**Alexander Forbes Group Holdings Limited** 

# Integrated annual report for the year ended 31 March 2021



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#### **Reporting suite**



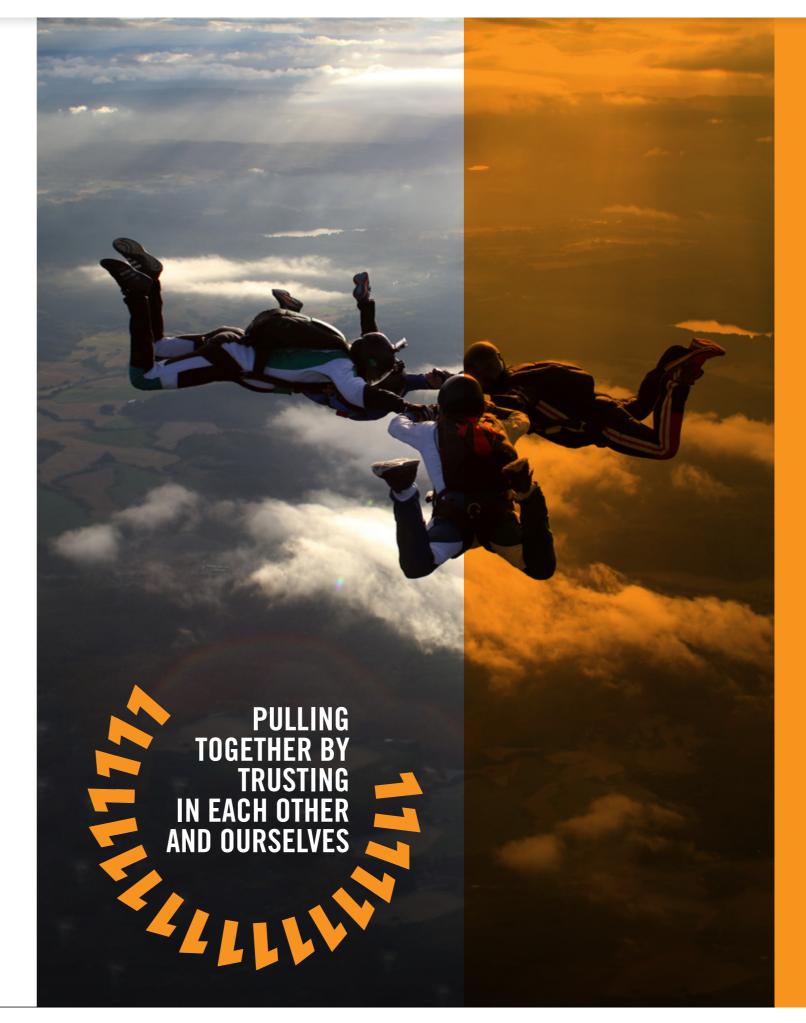














#### Reporting frameworks and assurance

Alexander Forbes takes direction on reporting from the King IV Report on Corporate Governance for South Africa, 2016 (King IV™) and the International Integrated Reporting Council's (IIRC) International <IR> Framework. Financial information has been prepared in accordance with International Financial Reporting Standards (IFRS).

The board and executive management, with oversight of the chief financial officer, reviews and approves the report and is comfortable, based on materiality, that external assurance on the accuracy of non-financial information is not necessary at present. This position is considered regularly. Our broad-based black economic empowerment (B-BBEE) rating has been independently verified by AQRate Proprietary Limited. Any disclosures on B-BBEE information applies only to our South African operations.

Our annual financial statements have been audited by PricewaterhouseCoopers Incorporated (PwC), who expressed an unmodified opinion on them. To obtain a full understanding of the nature of the information that has been audited, refer to the auditor's report and the audited annual financial statements on our website.

#### **Materiality**

We consider material issues that impact on value creation in terms of our operating environment, the interests of our key stakeholders, and the priority risks and opportunities facing the organisation. The material themes presented in the report are identified through internal and external stakeholder engagements. These themes are prioritised based on relevance and impact on our ability to achieve our strategic objectives. This process is managed by the executive team and supported by the board. Where possible, our performance is benchmarked against our peers, based on publicly available information.

#### **Feedback**

In this report we demonstrate our continuing progression along our integrated thinking and reporting journey. We have included additional disclosures on materiality, risks and opportunities, and value creation.

We welcome written comments and feedback from our stakeholders that relate to this report and other general matters. Kindly email your comments to **investorrelations@aforbes.com**.

#### **Forward-looking statements**

This report contains certain unaudited forward-looking statements and targets. These, by their nature, involve risk and uncertainty as they relate to future events and may be influenced by factors outside the group's control. There are various factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements.

We cannot guarantee that any forward-looking statements will materialise, and accordingly readers are cautioned not to place undue reliance on any forward-looking statements.

Alexander Forbes disclaims any intention and assumes no responsibility or obligation to update or revise any forward-looking statements, even if new information becomes available as a result of future events or for any other reason, other than as is required by the JSE Listings Requirements.

#### **Board assurance and approval**

The board confirms that the group continues to comply with the primary legislation governing its establishment and operation. This includes the Companies Act 71 of 2008, as amended (Companies Act), the Insurance Act 18 of 2017, the JSE Listings Requirements and the company's memorandum of incorporation (MoI). Our attestation is informed by the annual compliance review performed by the executive: governance, legal and compliance; the Companies Act, our MoI and the JSE Listings Requirements; the external audit of the annual financial statements by PricewaterhouseCoopers Inc. (PwC); and the ongoing secondand third-line assurance activities.

In the board's opinion, this report provides a fair and balanced account of the group's performance on those material matters that we have assessed as having a bearing on our capacity to create and sustain value. Although we believe that this report has been prepared in accordance with the IIRC's <IR> Framework, we undertake to continually mature our level of integrated reporting over time.

The report was approved by the board of directors on 30 July 2021 and signed on its behalf by:

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M Ramplin Chair DJ de Villiers
Chief executive officer

# Leadership messages

## Message from the chair

While many things have changed, our place in the world has not. Rather, our value proposition and vision have never been more relevant. Our purpose as an organisation is delivering impactful services and solutions for our clients and members underpinned by integrated and holistic advice. We do this by helping them create, grow, and protect their wealth so that they can achieve the things that matter most to them. During the past year, our clients and members have noted our efforts, expressed through a much-improved net promoter score (NPS). This has helped us to stay resolute and grounded, while adapting to a rapidly changing environment.



Marilyn Ramplin

I must acknowledge the immense efforts of the employees of Alexander Forbes as they efficiently transitioned to a virtual operating environment to maintain the levels of connection, care, and diligence that our clients expect of us. It is also with great sadness that we recognise our colleagues who lost their lives due to Covid-19. We have each been affected by the pandemic in different ways, but I am confident that our shared experience will galvanise us into the future as we begin to appreciate the interconnectedness of our families, economies, and nations.

#### Resilience

We responded with agility to minimise the impact caused by the disruption of government's Covid-19 lockdown regulations to our clients, our people, and the continued sustainability of our business and value creation for our shareholders. We shifted gears from merely being resilient and withstanding shocks, to growing and improving because of disruption.

The pandemic and the accompanying global and local market volatility has heightened the need for understanding, empathy and relevant advice across all our stakeholder groups. It has forced

a re-evaluation of our priorities as individuals, companies and society, catalysing a rethink of how we live, work and engage with people. This re-affirms our ambition to change the mindset of our clients and members by providing them with support that will bring about positive behavioural change. In so doing, we can align their decisions, actions and ambitions within an integrated financial well-being journey.

#### Our role in society

The past year has allowed us to reflect on our role in society and how we contribute to addressing national challenges at both macro and micro levels. South Africa is an economy with significant disparities in income and employment, education and skills development, and a massive need for infrastructure development. FY2021 has provided an opportunity to demonstrate the role of Alexander Forbes in society, how we play a role at a structural and policy level, and how those actions filter down to all stakeholders and provide an example to other industry players who look to us for market leadership. The essence of our business and our promise of securing financial well-being have a significant impact on society.

It is a sad and pervasive reality that most working South Africans will not have enough to retire on, and our social security infrastructure is not strong enough to meaningfully support them in retirement. In addition, with little disposable income to begin with, committing to further deductions to fund their retirement can be a difficult decision. Our holistic advice and solutions assist employers to provide relevant employee benefits to their employees, which will empower them to achieve higher levels of well-being while concurrently enabling employers to boost productivity and reduce human capital risks.

## Stress-testing our business model and assumptions

Ahead of the pandemic, the board and executive committee had proactively analysed and stress-tested the robustness of the business model through the own risk and solvency assessment (ORSA) process. The impact of Covid-19 was a critical scenario that was considered, and the recommendations driven and implemented by management.

With strategic clarity and focused execution, we quickly shifted some priorities and placed bolder and more focused emphasis on the sustainability of our clients, keeping our people safe and enabled through remote working. Throughout the financial year we have improved and enhanced our process management, met our client service level agreements and enhanced productivity metrics. We also proactively engaged regulators, directly or through industry bodies, to ensure improved outcomes for our clients. We remained resolute in our disciplined approach to capital management. Our unleveraged balance sheet and strong cash position enabled us to navigate cautiously through this turbulent period with a focus not only on remaining standing, but becoming a better business because of this crisis.

## Our response to the challenging operating context

Our business has remained robust despite the difficult business environment brought about by Covid-19, and this success has been underpinned by strategic clarity and an enabling target operating model which has placed the client at the centre of what we do. Our strategy is focused entirely on providing an optimal service offering to our client base through an advice-led approach using an integrated business model.

Our focus on strategy execution and growth has helped us to secure new business and grow our portfolio of assets, albeit under difficult circumstances, which is the real test of success and an affirmation of our progress. Our performance is testimony to the resilience of our business and the support we continue to enjoy from our clients. We have experienced growth in both client wins and client satisfaction scores, as seen by our extraordinary outcomes of the doubling in our NPS scores.



Our strategy reaffirms Alexander Forbes's strength as a trusted adviser to our clients.

Our One Alexander Forbes business model has supported our ability to be agile and innovative in changing the way we respond to our clients and keeping our employees safe without losing focus on our core business.

Like the rest of the market, Covid-19 has forced our clients to adopt digital much faster, which has given us an opportunity to focus on our digital engagement and digitisation strategies to enhance our capabilities, increase efficiency, and drive innovation and value for our stakeholders. We will continue our focus on these matters.

We are committed to reviewing inorganic growth opportunities through strategic acquisitions that will add to our ability to create economies of scale and will leverage our member engagement strategy and platform.

The board and members of various board committees were actively involved in overseeing and monitoring the group's response to the Covid-19 pandemic, including the management of business, operational and cyber risk, as well as the group's balance sheet, merger and acquisition activity, and risk.

#### The heart of our success

Under the leadership of Dawie de Villiers as chief executive officer, we have a significant breadth and depth of expertise in our company which, when combined with the One Alexander Forbes strategy, has enabled us to credibly navigate through this period. Our stakeholders have responded positively to the executive team's focus on growth (organic and merger and acquisitions), and the speed at which decisions were implemented, creating a sustainable business and successfully navigating the challenges of Covid-19.

#### Message from the chair continued

Our people are the cornerstone of our success and strategy. Their safety and well-being are paramount, and in parallel we used our resources to better equip and enable them to work remotely and do what they do best – serve our clients with the highest integrity and skill. Our people strategy is premised on our strong belief that winning in tomorrow's market requires an agile, experienced, skilled, and diverse workforce where we attract and retain top talent. Our efforts in this regard are paying dividends, demonstrated by our much-improved engagement scores. We will continue to invest in our people as we further embed our integrated operating model. The structures that have now been embedded across the organisation through One Alexander Forbes will begin to deliver increased efficiencies, and this will be complemented by our renewed culture of accountability, which will drive operational excellence.

#### Our sustainability ambitions

We invest in our people and our stakeholder relationships to develop and innovate products and solutions that are premised on best advice. In the integrated, advice-led way we consult, engage and provide services to our stakeholders, we must maintain the highest standards of quality and respect, and so we embed these behaviours, across the group, through our environmental, social and governance (ESG) frameworks, codes of conduct and training programmes. This strong focus is fundamental in our industry where compliance and trust are critical success factors, and we need to continuously demonstrate that our stakeholders' faith in us is managed responsibly. We can best create positive change through collaboration, and so use various platforms to contribute our knowledge and insights as well as actively support sustainable development goals (SDGs) through our support of the Alexander Forbes Community Trust, and our own community initiatives and investments. During 2020 we strengthened our commitment to these ambitions, joining the United Nations Global Compact (UNGC) and becoming a signatory to the United Nations Women's Empowerment Principles (WEP). Our commitment to governance and transparency resulted in Alexander Forbes being the first JSE-listed company to successfully host a virtual annual general meeting (AGM) in 2020.

#### Contributing to a resilient society

Transformation is key to our success, as is our commitment to sustainability. We have steadily improved our performance over time, and in June 2021 we secured a Level 1 B-BBEE rating. This achievement reflects our absolute commitment to transformation, investment in increased training for our people, provision of external bursaries and our growth commitments through investments in enterprise and supplier development initiatives.

We need to find ways to provide broader access to advice and financial solutions that are normally not easily accessible to most fund members. Through worksite consulting, digital enhancements and other industry-leading initiatives we continue to partner with and empower our members with the goal of influencing their individual savings behaviours. We believe that small changes in behaviour can compound over time, resulting in better retirement outcomes and improved long-term financial well-being for our members and their families.

We will continue to work with our underlying investment managers to ensure that investment decisions positively contribute to the attainment of our ESG goals. We are focused on providing the appropriate risk-adjusted investment portfolios for our clients' needs. Investing responsibly is an important part of our investment strategy, in line with the Principles for Responsible Investment to which we are a signatory. We believe that impact investing will be a viable option in the future of South Africa as the government launches infrastructure development programmes. As the largest multi-manager in South Africa, we believe that we have the responsibility to take the lead in driving forward investment solutions that deliver positive ESG outcomes and meaningful change in the real economy of our country.

Our success over the past year has been a culmination of the work over the previous years. Our year can be characterised as one in which we demonstrated our relevance to our clients, to our shareholders, to our people and to society. We have delivered a resilient set of results that reflects the benefit of our strategic clarity and is underpinned by the operational and commercial resilience of the business and the sharp focus on execution and growth.

We have delivered a resilient set of results that reflects the benefit of our strategic clarity and is underpinned by the operational and commercial resilience of the business and the sharp focus on execution and growth.

#### **Looking forward**

We are prepared for a challenging year head, and although there may be some economic recovery, it will be uneven across sectors. The roll-out of vaccination programmes will be crucial in minimising the impact of subsequent waves of Covid-19 outbreaks predicted in South Africa and in the markets in which we operate. The devastation caused by the sabotaging and looting of businesses and key infrastructure in parts of South Africa has added an additional challenge going forward as the financial and human costs impact on our operating environment. Uncertain political, economic and social instability will receive ongoing attention as we continue executing on our growth journey.

The past year has shown us that we have much to be grateful for. We have a world-class constitution, a strong judiciary and a robust financial system. We have active citizenry and a free press. Our economy is recovering, and in this past year, we have demonstrated what we can achieve together as a country, through partnerships. We are tackling corruption and getting on with rebuilding state capacity, reforming our economy and taking steps to encourage and stimulate investment confidence. We will continue to build on our integrated value proposition to institutional clients and individual members though their life journey. The embedding of our One Alexander Forbes model to drive integration of our offerings and enhancement of efficiencies will continue. By reducing complexity, we will continue to focus on client engagement and financial inclusivity across the breadth of our member base. Our focus on our digital engagement strategy and digitalisation strategy will enable us to expand our member reach, modernise our client experience and encourage greater adoption of existing digital tools.

Our focus on growth, and our strong balance sheet and cash position, ensure that we are well placed to assess selective acquisitive growth opportunities that will strengthen our core businesses and enhance our integrated, advice-led value proposition.

We will further embed ESG into our portfolio management and focus on improvements in monitoring and reporting. We believe a focus on infrastructure investments that represent attractive investment opportunities could make a significant difference to the growth and job creation initiatives countries so critically require.

The year ahead will no doubt be challenging, but we have set the foundation to adapt and evolve to the new uncertain environment and will work hard to remain relevant to our clients, provide opportunities for our people to grow and serve our community and society in improving their collective financial well-being.

## Condolences, appreciation and welcome

We would like to offer our sincerest condolences to the families and friends of colleagues whom we sadly lost during this period to Covid-19 and other health-related conditions. The gap they leave behind is felt by every team and individual. We mourn their loss with you and will remember them in our thoughts and prayers.

We thank Totsie Memela-Khambula for her contributions to our success since 2015, and wish her every success going forward, as she will be retiring from the board following the conclusion of the upcoming AGM in September 2021.

We extend a warm welcome to Andile Mazwai as nonexecutive director, appointed on 9 November 2020. His addition to the board has enhanced our efforts to deliver on our strategic ambitions.

On behalf of the board, our heartfelt appreciation to all our people across the group, who rallied together and supported the company, and to all our stakeholders.

To Dawie and his leadership team, who were tested and found true, we thank you for your commitment and resolve. We proudly have an executive team that brings out the best in our people.





## Message from the CEO

The past year was defined by the coronavirus pandemic which touched all human lives. It brought on a global economic recession, uncertainty and extreme market volatility.

Despite this, I believe that our business has emerged not only operationally stronger but even better positioned to transform the lives of our clients and members by delivering an integrated, advice-led proposition built on specialised expertise that helps them to navigate the complexities of our environment. Alexander Forbes is in a good position. The foundation is solid, the strategy is clear, the people are motivated and the opportunities are executable.



Over the past financial year there has been an immense resolve across our leadership team to show progress in executing our strategic objectives. We have a clear indication from our clients that we are improving our client experience, and our employees have confirmed to us that they are more engaged, setting the foundation for sustained performance.

#### Our operating context

The beginning of the 2021 financial year coincided with the start of lockdowns brought on by the outbreak of Covid-19. This presented challenging trading conditions and required the business to put appropriate measures in place to deliver to our clients remotely.

In South Africa, the economic environment in which we operated for the most part of the financial year was characterised by a real GDP contraction of 7% year-on-year, which marked the deepest annual contraction in 74 years. The adverse impact of the economy on individuals during the year resulted in lower levels of savings and members choosing to take cash withdrawals when leaving their employer and retiring, which negatively affects their financial outcomes. In this difficult business environment, our client base has experienced downscaling, low levels of employment, negative salary growth, suspensions of retirement fund contributions and accelerated business closures towards the second half of the period. These factors reduced our active membership base for the financial year.

The challenges of the pandemic highlighted the quality of the company and its people. The financial results were stronger than we expected, the culture improved significantly, and our clients and wider market felt the momentum shift of the "One Alexander Forbes" turnaround strategy.

## Delivering in tough times I am particularly pleased with the continu

I am particularly pleased with the continued success of the strategy we adopted in 2019 and the resolute focus of the business on its execution, while being adaptable and responsive to the changing circumstances of the past year. The strategy is premised on delivering a One Alexander Forbes integrated proposition to clients, which allows us to deepen our connection to them, affirming our position as a trusted adviser and partner.

We have also delivered pleasing new business growth despite the constraints imposed by the pandemic and recorded the highest value of new business wins of R140 million annualised revenue when compared to the past five years. Our industry-leading consulting force has understood the shifting dynamics in the institutional client base, spurred by changes in regulation and client responses to Covid-19, and is geared to leverage further new business opportunities.

We have a clear signal from our clients that the group's commitment to treating members fairly, and high standards of service and responsiveness have resulted in a greater appreciation for the partnership model we have implemented. This outcome has been reflected through our independently measured NPS which more than doubled compared to 2020. Our people are more engaged, which provides us with a better foundation for higher performance. This is evidenced by the improvement in the annual independent employee engagement survey completed this year. These are encouraging outcomes in the context of the numerous challenges posed by Covid-19, which set a high base that we wish to exceed in future periods.

We remained unwavering in our disciplined approach to capital management. This has enabled us to successfully dispose of our short-term insurance business to Momentum Metropolitan Holdings Limited, as well as our risk and retail business operations to Sanlam Life Insurance Limited (Sanlam Life), setting us up for our future growth. In selecting these buyers, we have chosen entities with similar values, cultures and skill sets, ensuring our clients will continue to experience the same benefits and service excellence they had with us.

During the past year Alexander Forbes and its employees continued to garner awards and accolades for the relevance of our solutions and services, and the meaningful contributions we make to the lives and well-being of our stakeholders.

#### Protecting our people

Our people are the key to our success and the way they stepped up to support our clients, the business and each other is truly commendable. We focused on the well-being of our people through a smooth transition to remote working that was enabled by our business continuity team. I recognise the efforts of our managers across the business who were able to lead this change with little to no disruption to our operations. In parallel, a long-term people strategy was developed and launched, which is focused on an engaged One Alexander Forbes that is comprised of high-performing people, and a transformed company with a winning culture.

We have adapted to the fast-changing environment, acting in a more agile manner and fast-tracking digital enhancement.

#### **Connecting with clients**

This year, our advice was underpinned by our advocacy and representations to policymakers on our clients' behalf, to secure their distressed businesses and the livelihoods of their employees. It was wonderful to witness these partnerships take shape, which are now reflecting in the positive trend in our NPS results.

The needs of our clients and individual members were wide-ranging. We responded by amplifying our value proposition by providing market-leading independent advice that will continue to optimise client and member outcomes. Our clients responded to our collective advice-led solutions with support and loyalty. This is evidenced by a stabilised client base, higher retention rates and 142 new business wins concluded across Retirements, Healthcare, Investments and Arrive. The client response reflects the value of the brand, our strengths and the fundamentals that reflect our purpose.

#### **Accelerating digitisation**

Embedding our advice-led approach was a key part of our success during the year. A major strategic achievement towards re-engineering operations and administration was restructuring various operations and entities in the group, standardising roles and accountabilities of our people, and automating our client-centric platform, which created efficiencies for the business. We aligned people and skill sets, improved data management and reporting, and integrated employee learning processes. These initiatives brought better control, oversight and reporting, reduced errors and omissions and increased achievement of our service level agreements.

#### Message from the CEO continued

The lockdowns necessitated an increased focus on digitisation to improve engagement with clients and employees. We accelerated the implementation of our digital strategy to enable virtual client engagements, and continued to adapt to the new environment. We had sound business continuity plans in place, which enabled us to respond to the pandemic and to reassure our clients.

We aligned people and skill sets, improved data management and reporting, and integrated employee learning processes.

#### Impact on society

Our relationships with the government and other industry players became stronger during the year, and we played a major role in engaging with the government to influence policy changes to help clients adapt to their changing circumstances. We consider this to be a critical role in positively influencing South Africa's growth trajectory. A critical aspect of our strategy is a renewed focus on financial inclusivity through member engagement to improve retirement outcomes, which is aligned with the default regulations. In addition, our investment strategies are increasingly considering areas for investment that are aligned to South Africa's growth, development and prosperity. It is also important that in our efforts as a company we have a positive effect on the well-being of communities. We strive to make a broader social impact by influencing the well-being of South Africans. By educating corporate employees and individuals across all income groups about financial well-being and by offering them a broad range of retirement and savings products, our reach can extend far beyond our direct clients. We want to change the mindset of the corporations we work with by providing them with assistance to bring about behavioural change. In doing so, we will position savings and investments within an entire financial well-being journey and make it meaningful to all South Africans.

Our recent Level 1 B-BBEE ranking is testament to our commitment to society.

Our FY2021 achievement reflects investment into increased training for our people, external bursaries as well as investments in enterprise and supplier development.



I am confident in our future growth despite the current challenges facing South Africa.

While we anticipate muted economic growth in the short term, we are optimistic about South Africa's potential to enhance its employment, investment and prosperity with the collective efforts of the government and the private sector. Alexander Forbes has been and will continue to be a key role player in driving this agenda across the various platforms we have access to, given our position as a significant provider of long-term savings.

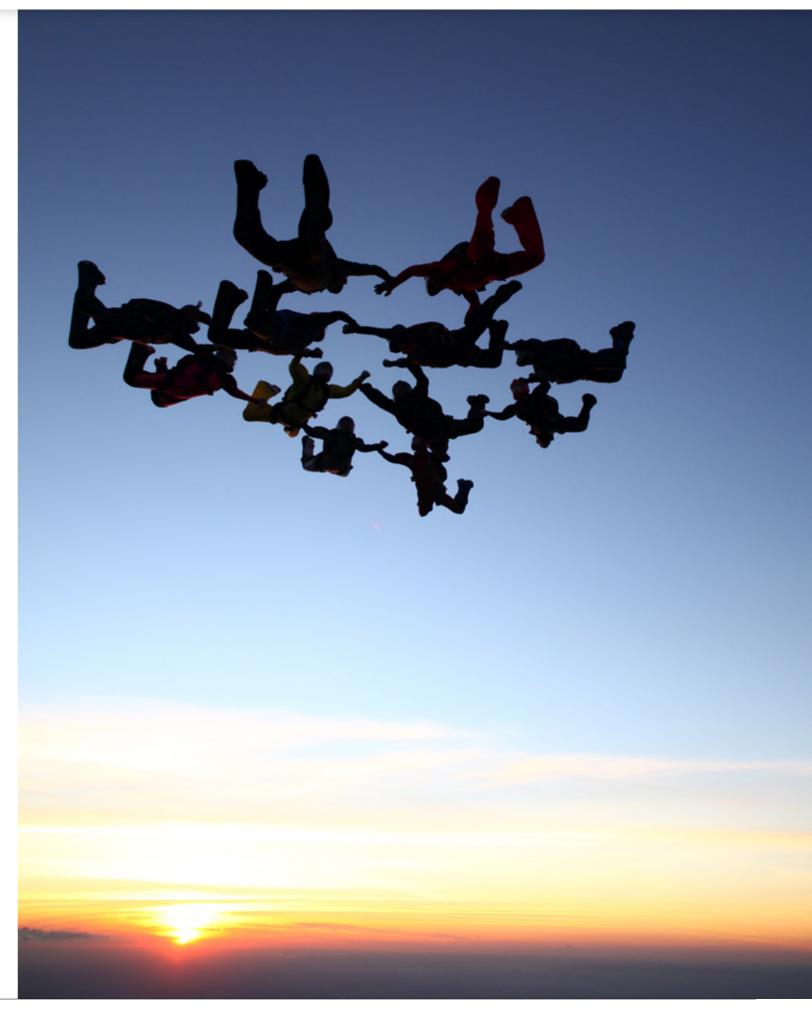
We expect our earnings and top-line growth to continue to be under pressure in the short to medium term as the country emerges from the consequences of the pandemic. Our balance sheet and cash position allow us to support our employees and clients through the current economic uncertainty.

We are embarking on the second phase of our targeted operating model revisions which aim to further strengthen our growth trajectory. Over the coming years, our key ambition is to unlock the potential resulting from the stabilised foundation we have built, and to capitalise on pockets of opportunity in our market to enable us to execute

on growth objectives and opportunities. Our strong financial position allows us to take advantage of opportunities that may arise, particularly in acquiring businesses that fit into our growth vision and offer us increased scale and buying power, which is to the benefit of our stakeholders.

The key priority for the year ahead is to improve individual financial outcomes through our member engagement strategy. This involves helping every one of our members to be more self-sufficient and financially secure by providing them with useful advice and access to relevant financial solutions. It starts with improving financial literacy and then empowering people to make better decisions throughout their lifetimes. We aim to enable true financial inclusivity across the breadth and depth of our member base, thereby contributing to the financial well-being of millions of families and the socio-economic well-being of South Africa as a whole. This is a long-term process, and I believe that Alexander Forbes is uniquely positioned to make a lasting and meaningful impact on society due to our integrity, insight and innovation.

Dawie de Villiers



# Introduction to our group



Highlights

Clear strategy, disciplined execution, business resilience

We moved with speed in our response to Covid-19, delivering for our clients and adopting new ways of working

Clear focus on our integrated, advice-led value proposition yielding results



New business wins of

R140 million in annualised revenue, highest value in five years

Our people are more engaged

25% increase

in employee engagement score over two years

Significant increase in client satisfaction –

NPS doubles year-on-year

Sold the group risk and retail life businesses to Sanlam Life Insurance Limited

Assets under management and assets under administration surpass

R400 billion mark, up 29% year on year

Achieved a Level 1 B-BBEE rating

**Operating income** from continuing operations maintained at

R3 153 million

Profit from continuing operations

down 10% to

R685 million

Cash generated from total operations

up 4% to

R977 million

Final dividend for the year of

9 cents per share, maintaining annual dividend cover of

 $1.5 \, \text{times}$ 

(FY2020: 12 cents per share)

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Read more in the **FY2021 Results Announcement** for further information on business and finance performance.

Alexander Forbes Group Holdings Limited

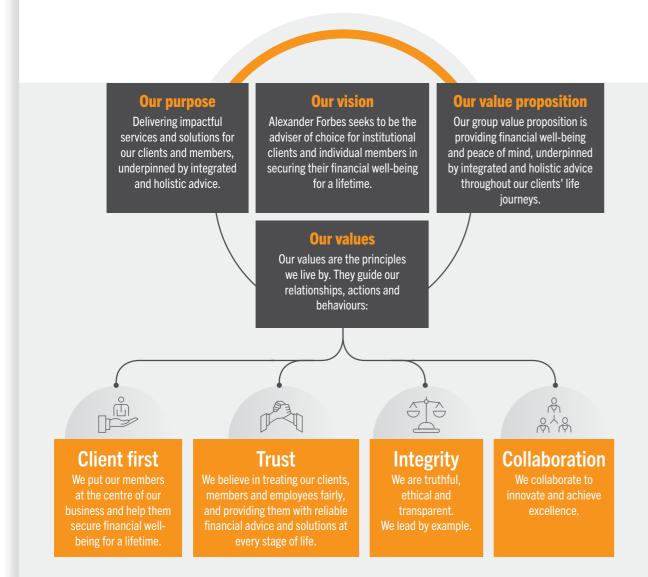
## Who we are

Alexander Forbes is a diversified financial services organisation providing a broad range of employee benefits consulting (including healthcare), investment management, insurance and wealth management solutions to both corporate clients and individual customers.

The company employs 2 467 people, all of whom are dedicated to delivering outstanding employee benefit, investment and administrative solutions and services for institutional clients, and securing the financial well-being of individual clients.

Alexander Forbes is listed on the Johannesburg Stock Exchange (JSE) and our clients span both the private and public sector market segments on the institutional side, and individual members.

Our principal geographic focus is South Africa (where we have been operating since 1935) sub-Saharan Africa and the Channel Islands.







We service more than

4 500
corporates

1 At 31 March 2021

#### Largest multi-manager

in South Africa

Market-leading employee benefits, healthcare and financial planning consultancy

in South Africa

Team of

diverse specialists

Industry-shaping

research

Pan-Africa reach with our

**Arrive platform** 



## What we do

For 86 years the Alexander Forbes brand has been synonymous with financial expertise, thought leadership and relevant solutions. We have built our premium brand through an in-depth understanding of the employee benefit and investment industry and have provided innovative solutions to our clients, making us a trusted adviser and partner of choice.

We create value for our clients by ensuring they are at the centre of everything we do. We provide advice and solutions that meet the needs of our clients through our integrated operating model. We advise our corporate clients on the best solutions for their unique needs based on the level of financial needs among their employees, its impact on the workplace and how their company compares to others. We also advise individuals to help them make better financial decisions at key moments in their financial journey.



## Provider of integrated retirement and investment solutions, advice and holistic well-being

Our business lines (segments) are as follows:



- Standalone and umbrella retirement fund administration and consulting
- Retirement fund actuarial consulting
- Beneficiary fund consulting and administration



- Health actuarial consulting
- Health and medical scheme consulting
- Absenteeism and disability reporting, management and consulting



- Multi-management and investment solutions for institutional clients and individual customers
- Asset and investment consulting and administration
- Investment manager surveys
- Multi-manager portfolio construction, manager research and advice
- Investment management administration services



( ) INDIVIDUAL

- Individual financial planning, wealth management, savings and investment product administration
- Bespoke investment portfolios for independent financial advisers (IFAs)
- Retail umbrella fund



 Differentiator for multinational clients – health, wealth and career services and solutions across 54 countries

#### Namibia and Botswana

- Standalone and umbrella retirement fund administration and consulting
- Actuarial consulting
- Asset and investment consulting
- Multi-management and investment solutions for high-net-worth individuals and corporate clients

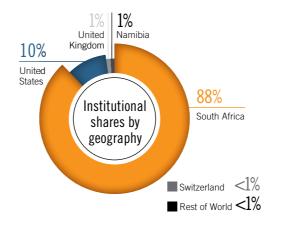
#### **Channel Islands**

 Employee benefits consulting, providing pensions, investments, health, risk and annuity solutions to corporate and institutional clients

## **Ownership**

Our three most significant shareholders at the Alexander Forbes Group Holdings level are African Rainbow Capital (ARC), through its subsidiary African Rainbow Capital Financial Services Holdings Proprietary Limited, Mercer Africa Limited and the Government Employees Pension Fund (5.06%). Of the institutional shareholders, 88% are South African.

ARC holds a 35.1% interest in the company. Mercer Africa Limited (Mercer), a subsidiary of the US-listed Marsh & McLennan Companies Inc, holds a 14.3% interest in the company.





For details regarding the shareholder structure, and for more on our partnership and performance with Mercer, read more here:

- the Annual financial statements
- the Results announcement

## ARC as our key strategic anchor shareholder and empowerment partner

It is important to us that our strategic partnerships are anchored on a common goal and vision. We prioritise the financial well-being of our clients and aim to make a positive impact in our society and we are pleased to find a partner that does the same. ARC is a black owned company that focuses on contributing to the South African and African financial services industry.

Their business philosophy is two-fold – they aim to benefit their stakeholders and positively contribute to the lives of South Africans by supporting local communities and causes through their broad social and corporate investment initiatives.

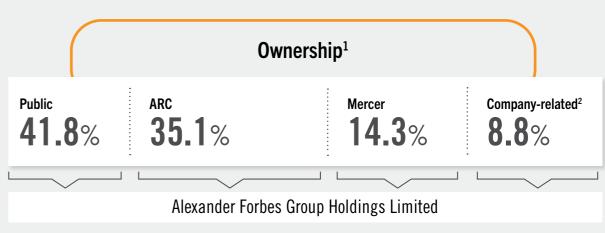
## Partnership with Mercer brings enhanced offering to our clients

Alexander Forbes and Mercer have shared several strategic business initiatives over the past five years, collaborating across investment advisory, research, technology and portfolio management capabilities. The sharing of intellectual capital and other support has laid a foundation that provides significant opportunities to both companies and enriched value for our respective clients. Access to Mercer's research, broader investment opportunity sets, and toprated managers, at a competitive price, will continue to allow us to provide improved solutions for our clients, in line with our risk-led framework. Further, we have enhanced our value propositions for the South African market through offering more cost-effective solutions by accessing the global expertise of Mercer's research capability.

In close collaboration with Mercer, we service clients across Africa through the advice-led solution platform 'Arrive'. The Arrive platform is the first employee benefit solution of its kind in our industry and responds to multinational clients from Alexander Forbes and Mercer.

For more details regarding Mercer and Arrive's performance, and Mercer's global broking services, read more here:

- Our Strategy section on page 44.
- Our Clients and members section on page 58.



- 1 Ownership at 31 March 2021.
- 2 Include shares held on behalf of the Isilulu Trust, Alexander Forbes Community Trust and FSP Trust, and shares owned by key management.

## Operating model

Embedding the operating model over the past two years has been a key enabler of our strategy and demonstrates the shift towards an integrated offering to our clients. Our operating model is designed to unite our business lines and present a 'one-company' view and single point of entry for our clients.

Through our operating model, we combine and integrate our unique skills, expertise, business lines and offerings across Alexander Forbes. As an integrated client-facing entity, we are now able to leverage the full breadth of our expertise to provide market-leading advice which improves member outcomes for our clients and members.

#### The business is segmented into three distinct platforms:



A client-facing team



Investments, Products & Enablement (IP&E)

A hub for innovative solutions and product enablement



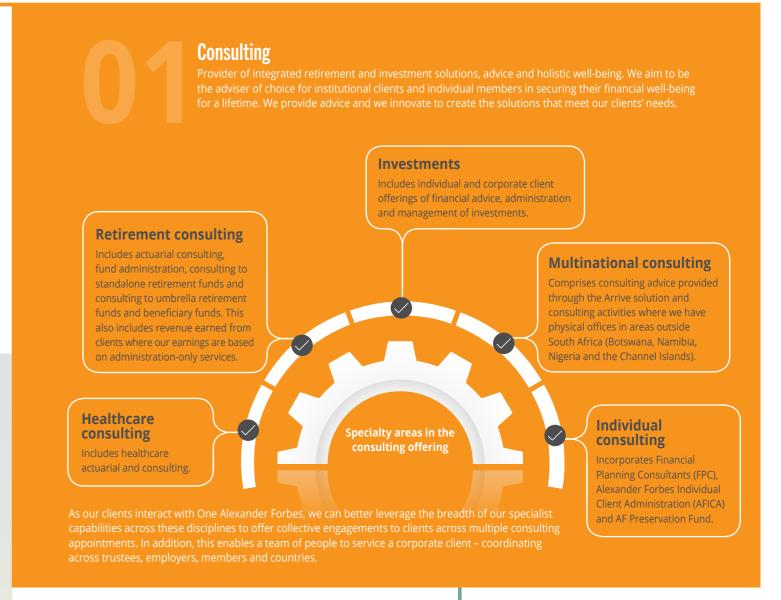
**Client Services & Business Optimisation (CSBO)** 

A joint platform for services, including fund administration, technology and process re-engineering



#### **Enhancements to the operating model**

The three platforms of our business are supported by the enabling functions of human capital; finance, risk and audit; governance, legal and compliance; strategy and customer experience; and investments. These enabling functions were previously incorporated within the CSBO platform. However, they have been split into vertical enablers to eliminate confusion from the platform reporting relationship and free up capacity within the enabling functions, allowing for greater focus on internal clients. This has also enabled the platforms to deepen their focus on growth and the acceleration of our client focus journey.



#### Investments, Products & Enablement

This platform comprises the investment management team, the research and best practice academy, product management and other strategic units such as strategic insights, the chief economist and digital analytics.

These teams support the consulting team in developing more holistic products and solutions that enable a more personalised approach for each client; and to enhance coordination to develop solutions that meet the needs of institutional clients and individual members, while ensuring we meet our ESG requirements. The removal of silos has also allowed us to benefit from substantial efficiencies and cross-pollination of skills.

## Client Services & Business Optimisation

This platform includes our operations, technology and process reengineering units. The platform aims to embed operational excellence in administration, data quality, analysis and reporting to better service clients; and to improve expense management and absorb stranded costs.

## Revenue model

Our revenue is housed under our consulting platform and is derived from the fees we earn through both advice-led and consulting services as well as asset-based fees. We segregate revenue based on type, which categorises revenue by service, and based on driver, which categorises revenue by the basis of the fee calculation.

The recurring advice-led service fee income (approximately 44%) comprises fee income from services rendered to clients, monthly administration (either on a fee per member or a percentage of salary contribution basis), consulting fees, actuarial fees, and commission income. As a material

Advice-led The consulting service fees platform houses 44% all revenue

proportion of the group's income is linked to pension contributions, we are affected by the macro-economic drivers of employment and wage inflation.

A key component influencing the group's revenue is the underlying asset base upon which fees are earned. The asset-based fee income comprises a larger proportion of our revenue (approximately 55%). Fees linked to the asset base include revenue from multi-manager activities, administration fees and fees charged for financial advice. It is therefore important that we grow assets through new business flows and through asset performance.

lagging impact. For example, new healthcare clients draw revenue almost immediately after appointment. However, there is a much longer lag before the negative impact on revenue is reflected when an investment or administration client leaves.

DRIVERS

- Payroll expense
  - Members
  - ▲ Commission
  - \* Asset-based
  - O Ad hoc consulting

56% Institutional asset flows

Asset fees

Individual asset flows

Some revenue drivers have immediate impact and others have a

#### **Revenue streams** Total %

#### **INVESTMENTS ▲ \*** O

Institutional

Individual



41% R1 282m

Consulting and advice fees R35 million

Investment management fees R1 247 million

RETIREMENT CONSULTING

R592 million

27% R848m Consulting and advice fees Commission R170 million R86 million Administration fees

**INDIVIDUAL CONSULTING** 

14% R455m

Consulting and advice fees R311 million

Administration fees R144 million

#### **HEALTHCARE CONSULTING**



9% R293m

Consulting and advice fees Commission R50 million R240 million Administration fees R3 million

#### **MULTINATIONAL CONSULTING**



9% R275m

Consulting and advice fees Commission R123 million R12 million

Administration fees Investment management fees R119 million R21 million

## Our investment case

#### **Capital-light business** model

- Maintaining a capital-efficient business model
- Surplus capital to be returned to shareholders
- Dividend cover: 1.5 to 2.0 times

#### A commanding position in the industry

- Proven strength and expertise in core activities - 86 years of doing what we do best
- Market leader in institutional employee benefits, multi-manager investments and healthcare consultancy in South Africa

#### A strong client value proposition

- Integrated client-facing teams that deliver greater expertise and innovation
- Holistic offering across the value chain

## Advice-led business

- Market-leading independent advice that optimises client and member outcomes
- Being advice-led, which leads to the formation of lifelong relationships with our members rather than product-specific engagements
- Our advice-led, integrated consulting team in what is already a mature industry that gives us an advantage – our solutions are holistic, spanning retirement benefits, investments, healthcare, and life benefits through a single point of entry

## **ADVICE-LED**

#### A focused business model

- Single-focused business with reduced complexity
- Simple operating model making it easier for clients to understand and access

#### A robust balance sheet with capacity to grow

- Supported by strong cash generation
- Well-capitalised (cover ratio of 1.5 times)
- Low level of gearing

#### A well-known and trusted brand

- Institutional integrity focused on building relationships built on trust
- The Alexander Forbes brand is synonymous with financial expertise and innovative, reliable solutions

#### A cash generative business

- Predictable revenue base and highly cash generative
- Strong profit to cash conversion

## Awards 2021

The awards we win demonstrate how our people excel at living out our values to achieve our purpose as a company.



#### PMR Africa

Diamond Arrow 2020

- National Survey on Consulting and Actuarial Firms
- National Survey on Pension Fund Administrators, Consultants. Product Providers and Insurers
- Best Consulting and Actuarial Firm
- Consulting and Actuarial Firms (1st overall)
- Employee Benefit Administrators and Consultants (overall winner)
- Pension and Retirement Fund Administrators (overall winner)

Receiving a Diamond Arrow means that we are ranked by various stakeholders as first overall in the category. These awards show that our clients, members and stakeholders see Alexander Forbes as an industry leader.



#### **BCI Africa Awards**

Continuity and Resilience Professional (Private Sector) Awards

#### Susan Mercer

The award recognises a leading and influential professional who has used creative and original approaches within their organisation to improve overall resilience. Having such leaders in our group shows our commitment to, and capability of, planning and responding to disruptive incidents.



#### **SAVCA Awards**

SAVCA Impact Award for Commitment to ESG and/or Impact Investing in South Africa

This is evidence of our commitment to responsible investing.



#### **SAPA Awards**

#### **Best Payroll System Implementation**

Continuous improvement of our internal processes is paramount to our customer service.



#### **Actuarial Society of South Africa**

Swiss Re prize for best actuarial paper on Risk and Reinsurance

#### **Gary Velcich**

RGA prize for best paper, 'Mortality Improvements in South Africa: Insights from Pensioner Mortality'

Gary Velcich

Employees such as Gary contribute to our position as a thought leader in the industry. This is an example of our ability to attract and retain the best talent in the business.



## Business Engage Gender Mainstreaming Awards 2020

Overall National Positive Role Model, National Positive Role Model (Corporate), and Positive Role Model (Corporate) Gauteng

Carina Wessels

This award shows how individual employees who are role models can demonstrate respected and recognised leadership behaviours in gender inclusivity, inspiring others. We are following through on our Transformation ambition for greater inclusivity, co-existence and tolerance in the area of gender.



#### The African Legal Awards 2020

#### **Legal Department of the Year (Large Team)**

General Counsel of the Year

Carina Wessels

These awards for outstanding in-house legal work demonstrate the importance we place on serving both internal, and more importantly, our external clients at an externally benchmarked and recognised level of legal excellence.



## In-House Community Counsels of the Year 2020

#### **Legal Team of the Year – Change Management**

This award recognises our management of highly sensitive labour matters and related litigation.

## Governing our business

The Alexander Forbes Group Holdings
Limited board of directors is the
highest governing body, ensuring that
the company is led in an ethical and
responsible manner. Our governance
approach, supported by two of our core
values — trust and integrity — enables
the achievement of our strategy while
focusing on the long-term sustainability
of the group. Our actions set the
tone throughout the organisation by
demonstrating our commitment to the
integrity and reputation of the company.

Appropriate governance oversight is in place and we remain committed to our code of ethics, which is a key tenet of our governance efforts. Our governance efforts extend beyond achieving regulatory and legislative conformance towards ensuring the board performs and adds value to the group through its oversight, leadership and strategic guidance.

The board is satisfied that it has fulfilled its responsibilities in accordance with its charter for the reporting period. The board delegates authority for management of the group's activities to the executive and is comfortable that the delegation of authority framework ensures a clear division of responsibilities between management and the board, and that no executive has unfettered authority. There is also a clear division of responsibilities (detailed in a bespoke policy) between the chief executive officer and board chair, and the lead independent and other directors.

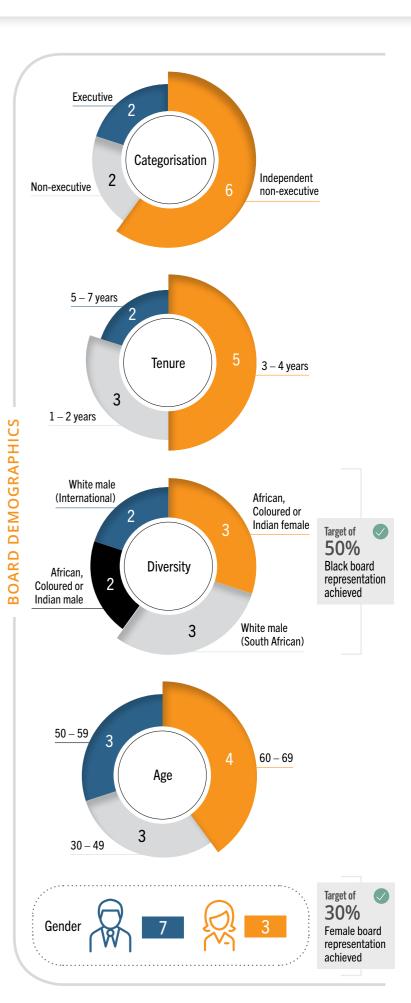
The board subscribes to the principles contained in King IV<sup>™</sup> and our application of the principles and practices is disclosed and explained in our FY2021 Governance report, which is available online. The governance disclosures in this report should also be read with our FY2021 Governance report.

The board consists of 10 members: six independent non-executive directors, two non-executive directors and two executive directors. The board remains confident that its composition contributes to the balance of skills, experience and diversity necessary to perform its duties.

During the year, the nominations committee reviewed individual director and collective board skills, experience and expertise in the context of the skills and diversity required to ensure the composition remains future fit for a transforming group.



Refer the **FY2021 Governance report** for more information on the review and outcomes.



Alexander Forbes Group Holdings Limited

## Our governance structure enabling our intended governance outcomes

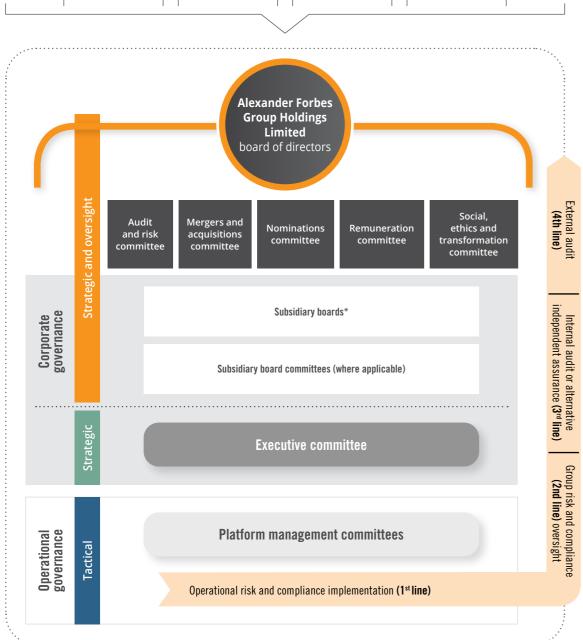
#### **Governance outcomes**











<sup>\*</sup> In accordance with our Governance framework and group delegation of authority, several matters are delegated by subsidiary boards to the group executive committee and/or in-country management teams (where applicable), but without derogating from the legal responsibility and fiduciary duties of subsidiary directors.



Alexander Forbes Group Holdings Limited

## Our board of directors and executive committee

#### Our board of directors



#### Independent non-executive chair

- Disruptive Innovation
- Design Thinking and Strategy
- Fintech and Digital Disruption
- Financial Markets and Instruments (Fintech and Digitisation)
- Board Leadership
- Derivatives and Regulations
- Financial Institution Failure Management

Appointed: 8 March 2018

#### Meeting attendance

8/8 3/3 9/9



#### Chief executive officer

- BSc (Actuarial Science)
- Advanced Management Programme
- Fellow of the Actuarial Society of South Africa

Appointed: 1 November 2018

#### Meeting attendance

8/8 3/3 3/3



#### **Chief financial officer**

- BCompt (Hons)
- CA(SA)
- CFA

Appointed: 1 April 2019

#### Meeting attendance

8/8 3/3

#### Meeting attendance key

- Board
- Nominations
- Remuneration
- Mergers and acquisitions
- Social, ethics and transformation
- Audit and risk

#### Non-executive directors



CA(SA) SEPA

Appointed: 3 June 2020

Meeting attendance 6/8 1/1



BusSci (Hons)

Fellow of the Institute and Faculty of Actuaries

Appointed: 31 July 2014

#### **Meeting attendance**

8/8 3/3 9/9

3/3

#### Our executive committee\*



#### **Executive: consulting**

- Honours Bachelor of Commerce
- Bachelor of Commerce

Appointed: 1 July 2019



#### **Excecutive: investments, products** & enablement

- BCom (Hons)
- Fellow of the Actuarial Society of South Africa
- Fellow of the Institute and Faculty of Actuaries

Appointed: 1 August 2019



Laura Kukard (48)

#### **Executive: client services &** business optimisation

- Post-graduate Diploma in Management
- Post-graduate Diploma in Business Management

Appointed: 1 August 2020



#### Executive: human capital & transformation

- BA Honours
- Project Management
- Strategic Human Resources
- Advanced Management

Appointed: 1 October 2020



#### **Executive:** governance, legal & compliance

- LLM: Extractive industry law in Africa (cum laude)
- LLM: Labour Law
- Advanced Labour Law (cum laude)
- LLB
- PMD (cum laude)
- Fellow of the Chartered Governance Institute of Southern Africa

Appointed: 1 March 2019



**Executive: strategy and customer** 

- BBusSc (Hons: Actuarial Science)
- MBA (cum laude)
- Fellow of the Actuarial Society of South Africa

Appointed: 1 May 2021

#### Independent non-executive directors .....



- BBusSc (Actuarial)
- Advanced Management Programme
- Appointed: 1 August 2018
- Meeting attendance 8/8 3/3 9/9
- 2/3 3/3



Nigel Payne (61)

- BCom (Hons)
- CA(SA) MBL
- Appointed: 1 May 2018
- **Meeting attendance** 8/8 3/3 7/9 3/3 6/6

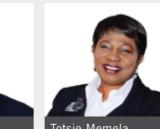
- - Bob Head (63)
  - and Economics CA, Associate of the Chartered Insurance

MA (Politics, Philosophy

Institute Fellow of the Chartered Institute of Bankers

Appointed: 1 January 2018

Meeting attendance 8/8 3/3 6/6





- Master's in Public Administration
- Appointed: 1 July 2015 Meeting attendance
- 8/8 7/9 3/3



- BCom (Hons)
- CA(SA) Appointed: 9 November

3/3 3/3

- 2020 Meeting attendance
- \* Appointment dates are on appointment to the

executive and not necessarily as employee.

Integrated annual report for the year ended 31 March 2021

## Governance value created

During the past year the board has provided effective and holistic oversight and guidance to the executive on a range of matters. We are pleased to see that our actions as a board resulted in improvements across the group and that the changes that have been implemented because of board decisions are also providing value to our stakeholders. This section highlights some of those key actions and outcomes. More details can be found in the Governance report, available online.

#### Commitment for FY2021

Agile response to Covid-19 and market disruptions: debate and review of the out-of-cycle ORSA management actions and flags possibly indicating a transition to a different scenario, and adjusting strategic priorities in response to Covid-19 and industry changes

#### What we achieved

- During times of crisis the role of the board increases in importance in providing appropriate guidance and oversight. In FY2021, the board oversaw the group's strategic decisions and tactical responses relating to the Covid-19 pandemic. Our focus as a board was on protecting value, and minimising value erosion while creating value for all stakeholders.
- As discussed throughout the reporting suite, the outof-cycle ORSA provided valuable and ongoing input into board deliberations and key decisions, especially during the consideration of dividend distributions and quantum, merger and acquisition activity, and generally monitoring and adjusting strategic priorities on an ongoing basis in response to Covid-19 and industry changes. Our sustainability and business resilience through these challenging times are testimony to the efficacy and valueadd of the ORSA as input into board deliberations.
- We considered the sentiment, risks and opportunities pertaining to the highly publicised debates on the prescription of assets and access to retirement funds in response to Covid-19 and overseeing the group's thought leadership responses.

#### Commitment for FY2021

Improved oversight over material group-wide matters

#### What we achieved

- We entrenched the practice of utilising rotational deep dives to intensely interrogate specific areas of oversight. During the year deep dives on the following items were considered: Namibia, Botswana, Jersey, Alexander Forbes Investments Limited and Alexander Forbes Life Limited audit and risk matters, first-line compliance, information technology business continuity management, market conduct and fraud risk management. These bespoke and detailed deepdives deepened the board's focus on material oversight matters and the debate contributed to the quality of agreed outcomes and next steps.
- We approved or revised the following policies and frameworks, thereby contributing to the intended ethical culture and effective control governance outcomes and overall corporate governance maturity:
- economic crime and fraud risk management policy
- gift and entertainment policy
- group tax policy
- group information technology governance policy
- group information technology cyber security policy
- group information technology disaster recovery policy
- comprehensive stakeholder relationship framework and processes and principles to assess the risk associated with the establishment or continuation of relationships with potentially compromised stakeholders, especially suppliers.

#### Commitment for FY2021

Improve board cohesion and efficacy following board composition changes

#### What we achieved

We completed an extensive and detailed externally facilitated board evaluation process, including input into the efficacy of the group-wide committees and the combined insurance board. It comprised independently facilitated one-on-one interviews with all directors and the executive: governance, legal and compliance and a bespoke session to discuss the outcomes and agree next steps. The key objectives were to build rapport and entrench effective working relationships within the newly constituted board and to highlight areas requiring improvement.



Refer to the **FY2021 Governance report** for a summary of the key areas of improvement identified.

Supported and enabled by the nominations committee, we conducted detailed succession planning, including emergency succession discussions, and completed a robust review of the board skills and experience matrix, ensuring it reflects the future skills requirements. This is especially important following the disposal of the group's insurance businesses to enable the medium- and long-term organisational strategy. The review led to the appointment of an additional non-executive director to supplement board and committee skills and experience. The analysis completed will inform further succession planning and the appointment of additional non-executive directors to address remaining skills and experience deficiencies.



Refer the **FY2021 Governance report** for an overview of current skills areas and identified deficiencies.

- We further enhanced the group's integrated governance model, leading to the termination of the combined insurance audit and risk committee and absorption of those responsibilities into the group audit and risk committee. We believe this integration greatly assists in enabling holistic oversight of material group-wide audit and risk matters and significantly reduces unnecessary duplication.
- We enhanced all committees' terms of reference through detailed reporting guidelines to ensure committees receive precise information, at the most appropriate time in the year, and in an appropriate format to better enable their efficacy.

## Other material FY2021 governance

- Supported and enabled by the mergers and acquisitions committee, we provided detailed oversight over the execution of merger and acquisition transactions, including finalisation of the disposal of the Namibian short-term insurance business and the disposal of Alexander Forbes Life Limited's group risk and retail policies.
- We debated capital allocation decisions in the context of our capital-light strategy, the out-of-cycle ORSA and economic volatility.
- We reviewed and approved revised strategies and priorities.
- We continued our focus on culture, our advice-led DNA and setting the ethical tone from the top.

#### What we achieved

- We improved return on capital and strategic execution and delivery.
- We maintained dividend distributions and even paid a special dividend.
- We oversaw and ensured operational progress on the group's engineering interventions and information technology capital improvements, specifically operations and administration automation (also approved as a new long-term incentive plan strategic metric).
- We approved the revised member engagement strategy as key strategic growth enabler.
- We approved improvements to the target operating model as key enabler for strategic delivery.

#### **Commitments for FY2022**

Strategic review, oversight and input to ensure the group is enabled to enact, ·and execute on, its growth aspirations.

Supported by the mergers and acquisitions committee, oversee the value creation and growth enablement through large merger and acquisition activity.

Continue to develop our in-depth understanding of the pensions reform landscape, its likely impact on the group, and the opportunities and risks created, and consider appropriate strategic responses.

For all committee FY2021 activities and FY2022 objectives, read the following FY2021 reports online:



FY2021 Governance report



FY2021 Annual financial statements

## Managing risk

In acting as a trusted adviser and partner to our clients, we also aim to ensure that we use sound risk management practices throughout our business. Our risk processes and practices govern our organisational architecture, and the board holds ultimate accountability for risk management. Our board-approved risk management strategy outlines our risk management approach and governance model, and sets out our expectations for the risk management infrastructure and programme.



Risk management is built into our decision-making structures and processes at executive management and operational levels. Decisions pertaining to risk mitigation and management strategies within our risk appetite measures are reviewed by independent parties, contributing to the robustness of the measures taken, including stress tests for key variables and systemic shocks. We have contingency plans in place for unexpected or worst-case scenarios, as signified through our Covid-19 response and out-of-cycle ORSA.

The overall risk governance model improved materially over the period as the group deployed and enhanced management-level risk committees across its operations – this has improved oversight through the quality and extent of risk reporting. It has also supported risk prioritisation and encouraged risk-adjusted decision-making within the group. The group risk strategy has ensured that the company's risk architecture has been properly established and risk appetite deeply considered. Risk training efforts continued across the company over the period.

#### Covid-19

Significant internal resources and efforts were deployed towards protecting our employees and clients and our overall business continuity in response to Covid-19. The out-of-cycle ORSA proces conducted early in the year boosted the integration of strategy, risk management and capital management. Various levels of management, in coordination with the board, deployed risk-adjusted thinking and solutions into the business.

Business resilience was strong; however, we increased certain interventions to protect ourselves and our clients against the heightened threat of cyber risk events. Strategic and tactical discussions and decisions were well coordinated, including accelerating certain business plans, and putting others on hold to best respond to evolving client and employee needs. A significant amount of stakeholder engagement, including that with clients and regulators informed our decisions.

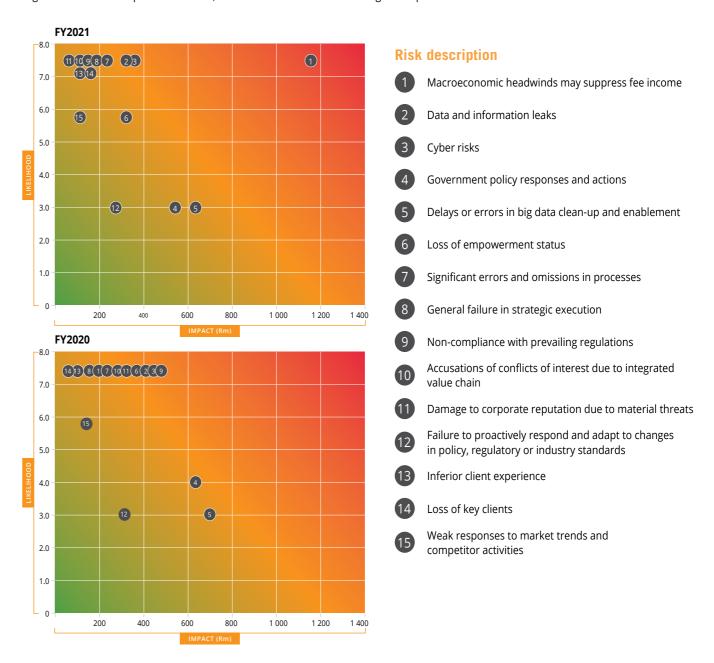
With the medium- and long-term impacts of the pandemic still uncertain, the group will continue to emphasise strong crisis management capabilities while building flexibility into our strategies and operations to be the most responsive to the environment.



Read more in the **FY2021 Governance report** for details of our risk governance and management, and our material risk and mitigating actions.

## Material risks

We manage several key risks to our business, which if successfully managed, will also provide us with growth opportunities. The table below highlights 15 of our most material risks. An additional three material risks can be found in our detailed material risks report in the FY2021 Governance report. In addition to the risks presented below, we have other risks (strategic in particular) that are high in value, but of which the impact will occur over an extended period rather than instantaneously. We continuously monitor those risks, together with the ones presented below, which are ranked on the basis of gross impact and likelihood.



Our top 18 material risks, discussed in the FY2021 Governance report are grouped and ranked according to our risk criteria and include context about risks in our industry.

Additional reference to risks specific to our industry can be found in the following sections in this report:

# Our business model and value creation



## Approach to materiality and our stakeholders

#### Approach to materiality

While material issues do not change substantially from year to year they shift over time, influenced by our environment, our stakeholders, and our performance and strategy. Therefore, we regularly review the matters that are material and may affect our ability to create and sustain value. Our process involves the identification of material issues, evaluating and ranking them according to their impact on the organisation, developing and implementing responses, and assessing our progress against them. Both quantitative and qualitative factors are considered

Identifying what is material to our business model is the starting point for our materiality process. The ORSA process considers various scenarios and the projected impact of these scenarios on revenue, profitability, cash flow, liquidity and solvency over the medium to long term. The ORSA process is supplemented by our stakeholder engagement process where we gather input from our stakeholders on issues that concern them. In addition, we review issues based on current and previous material issues, peer companies' material issues, industry reports, benchmarking and other sources of information.

Our material issues are confirmed by understanding how the group's ability to manage these issues has an impact on financial performance and returns for shareholders; regulatory compliance of the business and the cost thereo stakeholder expectations and the overall reputation of the company; and the innovation, growth and competitiveness of our business.

#### Stakeholder engagement approach

We aim to create positive societal outcomes through our business activities. We contribute to the financial well-being of our clients' employees, which in turn creates a more sustainable business for our clients. We assist in the development of our people, and we ensure that our suppliers and underlying investment product providers contribute to positive social and environmental impact through their own business practices.

Responsible corporate citizenship, social responsibility, sound business practice, governance and conducting business in an ethical manner are fundamental to Alexander Forbes's sustainability and the creation of stakeholder value.

Our approach to stakeholder engagement ensures we consider all stakeholders at Alexander Forbes and seek to understand and balance their interests in a sustainable manner. Through regular stakeholder engagement and robust governance and risk management, Alexander Forbes strives to be as inclusive as possible in decision-making. We use this knowledge to shape our business strategies so that we can deliver on our promise to mutually benefit our stakeholders, grow our business, and positively impact society.

Our revised stakeholder relationship framework was approved by the social, ethics and transformation committee at the end of 2020. Principles in the framework underpinning our stakeholder engagement approach include inclusivity through consultations with our stakeholders; material issues that are assessed considering the legitimate interests and expectations of stakeholders; responsiveness through our decisions, actions, performance and communication; equality of all stakeholders; finding amicable and consensus-driven solutions; and ensuring the interrelationship of subsidiaries is included.



Read more on the **Stakeholder management** section of the **FY2021 Governance report** on page 18.

## Operating context

The impact of the Covid-19 restrictions on economic activity was widespread, with output declining sharply in all key sectors. The hard lockdown in South Africa during April and May 2020 resulted in limited business and economic activities. This contributed to a GDP contraction of 51% in the second quarter of the year, marking the deepest quarterly contraction in history. Although business confidence is returning, which is a positive sign, the low-growth economic outlook is expected to continue. The South African Reserve Bank (SARB) has been supportive of the struggling economy, cutting rates several times, although rising costs of electricity and fuel will, in part, offset their impact.

Even before Covid-19 emerged, the labour market in South Africa, a significant driver of our revenue, was negatively impacted by client retrenchments, muted wage growth and resultant pressure on retirement-savings behaviour. South Africans need to contribute 17% of their income for 40 years to retire on 75% of their final pensionable salary – a 75% replacement ratio – according to the 2019 Alexander Forbes Member Watch. They need over 12 times their annual pensionable salary to achieve a replacement ratio of 75% at retirement, but at age 65 the actual average fund credit is only 3.7 times. This means that, on average, most members have a shortfall at retirement of over eight times their annual pensionable salary. Alexander Forbes Member Watch analysis shows that about 50% of members retire with less than one fifth of their final salary to live on in retirement.

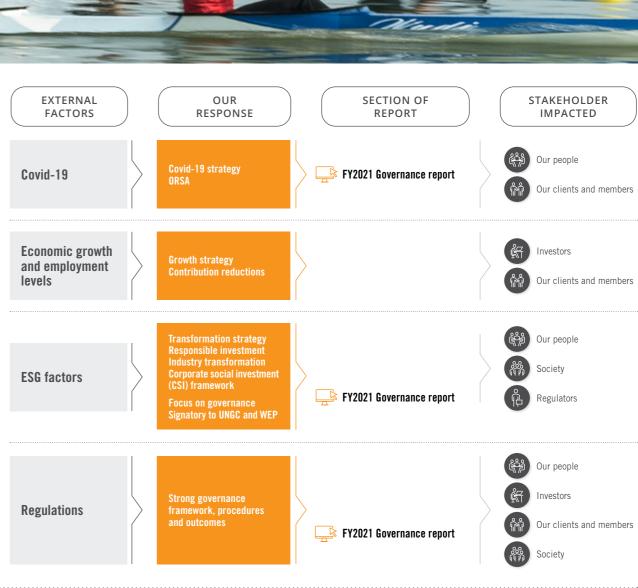
Several new regulations have come into effect over the past 12 months, including the creation of default regulations in the Pension Funds Act, and further amendments to the Taxation Laws Amendment Act. The new regulations are intended to simplify the environment for clients and members and will ultimately help improve post-retirement outcomes for retiring members. We are supportive of changes that enhance the financial well-being of our clients and members, and consequently, South Africa. It is for this reason that we have been actively engaged in debates around the changes, providing commentary and inputs on process.

However, in a highly regulated industry such as ours, legislative changes result in significant efforts being required on our part. These changes are not limited to administrative changes such as amending claim forms. They often necessitate significant investment in systems, and training. Additional engagement with regulators and administrators such as the South African Revenue Service (SARS) is also required to ensure that our administration ecosystem adapts without unnecessary disruption to our clients and members. All changes also result in the need for increased communication to clients and members to explain the changes and assist them in adjusting.

The major factors that affect our sustainability are highlighted on the right, together with our high-level actions in response to these factors, where you can read about them in this report, and the stakeholders most affected by both the external factors and our response to the factors.



The impact of the Covid-19 restrictions on economic activity was widespread, with output declining sharply in all key sectors. The hard lockdown in South Africa during April and May 2020 resulted in limited business and economic activities.



## Material issues and our stakeholders

This section provides an overview of our stakeholders, insights into their concerns which inform how we engage, and our summary responses. It also highlights our material issues per stakeholder group, as determined by our materiality approach, which was explained in the approach to materiality and our stakeholders section on page 33.

#### Clients and members

Our strategy is geared towards servicing our institutional clients and individual members. We advise our clients on the best solutions for their unique needs based on the level of financial needs among their employees, its impact on the workplace and how their company compares to others. We also advise individuals to help them make better financial decisions at key moments in their financial journey.

#### How we engage

We engage our clients and members extensively, both formally and informally, in groups and as individuals. We conduct regular client satisfaction surveys and measures of client loyalty. We hold scheduled and ad hoc corporate client engagements including the 'Hot Topics' events, which have transitioned into delivering content digitally. We engage members both telephonically and at their places of work. We communicate to clients and members through newsletters, emails and our website. We receive feedback through our various platforms, including our member complaints channel.

#### Their concerns

Our engagement with clients and members during the year highlighted concerns around the sustainability of their businesses, retrenchments, contributions, lockdown regulations and a weak economy, which was amplified through Covid-19.

#### **Summary response**

The group galvanised around our clients – particularly those who were at risk – and provided strategies focused on our clients' immediate financial distress and concerns relating to surviving the pandemic. These included leading the industry through early engagements with the regulator to reduce contributions, as well as navigating volatile markets. As One Alexander Forbes, the group put together a clear strategy to partner with our clients and assist them through this period. In parallel, our focus on operational excellence resulted in improved efficiencies relating to bulk processing of claims which reduced errors. In addition, we enhanced our digital touchpoints to enable self-service and to drive further automation.



The issues highlighted here are covered in the Message from the CFO, and the Our clients and members and Making an impact sections of this report.

#### **Material issues**

#### Financial well-being

This relates to how we assist our clients and members to achieve better outcomes and secure financial well-being. It covers how we deliver advice, and solutions, as well as the quality of those services and the resulting outcomes.

#### Investment performance

Connected to better outcomes in achieving financial well-being is our investment performance on behalf of our clients and members.

#### Technology and security

This relates to how we use technology to enhance the client and member experience, and how we protect our clients' and members' information.

#### **Brand positioning**

Our clients and members look to us to provide thought leadership, as a trusted adviser and to being a responsible corporate citizen.



#### Our people

Our business revolves around people, culture and building sustainable relationships with our clients. Our specialist employees provide the valuable expertise we need to fulfil and exceed on our . commitments to clients. They are a critical lever to delivering on our integrated, advice-led value proposition and the sustainability of the business.

#### How we engage

We engage our people through several channels including; our annual employee engagement survey; employee 'town hall' meetings; employee newsletters; one-on-one meetings (formal and informal); team meetings; line manager discussions; performance management process interactions and cultural transformation sessions.

#### Their concerns

Our engagement with employees during the year was largely positive with a specific concern raised around perceptions of fairness, especially regarding remuneration and the challenges surrounding Covid-19, remote work and generally adapting to new ways of working.

#### Summary response

Our people strategy builds on our strong belief that a high-performance culture requires an agile workforce where we attract, train and retain top talent as well as link the group's performance more directly to reward. Defining a People Promise (employee value proposition) which encapsulates the growth ambitions of the group is essential. It will also centre on transparent, clear and consistent information to colleagues to address the focus on fairness.

Also, as part of our Covid-19 response, we provided extensive moral support, remote working training sessions and the development of new ways of working principles, including flexible working location principles.

#### **Material issues**

#### The well-being of our people

This relates to creating a culture that prioritises employees' wellbeing and creating a compelling employee value proposition.

#### Employee performance, remuneration and advancement

This relates to employee career development and advancement as well as how we recognise, manage and reward high performance.

#### Organisational culture

This relates to ensuring that our organisational changes lead to improvements in collaboration and performance, as well as maintaining our reputation for being a highly ethically managed business.

#### New ways of work

This relates to ensuring that we transform how we work to stay connected with clients and each other.

#### Material issues and our stakeholders continued

#### Investors

Our shareholders, express confidence in our sustainable business model and strategy by investing in the company. In turn, we are accountable to them as we grow and realise our strategic ambitions.



#### How we engage

We engage our investors through formal meetings, including one-on-one management results roadshows (semi-annually); conference attendances; ad-hoc meeting requests and discussions with investors; investor roadshows; investor relations information that is made available on our website; perception studies – formal independent and informal questionnaires; analyst presentations for the release of our interim and final results; and corporate governance roadshows, as well as pre- and post-AGM engagements.

#### Their concerns

Our engagement with investors during the year highlighted their understanding of our strategy and recognition of execution against our stated objectives. They expressed concern relating to our performance in a low-growth, low-return market, the high cost-to-income ratio (in the absence of topline growth) and allocation of capital.

#### Summary response

Over the course of the past few years, we have made significant changes to our business. Our results demonstrate that our strategy is on course and the improvements to the business model are delivering improved performance. We have demonstrated clear execution on several of our strategic objectives, especially delivering on the capital-light objective, which led to the return of capital to shareholders. Going forward, we are committed to improving returns through meaningful organic and inorganic growth. Underpinning our long-term growth will be an ongoing focus on operational excellence in execution, expense management. We remain resolute in our efforts to continue the journey towards becoming a highly automated, digitised and simplified business geared for the future needs of our clients.

#### Material issues

#### Return on capital

Capital allocation and commensurate return on equity will always be a key focus area, especially in uncertain times.

#### Growth

Growth in a mature, low-growth market, together with prudent cost management.

#### Our Covid-19 response

This relates not only to our own organisational response, but also to how we are engaging with our clients and members, and the asset managers to whom we have allocated funds.

#### Use of technology

This relates to how we are enhancing our use of technology to improve efficiencies and performance.

### Regulators

Our regulators ensure that we treat our clients fairly and protect their information and assets, and demonstrably act in the best interests of our stakeholders.



#### How we engage

We engage our regulators through formal interaction and participation in industry forums, and by providing accurate, timeous and comprehensive statutory reporting.

#### Their concerns

Our engagement with regulators focused on legislative changes and how we are preparing ourselves, as well as our clients and members for these changes. In addition, regulators are looking at issues of compliance and good governance as well as the progress on the disposal of Alexander Forbes Life, and a bespoke regulatory oversight regime for linked insurers.

#### Summary response

Compliance is always high on our agenda, and we have made the necessary changes to ensure continued compliance. Also, despite the communication challenges arising from the move to a more virtual environment, we have communicated extensively with clients and members, advising them on the implications of regulatory changes, providing guidance on how to manage these changes, and executing changes on behalf of clients and members to enhance financial outcomes. Compliance with regulation is the minimum standard expected of Alexander Forbes and our efforts are aimed at exceeding this threshold in order to deliver meaningful benefits to our clients and society. We provided regular status updates to regulators, including daily Covid-19 related reporting when required. The Association of Savings and Investments South Africa (ASISA) coordinated a successful engagement with the Prudential Authority, in which we participated extensively to design and agree upon a bespoke oversight regime for linked insurers.

#### **Material issues**

## Response to regulatory amendments and legislation

While regulations and legislation add to a focus on compliance, the evolution of a pro-consumer regulatory environment has created opportunities for us.

## Maintaining good corporate governance and accountability

A focus on how we coordinate, implement and report on compliance policies, procedures and standards.

#### Society

Alexander Forbes, as a leading pension fund, is a key player in the savings and investment industry in particular, and in the economy in general. Because it administers pensions on behalf of many of the country's largest employers, its impact on society helps to ensure that people retire through best advice with better outcomes.

#### How we engage

Ongoing engagements with asset managers on ESG topics and through member engagement activities. In addition, through our chief economist, Isaah Mhlanga, we work on relevant matters, such as policy and pension reform. We also connect through our client service offering, such as retirement benefit counselling, workplace interventions and our call centre engagements.

#### Their concerns

Financial well-being and the attainability of retirement are key concerns of our society, as well as a requirement for improved social and environmental outcomes using responsible investing through the value chain.

#### Summary response

The environment continues to be challenging to consumers and we have leveraged our advice proposition to support our clients and members during this period. We also provide knowledge through the Alexander Forbes Benefits Barometer and Member Watch research as well as the AF Manager Watch suite of reports. Isaah Mhlanga's commentary and engagement on matters affecting society also play a role, as does our ability to lobby government to improve the regulatory environment for society. We see ESG requirements as an opportunity to apply the significant intellectual property we have established in this space to the benefit of our clients who rely on our breadth of research to help structure portfolios that deliver purposeful performance. As the largest multi-manager in South Africa, we bear the responsibility to influence change in the industry and ensure that our ESG goals form part of our multi-manager due diligence process and engagement with all asset managers.

#### Material issues

## Achieving transformation objectives

This relates to ensuring that we are perceived as an organisation that is committed to transformation, is making progress with implementing transformation initiatives and, most importantly, is achieving transformation objectives.

#### Responsible investment

This relates to ensuring that even though we do not make significant direct investments in companies, we engage thoughtfully and appropriately with asset managers to whom we have allocated funds on topics related to responsible investment.

#### Social impact

In line with national and global sustainable development objectives, we must ensure that we are creating a positive social impact across our stakeholder groups.



## Value created for stakeholders

Our activities, enabled by our forms of capital, support the delivery of products and services to our clients and members. The outputs we produce and the outcomes we contribute to result in value being created, preserved or eroded for stakeholders.

Manufactured and natural capital are not material inputs or outcomes for our business. So, while we do manage and measure our electricity and water usage, we do not report on this in the integrated report. The following are the four material forms of capital we use:

### Financial e



The cash generated from our operations, together with funding from investors and financial institutions



Our people and their collective expertise, skills and experience

#### Intellectual (?)



Our brand, our solutions and our insights

#### Social 💖

Our stakeholder relationships with corporate clients, individual members, investors, regulators and our society.

#### **INPUTS**

#### WHAT WE DO

## **FINANCIAL**

R3 153 million in revenue generated from our activities, consisting of 44% advice-led service fees and 56% asset fees

Strong balance sheet cash position and ability to leverage the balance sheet

Strong regulatory position



Total of **2 467** employees

 Remuneration structures aligned to performance and key drivers (group scorecard)

Leadership team

- Experienced executive team
- Experienced board providing strategic input and oversight



#### INTELLECTUAL

Market-leading solutions for clients and members

Relevant investment proposition built on our multi-management investment capability

Leadership in ESG investments

Enterprise risk management suite to ensure sustainability of the organisation

Learning, development and talent management

Engagement with government regarding ongoing amendments to financial sector regulations



#### **SOCIAL**

**1.3 million** members reliant on our ability to positively impact on their financial well-being, with 555 institutional clients using our retirement benefit counselling (RBC) services

Influential position in the industry

Well-known and trusted brand

Secure financial well-being for a lifetime through our advice-led services

and solutions for

our members.

#### **OUTCOMES**

#### **FINANCIAL**

- Cost-to-income ratio of 78.30% (2020: 76%)
- Solvency capital requirement (SCR) cover ratio of 1.94 (2020: 2.57)
- Dividends distributed: 22 cents per share (2020: 30 cents per share)
- Normalised return on equity (ROE): 3.8%, excluding ETV: 9.1% (2020: 18.8%)
- Profit from continuing operations: R685 million (2020: R757 million)

#### **STAKEHOLDERS IMPACTED**

#### ALIGNED SDGs

#### TRADE-OFFS

Investors





Our people



markets such as insurance to create a focus on our core capabilities. This reduces access to a diversified revenue stream via the insurance entities but is intended to sharpen our competitive position in our core market.

In line with our capital-light strategy, we exited

#### HUMAN

- Increase in employee engagement level to 67% (2020: 58%)
- Group comprised of 47% (2020: 48.32%) female employees
- Group comprised of 73% (2020: 74.44%) black employees
- Increase in employee retention rate, with 12.47% employee turnover (2020: 19.2%)
- 2 355 employees trained (2020: 2 716)

INTELLECTUAL

Total payroll of R1.6 billion (2020: R1.7 billion)



Society



**Q** 

4.4

Our investment and commitment to safeguard our employees and retain jobs and salaries during the volatile period greatly improved employee engagement and retention. The rapid transition to remote working was matched with due care and accessibility by leadership, but the team dynamic offered by the typical office-based environment was dampened with the intent to protect the health of our employees. In addition, a decision was made not to provide increases to senior employees and to allocate lower bonuses.



- Enhanced market-leading brand demonstrated through our awards and accolades
- Performer ranked in the first quartile of AF Large Manager Watch
- Government adoption of our inputs on regulatory changes
- Systems and structures for virtual delivery of our solutions
- Demonstrable impact on member behaviour by intervention of our member engagement suite of capabilities, resulting in 49% (2020: 53%) of assets preserved by individuals on exit and retirement



Our people



Clients and members



Society

Government



widely with our stakeholders, at no charge, to influence positive change. Our contributions to thought leadership support our position as an industry leader, demonstrated by our numerous awards and recognition received, which creates additional channels to reach clients and members.

We absorb the cost of research and developing

insights, but we share many of these insights

The impact of the operationalisation of our intellectual capital is anticipated to result in securing the financial well-being of clients and carving out a competitive advantage.

#### SOCIAL

- Improvements in client and member decision-making, demonstrated by an increase in our NPS to 35.8 (2020: 17) and a reduction in the number of client complaints to 5 964 (2020: 6 237)
- Level 1 B-BBEE contributor status (2020: Level 2)
- Became signatory to UN Global Compact and **UN Women's Empowerment Principles**



Our people





Regulators



Our member education services and member engagement suites serve to educate members and provide access to support structures that enable better financial decision-making.

We invested in digital infrastructure to maintain

and enhance communication and engagement

satisfaction levels and experience.

with our clients and members over the past year.

This has led to significant increases in our member

We apply our position of influence to engage stakeholders to inform how policy is crafted such that members' interests are met.

Alexander Forbes Group Holdings Limited

#### Value created for stakeholders continued









#### How our corporate vision impacts South Africa's **SDG** imperatives

- We deliver financial inclusivity across diverse groups in an accessible manner so that all of our members have an equal opportunity to achieve financial well-being
- We provide access to financial literacy training, which is relevant across age, gender and socio-economic barriers
- A focus on thought leadership ensures that the solutions we develop meet distinct South African and African
- Our investment approach incorporates ESG principles to benefit the living standards and sustainable working conditions of society
- Our market leadership provides stakeholders, including competitors, with a view on how to best secure financial well-being for clients, resulting in Alexander Forbes playing a role in improving the lives of retirement fund members beyond our own client base



5 GENDER EQUALITY

9

#### WHAT WE DO FOR OUR **INSTITUTIONAL CLIENTS**

- Identify the optimal employee benefits structure to ensure:
- employee well-being and engagement irrespective of their socio-economic status
- global competitiveness from the perspective of:
- employee productivity
- talent enhancement
- skills development
- Provide a holistic consulting framework for the management of health, absenteeism and disability management, mental well-being and financial stability
- Focus on solutions that are appropriate for the specific needs of the markets in which we operate



#### WHAT WE DO FOR INDIVIDUAL ◆-----MEMBERS AND THEIR FAMILIES

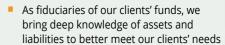
- Empower better decision-making through access to financial literacy training
- Secure their financial well-being
- Cultivate their financial courage to make financial decisions that matter
- Help them navigate the complex trade-off decisions they must make over the course of
- Develop solutions that provide:
- income and productivity protection
- wealth creation
- funding solutions to meet goals that matter
- proactive health and mental well-being
- Enhance their human capital potential through targeted skills development

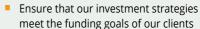
### What our solutions do for the economy and society

Through our client-centric service offering, we are committed to using our influence to create positive social outcomes. Our focus is on addressing the financial well-being of our clients' employees and individual members to encourage financial independence, social mobility, social protection and improved access to employee and healthcare benefits and other areas of employee support. In addition, we can ensure that our suppliers and underlying investment product providers contribute to the social and environmental impact through their own business practices.



#### RESPONSIBLE. TRANSFORMATIVE INVESTING





- Target opportunities for commercially attractive developmental imperatives in South Africa
- Monitor the sustainability of those investments
- Build our understanding of the impact of those investments on the world that our
- Engage and influence asset managers to play a meaningful role in support of these developmental goals

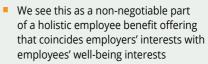






#### **ENHANCEMENT OF HUMAN** CAPITAL AND FINANCIAL **WELL-BEING**

In Africa, the leverage that enhancing human capital has in creating value and financial well-being, has the potential to have twice the impact of any other geographical region. 'Enhancing human capital' is improving the health, education and skills development of employees, which has a cascading impact on their dependants and communities















Alexander Forbes Group Holdings Limited



Our strategy remains relevant and focuses the business on providing best advice and innovative solutions. Our growth strategy is predicated on providing best advice for clients, together with measurable client benefits, pursue low-risk pan-Africa opportunities, implementing a focused business model, and maintaining a capital-light operation. The resolute focus of our leadership team in the execution of the strategy underpins our progress and acts as a demonstrable commitment to our clients.

Although these strategic deliverables did not change, some of our plans for achieving these deliverables were adapted during the year to respond appropriately to the conditions created by Covid-19. Our five key deliverables and highlights of our progress are shown in the diagram and explained further on pages 48 to 52. These deliverables are:











While our strategic decisions help us to capitalise on opportunities in our market, our continuous review of the operating environment and stakeholder engagements present new strategic opportunities that are in line with our growth vision. Certain trends that emerged are becoming more pronounced, and our efforts over the past few years have been positioning us to take advantage of new opportunities. We have done the bulk of the hard work needed to get us ready, and we are now looking forward to enhancing the scale and execution of our current opportunities and leading the way on new opportunities.

## **Emerging strategic trends**

	Emerging trends	Emerging opportunities	Links to growth vision
Consolidation	<ul> <li>Covid-19 has forced a rethink for consultants and administrators</li> <li>Increased scale has become critical for competitiveness</li> <li>Increasing costs of technological development, cybersecurity and regulatory compliance require scale</li> </ul>	<ul> <li>Our member engagement strategy is geared to the size of our member base</li> <li>A larger base creates uplift opportunity for the One Alexander Forbes proposition</li> <li>Our strong financial position and reputation enable us to have options and to be selective in terms of mergers and acquisitions</li> </ul>	BEST ADVICE FOR CLIENTS  FOCUSED BUSINESS MODE
Specialisation	<ul> <li>Clients expect and require specialist skills to navigate increased complexity</li> <li>Regulatory responsibility has increased</li> <li>Skills shortages exist in key capabilities</li> </ul>	<ul> <li>Our integrated model to deliver and implement best advice is our specialisation</li> <li>Specialist fund administration is an enabler of best advice for institutional clients</li> <li>Focus on deepening areas of strength and specialisation to deliver value to clients</li> </ul>	BEST ADVICE FOR CLIENTS  CAPITAL-LIGHT  FOCUSED BUSINESS MOD
Partnerships	<ul> <li>Emergence of ecosystems and platforms as enablers of strategy</li> <li>Partners deploy specialist skills to create shared value</li> </ul>	<ul> <li>Increase speed of delivery, de-risk execution and reduce costs</li> <li>Co-creation of innovative solutions reflecting best advice</li> <li>Optimise competitive value proposition to market</li> </ul>	BEST ADVICE FOR CLIENTS  CAPITAL-LIGHT  FOCUSED BUSINESS MOD
Digitalisation	<ul> <li>Covid-19 has accelerated adoption of digital solutions</li> <li>Current speed of execution constrained by breadth of demands</li> </ul>	<ul> <li>Digital enables us to expand our reach across our member base and offer more self-service functionality</li> <li>Continue the modernisation of our client experience</li> <li>Encourage greater adoption of existing digital tools by our client base</li> </ul>	BEST ADVICE FOI CLIENTS  MEASURABLE CLIENT BENEFITS
Member experience	<ul> <li>Customer experience is recognised as a differentiator in institutional and individual markets</li> <li>Enables closer emotional, cognitive and transactional connectivity with service providers</li> </ul>	<ul> <li>Modernising a measurable member experience across One Alexander Forbes supports the member engagement strategy</li> </ul>	BEST ADVICE FOI CLIENTS  MEASURABLE CLIENT BENEFITS

# Growth vision — five key deliverables

Opportunity to improve financial well-being





- Implement integrated employee benefit programmes
- Encourage saving and investing before and after retirement
- Providing holistic education and individualised advice to clients

Key objectives

Key initiatives

Building the market-leading, integrated, advice-led consulting platform

 Strengthen client-centric integrated value proposition – being advice-led is a key differentiator

- Improve client service standards and re-establish key client relationships
- Client retention and winning new business
- Help members make better decisions by providing meaningful information and counselling - through Retirements Benefits Counseling (RBC)
- Improve ease of access to financial information and services
- Number of new business wins
- Client engagement activities
- Reduction in clients at risk
- Integrated advice framework adding value for clients
- Net promoter score

Providing holistic independent advice-led solutions to our clients, based on the depth and breadth of our expertise, research capability acts as our key differentiator. This deliverable is supported by the One Alexander Forbes model, which integrates our business lines and presents a 'one company' view and single point of entry for our clients. This includes South African clients and multinational clients with operations across Africa, served by our Arrive platform.

#### Progress against our deliverables

We made progress against this deliverable during the year by embedding our new structure to enable an integrated client-facing team and by finalising our enhanced member engagement strategy.

- Advice-led is our key differentiator
- Our multimanager approach also provides clients with the benefits of best-of-breed product selection which is able to optimise returns in volatile markets
- Supporting our clients
- advice on managing employee benefit needs
- contribution holidays, advising individuals close to retirement, change in drawdown rates for clients in living annuities, assisting clients in taking advantage of improved annuity rates
- Designed market-leading and appropriate solutions to address the needs of our clients
- Increased the coverage of our RBC programme across our client base

#### FY2022 key initiatives

- Focus on growth across all lines of advice to leverage the existing scale and expertise of our consultants
- Explore adjacent advice capabilities to broaden our advisory reach
- Access to client analytics and research-based insights to inform advice
- Ongoing enablement and development of consultancy force
- Incorporate ESG and SDGs into advice framework
- Explore partnerships to build best-of-breed solutions for clients, based on our adviceled approach
- Enable implementation of best-advice framework using fund administration and multi-management capabilities

#### Innovative solutions to employers

- Cost-effective
- Better retirement or preservation for individuals

The overarching goal of our advice-led approach is to provide superior and measurable benefits for our clients. Improved financial well-being is positively linked with improvements in productivity, and lower absenteeism and turnover rates. Members are empowered to make better financial and healthcare decisions that compound over time. Our success should be measured on the ability of our members to retire comfortably. The ability to retire comfortably is achieved through best advice and solutions.

## ey objectives

Strengthen market-leading investment proposition. The ability to retire comfortably is achieved through best advice and solutions.

## Drive simplicity by rationalising products and portfolios

- Development of AFRIS default solutionsinstitutional pricing for retail clients
- Market-leading investment proposition
   leverage strategic partnership with
   Mercer
- Innovative solutions to employers
- Better retirement or preservation solutions for individuals that are costeffective and focused on securing their financial well-being
- Customer engagement strategy incorporating all engagement and member initiatives into one programme
- Amalgamation of funds, and product and portfolio rationalisation
- ance
  - Performer ranking in the first quartile Large Manager Watch Survey
  - Preservation and retention rates

Growth in AFRIS

## Progress against our deliverables

- We launched our enhanced member strategy that focuses on providing our members with accessible advice consistently throughout their financial journey, with the goal of improving their outcomes
- Performer consistently ranks in first quartile of AF Large Manager Watch Survey
- Meeting our client service level agreements
- Positive feedback on our service levels evidenced by positive client retention and materially improved NPS
- Rolled out new digital solutions for clients, such as the digital exit process

#### FY2022 key initiatives

- Explore partnerships to rapidly modernise our adviser experience, thus enabling a more efficient advice process to members
- Increase the scale of our institutional client base through organic and inorganic growth to leverage our industry-leading member engagement suite of capabilities
- Continued digitalisation of engagement channels to improve awareness and accessibility to financial literacy training, counsellors and advisers
- Create a proprietary mechanism to demonstrate uplift in financial wellbeing to engaged members and the impact on their employers
- Enhance analytics capability to better inform clients and their decision-making

#### Growth vision — five key deliverables continued



- Servicing clients across Africa
- Independent of in-country presence
- Leveraging Mercer partnership

Our advice-led approach allows us to better serve the needs of our multinational clients across Africa, without an in-country presence, while reducing our risk and capital investment. The multinational consulting capability focuses on aligning and integrating with the group's advice-led, solution-driven proposition to support clients or companies with their health, wealth and career requirements wherever they operate on the continent. We have developed a capability across all countries on the continent to deliver advice and solutions to multinational companies that align with their global compliance, reporting standards and benefit objectives. The Arrive platform, in partnership with Mercer, is the first solution of its kind to deliver comprehensive in-country employee benefit solutions across the continent through a single point of contact for clients. Through this platform, now in its third year, we have helped our clients to reduce complexity, ensure compliance, reduce costs and standardise benefits across borders. We continue to build traction with clients on the continent and grow the number of mandates. Our employee benefit solutions are now delivered to clients across 27 countries.

Key objectives

**Key initiatives** 

Building a market-leading, integrated, advice-led consulting platform

## Low risk growth in Africa through our advice-led platform Arrive

- Continue to pursue low-risk growth opportunities through Arrive
- Leverage Mercer partnership
- Continued engagement with our multinational clients in South Africa to offer the simplified comprehensive services across all countries in Africa
- Number of Arrive clients since inception
- Number of mandates since inception
- Mandates across the continent

#### Progress against our deliverables

We further embedded the advice-led model in line with the other businesses in our consulting platform. The multinational business contributes to measurable client benefits first by helping employers to standardise and achieve cost efficiencies. We manage service providers for them, ensure that zero claims are rejected and that partners deliver on agreements.

- Employee benefit solutions effectively delivered to clients across 27 countries
- 13 clients added in the period
  - 64 since inception
- 26 new broker appointments
- 95 since inception

#### FY2022 key initiatives

- Scale and expand distribution capabilities
- Diversify and deepen employment benefit advice capabilities
- Enhance digital servicing models to clients



## FOCUSED BUSINESS MODEL

- Consulting, investments and administration
- Reduce complexity
- Increase agility and ease of execution
- Best people in engaging culture

Our goal is to continually transition into a leaner, more coherent and integrated company. By reducing complexity, we will offer a simplified service to our clients that is personalised and impactful. This deliverable underpins our advice-led approach and our ability to be capital-light. The implementation of our new operating model has been a key enabler of our strategic shift to becoming a focused and advice-led business. The reorganisation has broken down silos in our business, enhanced collaboration internally and with external partners, improved our client experience and increased our operating efficiency. One of our key advantages is our skilled employees, whom we continued to develop through training and by integrating learning across the business, while simultaneously aligning our transformation objectives to ensure that we maintain momentum in our transformation efforts. We will implement the lessons we have learnt over the past year to embed new ways of working that are key to enhancing delivery to clients and members.

jectives

#### Clear and focused people strategy

Embed operational excellence in administration, data analysis and reporting to better service clients; manage expenses; and absorb stranded costs

, initiatives

- Improvement
- Initiatives to enhance culture and implement people strategy
- Develop and implement a transformation strategy
- Continuous improvement in client experience and service levels
- Continued improvement in operating model and ways of work
- Simplified legal entity and operational structures to drive efficiency
- Target cost efficiencies through structural changes and technology enhancements

## periormance indicators

- Employee survey score
- NPS
- Targeted cost reduction, excluding stranded costs
- Reduced cost-to-serve
- Regulatory compliance

## Progress against our deliverables

We had good expense management this year. Our continuous improvement in employee engagement signals that we are on the right track with our people strategy, and our people responded positively to the Covid-19 support we provided.

- Good operating expense management
- Focusing on our core enabled us to assist clients seamlessly and effectively
- Ongoing rationalisation of products and funds
- Implementation of automated procure to pay system
- Improved digital administration of individual claims and bulk claims through workflow processes

#### FY2022 key initiatives

- Continued digital enhancements in administrative transactions
   Exploring partner to leverage exper
  - Exploring partnerships to leverage expertise and scale in non-core components of our value chain
  - Consider acquisitive opportunities to accelerate growth in segments of the market where the focused Alexander Forbes proposition can rapidly gain traction
  - Revised project office and governance framework to ensure prioritisation discipline and strategic alignment of initiatives
  - Implementation of a long-term data and digital strategy

Read more in the Message from the CFO (page 52), Our clients and members (page 58) and Our people (page 64) sections.

Alexander Forbes Group Holdings Limited

#### Growth vision — five key deliverables *continued*



#### **CAPITAL-LIGHT**

- Exit insurance underwriting businesses
- Deliver improved return on capital
- Optimise regulatory capital

Significantly improved capital position and investing capital optimally or returning surplus capital to shareholders

Key initiatives

Key objectives

- Completing disposal of the Life Insurance businesses and other non core operations
- Shareholder reorganisation
- Deliver improved return on capital
- Optimise regulatory capital
- Legal entity rationalisation (LER)
- Capital journey reduction in surplus
- Distribution to shareholders
- Solvency capital requirement

and the exiting of under-performing markets have improved our financial position. We made significant progress towards this goal during the year, delivering on the key objective of strengthening the balance sheet, which positions the business to withstand future uncertainty in the economic environment.

#### Progress against our deliverables

- Completed the disposal of the Namibian short-term insurance business
- Concluded the agreement to transfer the group and retail life businesses to Sanlam Life
- Financial strength ungeared balance sheet, strong cash position to navigate through challenging times
- Over R1 billion paid to shareholders through the year in dividends
  - the general buyback



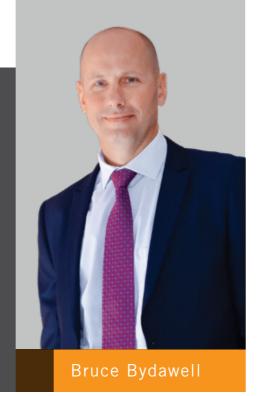
Alexander Forbes Group Holdings Limited

## Our performance

## Message from the CFO

#### Overview

I am pleased to report our financial performance in a year characterised by some of the most challenging economic conditions on record. Due to the immense resolve and engagement of our board and our people, our business remains stable, our client relationships are solid and our balance sheet is strong.



#### Financial performance

Our success is directly impacted by corporate employment levels, which were significantly and negatively impacted by Covid-19 this year. We responded to this environment by increasing our focus on our core deliverables of becoming capital-light, improving operational efficiency and enhancing financial performance.

#### Overview

Despite the tough operating environment, we exceeded our expected top-line performance for the year, with operating income holding steady at R3 153 million. Although our costs increased slightly year-on-year, we have managed to contain this growth through a strong focus on cost containment. Assets under management and assets under administration surpassed the R400 billion mark.

We completed the sale of the short-term insurance business in Namibia in December 2020, and in June 2021 we signed an agreement to sell our group risk and retail life business operations to Sanlam Life for approximately R100 million. In addition, we made progress with integrating acquisitions into our consulting business following the acquisition of independent financial advisory business GF Wealth. This brings in additional assets under management of R5.1 billion, and an additional 969 clients. We ended the year with a stronger, albeit smaller, capital-light balance sheet.

We are addressing a legacy liability matter relating to enhanced transfer value (ETV), which has adversely impacted the results of the discontinued operations.

The details of the ETV liability matter are contained in note 27.3 of the FY2021 annual financial statements.

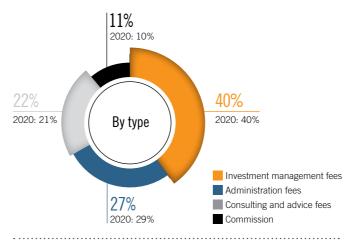
#### **Operating income**

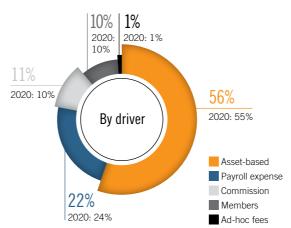
Operating income of R3 153 million remained in line with the prior year, which is a pleasing and resilient result in the context of a challenging economic environment.

The persistently weak economy coupled with the impact of retrenchments affected our retirement business. This was offset by positive market returns and increase in new business wins as well as sustained growth from our multinational consulting business where our Arrive platform continues to gain "traction.

#### **Disaggregation of operating income**

The following charts demonstrate the nature of the group's operating income based on the year ended 31 March 2021.





- Operating income (net of direct expenses) by type reflects the revenue based on services provided.
- Operating income by driver reflects the basis upon which the fees are calculated.
- Retail advice and administration fees are driven by assets under management.
- Key dependencies for growth in income are:
- new business
- growth in formal employment and employee payroll inflation
- cash flows: contributions, preservation and withdrawals
- market growth

#### **Operating expenses**

The increase in operating expenses was contained to 4% year on year and includes the impact of the reduced recoveries of shared central overhead costs that remain with the business following the sale of the short-term insurance business (stranded costs). The focused expense management efforts, which provided savings in premises operating costs, information technology, travel and entertainment, and marketing and communication costs, continue to be masked by the impact of these stranded costs. Adjusting for the stranded costs and the implementation of IFRS 16 Leases, operating expense growth for continuing operations remains well contained at 1%.

The cost of regulation and technology improvements continues to place pressure on our expense base. This year the number of legislative amendments has more than doubled and we have seen a significant increase in attempted cyber-attacks on our environment. The increase in technology costs is driven by the implementation of programmes relating to the assessment of our cyber defence mechanisms.

We continued to embed operational excellence across our operations to drive efficiency and better manage the controllable administration expenses by ensuring the right skills and capacity are aligned to our client experience commitments.

We also introduced diverse and compelling employee well-being initiatives to keep our people engaged as we transitioned into the new ways of working brought about by the Covid-19 pandemic. Examples include resilience training, managing teams in remote working environments, and health and wellness programmes.

Despite the constrained operating environment, we have made significant progress with improvements in operational performance, simplifying and automating processes and rolling out client solutions. We remain committed to investing in the right technology and client support initiatives to proactively respond to client needs and transform our operations in an agile manner while being prudent on expense management.

#### Normalised results

The group's normalised segmental results reflect the economic substance of the group's performance and the basis upon which management manages the group.

This is shown in the group segmental income and profit analysis (including the adjustments between the normalised results and the IFRS summary consolidated income statement).

#### Message from the CFO continued

#### Normalised income statement

Consistent application in treatment of normalised earnings.

Details on the adjustments between the IFRS income statement and the normalised results can be found in the group segmental income and profit analysis contained in the FY2021 annual financial statements.

Year ending 31 March (R million)	IFRS 2021	IFRS lease adjustments	Amortisation of intangibles	Other	Normalised 2021	Normalised (excl ETV) 2021	%	Normalised 2020
Profit from operations before IFRS lease adjustment and share scheme costs	595	_	_	_	595	595	(12)	680
Accounting for property lease	90	(90)	-	_	_	_		_
Operating profit before non-trading and capital items	685	(90)	-	_	595	595	(12)	680
Non-trading and capital items	(52)	_	56	(22)	(18)	(18)	(36)	(28)
Operating profit	633	(90)	56	(22)	577	577	(12)	652
Investment income	136	_	-	(33)	103	103	(35)	158
Finance costs	(74)	64	-	-	(10)	(10)	(86)	(69)
Profit arising from accounting for policyholder investments	13	_	_	(13)	_	-	-	_
Profit/(loss) before taxation	708	(26)	56	(68)	670	670	(10)	741
Income tax expense	(264)	7	(16)	39	(234)	234	(13)	(270)
Profit/(loss) from continuing operations	444	(19)	40	(29)	436	436	(7)	471
Loss from discontinued operations	(241)	_	-	-	(241)	9	<(100)	809
Profit for the period	203	(19)	40	(29)	195	445	(85)	1 280
Non-controlling interest	(18)	_	-	_	(18)	18	(91)	(191)
Attributable profit for the year	185	(19)	40	(29)	177	427	(84)	1 089
Normalised earnings per share (cents)					13.6	32.8	(85)	88.7
Normalised headline earnings per share (cents)					12.0	31.2	(69)	38.7

#### Capital and cash management and return on equity

We are currently managing capital according to the regulations of the Insurance Act 18 of 2017 (Insurance Act), which requires us to manage and disclose our regulatory capital requirements as part of our capital-light strategy. The level of solvency is assessed by comparing the amount and quality of resources available (as measured through own funds) to cover the group's risks (as estimated through the solvency capital requirement (SCR). The SCR cover ratio is therefore monitored to assess the group and insurance entities' solvency at any time.

While we remain under strict regulatory control in terms of capital requirements, compliance functions and restrictions around our operating model, we continued to optimise capital in the best interests of the company while balancing the interests of all stakeholders, including our shareholders.

The consolidated regulatory capital requirement of the group of R1 439 million was up 10% at 31 March 2021, mainly driven by growth in expenses in regulated entities and increased reserves in Alexander Forbes Life. Based on measures and interpretations under the Insurance Act 18 of 2017 and Prudential Standards, the group has a regulatory surplus of R1 353 million. This results in a regulatory capital cover of 1.9 times well above the group cover ratio of 1.5 times.

Cash flow from continuing operations increased 4% to R977 million. The financial position of the group remains robust and all regulated entities within the group comply with current liquidity and regulatory solvency capital requirements (SCR). The cash conversion of profit from operations and liquidity remains positive and has enabled the business to weather the uncertainty presented by the Covid-19 pandemic.

The dispute in the ETV matter has resulted in a provision of R274 million. The cash required to facilitate settlement of the claim to the extent of the group's limited liability has been reserved and will not impact future cash flows. As indicated in our discussion on this matter, we anticipate recoveries from these insurers on finalisation of the legal proceedings instituted by Alexander Forbes, which will return the cash into the business.

The disposal of the group risk and retail life businesses to Sanlam Life will result in a reduction of the capital required in the group. The transaction will be concluded in two equal payments – 12 and 24 months from the effective date – subject to the achievement of agreed metrics, and the capital will be released once claims have been settled and the business is closed. While the sale and transfer agreement requires regulatory approval, we foresee this being concluded within the next six months. The sale of these operations is conducted in terms of section 50 of the Insurance Act, with all policies, contracts and related reserve assets being transferred on

the effective date. As a result of the nature of the sale the release of the capital held within the life license will take place in line with the time to close licensed life insurance company. We anticipate this process to take between 12 to 18 months post the effective date of the sale.

Our unleveraged balance sheet supported by surplus regulatory capital and available cash continues to place Alexander Forbes in a strong financial position. Changes to the group's financial position include the following:

- The change in nature of the sale of the group risk and retail life businesses has necessitated a change in the allocation of assets and liabilities held for sale. This has resulted in, amongst other balances, insurance receivables and insurance payables being reinstated as assets and liabilities in the continuing business. These assets and obligations will be managed to settlement of all historical claims through the transition of the licensed life insurance company (Alexander Forbes Life) to closure.
- The group has historically invested in certain collective investment schemes. These investments amounting to R924 million in the current year have been historically classified as cash and cash equivalents. The nature of these investments now include longer dated financial instruments and as such have been classified as financial assets. This has resulted in an increase in financial assets with a corresponding decrease in cash and cash equivalents.

#### Dividend policy

The Alexander Forbes dividend policy is to consider an interim and final dividend for each financial year. The dividend is set with reference to the underlying core operating earnings, taking cognisance of the need to:

 maintain regulatory capital solvency with an appropriate margin, which anticipates regulatory developments and economic market volatility

- ensure compliance with legislative requirements with regard to solvency, liquidity and good corporate governance
- retain earnings and cash flows to support capital investments and future growth

The board will continue to target a dividend cover of 1.5 to 2.0 times each year, based on normalised headline earnings. The annual dividend will reflect the board's view of the earnings prospects over the entire cycle. At its discretion, the board may consider special dividends where appropriate.

During the current financial year the following factors impacted the cash available and dividends declared:

- The group made provision of R274 million in relation to the ETV claim, as explained earlier in this report.
- The board increased the capital cover ratio from 1.2 times to 1.5 times.

The board has declared a final gross cash dividend of 9 cents per share (including the interim dividend of 13 cents per share, taking the annual dividend for financial year 2021 to 22 cents per share). In determining the final dividend for this period, the board has considered the anticipated recovery from the ETV liability matter (refer to note 8.2), therefore maintaining theannual cover ratio within our policy of 1.5 times to 2.0 times.

The board believes that the surplus cash and capital position, after the payment of the final dividend, will still provide sufficient liquidity and capital strength. This is expected to provide Alexander Forbes with a solid base to withstand the adverse impact of Covid-19.



Further information on the operating and financial performance of the group as well as details of the dividend declaration are contained in the **results announcement** for the year ended 31 March 2021 and can be found on the company website.

#### **Looking forward**

Over the past year, asset values have recovered from dampened values in the prior year and we expect our assetbased revenue stream to be more robust from the now higher relative base as a result. As employment stabilises and gross domestic product begins to increase, we expect to experience good growth in revenue on our existing client base. We anticipate an increase in market activity post Covid-19 as employers and retirement funds seek to simplify their retirement funding and healthcare benefits, and Alexander Forbes is best positioned to advise them.

We continue to consider a healthy pipeline of inorganic growth opportunities ranging from bolt-on acquisitions to medium and large-scale opportunities. Covid-19 has changed the landscape considerably, bringing about opportunities for us to review with the potential to pursue a sizeable acquisition that will deliver scale and synergy benefits to our core business.

Our financial position supported by the cash generated by the underlying operations remains a key strength during these times. Our unleveraged balance sheet ensures that we are well placed to benefit from these potential growth opportunities. We will remain disciplined in our decisions with due consideration to the challenging operating environment.

Our future success is underpinned by our market-leading integrated consulting and investments solutions offerings. We have built a solid foundation for growth and have set ambitious targets for the years ahead. Underpinning our long-term growth will be an ongoing focus on operational excellence in execution, expense management.

## Operational excellence

We have been deliberate in our efforts to drive operational excellence as a principle for an organisation-wide culture shift. The goals of these efforts are twofold: to embed operational excellence in administration, data quality, analysis and reporting to better service clients; and to improve expense management and absorb stranded costs.



#### Re-engineering operations and administration

We have made good progress in reducing complexity within the business. The need to keep up with ongoing technological innovation and change, while improving the quality of our services and solutions is driving complexity. Conversely, complexity can create inefficiencies that reduce our growth and competitive advantages. In our efforts to reduce complexity, and being mindful of the financial and emotional changes that often accompany organisational change, we engaged our people and clients on the processes and systems that make us complex. This led us to a clearer understanding of the challenges we face and how to address them.

Some aspects of our complexity were the result of multiple teams who performed the same function, and multiple functions that perform the same task in different ways. We restructured and combined many of these teams to streamline and standardise our processing. This has resulted in a much better allocation of resources and clear roles. It has also improved control, and oversight on productivity and service level agreement management. The significant improvements in the NPS and CSAT scores, and the unqualified ISAE3402 audit, are evidence of this. In addition, we secured some large new funds (pension fund and investments administration) from some of our larger competitors.

While we have had savings in operational costs due to reduced headcount, this is the result of natural attrition and strong performance management efforts rather than a deliberate effort to downsize. The management of errors and omissions have improved, and although the rand amounts have remained similar, there are fewer incidences of errors and omissions as oversight has improved, and transactions with higher risks are grouped together under the watch of specialised risk management teams. Unfortunately, the impact of errors was heightened in this last financial year, given the extreme market volatility. We expect to see further benefits going forward as a result of the improvement in monitoring and drive to roll out digital solutions to our clients.

We also consolidated our operations and administration learning and development activities. In the past, we had pockets of training areas across the business. These pockets were integrated into one team this year, focusing on the key areas of FAIS requirements, business competency, and administration and reporting.

With many clients and even more members in our funds, we generate significant amounts of data. To ensure that we begin to use our data more strategically to better meet client needs and improve our own operations, we consolidated our data teams into one. We appointed a data owner and centralised all data requests so that these can be appropriately prioritised in line with our key business objectives.

#### **Reduce complexity**

We continued our rationalisation of products to reduce complexity by consolidating approximately R8 billion in assets under management across various products. The differences between certain products were small enough to be amalgamated without compromising the value of the product offering. The main reason for this effort was that it is administratively cumbersome for us to maintain so many products that have few distinguishing features. In addition, when our clients and members wish to adjust their portfolios, the paperwork and legwork required were barriers for them. The consolidation positively impacted several areas of our business.

For institutions, we amalgamated two umbrella funds, which simplifies processes for clients by removing the regulatory interventions required to move from one fund to another. On the retail side, we amalgamated some of the entities within our AFICA preservation fund, making it easier for advisers and reducing cost structures in our business. This was a significant move, requiring us to seamlessly move approximately 10 000 members from two entities of the fund, involving approximately R6 billion in assets. We plan to further reduce these entities in the upcoming financial year. We initiated the closure of AF Investments retail solutions, which included several funds and retirement annuities. These will be consolidated into the AFICA options, which again reduces costs and reduces confusion at a client and adviser level. Finally, we closed two retail investor hedge funds that were not fully used.

#### Increase agility and ease of execution

Covid-19 accelerated the need to improve our agility and ease of execution. Our priority during this period was to make sure that our people could continue to meet client expectations. The bulk of our people work in our offices, and they needed to be equipped to work from home. This process was made significantly easier because we had already placed a strong focus on business continuity programmes. Therefore, we ensured our people had the necessary office and computer equipment and that the IT security on devices was appropriate. In this process we also provided training on cybersecurity for our people, who are our first line of defence against cyber intrusion. We used this opportunity to fast-track our new equipment rollout, removing outdated and obsolete equipment from use.

We also needed to make sure that they were productive. During Covid-19 several productivity challenges were bound to arise, but again, our focus on business continuity management ensured that we were prepared for various scenarios. We already had dedicated change management resources in place, which enabled proactive and rapid response interventions. As a business that is focused on preparation for the future, it is quite natural that our strengths in uncertain times would shine through, as they did.

The economic situation caused by Covid-19 has led to significant movements in our clients' employee numbers. This, in turn, has increased the level of claims and queries. Entrenching our new operating model enabled our consulting teams to provide advanced notice to our operations and administration teams about expected client events and changes. This meant that we were better prepared to address client requests relating to changes in their staff complement and proactively engage with clients to train them on more effective digital submission methods. As a result, despite the significant increase in volumes and queries, there was no decline in service as shown by our member service levels.

Many of our traditional engagement methods relied on face-to-face interaction. This model has worked well in the past, as consulting engagements and the completion of required forms occurred simultaneously. However, without face-to-face meetings this year, the process became unmanageable as clients had to print, sign and return forms after the consulting meeting was over. Initially

this increased processing times, but it also presented us with the opportunity to roll out new digital tools to reduce the burden on clients. Our self-service tools enable clients to load transactions online, alleviating the need for the completion of manual documentation, which in turn reduces the back-and-forth queries and requests. We actively continue to enhance our tools, aligned to client feedback, to further improve the client experience.

The move to working from home (WFH), which is likely to become a more permanent feature, means that we can reduce our costs for buildings and leases. We are looking to optimise our property portfolio based on our long-term needs, particularly in areas where most of our employees can work from home.

Technology is impacting, disrupting and transforming our sector faster than ever before. As we grow our portfolios and assets under management, we become a bigger target for cyber criminals. The risks to our business are not isolated to our own operations but could result from different areas in our value chain, including our third-party service providers. We see managing the security of our digital platforms as creating a strategic and competitive advantage.

As our clients and members are spending more time working from home, they have more concerns around the security of their digital connections and the protection of information and data. One of our key focus areas has been preventing theft of client data as well as payment fraud.

We understand the cybersecurity risks facing us, but are comfortable that our current cybersecurity capabilities and processes to detect, respond and recover from incidents are robust. Also, our efforts in building a culture of security awareness and education around cyber security risks, good behaviours and cyber tools continue. However, we will continue to invest in enhancing cybersecurity to protect our stakeholders while providing an IT platform that delivers real value.

Our approach to investments in IT and digital capabilities is a cautious one. We invest in information security enhancements and in areas where the returns drive efficiencies or revenue, whether that be for the client or ourselves. During the past year we placed a few planned digital initiatives on hold as our focus shifted to safeguarding stability and delivery. The implementation of the new operating model in IT will create more cross-skilling opportunities in the development space, which should result in faster delivery on digital and automation projects.

#### **Looking ahead**

We are implementing three significant automated solutions to our administration clients. For our clients and members, the aim is to deliver a better service and faster turnaround times. Underpinning our long-term growth will be an ongoing focus on operational excellence in execution, expense management (which includes reducing our property footprint), further improvements in our administration capability and a strengthening of our talent pool.



## Our clients and members

Our clients and members are at the heart of our strategy and business model. This is key for us to remain relevant in a world that is rapidly changing. By focusing on our clients and their evolving needs, we continuously enhance our ability to live up to our purpose and secure their financial well-being.

During this period, we led the market through our proactive understanding of our clients' needs, especially those in financial distress, and partnered with our clients through navigating their investment portfolios, and on how to ensure the sustainability of their businesses and their employees. In such engagements, our One Alexander Forbes model demonstrated value as we were able to provide integrated insights from across disciplines to help resolve their concerns. In response, we received positive feedback from our clients and believe that we have deepened our connections with them.



Our strategic objectives to deliver on providing best advice to clients and measurable client benefits were to:

- strengthen our market-leading investment proposition
- build the market-leading, integrated, advice-led consulting platform
- drive simplicity by rationalising products and portfolios

For our individual members, we also aimed to improve their outcomes through an enhanced member engagement strategy.

This overall client-centric approach ensured that we remained in line with regulatory requirements around treating customers fairly. This was demonstrated by the increase in our NPS, which more than doubled from 17 in FY2020 to 35.8 in FY2021. NPS is a measure of customer loyalty and is based on independent customer feedback. In addition, we saw a 9% reduction in complaints received, to 5 964 in FY2021.



Read more about how our group complaints management framework ensures fair treatment of clients throughout the complaints process in our FY2021 Governance report.

Below, we discuss the strategic initiatives deployed during the year to achieve these overarching client and member goals.

## Strengthening our market-leading, integrated, advice-led consulting platform

This was our key objective towards the best advice for clients strategic deliverable and is our primary differentiator. We made many structural changes over the last two years that needed to be entrenched before we could offer truly integrated advice, and we therefore focused our efforts on embedding these structural changes.

Integrating our consulting teams has enabled them to offer integrated advice across the spectrum of financial needs, pinpoint opportunities for better solutions and efficiently implement client decisions. This ensured that our consultants offer relevant solutions to meet clients' needs.

Our client retention this year is a testament to the success of our advice-led, client-centric approach. We also achieved some notable new business wins across the group, which we view as an outstanding achievement and a key indicator of our strong positioning in the market. During the year we secured R140 million of annualised revenue in new business, which was drawn from across the respective revenue lines and demonstrates the collective strength inherent in our business.

#### A market-leading investment proposition

Since inception, our investment approach has centred on risk-led, multi-managed portfolio solutions. We apply our independent perspective to objectively analyse the universe of asset managers and to select a blend of top-rated managers whose investment styles complement each other through various cycles so that we can better manage investment risk over time.

A case in point is our flagship portfolio, Performer, which has produced superior long-term performance relative to single and multi-manager peer groups and consistently ranks in the first quartile of the AF Large Manager Watch Survey.

We recognise our responsibility as a corporate citizen and as an active participant in the investment markets and, therefore, are progressively incorporating an ESG overlay into our investment process. We seek to play a leadership role in driving transformative change across the investment management industry with a particular focus on impact investing and a view to create employment and generate competitive long-term risk-adjusted returns for our clients.

This is one of two key objectives to achieve measurable client benefits. We are aiming for better retirement and preservation solutions for individuals, that are cost-effective and focused on securing their financial well-being. During the year this included revising our member engagement strategy and incorporating all engagement and member initiatives into one programme. It also included further development of the Alexander Forbes Retirement Income Solution (AFRIS) default solutions, which offer institutional pricing for retail clients. Finally, as a multi-manager investor, we continue to refine our approach and solutions to add value to clients.

The new operating model improved our internal communication so that we could plan for bulk retrenchments instead of receiving hundreds of forms from individuals leaving the same company. Without some of our technology initiatives from the last few years, we would not have been able to respond effectively to these shifts in client and member behaviour.

#### Member engagement strategy

One of the biggest opportunities to improve our value proposition is to meet our member needs for access to information and advice, through various channels, so that they better understand their options and the implications of their choices at different stages of their life. The way we are achieving this is to incorporate all engagement and member initiatives into one programme.

Traditionally the member experience has been event-driven, with advice given at a few specific points that led to inconsistency in their experience and, often, poor choices. The goal of our enhanced member strategy is to raise the member experience with our advice-led approach. This means engaging, understanding, advising, solving, and enabling our members at multiple points during their life journey, not just upon new employment and retirement. This is what differentiates us. The measurable member outcomes of this strategy include better utilisation of employee benefits in order to improve their retirement outcomes.

We are pleased to report a sustained increase in our member engagement interventions to ensure that we remain attuned to our clients' needs by providing outstanding service and solutions, which contributes to a loyal member base. We adapted to the Covid-19 lockdown circumstances and lessons learned from the initial rollout of our enhanced retirement benefit counselling (eRBC) service and established our My Money Matters Centre. Our consultants in this contact centre are mandated to engage members at key decision-making moments. They focus on explaining how employee benefits work, the member's options and the likely consequences of their decisions. We expanded access to eRBC across our member base. This focus on member engagement that leads to improved outcomes has led to the activation of multi-disciplinary teams to reach more members through our partnerships with employers. This means greater collaboration across business areas such as individual consulting, corporate consulting, product development, technology and operations.

It is important for us to demonstrate that our services make a difference. To this end, we enhanced our reporting to employers, which led to increased visibility of engagement levels and their impact on behaviour and outcomes. Indicators of member behaviour include preservation and annuitisation rates by number of members. Improvements in these rates will ultimately lead to better retirement outcomes. Our corporate clients have become more aware of how we contribute to their employee benefit offering because we demonstrate how we have taken responsibility for driving measurable improvements in behaviour and outcomes.

Most people change jobs several times, presenting multiple opportunities to withdraw their savings and creating an administrative burden each time, rather than to preserve them. Through our flagship product, AFRIS, our members can consolidate their investments built at each stage of their careers, even at different employers, into a single fit-for-purpose vehicle, without any need to change when changing employers. This allows for cost savings and greater efficiency in building their wealth. We continue to focus on the member experience and aim to engage more of our members more frequently and with greater relevance as our member engagement strategy matures.

#### **Enabling digital engagement**

We finalised objectives and priorities around our digital capabilities and began rolling them out. Our focus areas were high-volume activities and the biggest risks, such as claims and contribution reconciliation. Most of these initiatives involve systems changes to both the back end and user interface and therefore, we are rolling out pilot projects in stages.

#### Our clients and members continued

Past annual reports have mentioned our digital onboarding and exit process for members. These digital processes take the new or retiring member through a journey to help them make decisions. The system provides them with information and scenarios about such decision-making points as the tax implications of withdrawals and take-home income, based on age, years to retirement, and contributions.

The goal is to help members make better decisions that improve their financial well-being through awareness about the implications of different actions. We began rolling out this process in August to a few employers at a time, and have rolled out digital exits to 253 members.

Members are taking advantage of our enhanced self-service capabilities, and it is imperative that we continue the path towards a more digitally enabled company, while continuing to engage our clients with sincerity.

## Multi-management solutions adding value to clients

Our investment approach has always been centred on risk-led and multi-managed portfolio solutions. It is who we are, and it is what we do – for our clients. We know the demands investing has on our clients: how much time it takes; the need to have a constant handle on complex and ever-changing investment options and considerations; and the need to have resilient investment portfolios to ride out increasingly volatile and unpredictable markets. We also know that not many investors are built for that.

Our ability to identify and blend complementary, top-rated asset managers with dependable investment styles gives our portfolio solutions, like Performer, the multi-managed advantage – portfolio solutions tied to our clients' objectives and expectations, by way of investment returns and the journey to positive returns.

We establish our clients' desired goals, risk tolerances and constraints through an advice-led framework, covering benchmarking, risk appetite, exclusions and their investment objectives. This enables us to develop investment strategies and construct investment portfolios for clients that are goal-based, risk-led and forward-thinking, but most importantly, that match investment returns to client expectations. In this way we deliver client satisfaction with their investment experience.

Our strategic relationships and partnerships, combined with our deep skill sets, enable us to provide value-adding investment solutions.

#### Strengthen pan-Africa consulting offering

Arrive is a pan-Africa solution delivering an employee benefit capability for multinationals operating in Africa. It uses a single point of contact through a strategic partnership between Alexander Forbes and Mercer. Our key success in delivering the Arrive solution has been our ability to execute the solution without the need for an in-country presence and the associated financial implications of licences, infrastructure and people. This supports the strategic goal of becoming more capital-light while providing an excellent experience to clients.

This is the third year after the launch of the Arrive solution. Since launching, we have grown our presence to 28 countries on the continent, serving 64 clients. In addition, we now have the capability to deliver in 54 countries, up from six when we started three years ago. We extend the strategic partnership to Mercer Global Benefits Management (GBM) clients, where Mercer has exclusive mandates to provide global broking services to multinational companies. Through this partnership Alexander Forbes secures the broking appointment in South Africa. Our investments business also has an agreement with Mercer to share intellectual capital and other support. We gain access to Mercer's research and investment platform, while Mercer's clients gain access to our research capability and investment platform for local investments.

Covid-19 served as an opportunity to demonstrate the benefits of the Arrive solution. Many multinational companies required advice to identify how to protect their employees across multiple countries while managing operational constraints and significant variances in regulation.

The pan-Africa strategy therefore positioned the multinational company team well to mitigate the impact of Covid-19 for our clients. Our clients who adopted the Arrive solution were better able to respond to their employees' concerns, and we expect that as companies begin to appreciate its benefits, more will be ready to implement the solution in the coming year.



Alexander Forbes Group Holdings Limited

# Key legislation and regulations affecting Alexander Forbes

The South African financial services sector is predominantly regulated by the FSCA and Prudential Authority (PA), with the Financial Intelligence Centre (FIC) and SARB also playing a role. The compliance date of the Protection of Personal Information Act (POPIA) was on 1 July 2021, which means the Information Regulator will also become an important new regulator in our operating environment. As a responsible financial services company, we aim to comply with the letter and the spirit, and keep abreast of updates to relevant regulations and legislation affecting the territories in which we operate.

#### **Overview**

Although increasing regulations and legislation have added to an increased focus and spend on compliance in our group, the proconsumer regulatory environment has created opportunities for us. Investment regulations aim to protect investors, their assets and their income, leading to sustained financial well-being, an objective that aligns with our purpose.

Default regulations in the Pension Funds Act have provided opportunities in our consulting services since Regulation 37 around default investment portfolios, Regulation 38 around default preservation and portability, and Regulation 39 around annuity strategy took effect on 1 March 2019. The regulations require funds to implement a default investment strategy, and default preservation and portability options, and maintain an annuity strategy. We have built a broader product suite to align to the default regulations.

Our solutions include a with-profit annuity in partnership with Momentum and JUST. Through the partnership we have managed to contract annuities that meet the default regulatory requirements and within these solutions we manage the underlying investments within our Performer portfolio. We also made a number of enhancements to our AFRIS solution to allow for broader access by employers and use by independent financial advisers. Because this product includes a retirement annuity fund for members, a preservation fund for those who have left their employer, and a living annuity for retirees, it offers one solution to meet individual

needs over their lifetime. In FY2021, employers' funds using the solution grew by 9% while membership growth within AFRIS saw a 56% increase.

Our services and member experience also align with the regulations. Since this alignment, we have experienced an increase of 71% in our fund or employers that have signed up for our enhanced retirement benefit counselling (eRBC). We launched a variety of new delivery methods for eRBC such as the My Money Matters contact centre, My Money Matters Digital Toolbox, and webinars and other forms of virtual delivery of content. The result of these efforts is that over 10 times more members were offered eRBC compared to FY2020.

Regulation 28, which sets investment limits for retirement fund assets, has led to an increased focus on ESG being part of the trustee responsibility. This is backed by an awareness that funds are a key driver of transformation and economic growth in South Africa. Proposed changes have been issued by National Treasury with the aim of increasing investment in infrastructure. During our engagements we indicated our support of this objective, and made meaningful contributions to the debate and drafting process.

The long-awaited changes to provident funds, which will align them with pension and retirement funds, arrived on 1 March 2021, also known as T-Day. Members of provident funds will now have to purchase an annuity with two thirds of their retirement savings when they retire. These annuitisation requirements will only apply to savings made after 1 March 2021. Retiring members from a provident fund can still take savings made before this date as a cash lump sum. The annuitisation requirements do not apply to members of a provident fund who were 55 years or older on 1 March 2021. The legislative change required a significant effort on the part of our group, regulators and clients.

Our goal, in line with the regulations, is to address certain member behaviours that result in poor decision-making and sub-optimal member outcomes. As such we welcome these changes, as they simplify the environment for consumers and will improve post-retirement outcomes for retiring members. The new regulations require direct engagement with members as part of the retirement benefit counselling (RBC) requirements. Aside from the regulations, we also identified the need to implement systems to engage with members directly, at key moments in their life journey, and not only upon retirement and exit. We provided background on this in the FY2020 Integrated annual report. Changes will take time to show results, and we will discuss the impact in future reports.

Our regulatory environment also included a second draft of the Conduct of Financial Institutions (COFI) Bill that was released at the end of 2020, as well as financial crime controls and a significant volume of Covid-19 related regulation and communication from all regulators. These new pieces of legislation affect the way we operate and our response is to always do the right thing.

COFI, which essentially legislates the Treating Customers Fairly principles, will be a single overarching market conduct legislation for all financial institutions. The bill, which will require financial service-related acts to be amended or repealed, will be implemented incrementally. Treating Customers Fairly is an integral part of our operating environment and it has been embedded in our thinking for some time. The changes will improve the lives of consumers and align to our strategy of a lifetime of financial well-being.

Some of the Covid-19 related legislation and regulatory instruments introduced were linked to our group and the measures we had to put in place to ensure compliance with the Disaster Management Act requirements.

The Alexander Forbes second-line compliance team assists the board and the executive in coordinating, implementing and reporting on compliance policies, procedures and standards. They also provide assurance for the group and subsidiaries on the status of compliance and any gaps to be closed. Each of our platforms has compliance personnel in place as a first line of defence. Their role is to drive compliance awareness within the business line, to conduct monitoring and reporting throughout the business, and to provide practical recommendations and solutions.

#### Our performance

In response to changes in our regulatory environment we have updated the benefit structures offered by our sponsored funds and will update further annuity strategies where necessary. These funds include our best thinking around default investments, our in-fund and out-of-fund preservation options (where relevant) and include comprehensive annuity strategies. We have also engaged with clients to assist them in updating their annuity strategies. Our flagship annuity solution, AFRIS, provides competitive portfolios and pricing for annuity options.

While we remain committed to absorbing the costs of regulatory compliance rather than passing them on to our clients, it has placed upward pressure on our internal costs, which we aim to alleviate through increased automation and efficiency in our operations.

Significant progress was made on our privacy programme to respond to POPIA. Ongoing and significant progress was made to ensure the group and our retirement funds have a full understanding of the privacy act, and that we are compliant. The group privacy policy was redrafted and approved by the board on 2 September 2020. Our boards, specialists, senior managers and employees on the programme have received training on POPIA and privacy principles. As some of our clients and members live outside South Africa, we adhered to the requirements stipulated in POPIA for the transmission of personal information across international borders. We have also ensured that our companies or subsidiaries who operate in other jurisdictions comply with the act, unless they have more stringent requirements, in which case those requirements will apply in addition to our internal policies. We have remediated all applicable contracts and forms and continue to provide training for our employees to ensure that they are up to date on all regulatory requirements in dealing with clients.

## Response to regulatory amendments and legislation

While we respond quickly to meet changes in regulation, Alexander Forbes also plays a proactive role in providing commentary and feedback on proposed regulatory changes that will affect our clients and members. We regularly review white papers and draft regulations on behalf of the sector and maintain a mutually beneficial and constructive relationship with our regulators. During the year we contributed commentary on tax changes, the second draft of COFI and Pension Funds Act changes, and assisted with research and commentary at the Association for Savings and Investment South Africa – one of the industry bodies of which we are a member.

#### **Looking forward**

For FY2022 and beyond, we will remain pre-emptive in responding to expected regulatory changes and will continue with training and education initiatives to ensure swift and effective responses. We are also taking a more proactive approach, actively seeking to help guide policy debates so that they serve the best interests of our clients.

We continue to refine our solutions to meet clients' needs and regulatory requirements, and to maintain and improve their competitive position. In FY 2022, we intend to refine our default investment strategies for retirement, among other things.

We will also complete our activities to be fully compliant with POPIA, and prepare for any worst-case scenarios in the event that we experience a breach or incident that affects the rights of individuals – including expedited notification procedures and ability to communicate with the relevant regulatory authorities. We will also focus on evolving our culture and business practices to further protect personal information. Privacy requires ongoing attention, and we strive to improve our data processing, handling and security practices by continuously embedding and reviewing controls going forward.



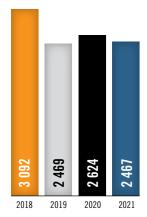


## Our people

Our people are our direct link to our clients and members, and by taking care of our people, we ensure that our clients are served well. We have needed to adapt quickly to new ways of working, and it has required a balancing act to maintain and transform the business at the same time.

Our priority was to ensure that our colleagues were safe, able to adjust to remote working conditions, and could maintain a healthy level of balance between productivity and home commitments. At the same time, we continued our journey to embed our new operating model and set out to develop a clear and focused people strategy to embrace new ways of working, retain key skills and attract top talent to our organisation. The goals of our people strategy are to have a productively engaged One Alexander Forbes; to attract and retain quality, high-performing people; and to create a transformed company with a winning culture.

#### Number of employees



The competition for skills in our sector is high and employees are more mobile than ever. With the impact of Covid-19, many people are examining their company's responses. Our efforts to support our people and give them more flexibility has resulted in higher engagement and retention scores, without sacrificing productivity. Our people complement has decreased slightly, largely due to exiting the insurance business in Namibia. We also have a deliberate performance management programme in place that takes exception to poor performance. We make our best effort to assist our people to improve on performance, but the programme has resulted in some exits.

Our transition to working from home was managed relatively smoothly, although there was an expected, and noticeable, increase in stress levels across the company. We therefore provided an extensive range of support at all levels to ensure that our people felt safe and supported. Operating in the financial services sector meant that we were able to remain operational as an essential service, which also enabled us to maintain our current complement of employees and retain critical skills.

During the past year we continued to implement a new human capital operating platform. The core of the platform is now in place, and our strategic modules, which are needed to have a good system footing, have been redefined, covering the areas of performance management, learning management, employee relations, career management and transformation.

We strengthened our leadership capacity with the appointment of a new executive: human capital & transformation, as well as finalised an Alexander Forbes leadership framework for the future. We took a strategic decision to develop management talent from within and it is bearing fruit. The team quickly responded to a shifting landscape and has managed to deliver good results under the circumstances.

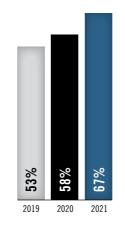
Our Level 1 B-BBEE achievement in FY2021, a result of our investment in increased training for our people, is an important milestone as it is a key enabler to attract talent.

#### Productively engaged One Alexander Forbes

As we adapted to our new ways of working, we also used the opportunity to relook our employee value proposition (EVP), particularly how we articulate the employee experience we seek to create. We recognise the value of creating compelling employee experiences, providing opportunities to contribute that have meaning to our people, and connecting our employee experience to our broader business brand and purpose. This is a critical feeder into our people strategy for coming years, that will drive innovation and skills development. During the next year, we will be focused on how best to implement our revised EVP.

Covid-19 presented an opportunity to explore remote working for the long term. Since 99% of our people have expressed their happiness with this option, we have made this a more permanent arrangement. This is in line with our goal of enhancing our EVP. We engaged with the 1% of our people who do not prefer this option, and we are looking at how to support this group of employees.

Employee engagement score



Employee engagement during this time has been a key focus, with monthly reporting and check-ins. Ongoing communication on group initiatives, supplemented by CEO townhall sessions, have become a regular feature in which we communicate information on resources to support employee health and safety, find out how our people are coping, and learn where we need to provide additional support. We also use these sessions to respond to questions on how the group is changing with the new operating model, and to explain the process and system changes that are taking place in the background.

As a result of various initiatives during the past year, we have a much lower employee turnover ratio of 12.5% in FY2021 (2020: 19.2%). Our people (and their families) felt much safer and genuinely cared for during this period. Our transition to remote working, coping with the pandemic and the assistance offered through employee assistance programmes and resilience workshops was leveraged by colleagues and families, and this is one of the compelling reasons to stay with the organisation. The overall engagement score has improved by 8.3 percentage points to 66.5%. This is the highest score we have achieved since 2012. Notable in this result is that we had the highest participation rate to date of 83%. The percentage of positively engaged employees has also increased, from 64% to 77%. In addition, employees responded positively to all remote working questions, with more than 80% of colleagues agreeing or strongly agreeing to being capable and having the resources needed to work remotely.

## Develop a collaboration mindset and capability across the business

To achieve our key differentiator of providing an advice-led approach, we need to embed a culture of collaboration across the business. Part of that work was the reorganisation of our operating model in FY2020. This year was about embedding the model by developing a collaboration mindset within the business. We defined what collaboration means and how it will be practiced within and across business units.

Before Covid-19, we were looking at ways to further build resilience within our teams, and over the course of the year, we implemented a series of workshops and webinars to enable our people to move from merely coping with disruptions to thriving. We focused on three key areas of employee well-being: dealing with disruption; mindful communications; and embedding healthy behaviours. The programmes are available online and can be accessed at any time. We are tracking the changes in behaviour and will use the learnings to further empower our people. We aim to fundamentally change behaviours for the better, and this initiative aligns to our strategic goal of future-proofing the business and our holistic approach to well-being, beginning with our people.

Employees at all levels of the group have responded positively, finding benefits in their work and personal lives. If we can give our employees more control and remove challenges to their well-being, they will continue to be productive and innovative, which serves the group as well as our stakeholders.

The Learning Academy is making strides in supporting the One Alexander Forbes approach, ensuring an integrated approach to learning across all areas of the business. To support a holistic advice-led approach to our clients, the academy ensures that all our consultants have knowledge of every business area. The Learning

Academy also supports the implementation of client plans through a coaching programme, which is designed to help consultants develop discussions with clients and pinpoint opportunities to assist clients

We moved to a virtual training environment fairly easily and have seen increases in attendance. We are pleased to see that employees are taking advantage of training; however, in a remote environment it is more difficult to monitor if training is engaging and productive.

The Learning Academy also works closely with the consulting and investment teams to ensure that the advice frameworks and the products developed meet best-practice standards. During the past year the Learning Academy contributed to the development of more bespoke content for communications, webinars and marketing materials, for internal employees and for clients and members. In addition to Covid-19 communications and content, a significant amount of work has gone into ensuring that we are able to advise and prepare our people, clients and members for regulatory changes that have or will soon come into effect, such as the retirement fund rule reforms that came into effect on 1 March 2021, also known as T-Day.

In total, 2 355 employees were trained in FY2021 (2020: 2 716). In addition, during 2021, we recruited 42 interns, of which 50% were women and 91% were African, Indian or Coloured. Of these interns, 90% were absorbed into our ranks as permanent employees.

We have 137 people participating in various management, leadership and executive development programmes, of whom between 50% and 88% are black employees.

To support the development of female leaders within the group, we have 24 women on the Duke Women Leading with Courage programme, of whom 88% are black.

#### Our people continued

#### **Efficiencies and high-performing people**

We now have one integrated system that houses all employee-related information, providing real-time metrics and drastically improved data accuracy. Human capital teams can now access automated reports concerning metrics that were previously reconciled manually such as employee leave time, expenses and overtime. The People Focus system also enables self-service which means more responsive and faster access to information and less downtime for maintenance. We eliminated some administrative roles with the rollout of the new system, which has enabled us to invest in more value-creating roles within the function. The system has enabled better monitoring and governance of operational delivery across the group. We also realised a cost-saving on our fees in terms of operations and maintenance. We are now in the process of launching further modules like performance, learning, talent and employee relations as well as enhancing the core system.

## Ensuring efficient, standardised and consistently applied performance management process with clearly defined outcomes

We are striving to create a more accountable culture, because being accountable encourages feelings of empowerment and the drive to find solutions to problems. While accountability is necessary across the group, it begins at the top. We have therefore begun to cascade the KPIs more consistently, from the top of the organisation, to all employees.

With the move to remote work, some managers experienced challenges to maintain their teams' productivity. We addressed this on multiple fronts: appropriate engagement and transparency about expectations, clear commitments from the executive team to protect and support our people where possible, and adequate support to managers concerning leading in uncertain times, leading remotely, staying connected to teams, and managing productivity and performance remotely. By and large, we maintained our high levels of productivity, and nearly all our employees showed their commitment to our clients and the business. Unfortunately not all employees responded positively, and working remotely uncovered some productivity differences among some employees, leading to some non-regretted attrition. However, we have seen higher engagement levels and morale as the remaining team members are more aligned to high performance. Overall, we are pleased with the way our people have responded to our commitment to retaining employees and to provide as much support to them as possible, and we have recognised those employees who have delivered exceptionally during this time.

## A transformed company with a winning culture

We are a people business, requiring skilled people. In a country and an industry like ours where there is a shortage of skills, high mobility, and high competition for those skills, it is important that we do what we can to attract a wide range of individuals. Building a diverse team is an important aspect of our responsibility to society and our transformation objectives, and is also a requirement to engage with certain clients in our target market, where B-BBEE status is a mandatory requirement to engage certain companies. Innovation is a function of different perspectives and views coming together and understanding each other.

To ensure that we can harness the benefits of diversity, a transformation strategy was approved for execution over the next three years. The strategy, which covers hiring, promotion, development and retention practices within the group, is aligned to the employment equity (EE) plan to ensure effective succession pipeline development as it relates to our African and female colleagues within the group. We aim to improve our EE stats at middle and senior management level, where we have the greatest opportunity to improve our performance.

#### **Empowering women**

Achieving gender equality is more than an issue of fairness or morality. It is an economic imperative, as gender inequality is costing sub-Saharan Africa on average \$95 billion a year. Helping women fully participate in the economy not only promotes growth; it also diversifies economies, reduces income inequality, mitigates demographic shifts and contributes to financial sector stability. This could increase GDP by up to 50% in some African countries.

Through our policies, including our employment equity policy and code of conduct, we strive to ensure that women are treated fairly at work, that their health and safety is protected, and that they have access to education, training and development. Our policies on procurement contribute to ensuring that women are included in our enterprise development and supply chain activities. In addition, women represent one of our key target groups for our corporate social investment initiatives. During FY2021 we took a further step in our commitment by signing up to the United Nations Women's Empowerment Principles initiative.



## Making an impact

#### **Overview**

We understand the need for our contribution to creating a more equal, inclusive and prosperous South Africa. Our strongest contributions to society are to help develop and foster a wealth and investment-enhancing savings culture, close the retirement savings gap and secure financial well-being for our members. These areas align with our vision, client orientation and the fulfilment of our purpose, which we believe is our single-biggest opportunity to be a force for good.

Our purpose and vision aspire to empower over a million individuals whose long-term financial well-being is largely entrusted to us. By enabling the financial well-being and inclusion of a million people, we indirectly help many more, thereby positively impacting the broader societies in which we operate. Equipping our members with information, advice and skills to proactively manage their finances, investments and risks remains a key part of our strategy.

We undertake numerous initiatives in responsible investment, transformation, employee well-being and development and socioeconomic development of local communities. These initiatives are essential, but the core of what we do – our advice-led approach – is where we continue to make the biggest impact. Everything we do draws from collective knowledge, skills and experience to provide the best advice and linking it to the right solutions and services at every stage of life.

Throughout this report, we have discussed areas in which we contribute to society, such as in the sections discussing Our business model and value creation, the Our clients and members, and the Our people section. In this section, we report on our societal impact achieved in other initiatives. Many of these initiatives are integral to the way we do business.

While our impact on the environment is limited – and therefore not included as a material topic in this report - we track our environmental impacts, and strive to efficiently use natural resources in our network of offices. Our footprint is driven by the conscious use of electricity, water and paper, and processing of general office waste.



#### **Transformation**

Supporting South Africa's transformation agenda is an important aspect of our responsibility to society. Our transformation commitment goes beyond simply complying with legislation. For us, it is about making a meaningful difference and being a force for good. It is a key enabler of our long-term competitive advantage to achieve sustainable growth and attract the best talent. It is also important in fostering growth in a savings culture and closing the retirement savings and risk benefit gaps. Having a lasting, positive, impact on society is integral to our vision.

The social, ethics and transformation (SET) board committee is responsible for overseeing the execution of the transformation vision. Transformation is a permanent item on the group executive committee's agenda and is included in relevant managerial performance scorecards.

#### Our transformation intent

Having a lasting, positive impact on society is integral to our vision. For us, it is about creating realistic, impactful and sustainable broad-based opportunities in partnership with those who have previously been denied such prospects.

#### **Transformation**

Transformation is a key strategic business imperative and our commitment goes beyond compliance with legislation. It is about creating impactful and sustainable broad-based opportunities to the benefit of all stakeholders.

#### **Empowerment**

Empowerment is linked to our B-BBEE transformation objectives with the aim of remaining a Level 1 contributor.

#### **Diversity and inclusion**

Diversity and inclusion focuses on inclusivity, co-existence and tolerance in areas such as gender, ethnicity, religion and generational differences.

#### Society

Society focuses on the work we do for the communities in which we operate.

Our ambition is supported by our sustainable transformation framework which includes the implementation of clearly defined objectives aligned to the Amended Financial Sector Codes (FSC) and B-BBEE Act requirements.

#### Sustainable transformation framework pillars

#### Executive endorsement

Our ambition is fully owned by the executive team, and enabled by the board and social, ethics and transformation committee

#### **B-BBEE** verification and baseline

An internal assessment report and B-BBEE verification audit informs the transformation baseline

#### Strategy development

Transformation strategy with clear targets aimed at achieving the desired outcomes and ensuring sustainable improvement

#### **Governance and** monitoring

Governance, monitoring and board level oversight to ensure we remain on track

#### Communication

Effective communication with employees and all stakeholders

> Common and shared understanding of our journey across all stakeholders

#### Making an impact continued

#### **Our transformation performance**

We have steadily improved our performance over the last decade and a half, moving from being a Level 5 contributor in 2007 to a Level 1 contributor in 2021.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
B-BBEE Performance Level	5	3	3	3	2	2	2	2	2	2	3	2	2	2	1

#### **Summary scorecard**

Our B-BBEE scorecard verification is based on the amended financial sector code (FSC) and has been certified by an authorised independent verification agency, AQRate Verification Services. This verification applies to all companies within the group. While we strive to continuously improve our performance, we are pleased with our most recent achievement.

The table below highlights Alexander Forbes's summary scorecard per element under the amended FSC for the period 1 April 2020 to 31 March 2021.

#### **B-BBEE** summary scorecard: Other institutions<sup>2</sup>

Element	Amended FSC target	2020 Total score	2021 Total score
Ownership	25.00	25.00	25.00
Management control (and employment equity)	20.00	12.10	12.31
Skills development	20.00 (+3)	13.23	13.40
Procurement	20.00 (+4)	19.60	20.93
Enterprise and supplier development	15.00 (+4)	17.00	19.00
Socio-economic development and consumer education	5 (+3)	8.00	8.00
Overall score	105.00 (+14)	94.93	98.64
Level		2	1
Recognised procurement recognition level		125%	135%
Issue date		9 June 2020	14 June 2021
Expiry date		8 June 2021	13 June 2022



<sup>2</sup> Refer to https://www.alexanderforbes.co.za/investorrelations/company-overview/governance/transformation for the full certificate, annexures and Form 1 B-BBEE Commission submission. For further information or clarification, please contact investorrelations@aforbes.com.

#### **Ownership**

We achieved full points for the ownership element of the scorecard, comprising: sale of assets, direct shareholding and the inclusion of mandated investments. Alexander Forbes reported measured black ownership of 53.60% (voting rights) and 50.53% (economic interest). Voting rights in the hands of black women equate to 19.88% voting rights, while economic interest in the hands of black women equate to 18.34%. This scorecard reflects the African Rainbow Capital (ARC) interest in the direct shareholding sub-category. ARC is our key strategic anchor shareholder and empowerment partner. In ARC, we have a committed long-term partner who understands the company's business and is aligned to our strategy.

#### Direct shareholding

Our empowerment equity partners are ARC, and the Isilulu Trust (our employee share ownership scheme). Collectively these entities result in an effective verified direct ownership of 37.89% (calculated using the flow-through principle).

The Isilulu Trust was established in 2015 when an effective 2.9% direct ownership in the group was transferred to employees, and to qualifying black female employees in particular. At 31 March 2021, ARC held 36.06% of Alexander Forbes Group Holdings Limited. Direct shareholding also includes mandated investments (7.02% voting rights in the hands of black people and 3.95% economic interest in the hands of black people).

#### Sale of assets

We benefit from the recognition of points achieved through historical transactions (relating to the sale of AF Risk Services and Guardrisk). Collectively, these transactions resulted in an effective verified ownership of 9.03%.

#### Management control and employment equity

We are committed to building a diverse workforce, bringing together a mix of skills, experience, culture, gender, and age and race, and taking a focused approach to recruiting, developing, retaining and promoting black talent.

Ensuring equity across the group extends beyond the legislated definition of employment equity. Upon our listing on the JSE Limited, all employees were allocated 1 000 shares each, an investment we believe has enhanced the extent to which employees feel engaged in the success of the group.

Black representation on the board is at 50% and 30% of the board members are black women. Other executive management, which is essentially the executive committee, comprises 57.14% black and 28.57% black female. Black representation and black female representation at board level has improved with the appointment of an African female director and an African male director. Overall, we are comprised of 73% black employees (2020: 74.44%) and 47% female employees (2020: 48.32%). We will continue to focus on the development and retention of black executives, and senior and

middle management as we aim to achieve our diversity and inclusion targets in the workplace.

The three-year employment equity plan was approved by the Department of Labour and Employment, paving the way for the consistent improvement in the transformation of our workforce across the business. The plan focused on addressing the Economically Active Population (EAP) targets, ensuring representation of the country's demographics across all occupational management levels and creating a balanced workforce. Our employment equity profile saw a decline at senior management level from 41.44% in 2020 to 38.74% in 2021. Black female representation at the same level reported a slight decrease from 19.82% in 2020 to 18.92% in 2021. Appropriate skills development interventions continue to be implemented so that we can create a healthy pipeline of potential future senior managers. In line with the three-year employment equity plan, we will continue to address the gap towards achieving EAP targets.

To mitigate the risk of losing diverse talent, we are working to provide support and development opportunities to all, and to provide the 'right' support to employment equity employees and candidates. We ensured that black women were offered participation in newly developed leadership programmes. We have an opportunity to target the appointment of a diverse team and are putting measures in place to use this opportunity.

#### Skills development

We remain committed to developing the skills and experience of our people, enabling them to pursue successful careers in support of our strategic intent. Part of our employee value proposition is offering our employees the opportunity to grow professionally. All employees have access to a shared competency-based learning framework on e-learning platforms, and our leadership programmes are biased towards African candidates with a focus on women. Through our unemployed bursary, learnership and internship programmes, we provide work experience for 240 young people.

Total skills development spend on black employees in 2021 was R36.6 million (2020: R57 million), of which approximately R23 million (2020: R39 million) benefited black women. This year saw a slight improvement in performance on skills development, progressing from 13.23 to 13.40. Overall, we provided company bursaries to 204 individuals (2020: 244), of whom 89% were black.

We implemented a R4.5 million developmental programme targeted at junior, middle and senior management that prioritised black leaders, with a particular focus on our female leaders. The Women Development Programme started in 2020 has provided an accelerated leadership development programme for driving talent in the business.

We embarked on a three-year initiative to grow our talent pool, focusing on unemployed black youth with disabilities. About 126 young people, of which 67 were black people with disabilities and no work experience, registered for a learnership programme which gave them the opportunity to enter the mainstream economic sector. The programme will result in National Qualifications Framework (NQF) qualifications from levels two to four. In total,

#### Making an impact continued

210 people participated in our learnership programmes. A total of 38 individuals embarked on the internship programme in February 2020, which ended on 31 January 2021 (94% black).

As part of our commitment to support black unemployed youth, we entered a partnership with Ikusasa Student Financial Aid Programme (ISFAP), contributing a total of R6.1 million and providing financial support in the form of comprehensive bursaries to 34 students from previously disadvantaged communities.

We implemented a group-wide bursary drive to support unemployed black learners, and other relevant initiatives were implemented to develop and upskill our talent pool.

#### **Preferential procurement**

The spend with all empowering suppliers improved from 89% (2020) to 98% (2021). However, due to the sale of the insurance business, spend with qualifying small enterprises reduced from 8.78% (2020) to 6.75% (2021) and exempted micro enterprises reduced from 9.04% (2020) to 4.86% (2021). By achieving 98% of the compliance target in procuring services and goods from empowering suppliers, we performed better than our industry average of 28.56%, when benchmarked against the B-BBEE Commission's 2020 National Status and Trends on B-BBEE Report. The main reason for this achievement was a significant improvement in the procurement of services from designated black group suppliers. We also leveraged on the available scorecard bonus points for procuring services from black fund managers. Although overall performance on preferential procurement has improved, the actual qualifying spend decreased from R1.9 billion in FY2020 to R1.4 billion in FY2021.

Going forward, we plan to review our procurement process to enhance responsible buying. We will also evaluate a way to invest in supplier development by identifying and growing emerging suppliers. These suppliers will benefit from our ability to impart skills and mentor small- and medium-sized enterprises (SMEs) while empowering them to develop relevant and complementary services to the core activities of our divisions.

#### **Enterprise and supplier development**

We made some improvement on enterprise and supplier development, increasing points from 17.00 to 19.00. We continue to invest in the ASISA Enterprise Development Fund, an industry-wide initiative established to help achieve our aspiration of empowering black-owned SMEs. A total of R632 million invested by the sector in the fund was deployed, contributing to the growth of 792 SMEs that created 1 694 jobs.

Through our CoLab enterprise and supplier development initiative, we provide free operational space to nine black-owned SMEs in our Sandton and Durban offices, which equated to a total contribution of R4.6 million through rental costs. With access to our office space, boardrooms, corporate market days, catering, marketing, Internet access, financial support and subsidies, selected SMEs that can benefit most from networking with our business lines and

value chain can gain access to critical lead generation and learning opportunities. This access helps empower and facilitate the growth and sustainability of SMEs by eradicating financial, social and circumstantial barriers. MRT Uhuru Group, one of the beneficiaries of the CoLab initiative, graduated from enterprise development to supplier development through procurement opportunities created by Alexander Forbes.

The economic empowerment of black-owned asset managers has been highlighted as an area that requires focus in terms of transformation in the financial sector. Alexander Forbes launched a supplier development initiative, providing support to Benguela Global Fund Managers, a black-owned asset management firm. A grant of R280 000 was provided as part of a graduate traineeship programme.

Alexander Forbes spent R17.7 million (2020: R21.6 million) on enterprise and supplier development initiatives (ASISA, CoLab and black-owned asset manager initiative) during the year ended 31 March 2021. Supplier development equated to 16.04% (2020: 3.1%) and enterprise development equated to 10.01% (2020: 1.3%) of net profit after tax, resulting in the achievement of maximum weighting and bonus points on the scorecard.

## Socio-economic development and consumer education

We continue to play a meaningful role in ensuring an inclusive society in South Africa through impactful socio-economic development (SED) initiatives. Our community investment is an important demonstration of our company values and our commitment as a group to building a better South Africa for all. Our SED programme focuses on orphans and vulnerable children, people living with disabilities, and education. The SED programme, includes the CoHub programme, bursaries, capacity building and employee volunteering, and is managed through the independently governed Alexander Forbes Community Trust (the trust), which was created in 2004. In FY2021, we contributed R5.7 million (2020: R8.0 million) to the trust, bringing the cumulative SED investment since inception to R72.1 million. We achieved the maximum score possible, which is higher than the industry average of 79.92%, when benchmarked against the B-BBEE Commission's 2020 National Status and Trends on B-BBEE Report.

We implemented our consumer education programme by enlisting the services of experts to the value of R1 million. Training interventions were conducted online in rural and urban areas, targeting previously disadvantaged communities and reaching 4 324 people.

We also contributed R92 000 to the Fundisa Retail Fund aimed at a bursary programme for youth from previously disadvantaged communities.

Some of our planned activities were temporarily suspended due to Covid-19. This included the capacity building programme, a face-to-face engagement initiative with the CoHubs, and the employee volunteering programme.

#### The following programmes were supported:

#### CoHubs

We provide financial and non-financial support through the CoHubs programme that focuses on providing services and support for orphans and vulnerable children, as well as people with disabilities. The programme supports five non-profit organisations (NPOs) in communities across Gauteng, KwaZulu-Natal and Western Cape. During FY2021 CoHubs reached 2 074 beneficiaries through the provision of day care facilities, care services, nutrition, education, staff training and assistance in creating income-generating activities. We continue to assist the CoHubs with their operational, administration and governance requirements.

The trust supported the CoHubs to ensure that they continue to provide the much-needed community services during the Covid-19 lockdown. Personal protective equipment (PPE) was purchased and distributed to the five CoHubs. The chairman and administrator of the trust had ongoing telephonic engagements with the project managers of the CoHubs, providing emotional and moral support during this challenging period.

#### **Bursary programme**

Alexander Forbes implemented a group-wide bursary programme comprising the CoHubs bursary programme, partnership with the Maharishi Institute and the INSETA bursary programme. Comprehensive bursaries were provided to 41 tertiary students – 38 students supported directly by the trust and three through the partnership with INSETA. A pass rate of 95% was achieved, with 22 students graduating in the 2021 academic year. These students are enrolled in bachelor programmes, specialising mainly in commerce, accounting, and actuarial science. Bursary recipients produced 53 distinctions during the year under review.

The introduction of online learning during the lockdown meant that technology became an integral part of education. This implied that as a basic necessity, each student must have access to a functioning laptop. The trust purchased laptops to ensure that each of the bursary recipients had access to online learning platforms.

#### Consumer education

During the year we implemented our consumer education programme by enlisting the services of experts to the value of R1 million. Training interventions were conducted online in rural and urban areas, targeting previously disadvantaged communities and reaching 4 324 people. Topics such as budgeting, saving, investment and wills were offered. We received positive feedback after a monitoring and evaluation exercise was conducted to determine the impact.

#### **Fundisa Retail Fund**

Our ongoing contribution to the fund benefits youth from lower-income households, creating opportunities to study at tertiary level.

#### Heartwork

During challenging times the obligation to help others is greater than ever. Through our Heartwork platform, we enable our people involved in community work to share their work with us so that we can further their causes. The platform enables our people to tell us more about themselves, their project, what it does and who it serves. This provides our group with a better view of the volunteer work being undertaken, so we can identify ways to offer our assistance.

#### Protecting vulnerable people

Our commitment to combatting gender-based violence forms part of Alexander Forbes's broader transformation initiatives focused on women empowerment. Alexander Forbes is also one of 83 South African signatories to the United Nations Women's Empowerment Principles. We contribute to South Africa's Private Sector Gender-Based Violence and Femicide Response Fund, which houses contributions from the private sector and other organisations' support projects aimed at eliminating all forms of violence against women and children. We have agreed to administer the fund for a 12-month period and will provide asset management and actuarial services where required.

#### **Solidarity Fund**

In response to the Covid-19 pandemic, we donated R1 million to South Africa's Solidarity Fund, which is a rapid response vehicle through which pooled contributions are deployed to fund impactful initiatives that contribute to humanitarian relief efforts and mobilises South Africans to drive a united response.

#### **Looking forward**

Achieving a Level 1 B-BBEE rating is commendable, considering the context of a challenging year, and provides us with a solid base for our transformation journey.

We will continue to work hard to maintain this new B-BBEE status and focus on areas that can be improved. This will require collective will and focus to achieve the following in the coming year:

- Execute strategic procurement and maintain preferential procurement
- Ensure we take intentional transformation actions to improve management control and employment equity outlook
- Reset our skills development strategy

We are proud of the efforts of all the teams involved and will continue to drive the transformation agenda at pace for Alexander Forbes and South Africa.

#### Making an impact continued

#### Thought leadership

We engage with a range of our stakeholders on concerns that are material and which we can influence. We participate in shaping thinking through our insights on financial well-being contributions. By sharing our well-researched positions, we are creating a knowledge base to enable our audience to frame issues clearly and positively influence others. It supports our ability to access conversations and forums. In addition to the opportunity to influence stakeholders, our thought leadership contributes to our brand leadership and credibility, which supports our growth and commercial position.

Our thought leadership is enabled by our Research Institute and our chief economist. The Research Institute has produced 10 extensive volumes of research into the broader financial and developmental needs of South Africans and Africans. The research covers topics such as benefits, health, investments and individual member savings behaviour.

We launched a new edition of the Member Watch analysis, providing insights to the public about member savings behaviour and informing our client solutions for improved member financial outcomes. The tool uses data from all South African retirement funds administered by Alexander Forbes, meaning that it employs the biggest membership and employer groupings data sample of all the South African retirement fund surveys.

Another thought leadership focus area is our Hot Topics client engagement events, which integrate discussions at the client level across our business lines – from investments to healthcare consulting. The summits focus on the interplay between all facets of employee benefits, enabling clients to provide feedback on our integrated service offering. The sessions were conducted on virtual platforms this year to continue to support clients despite remote working conditions.

In FY2021 the Research Institute launched the Alexander Forbes Thought Leadership Platform, providing a collaborative framework for addressing the core socioeconomic challenges that face South Africa and Africa. The platform provides a narrative map of issues, insights and potential solutions to equip the industry with contextual information. With a deep understanding of all the contextual aspects, they can better engage in discussions with other stakeholders and collaborators and develop richer and more robust solutions.

#### Responsible investing

The power of responsible investing goes beyond just helping our clients reach their investment goals. Deploying investments responsibly and sustainably can also help promote a better quality of life for South Africans, and can provide an investment framework that lays the foundations for us to rebuild a better South Africa.

### We hold a set of beliefs that underpin our approach to responsible investment:

- ESG factors can have a material impact on the long-term risk and return outcomes of an investment and should be integrated into the investment process.
- Having a longer-term perspective on risk is key. We believe that identifying long-term social and environmental themes can lead to improved risk management and new investment opportunities.
- Stewardship (or active ownership) supports the notion that long-term value is realised when shareholders are afforded an opportunity to contribute to how the company is governed. We have a firm consideration of continuous engagement with underlying asset managers regarding the investments they make on our behalf, and how these investments contribute to responsible investment initiatives.
- Climate change poses a systemic risk, and investors should consider its financial impact on investments across various asset classes, as well as new opportunities arising from the transition to a low-carbon economy.

Our <u>investment framework</u> for responsible investing details our approach to investing, which aims to incorporate environmental, social and governance (ESG) factors, and broader systemic themes such as climate change, sustainable development and stewardship (including active ownership), into our investment decision-making process. Incorporating these factors enables us to manage risk better alongside our appointed asset managers and generate sustainable long-term investment outcomes.

#### PRI signatory

Alexander Forbes Investments Limited has a fiduciary duty to achieve the best possible returns at acceptable levels of risk and act in the best interests of the wider community and environment. We do everything we can to protect our clients so that they can achieve their investment goals in the most responsible way possible.

We have been a signatory to the Principles for Responsible Investment (PRI) for more than a decade and endorse the Code for Responsible Investing in South Africa (CRISA). We recognise our duty to investigate the impact of ESG-related issues on the performance of assets. We promote responsible alpha investing (responsible and sustainable benchmark-beating returns) by ensuring that the company and the asset managers we select in our multi-managed portfolio solutions consider and evaluate the risks and opportunities arising from ESG factors.

We have maintained our strong rating and are proud to have scored above our global peers across most of the reporting modules.

Overall, the results demonstrate our continued efforts and commitment towards ESG risk management and compliance with the spirit of the PRI.

#### **PRI** scores

	2020*
Strategy and Governance	А
Listed Equity	А
Fixed Income – SSA	А
Fixed Income – Corporate Financial	А
Fixed Income – Corporate Non-financial	А
Property	A+

<sup>\*</sup> The 2021 PRI scores will be released in August of 2021, after the publication of this report.

#### **Global footprint**

Alexander Forbes Investments invests in a range of Mercer Global Investment Funds PLC portfolios. Through our strategic relationship, Alexander Forbes draws from Mercer's intellectual capital to help our clients take advantage of opportunities and stay ahead of regulatory and public policy decisions around responsible investment, globally.

Like Alexander Forbes, Mercer is committed to working more closely with asset managers to drive responsible investing and sustainable performance on behalf of our respective clients. Mercer is a founding signatory to the PRI, helping shape its original statements and aims. For almost two decades, Mercer has continued to support and endorse the PRI and other international organisations to promote best practice around the world.

Mercer has been awarded a top accolade for responsible investment strategy and governance by the PRI, proudly securing an A+ rating for strategy and governance, and six A ratings for its over \$300 billion of assets under management in investment solutions across public and private markets.

#### Helping to shape the future

We proudly endorse and uphold the CRISA principles, which align to the global PRI principles. As one of the leading financial services providers in South Africa, we have heeded the call for submission to comment on the CRISA 2.0. The updated code expands upon the scope of guiding principles set out in 2011, in an attempt to address changing responsible investment practices.

The responsible investment landscape has shifted drastically and we have observed the changes in investor demand, strategy availability and the regulatory environment in this context. No one can afford to stand still, and we have committed to leading the change.

Our recommendations touched on essential issues, including responsible and sustainable finance objectives, governance themes encompassing stewardship, disclosure and reporting, as well as accountability on the part of asset owners and asset managers who have made their pledges. Our recommendations also included key learnings and considerations from global stewardship codes that could be localised for a South African context, helping to steer the code in the right direction and with the right momentum.

Engaging and participating in initiatives like this is fundamental to the progress of the industry, as well as its position in creating a sustainable and inclusive economy and society. It speaks directly to our vision of a better future for all, better aligning the interests of all stakeholders and extending our licence to engage the industry as a fiduciary on our clients' behalf.

#### A four-factor ESG rating framework

As a multi-manager, we do not have direct investment in companies. Indirectly we invest through our allocation of funds to asset managers. Therefore, the impact we have is through our approach to evaluating asset managers, which involves four main areas of focus: ESG integration, resources, engagements and firm-wide commitment.

#### **ESG** integration:

How asset managers integrate ESG into their investment process, which includes:

- Idea generation: How strong is an asset manager's ability to generate value-adding ideas?
- Portfolio construction: How effectively are these ideas incorporated into weights in the portfolio?
- Implementation: How much of the value is returned through transaction and opportunity costs?
- Business management: Whether well-managed asset managers are more likely to maintain and enhance the competitiveness of their investment strategies over time?

#### Resources:

The internal and external resources relating to research, systems and employees that are used.

#### **Engagements:**

The policies and procedures around engagements and proxy voting that are in place, and examples and outcomes of these engagements.

#### Firm-wide commitment:

Assessing whether the asset manager's process is formalised through a responsible investment policy, the manager's commitment to industry bodies and codes, and public disclosure of responsible investment activities.

#### Making an impact continued

#### **Due diligences and ongoing engagements**

A formal ESG assessment is produced based on the responsible investment due diligence questionnaire and our engagements with asset managers. Assessments are included in all managers' research reports. Based on the four-factor ESG rating framework, asset managers are assigned an ESG rating. Our portfolio managers are encouraged to appoint asset managers with high ESG ratings, but also to take a proactive approach in influencing better ESG practices within the industry. Here, we use our leading position in the market to work alongside asset managers with low ratings and improve their rating within 12 months, or risk having their appointment terminated.

Asset managers are required to comment on any ESG enhancements to their investment process, key ESG risks and opportunities affecting current holdings and investment decisions, engagements with company management and proxy voting reporting during regular reporting. Where there are contentious issues relating to any holdings, we engage with asset managers on any areas of concern. Asset managers' responses are compared and rated based on their level of disclosure and understanding of ESG concerns. Proxy voting results are also monitored quarterly. We believe that vote outcomes are only one part of the stewardship process.

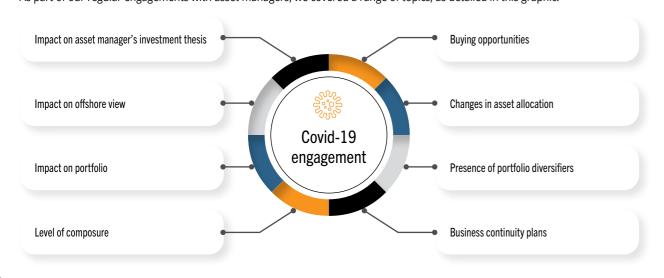
We have evolved the process of stewardship to formally engage on AGM specifics before the meetings to gauge likely vote outcomes and keep the pressure on. In this way, we have been able to challenge report results after the AGM. ESG matters often require monitoring, and they are outside the domain of vote resolutions in AGM meetings. We keep track at company level of material issues relating to these matters and engage proactively.

#### Firm-wide commitment

It is the chief investment officer's (CIO) role to ensure that responsible investing is integrated within the investment process and across the investment team. The investment team and portfolio managers are required to understand how asset managers incorporate ESG considerations into their investment process, as well as understand such risks within these portfolios. The investment team and portfolio managers should also engage with asset managers on such risks. The CIO has engaged specifically with the CEO and CIO of underlying asset managers to understand their approaches and beliefs. These meetings allow us to assess the tone at the top, and whether a manager's approach to responsible investing is a ticked box exercise or a core tenet of the organisation.

## Enhanced governance in a post-Covid world Considering the impact of the Covid-19 pandemic on financial

Considering the impact of the Covid-19 pandemic on financial markets, the economy and businesses, we have deployed additional governance over the investment portfolios our underlying asset managers manage on our behalf. This will ensure that the asset managers are acting in the best interests of our clients, and we will continue to provide the highest level of investment oversight. As part of our regular engagements with asset managers, we covered a range of topics, as detailed in this graphic.







## Corporate information

#### **Alexander Forbes Group Holdings Limited**

Registration number: 2006/025226/06

Tax reference number: 9404/921/15/8

JSE share code: AFH

ISIN: ZAE000191516

(Incorporated in the Republic of South Africa)

#### Independent directors

M Ramplin (chair), RM Head, NG Payne, BJ Memela-Khambula, T Dloti, AM Mazwai

#### Non-executive directors

WS O'Regan, MR Nkadimeng

#### **Executive directors**

DJ de Villiers (chief executive officer)

BP Bydawell (chief financial officer)

#### Executive: Governance, legal and compliance (company secretary)

CH Wessels

#### Investor relations

Z Amra

#### Registered office

Alexander Forbes, 115 West Street, Sandown, 2196

#### Transfer secretaries

Computershare Investor Services Proprietary Limited

Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196

Private Bag X9000, Saxonwold, 2132

#### Sponsor

Rand Merchant Bank (A division of FirstRand Bank Limited)

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