potential exposure and the impact on our ability to achieve our strategic objectives.

Our risk management process includes specific provisions for identifying and realising business opportunities. We define an opportunity as a set of circumstances with an uncertain outcome that can be capitalised upon, requiring the commitment of resources and that may involve risk exposure. The Board is satisfied that a robust risk management framework is in place and that the Company is adhering to its approved risk philosophy and tolerances.

Internally, management is engaging in formal quarterly discussions to assess the risk environment. Key decisions are included in the updated risk dashboard.

ESG RISK MANAGEMENT

Our approach to risk management is guided by the following policies: the Risk Management Policy, the Gender and Diversity Policy, the Investment Guideline and Valuation Policy and the Insider Trading Policy, and the steps followed to identify and mitigate those risks are:

STEP 1: Identify risks

1. Initial investment (negative and positive screening of investment opportunities)
2. ESG risk assessments at the investment stage
3. Implementation and monitoring of ESG objectives for existing investment

STEP 2a: Prioritise risks (once invested)

Evaluate ESG risks against the Risk Management Policy

- Qualitative risk assessment *(ESG survey and Board engagement)*
- Qualitative risk assessment *(to the extent possible)*

STEP 2b: Manage risks (alligned with Risk Management Policy)

- Understand the ESG impacts and dependencies
- Articulate discrete ESG specific risks
- Adjust the existing risks with an ESG lens

ESG RISKS ARE MANAGED ACROSS THE INVESTMENT LIFECYCLE

The abovementioned policies are available on the company website: https://arci.mu/governance/#policies.

The key components of the risk assessment are:

- Identifying the ESG factors that are most relevant to the Company's operations and industry
- Evaluating the potential impact of the identified ESG risks on the Company's financial performance, reputation and long-term sustainability
- Ranking the ESG risks based on likelihood and potential impact
- Creating action plans to address and mitigate the identified ESG risks
- Continuously tracking progress and report on ESG risk management efforts to internal and external stakeholders

RISK REPORT

EXPOSURE TO CLIMATE RISKS

ARC Investments have exposure to certain climate risks due to the sectors the Company is invested in. Those are:

Sector Exposure	Climate Sensitivity
Mining/Energy	• **High carbon emissions:** Mining and energy sectors are typically high emitters of greenhouse gases (GHGs), making them directly responsible for climate change impacts. • **Regulatory risks:** These sectors face increasing regulatory pressures to reduce carbon emissions and transition to cleaner energy sources, which can result in significant compliance costs and operational changes. • **Physical risks:** Mining operations are susceptible to climate-related risks, such as extreme weather events, which can disrupt operations and supply chains.
Agriculture	• **Water scarcity:** Climate change affects water availability, which is critical for agricultural productivity. Changes in precipitation patterns can lead to droughts or floods, which have an impact on crop yields. • **Soil health and biodiversity:** Extreme weather conditions and temperature fluctuations can degrade soil health and biodiversity, affecting long-term agricultural sustainability. • **Market volatility:** Climate impacts can lead to price volatility in agricultural commodities, affecting revenue stability.
Financial Services	• **Investment risks:** Financial institutions face climate risks through their investment portfolios. Investments in carbon-intensive industries or regions vulnerable to climate change can result in financial losses. • **Reputational risks:** There is growing scrutiny on financial institutions to support sustainable and climate-resilient investments. Failure to do so can harm their reputation and investor confidence. • **Regulatory and policy risks:** The financial sector is increasingly subject to climate-related disclosure requirements and policies promoting sustainable finance.
Telecommunications	• **Infrastructure vulnerability:** Telecommunications infrastructure is vulnerable to extreme weather events, which can disrupt services and necessitate costly repairs and upgrades. • **Energy consumption:** Data centres and telecommunications networks consume significant amounts of energy. Transitioning to renewable energy sources is essential to mitigate climate impacts and reduce carbon footprints.
Business Process Outsourcing (BDO)	• **Operational Disruptions:** BPO operations can be disrupted by climate-related events such as hurricanes, floods, and heatwaves, affecting service delivery and business continuity. • **Energy Efficiency:** BPO centres need to improve energy efficiency and adopt sustainable practices to minimize their environmental impact and reduce operating costs.

FOCUS AREAS FOR RISK MANAGEMENT IN THE REPORTING YEAR

The focus was predominantly aimed at:

- managing and monitoring the overall adverse impact of the weak South African economy;
- establishing risk management practices by embedding the combined assurance model; and
- formulating a robust risk management framework which enables the Company to predict and prevent critical events in future.

FUTURE FOCUS AREAS

- Continue to monitor risks based on the risk appetite levels and risk tolerance levels with a particular focus on liquidity levels;
- Continue to identify opportunities to mitigate risk; and
- Promote an agile approach to risk management through continuous monitoring of risk appetite and risk tolerance levels.

KEY RISKS

The topics addressed on the following pages represent the most significant areas of risk for ARC Investments. The table should be read in conjunction with our material matters to obtain a comprehensive view of the investment strategy within which the Company, through the ARC Fund, operates.

RISK REPORT

Keys used in the table below:

OUR STRATEGY	OUR CAPITALS IMPACTED	RISK RATING
Build, Optimise, Grow	Financial Capital, Social and relational Capital, Manufactured Capital, Human Capital, Intellectual Capital, Natural Capital	LOW, MEDIUM, HIGH

MATERIAL MATTERS

- Capital allocation targeted at investments where returns exceed the hurdle rate
- Growth in assets under management
- Enhance portfolio performance through synergies
- Global societal issues
- Good stakeholder relations and networks
- B-BBEE Maintaining the ARC Fund's Black ownership status
- Liquidity management within the fund

Our material matters are available at: https://arci.mu/investor-relations/#integrated-reports

ARC INVESTMENTS RISK REGISTER

Risk Component	Risk	Mitigating factors and controls in place as well as action items and opportunities	Inherent risk rating	Residual risk rating	Capitals applied/ impacted	Material matters	Strategic linkage
SA COUNTRY RISK	**THE DOWNGRADE OF SOUTH AFRICA'S INVESTMENT STATUS** Empowerment, which is central to our value proposition, is anchored in South African legislation. Therefore, our investment focus is on South Africa, where we can add value to our business partners	**Mitigating factors** • Market segment diversification in the portfolio **Action items/opportunities** • Continue to seek diversification through opportunities outside South Africa and invest in defensive assets	High	Medium	Social and relational Capital, Intellectual Capital, Financial Capital	Global societal issues	GROW
SA COUNTRY RISK	**POOR ECONOMIC GROWTH IN SOUTH AFRICA** Our investment focus is mainly on South Africa	**Mitigating factors** • Market segment diversification in the portfolio **Action items/opportunities** • Continue to seek diversification through opportunities outside South Africa and invest in defensive assets	High	Medium	Social and relational Capital, Financial Capital	Capital allocation targeted at investments where returns exceed the hurdle rate	GROW
SA COUNTRY RISK	**INCREASE IN INTEREST RATES**	**Mitigating factors** • Monitor the impact of the interest rate • Capacity will change when the investments in the ARC Fund start declaring dividends	Medium	Medium	Social and relational Capital, Financial Capital	Global societal issues	OPTIMISE

RISK REPORT

ARC INVESTMENTS RISK REGISTER							
Risk Component	**Risk**	**Mitigating factors and controls in place as well as action items and opportunities**	**Inherent risk rating**	**Residual risk rating**	**Capitals applied/ impacted**	**Material matters**	**Strategic linkage**
INVESTMENT RISK	**FAILURE OF MAJOR/SIGNIFICANT INVESTMENT** No appetite for actions that threaten the existence of the Company	**Mitigating factors** • Quarterly management review of the portfolio • Investment Committee oversight and Board delegations **Action items/opportunities** • Continue to diversify and rebalance the portfolio with a mix of assets that provide growth in the portfolio, are future-focused and/or technology-driven businesses, listed assets and can generate cash and dividends					BUILD
	CONCENTRATION RISK WHICH CANNOT BE MITIGATED	**Mitigating factors** • Sector contribution is limited to 40% • Any single investment will be capped at 35% of the total portfolio value • Apply thresholds for investment limits in the context of concentration risk • Investment Committee oversight and Board delegations					BUILD OPTIMISE
	DISCOUNT TO NAV DOES NOT REDUCE SIGNIFICANTLY	**Mitigating factors** • Continuous communication of our business case and performance through quarterly and annual reports • Demonstrate intrinsic value through high sales proceeds on disposals • Semi-annual review of the portfolio **Action items/opportunities** • Continuous reporting of the disposals' IRR rate achieved at the exit stage • Consider disposals that are not part of the ecosystem and contribute 2% or less of the total portfolio value • Contribute harnessing the synergies amongst the portfolio companies.					OPTIMISE
	NON-PERFORMANCE OF THE UNDERLYING INVESTMENTS	**Mitigating factors** • Semi-annual portfolio reviews • Investment Committee oversight • Regular meetings with investee company leadership to discuss strategy, progress and performance of the underlying businesses • Drive strategic direction by exercising the minority protections • Promotion of synergies/collaborations amongst the investee companies through the Partners Conference • Appointment of Board members to respective Boards **Action items/opportunities** • Continuous monitoring and implementation of synergies identified during the deal-making stage					OPTIMISE

RISK REPORT

ARC INVESTMENTS RISK REGISTER							
Risk Component	**Risk**	**Mitigating factors and controls in place as well as action items and opportunities**	**Inherent risk rating**	**Residual risk rating**	**Capitals applied/ impacted**	**Material matters**	**Strategic linkage**
FINANCIAL RISK	**INABILITY TO RAISE CAPITAL**	**Mitigating factors** • Good relationships with corporate funders • Being part of the UBI Group affords the ARC Fund access to a strong Group backing • Ongoing monitoring of our capacity to raise debt • Ongoing monitoring of debt levels • Continuous monitoring of the covenants • Adhere to the funding contract and compliance terms • Pro-active engagement with banks to determine the banks' appetite to refinance before the debt becomes due for refinancing **Action items/opportunities** • Refinanced debt in ARC to extend maturity dates • Monitoring of dividend and cash levels in the underlying entities to ensure that there is no excess capital that destroys value which can be distributed to the holding company • Disposal of assets that are earmarked for sale to enable the ARC Fund to fund capital commitments					OPTIMISE
FINANCIAL RISK	**LIQUIDITY RISK**	**Mitigating factors** • The ARC Fund's ability to leverage the Fund as well as portfolio assets • Having strong financial monitoring and reporting processes in place • Being part of the UBI Group affords the ARC Fund access to strong Group backing • Ongoing cash flow management of dividend income, preference shares, investments and disposals **Action items/opportunities** • Disposal of assets that are earmarked for sale to enable the ARC Fund to run its operation until it can generate adequate dividends • Optimal capital allocation geared towards dividend generation					OPTIMISE GROW
REPUTATIONAL RISK	**ADVERSE CHANGES IN B-BBEE CODES** Striving to maintain the Black ownership status for the Fund and UBP GP	**Mitigating factors** • Keeping a broad base of UBI shareholders intact • Pro-active engagement with the regulator • Structuring of the terms of the C-share in ARC Investments • Ongoing monitoring of the donation's payments by the trust on an annual basis to enable UBI to claim BEE points • External BEE rating of UBI and its subsidiaries • Pro-active monitoring of the impact of BEE on the restructuring and implementation of new deals • Continuous donations annually, based on the Trust deed **Action items/opportunities** • Consideration of dividend declaration to curb the sale of shares at Provincial levels				B-BBEE	OPTIMISE

RISK REPORT

ARC INVESTMENTS RISK REGISTER							
Risk Component	Risk	Mitigating factors and controls in place as well as action items and opportunities	Inherent risk rating	Residual risk rating	Capitals applied/ impacted	Material matters	Strategic linkage
REPUTATIONAL RISK	**FAILURE TO MEET REGULATORY REQUIREMENTS** No appetite for activities that lead to the non-adherence to the applicable laws and regulations	**Mitigating factors** • Active monitoring by the legal and compliance team with the assistance of deal executives on the underlying investee entities where UBI/ ARC FSH/ ARC FSI is a significant owner. • Annual declaration on compliance by investee companies					OPTIMISE
	NON-COMPLIANCE WITH LAWS AND REGULATIONS Compliance with developments in JSE listings requirements, mauritian laws, the Mauritian Companies and Tax Act, the Financial Intelligence Centre Act (FICA) and the Protection of Personal Information Act (POPI) Act	**Mitigating factors** • Mauritian Tax Act - Annual assessment of Place of Effective Management (POEM) - Tax review by external party • South African Income tax - BiMonthly review and quartet review of the compliance with relevant tax legislations • Company Act and JSE listings requirements - Annual compliance monitoring/declarations completed by investment entities • Financial Intelligence Centre Act (FICA) • Annual declaration on compliance by investee companies					OPTIMISE