

ALEXANDER FORBES INVESTMENTS EXPOSURE TO STEINHOFF INTERNATIONAL HOLDINGS (SNH)

7 December 2017

The recent significant market events related to Steinhoff International Holdings and its subsidiaries have been widely reported in the media. This note covers what has unfolded, our exposure to the listed share Steinhoff International Holdings (SNH) in our flagship portfolios, the actions we have taken, and how our risk-led Living* Investing approach manages for single-event risks, such as this.

What has happened at Steinhoff?

Steinhoff International Holdings is a large constituent of the FTSE/JSE Capped Shareholder weighted index (Capped SWIX), comprising 2.2% of the index. On 6 December 2017, Steinhoff announced that its CEO, Markus Jooste, had resigned with immediate effect and that it was to be investigated for accounting irregularities in its financial statements. This investigation will be conducted by the auditing firm, PwC.

Steinhoff's share price fell more than 61% during the trading session on 6 December 2017. It was the eighth largest share by free-float market capitalisation in the FTSE/JSE Capped SWIX as at 5 December 2017.

Steinhoff is a large capitalisation share and is owned broadly by the market as well as some asset managers in our portfolios. The share is often used as a rand-hedge proxy as it provides some protection against rand weakness, given its offshore earnings.

The details about what has transpired at Steinhoff are currently unclear. We believe this is a serious matter and the market has reacted strongly to it. More details will emerge as the investigation unfolds. From what has been reported thus far, it appears that assets were overstated and expenses understated, particularly in respect of Steinhoff's European operations.

Exposure to Steinhoff in our flagship portfolios

Alexander Forbes Investments is exposed to Steinhoff via the holdings of our appointed asset managers. We have looked at the overall exposure to understand the impact on our customers. Our portfolio managers and research specialists have contacted the various asset managers to understand the rationale for their exposure, actions and outcomes.

The managers are investigating the matter on its merits, which includes considering fundamental aspects such as valuation, future earnings potential, as well as guidance from Steinhoff's new management team on the prospects for the company, including future corporate governance.

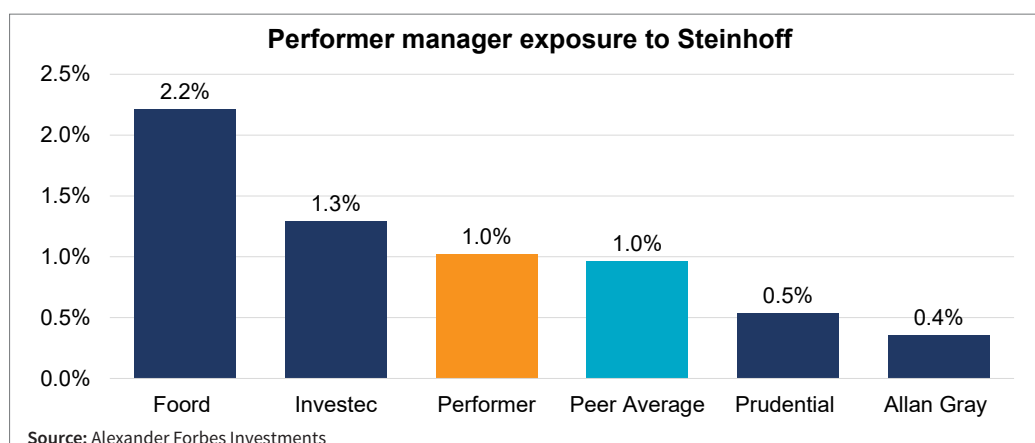
The Alexander Forbes Investments manager research team will be assessing all asset managers concerning their exposure to Steinhoff, including those who are overweight, neutral and underweight, the processes the managers went through to establish these positions, and whether there were any process or judgement failures in this regard. Alexander Forbes Investments will assess each situation and will take action accordingly.

Performer

Performer managers have been increasing their exposure to Steinhoff as part of their move to upweight holdings in rand-hedge shares, partly due to local political uncertainty, weak economic fundamentals and a high possibility of further credit rating downgrades.

At the close of market on 5 December 2017, Performer's exposure to Steinhoff was 1.02% of the total fund value, which is in line with peers as represented by the Alexander Forbes Global Large Manager Watch™ Average.

The chart below shows Performer's exposure to Steinhoff in relation to peers.

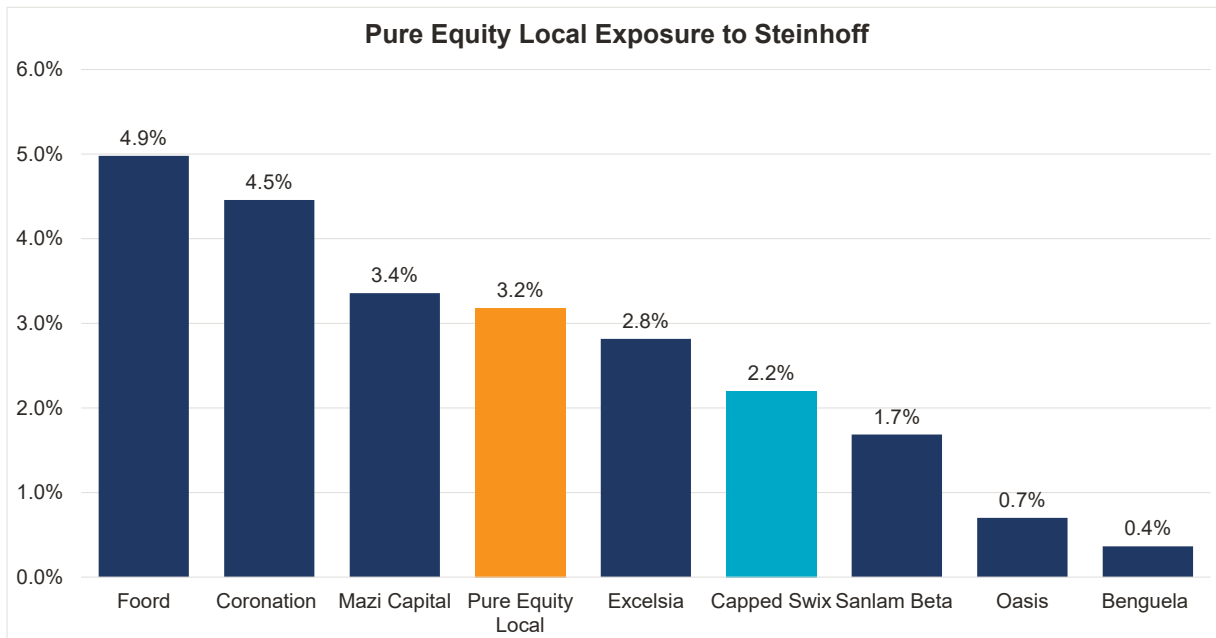


Foord and Investec are overweight Steinhoff compared to peers while the underweight positions from Prudential and Allan Gray have resulted in Performer's overall weight being in line with peers.

Pure Equity Local

At the close of market on 5 December 2017, Pure Equity's exposure to Steinhoff was 3.2% compared to its weight in its benchmark (Capped SWIX) of 2.2%.

The chart below shows the exposure to Steinhoff within our Pure Equity Local portfolio relative to its benchmark.



Source: Alexander Forbes Investments

Foord, Coronation and Mazi have driven the overweight position in Steinhoff. However, the overweight position was muted by other managers' underweight positions.

Please refer to the appendix for further information on key portfolios.

What actions are we taking?

Yesterday was dedicated to engaging with our fund managers to understand their views and what actions they will be taking. What is clear from our interactions is that there is still limited information available. Despite this, some managers sold their holdings. Most managers were maintaining their positions.

We will assess our asset managers' positions in Steinhoff in detail to check for any process failures or gaps in their analysis.

We will analyse managers that have overweight positions against those who are neutral or, in the case of our hedge fund managers, those who are short, to gain an understanding of whether this was driven by differences in style or failures in research processes.

We will also shortly visit several of our asset managers to identify why this event was missed or whether any managers saw it coming. We will take action should we deem it necessary.

Once we have completed our assessments, we will provide further feedback.

Our risk-led Living*Investing approach manages for single-event risk

Our Living*Investing framework is a risk-led, forward-thinking investment philosophy aimed at achieving client objectives with a greater degree of certainty.

We manage our portfolios with a permanent focus on risk. Therefore, we focus on ensuring that no single style or factor will ever dominate the fortunes of our portfolios. Therefore, our portfolios are always well diversified across multiple asset classes, styles/factors and managers.

It is exactly in times like this that the Living*Investing approach comes to the fore in protecting clients. The whole premise of Living*Investing is to protect downside risk through purposeful diversification and seeking to eliminate unnecessary or unrewarded risk. Our recent increase in exposure to fund of hedge funds and entrance into the private markets space are evidence of this. These strategies expose the portfolios to differentiated risk and return drivers. Strategies like hedge funds can generate positive outcomes from negative events, speaking to diversification of style and strategies when these managers are included in portfolios.

We always focus on our clients' long-term goals. Investors should not focus on single events but rather trust that their chosen investment strategy will deliver over the longer term. It is in these environments that a risk-led investment approach is crucial.

We will continue to monitor the situation as it progresses and will keep you informed.

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APPENDIX

Portfolio impact

The table below analyses the impact of the holding in Steinhoff in significant portfolios.

Portfolio	5 December 2017		6 December 2017	
	Exposure to Steinhoff	12-month portfolio performance	Daily portfolio return	Estimated impact of Steinhoff*
Performer	1.0%	15.2%	-0.9%	-0.6%
AF High Growth	1.6%	16.0%	-1.2%	-1.0%
AF Protector	0.5%	9.7%	-0.3%	-0.3%
Real Return Focus Local	0.5%	11.6%	-0.5%	-0.3%
Conserver	0.7%	12.4%	-0.7%	-0.5%
AF Investments Stable Fund of Funds**	0.5%	5.3%	-0.8%	-0.3%
AF Investments Balanced Fund of Funds**	1.9%	10.9%	-1.4%	-1.2%
Profile range: Alexander Forbes Aggressive Combined	1.7%	14.7%	-1.2%	-1.0%
Profile range: Alexander Forbes Conservative Combined	0.7%	9.2%	-0.5%	-0.5%
Capped SWIX	2.2%	17.5%	-1.8%	-0.5%

Our portfolios remain well diversified within our risk-led process. Whilst exposure to Steinhoff has detracted from performance, as can be seen from the table above, the one-year performance remains strong and we continuously monitor exposures within our portfolios and take action where necessary.

Notes:

* Estimated impact is the estimated loss to the portfolio for the day as a consequence of the portfolio's exposure to Steinhoff

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