

17 Melrose Boulevard, Melrose Arch, 2196  
P O Box 202, Melrose Arch, 2076  
☎ +27 (0)11 448 6000  
☎ 086 727 7505/+27 (0)11 448 6666  
✉ contact@stanlib.com  
🌐 www.stanlib.com

**Registration:** STANLIB Wealth Management Limited Reg. No. 1996/005412/06. Authorised FSP in terms of the FAIS Act, 2002 (Licence No. 26/10/590). STANLIB Collective Investments (RF) Limited Reg. No. 1969/003468/06. Liberty is a member of the Association for Savings and Investment of South Africa. The Manager is a member of the Liberty group of companies.

**Directors:** T Dloti (Chairman), S I M Braudo, A P Cunningham\*, T Gobalsamy, J B Hemphill, M W Hlahla, S J Macozoma, J H Sutcliffe\*, C G Troskie, B S Tshabalala

\* British

**Secretary:** J M Parratt

1 September 2014

Dear Investor,

Subsequent to the South African Reserve Bank placing African Bank under curatorship on 10 August 2014, there have been numerous articles in the press outlining the impact to investors with holdings in African Bank Investments Limited (ABIL).

The rescue of African Bank has created unforeseen losses for some of our investors and understandable anxiety. At STANLIB, we follow a careful, analytical process to deal with the uncertainties of the future. Unfortunately the information disclosed by ABIL on 6 August 2014 was materially different from that which our analysis was based on. The distress this has caused our investors is most regrettable.

In close consultation with the Financial Services Board and other industry players, we have taken immediate remedial action to ensure that we protect your investments to the best of our ability under the circumstances. This letter details STANLIB's exposure to African Bank and the pro-active steps taken to avoid further losses for our investors.

### Impact on investors

All investors in African Bank (whether direct investors or through unit trust portfolios), have felt some negative impact. For individual investors in the STANLIB funds, the impact varies depending on the exposure of their chosen funds to African Bank.

Certain STANLIB funds had exposure to either shares (equity) in African Bank or fixed interest instruments issued by African Bank, or a combination of both.

### STANLIB's funds with equity exposure to African Bank:

Funds with equity exposure have experienced a market-related loss due to the sharp decline in the ABIL share price. On 11 August 2014, the South African Reserve Bank suspended ABIL's shares on the JSE, essentially making them worth zero. In the table below, you will see the ABIL exposure before the 6 August 2014 announcement when the share price declined.

Funds affected through their equity exposure	Exposure as at close of business on 5 August* (%)
STANLIB Balanced Fund	0.45
STANLIB Balanced Cautious Fund	0.18
STANLIB Equity Fund	0.75
STANLIB Financials Fund	5.34
STANLIB Growth Fund	2.23
STANLIB Inflation Plus 5% Fund	0.85
STANLIB Medical Fund	0.86
STANLIB SA Equity Fund	1.04
STANLIB Value Equity Fund	6.11

\* As at close of business on 5 August, the ABIL share price was at R6.86.



## STANLIB's funds with fixed interest exposure to African Bank:

Funds with exposure to fixed interest instruments were impacted by a write-down in the value of those fixed interest instruments.

The decrease in fund value due to this write-down will vary depending on the type of fixed interest instrument that the portfolio was holding and the size of the ABIL paper holding relative to the fund size

Funds affected through their fixed interest exposure	Exposure before write-down on 8 August (%)	Exposure post write-down on 11 August (%)	Impact on the market value of the fund effective 11 August (%)*
STANLIB Absolute Plus Fund	0.23	0.00	-0.23
STANLIB Aggressive Income Fund	6.79	5.48	-1.38
STANLIB Bond Fund	1.30	0.90	-0.41
STANLIB Enhanced Yield Fund	6.06	5.54	-0.61
STANLIB Extra Income Fund	4.40	3.98	-0.44
STANLIB Flexible Income Fund	8.43	7.66	-1.84
STANLIB Income Fund	6.47	4.94	-1.66
STANLIB Inflation Plus 5% Fund	6.10	3.50	-2.60
STANLIB Institutional Money Market Fund	0.71	0.68	-0.07
STANLIB Money Market Fund	1.72	1.56	-0.16
STANLIB Prudential Bond Fund	0.55	0.43	-0.12

\* Please note that this is not an arithmetic difference, but a weighted difference which means that deducting one column from the other will not equal the third.

## STANLIB has created Retention Funds (side-pockets) for ABIL's debt assets

On 15 August 2014, the Registrar of Collective Investments issued Guidance Note 6, which outlined a process whereby Collective Investments Scheme Managers could create a Retention Fund to segregate illiquid ABIL debt assets into a side pocket. This is in line with international best practice and the approach being adopted in the majority across the industry.

### What is side-pocketing?

Side-pocketing is the process of separating illiquid assets from more liquid assets, by allocating illiquid assets to a retention (side pocket) fund. In this instance, an investor's share of the portfolio's exposure to African Bank fixed interest instruments was transferred to a separate portfolio, called a side pocket or a retention fund.

**For example:** If you have R100 000 invested in a STANLIB ABC Fund and this fund had a 5% exposure to African Bank fixed Interest instruments after the write down. This 5% is then transferred into a separate fund, called STANLIB ABC ABIL Retention Fund. This leaves you with 95% of your original investment in STANLIB ABC Fund, which is still earning and releasing interest plus your separate STANLIB ABC ABIL Retention Fund of 5% which equals 100% of your investment.

Why? Because the African Bank fixed interest instruments are in suspension (not paying interest and not tradable) while the company is under curatorship. So it makes sense to remove them from the portfolio and put them into a side pocket until such time as hopefully African Bank is once again able to resume paying interest and, in time, capital back to investors. Adding the two portfolios together (the main holding plus the side-pocket) still gives you 100% of your investment. So side-pocketing is not a reduction in value.

While the value in the retention fund is frozen; as interest accrued on the fund is paid out and the instruments in the fund mature, the value of these will be credited back to you.

The main fund continues to trade, receive contributions, pay out withdrawals and earn interest as it always has.

### Why did we decide to side-pocket?

STANLIB has elected and received approval from the FSB to establish these side pocket funds with the main aim of protecting our investors, both existing and new. It means that new investments will not be exposed to any ABIL assets. It also ensures that existing investors will not be prejudiced by other investors making withdrawals and leaving the remaining investors with a greater share of the untradeable ABIL fixed interest instruments. Refer to **Appendix 1** of this letter for an example.

Only the present investors in the fund as at 18 August 2014 will be allocated a share of the ABIL side pocket portfolio. Side pocketing is therefore designed to protect investors by ensuring the fairest treatment of all existing and new investors into an affected fund. Please refer to **Appendix 2** to this letter for this list.

### **What now?**

As mentioned above, you can continue to transact on your main fund. Your assets in the side pocket fund are still yours, but are frozen for the time being, until such time as African Bank commences interest and capital repayments. When that happens, you will be the first to know and your investment in the ABIL retention fund will be released back into your original fund.

### **In closing**

Investors should note that all the issues have been overseen by the authorities and our trustees to ensure a disciplined and fair approach throughout the asset management industry.

We understand that this has been a stressful experience for all involved and would like to assure you that we are committed to your investments and will continue to act in our investors' best interests. We took the above action after careful consideration, with the aim of protecting investors and ensuring the fair treatment of existing and new investors into an affected fund.

If you have any questions or would like additional information, please contact your financial adviser or our dedicated client service team on 0860 123 003. Registered users on STANLIB Online, our self-service portal, are able to access their investment statements 24 hours a day. To register for STANLIB Online, simply follow the step-by-step guide on [www.stanlib.com](http://www.stanlib.com).

We will continue to update you as new information becomes available. I do hope that the above has provided clarity on the impact of African Bank on your investment.

Yours sincerely,

  
**Bongani Mageba**

Managing Director: STANLIB Retail

## Appendix 1:

### How does side pocketing work to protect investors?

The STANLIB ABC Fund has R1 000 000 invested in it by multiple investors, and R1000 or 0.1% is invested in ABIL debt. If one of the investors wants to withdraw R100 000, normally, out of this R100 000, a withdrawal would be processed proportionally from ABIL assets and other assets. So 0.1% or R100 would be disinvested from ABIL assets and the remainder, R99 900, from the rest of the assets.

But ABIL debt is not liquid right now, which means we can't sell the R100 of ABIL assets to pay out this investor. Which means the whole withdrawal would have to be from other assets.

So after a R100 000 withdrawal, there is R900 000 left in the fund, of which R1000 is still in ABIL assets and R899 000 is now in other assets. The percentage of ABIL assets in their portfolios has increased to 0.11% for all remaining investors. That is, all remaining investors now have a higher exposure to the ABIL assets than they did before the withdrawal. This is not fair.

The retention fund prevents this from happening. It ensures that all existing investors share in the ABIL assets equitably.

## Appendix 2:

### Effects on individual portfolios of the side-pocketing exercise

Retention funds have been created with effect from 18 August 2014. All investors invested in funds with fixed interest exposure to ABIL as at 15 August 2014, will retain their holding in both a Non-ABIL fund and the ABIL Retention fund as follows:

Non-ABIL Fund	ABIL Retention Fund	ABIL exposure moved to retention fund as at 15 August 2014
STANLIB Aggressive Income Fund	STANLIB Aggressive Income ABIL Retention Fund	5.52%
STANLIB Bond Fund	STANLIB Bond ABIL Retention Fund	0.90%
STANLIB Enhanced Yield Fund	STANLIB Enhanced Yield ABIL Retention Fund	5.60%
STANLIB Extra Income Fund	STANLIB Extra Income ABIL Retention Fund	4.23%
STANLIB Flexible Income Fund	STANLIB Flexible Income ABIL Retention Fund	7.85%
STANLIB Income Fund	STANLIB Income ABIL Retention Fund	5.47%
STANLIB Inflation Plus 5% Fund	STANLIB Inflation Plus 5% ABIL Retention Fund	5.45%
STANLIB Multi-Manager Absolute Income Fund	STANLIB Multi-Manager Absolute Income ABIL Retention Fund	1.36%
STANLIB Multi-Manager Balanced Fund	STANLIB Multi-Manager Balanced ABIL Retention Fund	0.27%
STANLIB Multi-Manager Flexible Property Fund	STANLIB Multi-Manager Flexible Property ABIL Retention Fund	1.81%
STANLIB Prudential Bond Fund	STANLIB Prudential Bond ABIL Retention Fund	0.43%
STANLIB Institutional Money Market Fund	STANLIB Institutional Money Market ABIL Retention Fund	0.67%
STANLIB Money Market Fund	STANLIB Money Market ABIL Retention Fund	1.58%