

### THIS YEAR ALEXANDER FORBES TURNS 80

– A milestone in any person's life and no less so in that of a company

In 1935 a Lloyd's contract was arranged by a London-based insurance broker called Price Forbes for Johannesburg-based Emile Levy and Company Limited, in which Price Forbes then acquired an interest. By 1950, this interest had increased to 100% and by the early 1980s, a combination of two primary shareholders – Price Forbes Sedgewick and Alexander & Alexander – came together in the form of Alexander Forbes Financial Services, following which that name was adopted by the Alexander Forbes group in 1999, which recently (re)listed under that name on the JSE last July.

The journey from 1935 has been eventful, but it has always been characterised by one important thing – a desire to think outside the box, to do things differently, to innovate and improve, to find ways to serve our clients better and, in doing so, enrich their lives. Many companies make claim to such innovation and thought leadership: few actually deliver on it.

We believe this imprinted drive to innovate and serve – a kind of Alexander Forbes thought leadership DNA, if you will – has made Alexander Forbes the client-centred financial force it is today, serving institutional and individual clients, employing 4 111 colleagues, turning over R7.2 billion.

But what has brought it here? What has allowed Alexander Forbes to survive the challenges of those eight decades? It is simply this: At each critical point in our country's socio-economic history, the people at Price Forbes and Alexander Forbes stood back, paused and then made an innovative call on what needed to be done to take the company forward. In doing so, they created milestones that plot a path forward from the past to a future of great potential. And we believe this year's annual report should celebrate that path – that DNA.

Those milestones have included the creation of new financial products (such as cell-captive insurance) and new financial services platforms (such as multi-carrier life schemes). Other innovations include our new, state-of-the-art, sustainable home at 115 West Street. Another milestone was listing on the JSE to bolster our future strategies. There are many more examples of such intrepid and innovative forward thinking – milestones that we should commemorate.

That thought leadership DNA continues to this day. It is what ensures that our clients' lives are positively impacted by the service we provide... that their peace of mind and financial well-being is secured, now and into the future. That is what we do; it is what we have always done; and it is what we will continue to do to make our company great for another 80 years...

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## ABOUT THIS REPORT

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### OUR INTEGRATED REPORT

This integrated annual report – our fifth since we embarked on the integrated reporting journey in 2011 – intends to convey relevant information about our business to all stakeholders, primarily our providers of financial capital.

As we continue our integrated reporting journey, we aim to disclose further information about how our business creates financial and non-financial value and its ability to create such value, both in the present and future, is shaped and influenced by its external environment, relationships and most key material themes.

### SCOPE

This report covers the Alexander Forbes Group Holdings financial year from 1 April 2014 to 31 March 2015. Its contents pertain to the operations of Alexander Forbes Group Holdings Limited (AFGH), previously Alexander Forbes Equity Holdings Proprietary Limited (AFEH). During the reporting year, the group was listed on the Johannesburg Stock Exchange (JSE) as AFH. Our listing further strengthens our drive to increase transparency and the quality and reliability of our integrated reporting.

The figures contained in this report reflect the performance of the group's continuing operations. The UK-based Trustee Services business, which was discontinued in the prior year, was disposed of in the first quarter of the year reported. LCP Europe continues to be held in discontinuance and is expected to be disposed of in the 2015/16 financial year. In March 2015 the board of directors approved a management proposal to dispose of the Alexander Forbes Compensation Technologies business. For the purposes of financial reporting, the results of this business are now classified as discontinued operations until the date of its disposal.

This report includes the abridged financial statements for AFGH. The full financial statements are available online at [www.alexanderforbes.co.za](http://www.alexanderforbes.co.za). Non-financial information additional to that contained in this printed report is

also available online. This information includes an explanation of our determination and prioritisation of our most material issues and their presentation as material themes against which we report.

At the time of publishing our preliminary results, we also made available a presentation which is used in our discussions with investors and analysts. The presentation material and a webcast of the presentation are available on our website.

### REPORTING PRINCIPLES

The principles of the King Report on Governance for South Africa 2009 (King III) provide valuable direction for our operations and reporting thereof. This report has been compiled in accordance with the International Integrated Reporting Council's Integrated Reporting (<IR>) Framework.

Our financial statements are produced in accordance with the International Financial Reporting Standards (IFRS) and comply with the JSE Listings Requirements and the Companies Act of South Africa 2008.

### FORWARD-LOOKING STATEMENTS

Certain statements and opinions expressed in this document may constitute forward-looking statements which involve known and unknown risks and other uncertainties. Stakeholders should not place undue reliance on these statements and opinions as risks and uncertainties may mean that actual results and outcomes differ materially from those expressed or implied in such forward-looking statements and opinions.

The company does not undertake to publicly update any revisions to these forward-looking statements or opinions to reflect events or circumstances after the date of this document, or to reflect the occurrence of anticipated events.

In particular, we communicate a high-level five-year ambition statement. These ambition statements inform our general planning framework and we use this as a reference target within the organisation and should in no way be viewed as a forecast.

### ASSURANCE

This summarised report is extracted from audited information, but is not itself audited. The annual financial statements were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The audit report does not necessarily report on all of the information contained in this report. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the information that has been audited, they should obtain a copy of the auditor's report together with the accompanying audited consolidated annual financial statements, both of which are available for inspection at the company's registered office.

Our B-BBEE rating has been independently verified by Empowerdex Proprietary Limited.

### APPROVAL

Having reviewed the draft document, the board of directors and Audit Committee has mandated a sub-committee to review and approve for release the 2014/15 integrated annual report. Accordingly, the sub-committee has reviewed and approved this report based on management's assurance.

### CONTACT US

We welcome and appreciate your feedback. Please email your comments to [investorrelations@aforbes.co.za](mailto:investorrelations@aforbes.co.za).

We have recently appointed a dedicated investor relations manager, Mrs Marinda Dippenaar.

## INTRODUCTION TO THE GROUP

### HIGHER PURPOSE – WHY WE EXIST

Alexander Forbes defines its higher purpose and reason for existence as helping individuals attain peace of mind by securing their financial well-being now and in the future.

The 80-year-old group, which is listed on the Johannesburg Stock Exchange and headquartered in South Africa, employs 4 111 people in 12 countries, all of whom are dedicated to delivering outstanding employee benefits solutions and administrative services for institutional clients and to securing the financial well-being of individual clients.

Alexander Forbes Financial Services (AFFS) administers funds entrusted to it by institutions, which funds are, in turn, invested to secure the post-retirement prosperity of individual members.

At 31 March 2015, AFFS administered 328 standalone retirement funds and 1 144 corporate clients within the Alexander Forbes umbrella retirement fund. These funds combined amount to 1 018 044 members under administration and R382 billion in retirement savings in South Africa.

As well as ensuring the safe, efficient administration of clients' funds, AFFS derives income from giving expert consulting and actuarial advice, advising clients on healthcare issues and on how best to manage multi-manager pension funds. AFFS also advises individual clients on their financial well-being including financial planning, investment advice and offers individual and group life insurance products.

Investment Solutions is southern Africa's largest multi-manager, with R322 billion in funds under administration, of which Investment Solutions managed R265 billion at the end of the 2014/15 financial year. Retail (individual) clients account for 15% of the funds Investment Solutions manages.

Alexander Forbes Insurance offers short-term insurance cover to individuals and small and medium enterprises, and insurance administration services to corporates.

AfriNet offers institutional and retail services in six African countries outside of South Africa. Alexander Forbes International houses the group's 60% interest in the LCP actuarial consulting business, which provides pension, employee benefits and investment consulting to clients in the UK and, through affiliates, in four other countries.

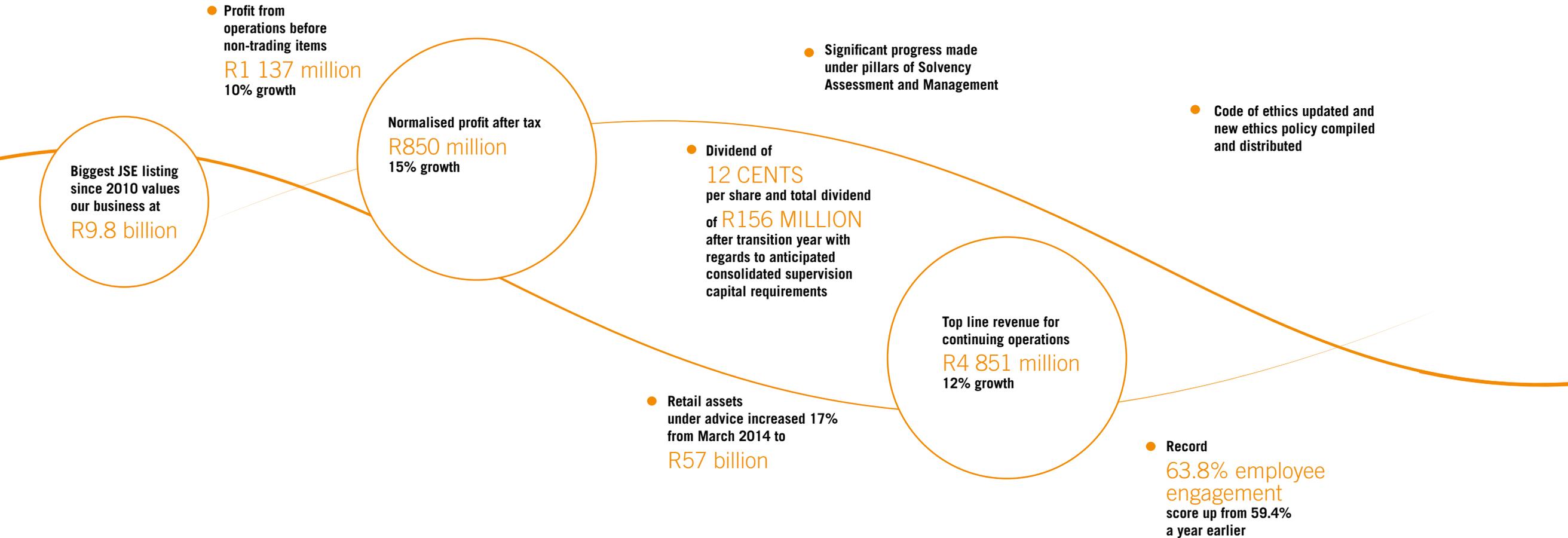
In line with the Group's Statement of Strategic Intent 2016 – 2020, it has, effective 1 April 2015, created a new reporting structure to reflect a more explicit institutional and individual client focus as well as supporting it to delivery its key strategic themes. These structures include:

- A core, Institutional cluster (primarily the corporate businesses within AFFS and Investment Solutions)
- A Retail cluster (AFI and the retail businesses of AFFS and Investment Solutions)
- An Operations, Systems and Technology cluster that establishes a single point, group-wide accountability for operational excellence, technology enablement and efficiency
- A Shared Services cluster to improve the efficacy of group services
- The AfriNet and International businesses continue unchanged both in structure and strategy.

### ALEXANDER FORBES' KEY STRENGTHS

- Market leader in institutional employee benefits and multi-manager investments in South Africa and other sub-Saharan African countries
- Institutional integrity with a high-performance culture
- Well positioned to respond to changing industry and regulatory dynamics
- Successful track record of organically developing new businesses and creating shareholder value
- Holistic offering across the value chain
- Deep understanding of the retail (individual) member base
- Leading (and scalable) multi-management platform
- Long-standing institutional client relationships with high market shares
- Predictable revenue base and cash-generative model
- Capital-efficient business model
- Continuous investment into systems and core infrastructure
- Stable and experienced management team.

## HIGHLIGHTS OF A WATERSHED YEAR



- 13% growth in assets under administration by Investment Solutions

NEW FIVE-YEAR 2020 STRATEGIC INTENT formulated, approved by board and widely communicated

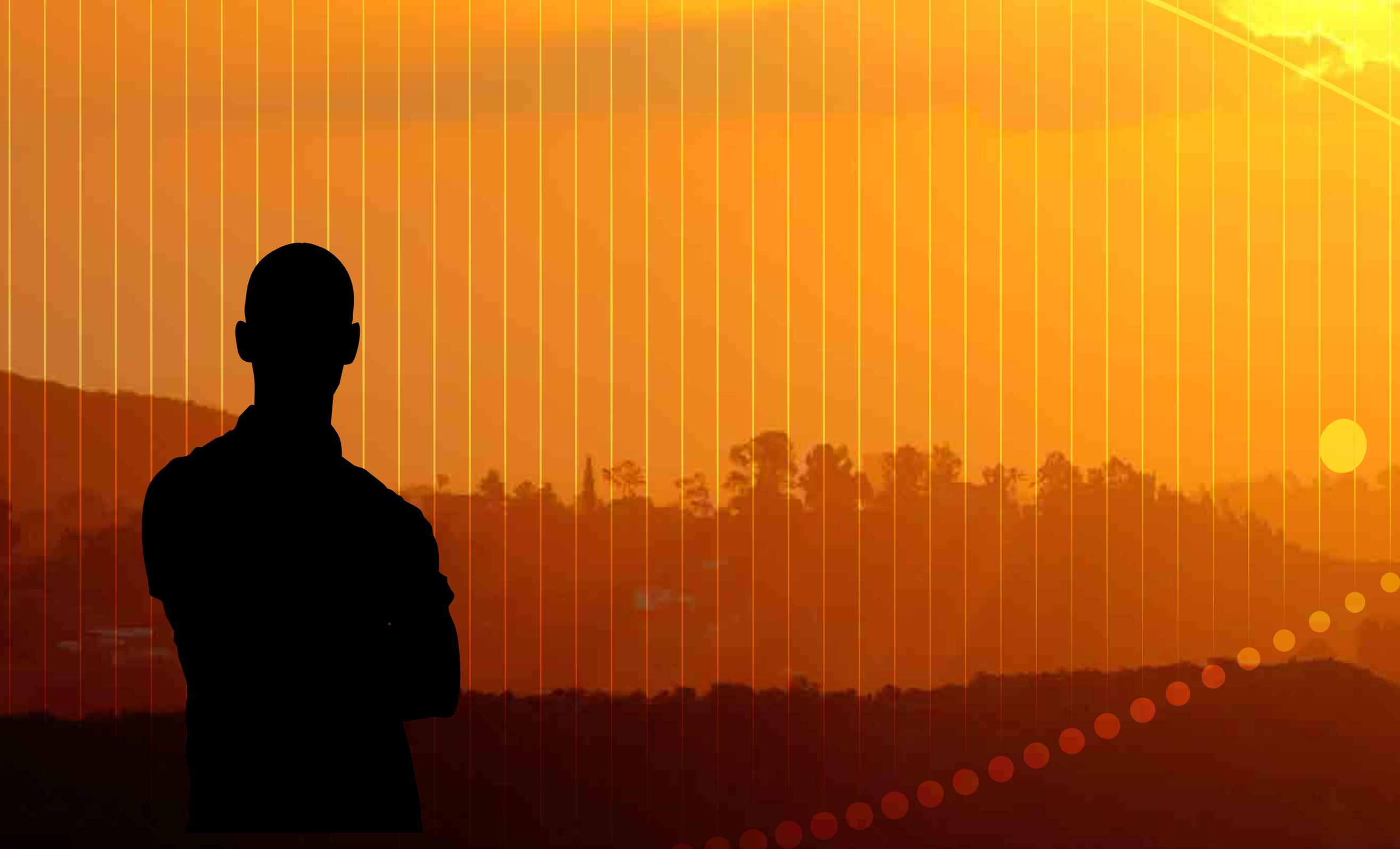
- 268 new institutional clients in AFFS

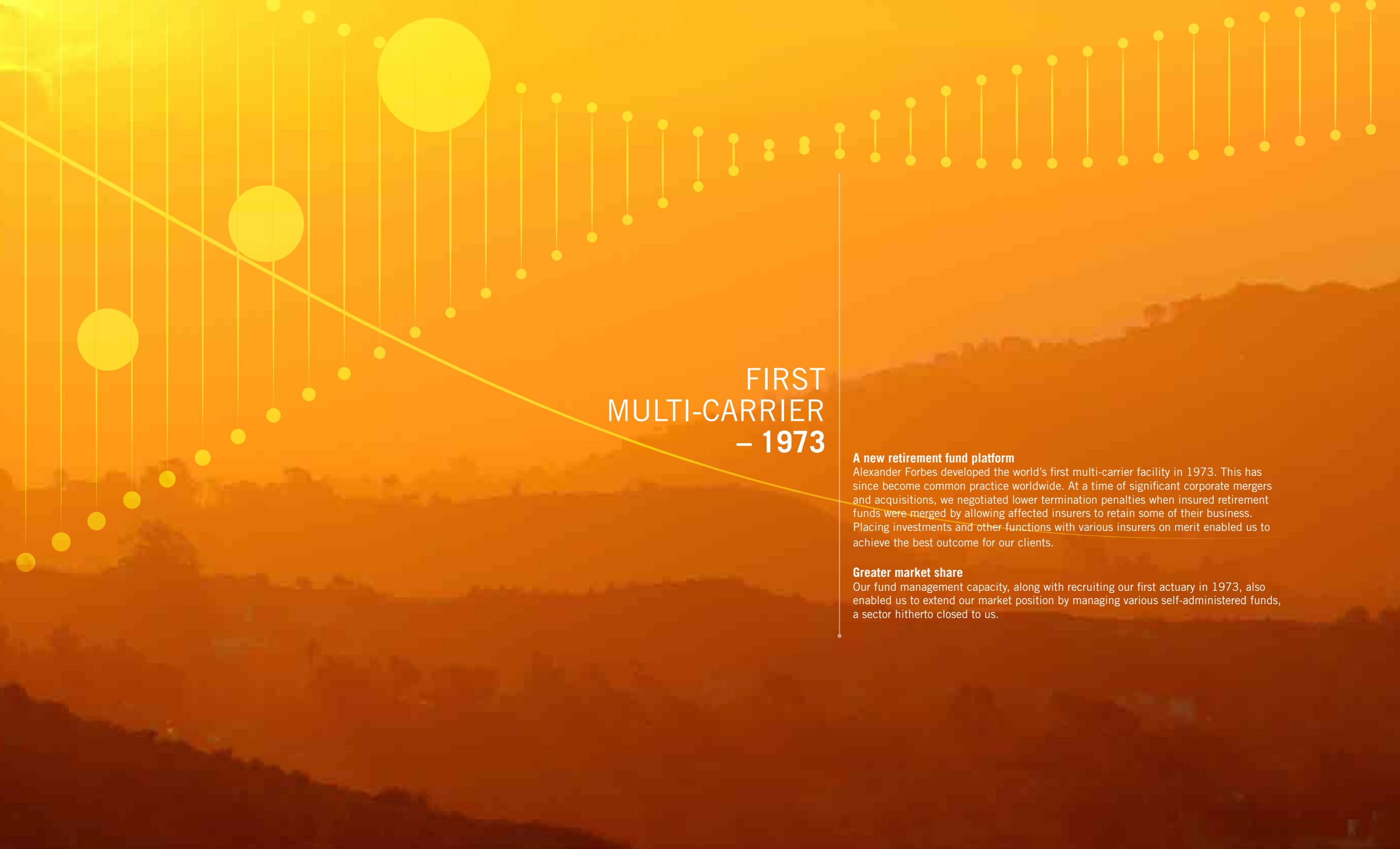
- POSITIVE PERFORMANCE in share price since listing

- More than a dozen independently adjudged awards including:  
PMR Diamond – best consulting and actuarial and PMR Diamond Arrow – best pension fund Administrator – both awards for the eighth year in a row

Active members under administration in South Africa exceeded 1 million and 380 000 in the rest of Africa

- 24% increase in assets under management in Africa outside of South Africa





## FIRST MULTI-CARRIER – 1973

### **A new retirement fund platform**

Alexander Forbes developed the world's first multi-carrier facility in 1973. This has since become common practice worldwide. At a time of significant corporate mergers and acquisitions, we negotiated lower termination penalties when insured retirement funds were merged by allowing affected insurers to retain some of their business. Placing investments and other functions with various insurers on merit enabled us to achieve the best outcome for our clients.

### **Greater market share**

Our fund management capacity, along with recruiting our first actuary in 1973, also enabled us to extend our market position by managing various self-administered funds, a sector hitherto closed to us.

## OUR PERFORMANCE

### 2010 – 2015 WHAT DID WE ACHIEVE?

The 2014/15 financial year marked the end of a historic five-year stage in Alexander Forbes's journey as a Private Equity controlled entity. As we embark with confidence on our new five-year period as a publicly listed company, we look back – and measure – how we performed against our six stated strategic objectives from 2010 to 2015.

In 2010 we committed ourselves to six strategic themes:

Delivering double-digit growth

Implementing clearly defined revenue growth initiatives

Realising ongoing margin improvement

Husbanding our financial resources

Effectively deleveraging

Maximising enterprise value

Focusing on three underexplored market segments:

 Retail – Selling to individuals

 Public sector

 Africa network

Framing efforts to differentiate by:

Giving better value for clients

Innovating and investing for growth

Building sales and service capability

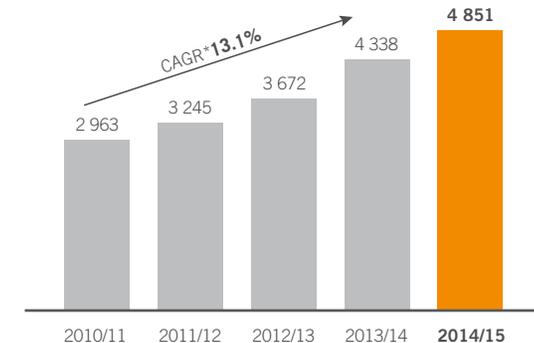
Building a respectable brand



**Between 2010 and 2015 we:  
Achieved double-digit growth**

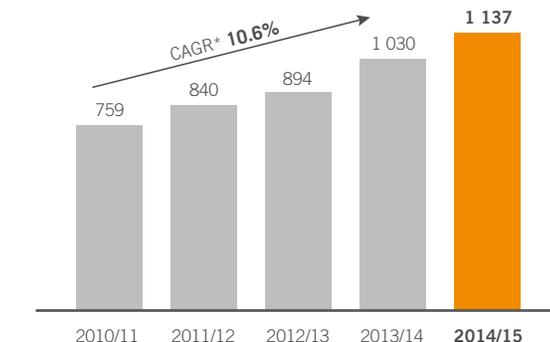
Between 2010/11 and 2014/15 we grew group net operating income from continuing operations by **13.1% CAGR**

Net operating income from continuing operations (Rm)



\* CAGR (compound annual growth rate). Comparative figures in the above graph have been restated for discontinued operations.

Profit from operations from continuing operations (Rm)



\* CAGR (compound annual growth rate). Comparative figures in the above graph have been restated for discontinued operations.

**Implemented clearly defined revenue growth initiatives**

We explain how we performed on our strategy to grow three underexplored market segments on page 12 and 13 – **retail, the public sector and Africa outside of South Africa.**

**Realised ongoing margin improvement**

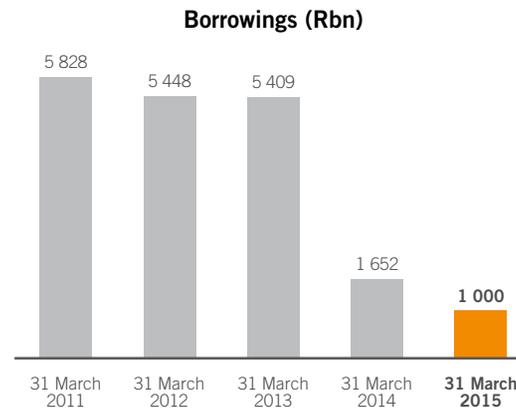
During the Private Equity control period of seven years we disposed of 35% of our revenue-earning assets – mainly lower-margin businesses which were non-core to our business activities – while continuing to grow income and maintain margins.

**Husbanding our financial resources**

In the period between 2010 and 2015 we focused sharply on historical expenditure at a group and business level. In the process we directed resources towards those elements of our business that were **best equipped to create enhanced, sustainable value for clients, investors and employees.**

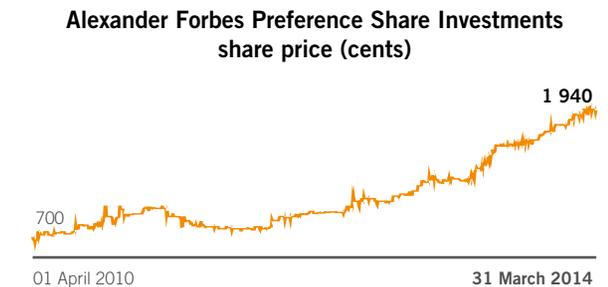
**Effectively deleverage**

Since 2010, we have deleveraged our balance sheet by recapitalising, reconfiguring and reorganising the business. By substantially reducing our debt, we have created capacity for investment in innovation and growth and positioned the group well for the future regulatory capital requirements.



**Maximised enterprise value**

Until our JSE listing in July 2014, the performance of the Alexander Forbes preference share could be used to approximate the value of the business. Since listing, shareholder value has increased based on the Alexander Forbes' share price.



## OUR PERFORMANCE

### Retail



Whereas the group's various retail businesses traditionally functioned independently, between 2010 and 2015 we began to drive our retail growth strategy with greater focus. While retaining the specialised focus in each of the respective business lines, our retail strategy seeks to use our trusted adviser status to provide clients with a common, holistic client experience to help secure their financial well-being while, at the same time, leveraging the group's full solution set to provide a more holistic value proposition to clients within our institutional member base.

The success of our retail focus is borne out by these key performance indicators:

|  | 31 March<br>2015 | 31 March<br>2014 | 31 March<br>2013 | 31 March<br>2012 |
|--|------------------|------------------|------------------|------------------|
| Net operating income (Rm)*                                     | 1 061            | 948              | 847              | 756              |
| Number of FPC clients ('000)                                   | 44.1             | 41.0             | 38.4             | 36.0             |
| Assets under advice (Rbn) Financial Planning Consultants (FPC) | 56.9             | 48.5             | 40.3             | 32.7             |
| Assets under administration (Rbn) AFICA*                       | 43.3             | 37.9             | 32.5             | 26.6             |
| Assets under management*                                       | 46.8             | 40.9             | 34.9             | 29.7             |
| Gross written premium short-term insurance (Rm)                | 1 297            | 1 198            | 1 059            | 926              |

\* Numbers presented for prior reporting years have been restated for reallocations made in the current year to ensure comparability.

### Public sector



Research – and our own experience – proves that the public sector holds considerable opportunity for us to grow our institutional and retail offering. During the period under review, the public sector division has increased efforts to communicate Alexander Forbes' holistic value proposition to both new and existing institutional clients. The division identifies opportunities, builds the new business pipeline through opportunities that include tendering, and retains existing public sector clients.

Between 2011/12 and 2014/15 our public sector division performed as follows:

|  | 31 March<br>2015 | 31 March<br>2014 | 31 March<br>2013 | 31 March<br>2012 |
|--|------------------|------------------|------------------|------------------|
| Net operating income (Rm)              | 207              | 184              | 151              | 136              |
| Public sector tender participation (%) | 90               | 74               | 53               | <20              |
| Public sector new clients              | 38               | 42               | 15               | –                |

## AfriNet

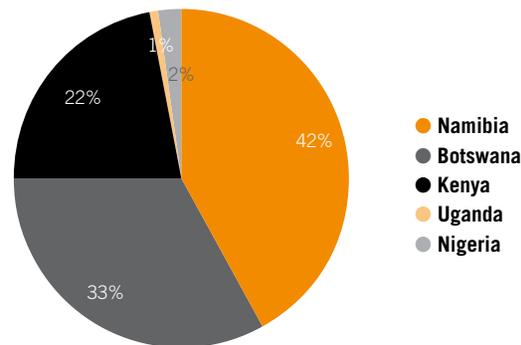


Across sub-Saharan Africa economies are expected to grow at medium to high rates over the medium to long term. Financial markets in most of these countries are still at an early stage of development which, coupled with pension and social security reform, represents a major opportunity for Alexander Forbes to bring its holistic value offering to new markets. In the rest of Africa, we leverage off our institutional experience and expertise while adapting to the unique commercial, social and regulatory environment in each country.

Our AfriNet operation has achieved significant success since 2011/12:

|  | 31 March 2015 | 31 March 2014 | 31 March 2013 | 31 March 2012 |
|--|---------------|---------------|---------------|---------------|
| Number of members under administration | 381 592       | 351 796       | 322 128       | 257 253       |
| Net operating income (Rm)              | 291           | 249           | 202           | 170           |

Operating income



## Framing efforts to differentiate by:

### BUILDING A RESPECTABLE BRAND

Between 2010 and 2015, we succeeded in innovating and investing for growth, building our sales and service capability and enhancing our brand.

### BETTER SALES AND SERVICE CAPACITY

Client retention rates for Alexander Forbes Financial Services (AFFS) and Investment Solutions consistently averaged over

**98%**

### INNOVATING AND INVESTING FOR GROWTH

Consistently growing our business between 2010 and 2015, we kept investing to make our business better and to improve our offering to clients.

### GIVING BETTER VALUE FOR CLIENTS

Institutional clients valued the quality of our administration, advice, consulting, distribution and implementation services so highly that AFFS counted 70% of the JSE's top 100 companies among its clients; for Investment Solutions the figure was 40%. Year after year, almost

**80%** of our revenue is recurring.

## OUR STRATEGIC INTENT

### 2016 – 2020 WHAT DO WE WANT TO ACHIEVE?

To ensure that we deliver against our strategy, we employ highly trained people to provide expert and innovative solutions which we deliver with simplicity. We strive to build long-term relationships with clients in the knowledge that we have to earn the value of trust to create a mutually enriching experience.

#### Alexander Forbes: strategic intent, 2016 to 2020



**OUR  
AMBITION  
2016 to 2020**

**OUR 2016 – 2020 AMBITION – WHAT IT MEANS**

**In pursuing our ambition to build a great company with a R2 020 million profit from operations by 2020 we are guided by our HIGHER PURPOSE, which informs why we exist.**

Our 2016 – 2020 ambition is about creating value for our key stakeholders. As explained in the introduction of this report, it should be noted that this ambition statement should not be viewed as a forecast in any way.



**• We commit to SERVE our CLIENTS with positive impact and to secure their financial well-being**

For the client this means:

| Ownership                               | Clear timelines                             | Regular feedback                          | Suitable solution                                      |
|---|---|---|--|
| I will be heard and my query dealt with | I will be told what will happen and by when | I will receive clear and regular feedback | The solution will be fit for purpose and provide value |

See page 43 for more on our material theme, 'Providing impactful service to our clients'

**• We seek to create an engaging environment in which all of our EMPLOYEES find personal and professional fulfilment**

Through our employee engagement approach we strive to ensure that our employees can:

|   |                         |   |  |                                  |
|---|-------------------------|---|--|----------------------------------|
| Use their talent to impact positively on people's lives | Do work that they enjoy | Know what success means for them and their team | Get regular and accurate feedback on their performance | Be fairly rewarded and developed |
|---|-------------------------|---|--|----------------------------------|

See page 46 for more on our material theme, 'Ensuring employee engagement'

**• We aim to have a positive and lasting effect on SOCIETY**

Through our creation of social value we strive to ensure that we:

|   |                                  |  |  |
|---|----------------------------------|--|--|
| Contribute meaningfully towards social protection | Actively practise transformation | Partner with under-privileged and vulnerable communities – for the long haul | Share skills and knowledge and build expertise |
|---|----------------------------------|--|--|

See page 49 for more on our material theme, 'Being a good corporate citizen'

**• We commit to continually review how we grow our business to create sustainable value for INVESTORS**

We achieve this by addressing:

|   |  |  |  |
|---|--|--|--|
| Appropriate allocation of resources to realise our strategic intent | Providing services and products that are ethical and impactful | Effective risk management and governance | Being an exemplary corporate citizen and an exceptional employer |
|---|--|--|--|

See page 37 for more on our material theme, 'Ensuring long-term financial integrity'

# OUR STRATEGIC INTENT

## OUR STRATEGIC INTENT

### OUR 2015 – 2020 AMBITION – WHAT IT MEANS

#### 1 Grow our core with fanatical discipline

Employee benefits | Investment

##### Ambition

- Grow our five-year operating profit in the institutional core of our business, CAGR, by between 1% and 2% above nominal GDP (real GDP plus inflation)

##### Actions

- Create a joint **Institutional cluster** (AFFS and Investment Solutions) to optimally manage the value chain
- Reposition the public sector division to report at Institutional cluster level
- Campaign to improve client engagement
- Develop a sales operating model and dashboard to have more focus and visibility on new business
- Focused growth of world-class umbrella funds
- Defend our market leadership while exploring new sources of growth

#### 2&3 Leverage the core to grow and develop our complementary businesses

Retail | Public sector | Africa beyond SA | Motor and household insurance | Life

##### Ambition

- Grow the **Retail cluster's** five-year operating profit by a CAGR of at least 15% pa
- Grow AfriNet's five-year profit from operations by a CAGR of at least 20% pa

##### Actions

- Formalise the **Retail cluster** structure
- Move towards a single distribution model – initially establishing a joint AFI/AF Life agency force
- Institute a worksite campaign to encourage early engagement and financial planning with members in our fund – to ensure their financial well-being
- Expand our AfriNet footprint through acquisitions

#### 4 Strive for excellence

Service and operational excellence and technology enablement

##### Ambition

- Achieve at least 5% productivity improvement over five years

##### Actions

- Establish accountability within the group to drive operations, systems and technology through the **Operational cluster**
- Establish the group **Shared services cluster** to optimise shared services
- Drive strategic and enterprise programmes through an enterprise project management office
- Invest in senior leadership
- Launch far-reaching campaigns to improve client service
- Continue employee engagement and performance management to drive productivity

#### 5 Innovate

Create internal capacity to disrupt ourselves through innovation

##### Ambition

- Ten betterment innovations and at least one 'disruptive' innovation over the medium term

##### Actions

- Step up our company-wide innovation campaign
- Include betterment innovation targets in the divisional businesses' key performance indicators and allocate resources to achieve this
- Set up a 'disruptive innovation' capacity within the group

## CREATING AND SUSTAINING VALUE

### HOW WE CREATE VALUE

Our higher purpose: Helping people attain peace of mind through securing their financial well-being, now and in the future.

**In pursuit of our higher purpose, the Alexander Forbes group of businesses provides a range of financial services. These include the administration of assets on behalf of institutional clients and the management of funds for such institutional clients as well as for individuals – in South Africa and the rest of Africa.**

**We provide actuarial services and consulting on employee benefits and investment solutions for institutional clients and the financial well-being of its individual clients. The main services provided by the group include retirement funds and asset consulting, actuarial consulting, investment and administration services, employee risk benefits and healthcare consulting, multi-manager investment and platform solutions, individual financial advice and personal lines insurance.**

#### Inputs:

##### Financial capital

- Market capitalisation R9.768 billion at listing on 24 July 2014
- Total borrowings R1 billion (-40%) as at 31 March 2015

Our JSE listing on 24 July 2014 was the largest initial public offer in South Africa since 2010. Between March 2011 and March 2015 our total debt reduced from R5.8 billion to just R1 billion through application of operational cash generation, application of disposal proceeds and conversion of debt to equity.

##### Human capital

- Employees 4 111 (+5%)

Our employees deliver the administration, asset management, short-term insurance and actuarial and consulting services that keep us in business. They utilise and grow the intellectual capital that is at the heart of our value offering to clients.

##### Social capital

- Institutional clients
- Individual customers
- Trustees
- Regulators
- Employers
- Trade unions
- Government
- Intermediaries
- Underwriters
- Suppliers
- Communities

Clients trust us to administer, manage and grow funds on their behalf while managing their risks. We advise clients on investments and administering funds, on healthcare, death and disability and other employee benefits. Various partners enable us to deliver our services within frameworks and to standards specified and enforced by regulators. As we create value for our shareholders and employees, we also create value for suppliers, partners and communities.

##### Intellectual capital

In 80 years our group has built up a vast store of knowledge, insights and systems which it uses to create value for clients and investors. Our expertise and capability across the various areas in which we operate account for our reputation, brand strength and our ability to offer consistently superior, cost-effective services and expertise.

#### Outputs:

##### Financial capital

- Net operating income R4.9 billion (+12%)
- Normalised profit after tax R850 million (+15%)
- Dividends R156 million.

##### Human capital

- R27 million on training
- Employment equity improvement
- Salaries and benefits R2.6 billion
- 139 internal promotions.

##### Social capital

- Payments to suppliers R945 million
- CSI investment R4.6 million
- Taxes paid R524 million
- Preferential procurement R1.8 million
- Enterprise development spend R15.7 million.

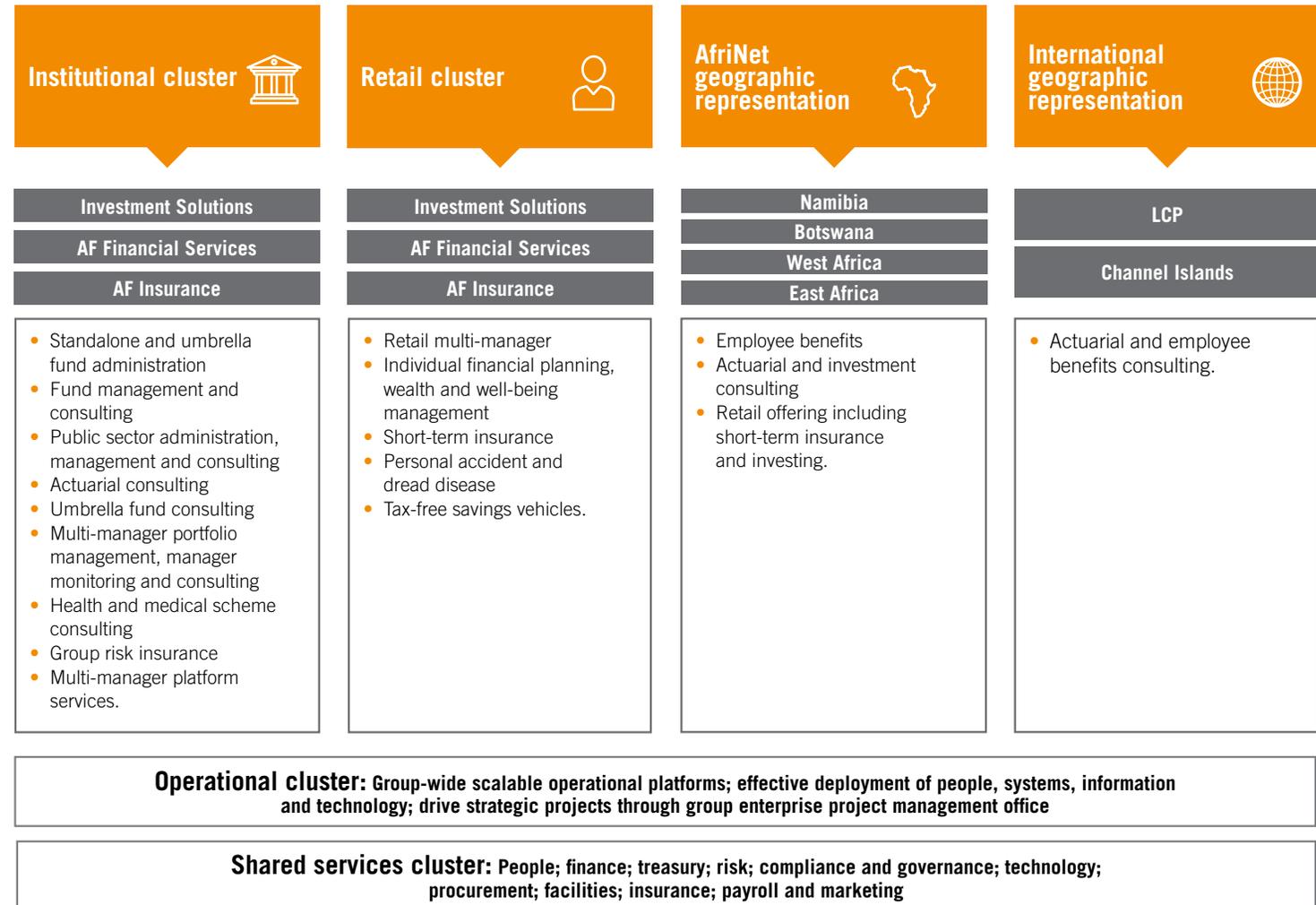
#### Our broader social outcomes:

- National wealth creation
- Savings for economic growth-enhancing investment
- 21 000 additional members benefiting from Alexander Forbes peace of mind.

Our broader socio-economic context (see page 49) presents us with particular opportunities as well as risks (see page 81) on which we bring our strategic intent to bear, engaging with various stakeholders (see page 90) while being guided by our material themes (see pages 48 to 51).

## OUR NEW STRUCTURES

IN APRIL 2015, WE REORGANISED OUR GROUP INTO NEW CLUSTERS TO ALIGN WITH, AND BETTER EXECUTE, OUR STRATEGIC INTENT. WE WILL NOT SUBSTANTIALLY CHANGE WHAT WE DO BUT WE WILL CHANGE HOW WE DO IT. THE NEW CLUSTERS ARE:



## Our new operating structure pertains to our Africa businesses and flows from our 2016 – 2020 strategic intent.

This is how we report our 2014/15 and 2013/14 results under the operating structure prevailing between 2010/11 and the present:

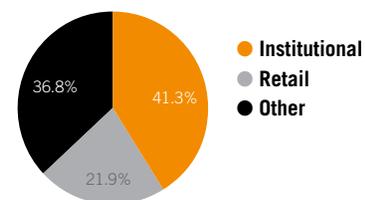
|                             | Operating income |           |               | Operating profit |           |               |
|-----------------------------|------------------|-----------|---------------|------------------|-----------|---------------|
|                             | 31 March 2015    | %         | 31 March 2014 | 31 March 2015    | %         | 31 March 2014 |
| Financial Services (Rm) •   | 1 852            | 9         | 1700          | 386              | 2         | 377           |
| Investment Solutions (Rm) • | 806              | 12        | 717           | 407              | 13        | 360           |
| AF Insurance (Rm) •         | 407              | 16        | 350           | 105              | 19        | 88            |
| AfriNet (Rm) •              | 291              | 17        | 249           | 60               | 25        | 48            |
| <b>Total Africa</b>         | <b>3 356</b>     | <b>11</b> | <b>3 016</b>  | <b>958</b>       | <b>10</b> | <b>873</b>    |

The operational reviews have been reported based on the traditional structure (see pages 53 to 62 for divisional reviews). As this structure largely follows the legal or statutory structure of the group, we will continue to provide this view as a supplementary segmental analysis.

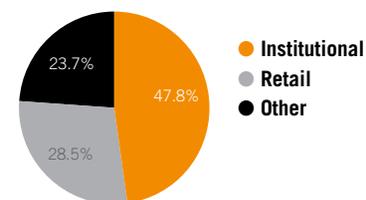
In future we will report in terms of our strategic view:

|                              | Operating income |           |               | Operating profit |           |               |
|------------------------------|------------------|-----------|---------------|------------------|-----------|---------------|
|                              | 31 March 2015    | %         | 31 March 2014 | 31 March 2015    | %         | 31 March 2014 |
| <b>INSTITUTIONAL CLUSTER</b> | <b>2 004</b>     | <b>10</b> | <b>1 819</b>  | <b>563</b>       | <b>12</b> | <b>503</b>    |
| Financial Services (Rm) •    | 1 311            | 8         | 1 211         | 208              | 6         | 196           |
| Investment Solutions (Rm) •  | 680              | 12        | 605           | 353              | 14        | 311           |
| AF Insurance (Rm) •          | 13               | 333       | 3             | 2                | 100       | (4)           |
| <b>RETAIL CLUSTER</b>        | <b>1 061</b>     | <b>12</b> | <b>948</b>    | <b>335</b>       | <b>4</b>  | <b>322</b>    |
| Financial Services (Rm) •    | 541              | 11        | 489           | 178              | (2)       | 181           |
| Investment Solutions (Rm) •  | 126              | 13        | 112           | 54               | 10        | 49            |
| AF Insurance (Rm) •          | 394              | 14        | 347           | 103              | 12        | 92            |
| <b>AFRINET •</b>             | <b>291</b>       | <b>17</b> | <b>249</b>    | <b>60</b>        | <b>25</b> | <b>48</b>     |
| <b>Total Africa</b>          | <b>3 356</b>     | <b>11</b> | <b>3 016</b>  | <b>958</b>       | <b>10</b> | <b>873</b>    |

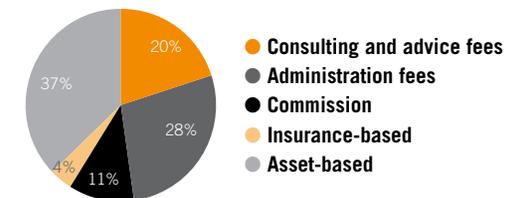
Net operating income



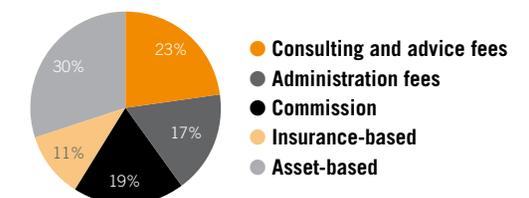
Profit from operations



2014/15: Institutional revenue by type



2014/15: Retail revenue by type



## OUR NEW STRUCTURES

# 2016 – 2020 OUR NEW STRUCTURES

**In April 2015, we reorganised our group into new clusters to align with, and better execute, our strategic intent. We will not substantially change WHAT we do but we will change HOW we do it. The new clusters are:**

### Institutional cluster

In support of the first pillar of our strategic intent, 'Grow our core with fanatical discipline', the Institutional cluster's purpose will be to:

Better manage the value chain and synergies that exist between our employee benefits capabilities and offerings (Alexander Forbes Financial Services) and those of Investment Solutions and the public sector division; to improve sales and service and research capacities across the institutional offering.

#### INSTITUTIONAL OPPORTUNITIES AND STRENGTHS THAT OUR STRATEGIC INTENT ADDRESSES:

- Global trend towards integrating funds administration, distribution, consulting and implementation
- Wage and salary increases in our client base above consumer inflation rate
- Anticipated legal reforms to increase fund preservation
- Growing awareness of need for governance and risk management among trustees
- Small percentage of public sector funds under external asset management
- Corporate move from standalone to umbrella funds
- Increasing cost of regulatory compliance resulting in market consolidation
- Public sector liquidity requiring advice and administration.

#### KEY PERFORMANCE INDICATORS

- Member records under administration
- Assets under administration and management
- Client retention and market share
- Investment performance.

### Retail cluster

To give effect to the second and third pillars of our strategic intent, 'Leverage the core to grow' and 'Develop our complementary businesses', the Retail cluster's purpose will be to:

Leverage our core to grow by creating, growing and preserving financial well-being for retail clients; to offer individuals a single distribution model for life and short-term services and in so doing to develop long-term mutually beneficial relationships with our retail clients.

#### RETAIL OPPORTUNITIES AND STRENGTHS THAT OUR STRATEGIC INTENT ADDRESSES:

- The move from defined benefit to defined contribution increases individuals' need for additional investment and expert advice
- Individuals' failure to meet net replacement ratio of growing concern to fund trustees
- Greater flow of funds to collective investment than to retirement funds
- Medical inflation heightens the need for detailed long-term post-retirement health planning
- Growth in black middle class accelerating demand for short-term insurance
- Growth in self/part-time/contract employment.

#### KEY PERFORMANCE INDICATORS

- Retail assets under advice administration and management
- Gross written premium (short-term insurance and life)
- Number of clients.

## AfriNet geographic representation

AfriNet replicates the group's business model in Africa outside of South Africa. This involves offering both institutional and retail services, including employee benefits, actuarial and investment consulting and retirement administration for corporate and public sector clients. AfriNet also operates Investment Solutions and AF Insurance business in Namibia.

### SUB-SAHARAN OPPORTUNITIES AND GROUP STRENGTHS THAT OUR STRATEGIC INTENT ADDRESSES:

- Stronger economic growth in sub-Saharan Africa than in South Africa
- Rapid urbanisation and growing middle classes
- African retirement funding reform, including mandatory contributions.

### KEY PERFORMANCE INDICATORS

- Retail assets under administration
- Gross written premium
- Members under administration.

## International geographic representation

Through Alexander Forbes International (AFIL) the group has a 60% ownership of the UK-based LCP consultancy which provides actuarial and consulting services in the UK and, through affiliates, elsewhere in Europe.

### UK AND EUROPEAN OPPORTUNITIES AND STRENGTHS THAT OUR STRATEGIC INTENT ADDRESSES:

- Defined benefit schemes still significant in UK, requiring actuarial, investment and administration services
- UK legislation requires all defined benefit employers to fully fund liabilities, spurring demand for expert advice
- Auto-enrolment of all UK workers to be rolled out by 2017.

### KEY PERFORMANCE INDICATORS

- Actuarial and consulting income
- Retention of client and increase in market share in pensions administration.

## Support and group leadership

Achievement against pillars four and five of our strategic intent – 'Striving for excellence' and 'Innovate' will be the responsibility of all business units. These will be supported by our new support and leadership structures which will be specifically tasked with achieving excellence, efficiency and effectiveness, strategic leadership and the fostering of a culture of innovation as well as outstanding strategic leadership and governance.

### GROUP CORPORATE CENTRE

Purpose: To drive group strategy, capital raising and resource allocation; to oversee overall governance and compliance while executing responsibility for institutional and leadership development, stakeholder engagement, transformation and reputation management. Led by the group chief executive, the group corporate centre will oversee a new innovation hub which will aim to future-proof the business improving the culture of innovation and seed disruptive innovations.

### GROUP OPERATIONS CLUSTER

Purpose: To drive operational excellence, technology enablement and efficiency throughout the group through a single point accountability.

### GROUP SHARED SERVICES CLUSTER

Purpose: To enhance the efficiency and effectiveness of group support services, including people; finance; treasury; risk; compliance and governance; technology; procurement; facilities; insurance; payroll and marketing.

## OUR AWARDS AND RECOGNITION

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**In 2014/15, Alexander Forbes continued to garner awards and accolades for the excellence of our products and services, and the meaningful contributions we make to the business, lives and well-being of our stakeholders.**

PMR diamond award best consulting and actuarial award  
Eighth year in a row

PMR diamond award pension fund administrator  
Eighth year in a row

Leader in corporate reporting in the financial services sector for the 2014 financial year  
Investment Analysts Society

Corporate governance company of the year – Africa 2015  
European emerging markets award

Finalist: The AF community trust – socio-economic development category  
Annual Oliver empower awards

2014 CFI.co award for best corporate governance  
South Africa 2014

Caveo performance fund  
Voted best hedge fund of funds

Pensions consultancy of the year – LCP  
Pensions Age awards 2015

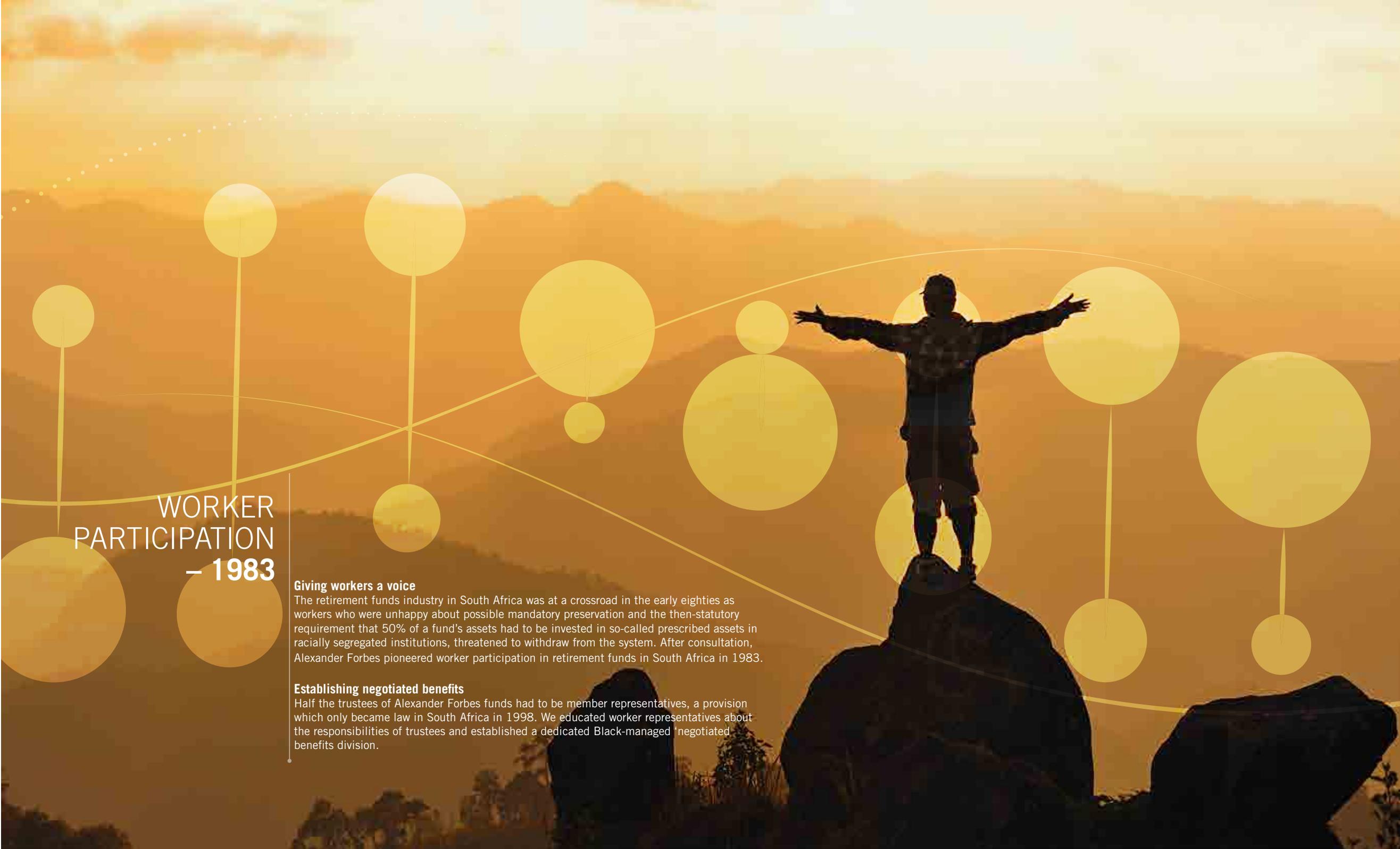
Pensions consultancy of the year – LCP  
Irish pension awards 2014

DC consultancy of the year – LCP  
Professional pensions UK pension awards 2014

Risk reduction adviser of the year – LCP  
Professional pensions UK pension awards 2014

Game changer of the year – group chief executive Edward Kieswetter  
ACQ global awards

Chief financial officer of the year – Deon Viljoen  
CFO South Africa: 2015 CFO of the year

A person stands on a large rock, arms outstretched, silhouetted against a warm, golden sunset sky. The background features rolling hills and a network diagram overlay consisting of yellow circles of various sizes connected by thin lines. The overall mood is one of achievement and vision.

## WORKER PARTICIPATION – 1983

### **Giving workers a voice**

The retirement funds industry in South Africa was at a crossroad in the early eighties as workers who were unhappy about possible mandatory preservation and the then-statutory requirement that 50% of a fund's assets had to be invested in so-called prescribed assets in racially segregated institutions, threatened to withdraw from the system. After consultation, Alexander Forbes pioneered worker participation in retirement funds in South Africa in 1983.

### **Establishing negotiated benefits**

Half the trustees of Alexander Forbes funds had to be member representatives, a provision which only became law in South Africa in 1998. We educated worker representatives about the responsibilities of trustees and established a dedicated Black-managed 'negotiated benefits division.

## OUR OPERATING CONTEXT

### THE BROADER SOCIO-ECONOMIC ENVIRONMENT IN WHICH ALEXANDER FORBES OPERATES REMAINED CHALLENGING IN 2014/15

In Q1 2015 the South African economy grew by 1.3% on an annualised, adjusted basis and the formal non-agricultural labour market shed 115 000 jobs, while business confidence indices also declined. In 2014 protracted industrial action, combined with a mixed global economic outlook, depressed commodity prices and power supply interruptions all weighed on growth as well as investor sentiment.

Negative real wage growth has a necessarily adverse effect on the employee benefits and investment savings sector and, between December 2013 and December 2014, the number of South Africans in formal employment reduced from just over 9 million to 8.989 million. More positively, however, at 7.6%, average salary and wage increases in 2014 comfortably exceeded consumer price inflation (4% to March 2015).

While inequality and unemployment remain deeply troubling and seemingly structural features of the South African economy, the situation and prospects of those South Africans in formal employment have continued to improve; in the decade since 2004, individuals in the upper 5 to 10 LSM segment grew from under 50% to three-quarters of the population. This trend had a

positive impact on the proportion of the population that is employable and that is likely to participate in savings and insurance. Also encouraging was the fact that in 2014 the number of credit-impaired individuals – at almost 10 million – began to show a slight reduction as lenders adopted more conservative credit policies in the wake of the African Bank crisis.

In 2005 it was authoritatively estimated that almost half of all employed South Africans had no retirement savings arrangements. Added to these numbers would be those individuals who were informally employed but also unable to access adequate income protections. The National Development Plan refers to this social security shortcoming as the ‘retirement savings and risk benefit gap’. The challenge remains as to how to close it – if mandatory contributions are not an option.

South Africans who do have access to structured retirement plans and investments have a high propensity not to preserve their accumulated benefits. This, combined with low participation in such savings mechanisms in the first instance, means that fewer than 10% of South Africans have sufficient funds to maintain their lifestyles after retirement. The policy reform that seeks to address needs to be driven with urgency and wider adoption.

#### RETIREMENT FUNDS

Faced with sluggish economic growth and flat job creation, the South African retirement fund industry has approached what, at least in the short term, appears to be a state of near maturity. But this appearance masks the reality of a dramatically changing industry.

In the shift from the defined benefit to defined contribution model in funding the most significant change has been the shift in focus from the fund to the individual member. Legislation relating to TCF (Treating Customers Fairly) particularly pertains here. Trustees now need to be far more accountable as to whether outcomes for these individual members adequately and appropriately address their needs.

It has also meant that members now carry the most significant risk of all: their financial planning risk. In the absence of mandatory preservation and annuitisation, this means it will now fall to employers and trustees to help members come to grips with their financial viability.

Competing in this changed environment means several things for the industry. It means that administrators must now be able to provide sophisticated solutions that allow trustees to drill down to member level outcomes. It demands that programmes improving financial capability and decision-making by employees will become an imperative.

At the same time, rising operating costs and increased governance and compliance obligations has meant that many employers have elected to shift their administration from standalone retirement funds to umbrella schemes. As a result, between 2005 and 2013, the number of registered retirement funds decreased by more than half, from 5 855 to 2 271.

While public sector employment has grown to the point that it represents a quarter of formal employment, informed consensus opinion is that the fiscus is today incapable of supporting further growth. The net result of

slowing employment and slower economic growth is that competition for retirement fund assets is at an all-time high, with the majority of new administration and management opportunities coming from funds seeking to switch their administrators and/or managers.

In those sub-Saharan countries in which Alexander Forbes today has an established presence, economic growth is a much more robust 4.5% and individual access to employee benefits, including provision for retirement, is gaining momentum. This is largely being achieved through legislative action which includes mandating formal employers to provide employee benefits.

#### MEDICAL SCHEMES

Similar consolidation to that experienced by the retirement fund industry has recently characterised the medical schemes sector where the number of such schemes declined from 144 in 2000 to 87 in 2013.

Medical inflation remains a critical factor for the industry, particularly as few employers continue to contribute to post-retirement medical costs. Of all the financial planning burdens an individual needs to shoulder post-retirement, this remains one of the most challenging.

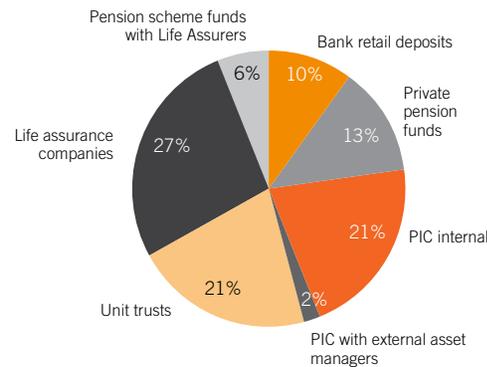
A Competition Commission investigation into private healthcare, which could have important implications for the pricing of healthcare in South Africa, commenced in 2014. Ultimately, however, the future of the medical scheme industry will remain in question until deliberations on the final form of our national health insurance are completed.

## MULTI-MANAGER FUNDS

Today, three-quarters of South African pension funds are defined contribution (DC) schemes, effectively shifting responsibility for the individual's post-retirement well-being from the employer to the member. This has resulted in a shift away from insurance-based annuities to the kind of market-linked living annuities and savings vehicles provided by collective investment schemes. In the past decade the South African savings pool has grown ahead of GDP with a marked shift of assets from insurance companies to unit trusts. Investment Solutions has been a direct beneficiary of these shifting preferences; between 2011/12 and 2014/15 Investment Solutions' retail assets under management increased from R29.7 billion to R46.8 billion.

The South African Reserve Bank estimated the market for savings and investments at R5 trillion in June 2013. The challenge is how to develop investment solutions that can address hugely variable financial planning needs for these savings. In this respect, the multi-manager investment framework is ideally positioned to address rising demands.

The approximate breakdown of the savings and investment market is illustrated in the chart below:



Source: SA Reserve Bank Quarterly Bulletin Q3 2013

## SHORT-TERM INSURANCE

Despite the significant growth of direct insurers, the short-term insurance sector is largely characterised by extensive inter-relationships and dependencies, with most distribution still being done by agents and brokers, whether tied or independent.

The non-life insurance market continues to grow, driven largely by the entry of previously uninsured individuals, most particularly those in the emerging black middle class. Given the fact that some 65% of vehicles on South African roads are still uninsured, the scope for growth is obvious and considerable. The market remains extremely competitive on price and the introduction of niche and differentiated products is seen as a key driver of premium growth.

## THE EMPLOYEE BENEFITS OPPORTUNITY

In 2013 Alexander Forbes launched the Benefits Barometer, an annual review of how effectively savings and financial well-being of South Africans was fairing. It pointed out the critical role that employee benefits played in South Africa in providing social protections for South Africans – at least for those South Africans who were employed.

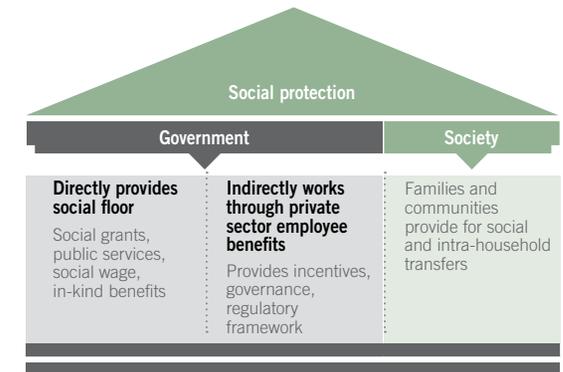
In South Africa, the provision of social protection is multi-faceted and complex, consisting of social grants and free or subsidised state-funded services as well as support and relationships between families and communities. For South Africans in formal employment, however, employee benefits are the primary source of social protection, a critically important part of the social safety net. This social protection for the formally employed underpins the performance of companies and of government, performance which grows the economy while reducing the burden on the tax base, which currently devotes an unsustainable share of resources to social grants.

## FIXING A FRAGMENTED SYSTEM

But equally, it is pointed out that, as a whole, the provision of these benefits and protections was fragmented, with key stakeholders – employers, government, the financial services industry and, most importantly, members and their representatives – not working as effectively as possible to deliver the best possible outcomes.

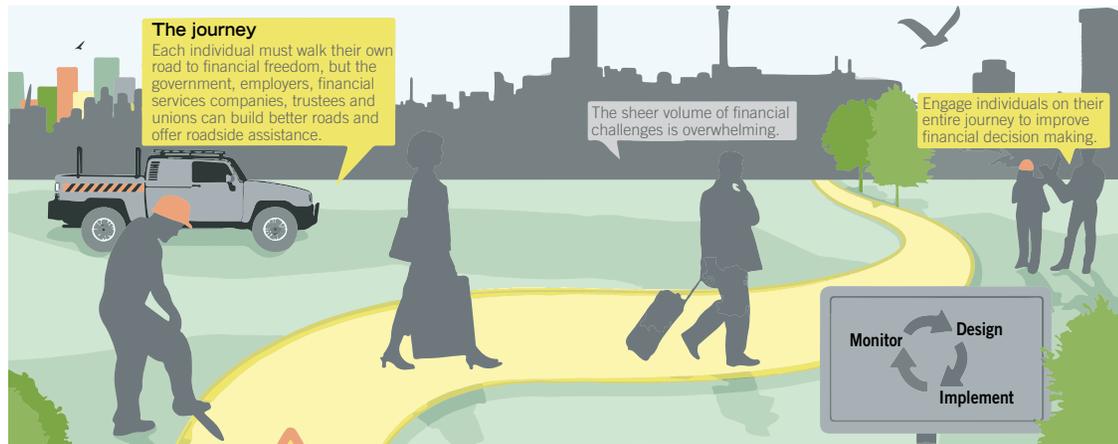
Even at the best contribution levels, provisions hardly get the individual to an acceptable replacement ratio at retirement, implying that most employed individuals today, will be significantly worse off once retired. At the point of resignation, retrenchment or retirement, there is no mandatory default to preserve or annuitise past contributions, further eroding the long-term retirement fund prospect of individuals who often 'cash in' their pension provision to fund much needed current expenditure. In the final analysis our research suggests that the average employee is ill-equipped to make decisions that adequately balance her/his needs and risks over the period of her/his employment. The challenge for many individuals is also balancing current financial needs with providing for future income as well as balancing provision for income and adequate risk protection.

Here is where we need to embark on an expansive collaborative effort between all the stakeholders to ensure that members are indeed delivered the protections they require. More importantly, if we want employees to engage and value these protections, we need to help them address their entire financial journey, not just the end part.



The main pillars of social protection. Reference: Benefits Barometer.

## OUR OPERATING CONTEXT *(continued)*



### GROWING ROLE OF THE FINANCIAL SERVICES PROVIDER

Financial services companies such as Alexander Forbes are today shouldering a greater responsibility than ever before for the employee benefit outcomes that individuals and society need. With this greater responsibility comes greater opportunity – the opportunity to create real and lasting value.

Our commitment to SERVE our higher purpose requires us to step up our advocacy role and to catalyse a broader, more systematic dialogue.

Alexander Forbes has an 80-year track record, more than 4 000 skilled employees and 1.5 million individual customers who largely entrust their financial well-being to us. We believe that we have the know-how and the systems to help the key intermediaries (employers, trustees and unions, government, regulators and our own industry) to make a broken system work. That is why we invest so much in research and development (our intellectual capital) and in the skills and knowledge of our people (our human capital): so that we can contribute meaningfully towards achieving the real and rapid development of social value that the National Development Plan envisages.

(As much as we seek to create social value for South Africa, the value of our knowledge, insights and experience is increasingly being brought to bear on societies elsewhere in sub-Saharan Africa.)

We will make a difference by continuing to develop and refine our store of intellectual capital and then sharing that store freely with our fellow stakeholders – to work, together, to learn and to improve the core elements of the employee benefits framework: design, implementation and monitoring.

In designing benefits that work we will cooperate closely with employers and trustees to focus on the needs of real individuals, to design defaults that are the best they can be and that bridge the existing gaps between employer policies, legislation and insurance policies.

On implementation we will learn to communicate more effectively, investing the time and effort that it takes to understand individuals' unique circumstances and expectations and at the same time demystifying complex concepts and products so that individuals are empowered to invest wisely and pragmatically in their own financial journeys. But time and effort cost money and we must understand which costs create value – and which costs destroy value.

### STRATEGIC INTENT ADDRESSING THE BIG OPPORTUNITY

Our Financial Well-being intervention (see page 55) aims to engage with other stakeholders to bridge the existing gaps in the employee benefits landscape and to begin to work towards a system that works for individuals, that gives them peace of mind.

Our 2016 – 2020 strategic intent (see pages 14 to 21) maps out how we as a business will strive to achieve our ambitions to secure clients' well-being, by constantly engaging with and empowering our people and by having a lasting and positive impact on society. By growing our social impact, by empowering individuals, trustees, management committees and employers, we are confident of growing our business, of creating sustainable value for our investors.

This is the great opportunity we as a business intend to action. This is the context in which we as Alexander Forbes creates value.