

2017

*Dear Investor*

## BALLOT LETTER

### AMALGAMATION OF THE KANAAN BCI FLEXIBLE FUND OF FUNDS WITH THE KANAAN BCI BALANCED FUND OF FUNDS

#### THIS LETTER IS IMPORTANT AND REQUIRES YOUR ATTENTION

**Please take note that the proposed amalgamation will have no impact on the existing Kanaan BCI Balanced Fund of Funds, but by law we have to ballot you.**

Kanaan Trust (“Kanaan”) currently offers 2 co-named fund of funds, being the Kanaan BCI Flexible Fund of Funds and the Kanaan BCI Balanced Fund of Funds. Lately the Kanaan BCI Flexible Fund of Funds has been managed very much with similar asset allocation than the Kanaan BCI Balanced Fund of Funds – the reason being that the current uncertain domestic socio-political environment does not allow for full risk-on portfolio management and asset allocation in Kanaan’s opinion. Therefore, the Kanaan BCI Flexible Fund of Funds portfolio value dropped to below R50 million, being the minimum co-branded portfolio size prescribed by the FSB. Therefore, Kanaan requested BCI to ballot investors to amalgamate the Kanaan BCI Flexible Fund of Funds with the Kanaan BCI Balanced Fund of Funds.

The key benefits to investors will be:

- A sizeable portfolio which is financially viable and it should result in a lower total expense ratio as the portfolio’s fixed costs will be spread across many more participatory units.
- Since the main differential between the 2 portfolios are that the Kanaan BCI Balanced Fund of Funds is complying with prudential investment guidelines and the Kanaan BCI Flexible Fund of Funds is not, it will result in the Kanaan BCI Flexible Fund of Funds investors experiencing a lower than current risk profile in future which should result in potentially lower investment returns, but with lower volatility, therefore we expect better relative returns during depressed market conditions.



As part of the process – we would like to obtain your approval to amalgamate the Kanaan BCI Flexible Fund of Funds with the Kanaan BCI Balanced Fund of Funds. The amalgamation, if successful, will have no impact on investors of the Kanaan BCI Balanced Fund of Funds.

A successful ballot will not have any tax impact on your investment nor will it affect your relationship with your financial adviser.

### Action required

Kindly study this document, complete the attached form and return to our auditors by no later than 21 July 2017.

1. Please complete the enclosed ballot form and return it in the enclosed self-addressed envelope or via email to ***bciballot@kpmg.co.za***.
2. If you have disposed of your participatory interests, no action is required.
3. **A no response will be regarded as a vote in support of the amalgamation.**

Please do not include any other instructions regarding your holdings with your ballot form, for example requests for purchases, switching instructions, etc. Your ballot form will go directly to our auditors and, should such instructions be sent to the auditors, we cannot guarantee that any instruction subsequent to the commencement of the ballot process will be effected.

### How does the proposed amalgamation impact your investment?

In terms of the section 99 of the Collective Investment Schemes Control Act, 45 of 2002, (“the act”) the ballot will be valid if the majority of investors, including the Manager, vote in favour of the amalgamation. **Please note, an absence of a response will be regarded as a vote in favour of the amalgamation.**

Section 99 (3) (a) of the Act stipulates that on the effective date, every investor “shall hold in the new scheme or portfolio, such participatory interests with an aggregate money value that is not less than the lower of the net asset value or market value, as may be fair and reasonable in the circumstances of the participatory interests which such investor, immediately before the date on which the proposed transaction becomes effective, held in an original scheme or portfolio.” In other words, when the portfolios are amalgamated, investors will be issued with replacement participatory interests in the new portfolio. The replacement participatory interests will be equal in market/monetary value to the participatory interests held pre-amalgamation.

### Your rights as an investor

The rights of investors are firmly entrenched in the Act and the Deed:



1. All investors in the portfolios are given an opportunity to vote in favour of, or against, the proposed amalgamation in terms of clause 99 of the Act.
2. An independent auditor will verify the outcome of the ballot.
3. **If investors do not participate in the amalgamation ballot timeously, they will be deemed to have voted in favour of the amalgamation.**
4. **The amalgamation will be a Capital Gains Tax (CGT) roll-over event, so no CGT will be payable upon amalgamation.**
5. Should you not be comfortable with the proposal in so far as they relate to the portfolio in which you hold participatory interests, you may switch your investments to any of the Boutique Collective Investment Scheme portfolios, at no switching cost, provided we receive your switching instructions before 31 August 2017. Should you not be comfortable with the proposal and do not wish to switch your investments to any of the Boutique Collective Investment Scheme portfolios, you may elect to redeem your participatory interests at any time and withdraw your money at the NAV price, as defined in the Deed, subject to that it is a discretionary investment. **By electing to redeem or switch your participatory interests, it will constitute a CGT event for which you will be liable to pay CGT at your next income tax assessment.**
6. If you choose not to switch or withdraw your investments prior to 31 August 2017, the proposals as set out in this letter (to the extent that they are approved by investors) will automatically apply to your investment.

#### Effective date

The effective date of the proposed amalgamation shall be 4 September 2017, provided that the necessary consent is obtained from investors and the Registrar of Collective Investment Schemes.

#### For more information

If you are in any doubt as to what action to take, please consult your financial advisor or call BCI at 021 007 1500.

#### Attachments

Annexure A: Comparison between current and proposed portfolio details  
Annexure B: Ballot form

Yours faithfully

**Gregory Abrahams**



**Annexure A:**

KANAAN BCI FLEXIBLE FUND OF FUNDS	KANAAN BCI BALANCED FUND OF FUNDS
<p><b>Investment policy</b>            The Kanaan BCI Flexible Fund of Funds is a <u>flexible</u> fund of funds. The primary investment objective of the portfolio is to provide the investor with long term capital growth as well as a reasonable level of income. Investments to be included in the portfolio will, apart from assets in liquid form, consist of participatory interests and other forms of participation of local and global collective investment schemes, or other similar schemes operated in territories with a regulatory environment which is to the satisfaction of the manager and trustee of a sufficient standard to provide investor protection at least equivalent to that in South Africa and which is consistent with the portfolio’s primary objective. The underlying portfolios will invest in, amongst others, equity securities, property securities, non-equity securities, interest bearing securities, money market instruments, preference shares, listed and unlisted financial instruments, bonds and other interest bearing instruments and securities. To the extent that the assets in the portfolio are exposed to exchange rate risk, the manager may enter into financial transactions for the exclusive purpose of hedging such exchange rate risk subject to the conditions and limits as stipulated by the Act. Nothing in this Supplemental Deed shall preclude the manager from varying the ratios of securities or assets in liquid form in changing economic environment or market conditions, or to meet the requirements in terms of legislation and from retaining cash or placing cash on deposit in terms of the Deed and this Supplemental Deed. The Trustee shall ensure that the investment policy set out in this Supplemental Deed is carried out. For the purpose of this portfolio, the manager shall reserve the right to close the portfolio to new investors on a date determined by the manager. This will be done in order to be able to manage the portfolio in accordance with its mandate. The manager may, once a portfolio has been closed, open that portfolio again to new investors on a date determined by the manager.</p>	<p><b>Investment policy</b>            The Kanaan BCI Balanced Fund of Funds is a <u>managed</u> fund of funds. The primary investment objective of the portfolio is to provide the investor with long term capital growth as well as a reasonable level of income and will seek to <u>follow an investment policy which will reflect a spread of investments aiming at income and capital growth normally associated with the investment structure of a retirement fund</u>. Investments to be included in the portfolio will, apart from assets in liquid form, consist of participatory interests and other forms of participation of local and global collective investment schemes, or other similar schemes operated in territories with a regulatory environment which is to the satisfaction of the manager and trustee of a sufficient standard to provide investor protection at least equivalent to that in South Africa and which is consistent with the portfolio’s primary objective. The underlying portfolios will invest in, amongst others, equity securities, property securities, non-equity securities, interest bearing securities, money market instruments, preference shares, listed and unlisted financial instruments, bonds and other interest bearing instruments and securities. To the extent that the assets in the portfolio are exposed to exchange rate risk, the manager may enter into financial transactions for the exclusive purpose of hedging such exchange rate risk subject to the conditions and limits as stipulated by the Act. <u>The composition of the portfolio shall reflect the investment structure of a retirement fund and will comply with prudential investment guidelines to the extent allowed for by the Act</u>. Nothing in this Supplemental Deed shall preclude the manager from varying the ratios of securities or assets in liquid form in changing economic environment or market conditions, or to meet the requirements in terms of legislation and from retaining cash or placing cash on deposit in terms of the Deed and this Supplemental Deed. The Trustee shall ensure that the investment policy set out in this Supplemental Deed is carried out. For the purpose of this portfolio, the manager shall reserve the right to close the portfolio to new investors on a date determined by the manager. This will be done in order to be able to manage the portfolio in accordance with its mandate. The manager may, once a portfolio has been closed, open that portfolio again to new investors on a date determined by the manager.</p>
<p><b>Portfolio Benchmark</b>            CPI for all urban areas plus 3% per annum, calculated over a rolling 2-year period</p>	<p><b>Portfolio Benchmark</b> (unchanged)            CPI for all urban areas plus 3% per annum, calculated over a rolling 2-year period</p>
<p><b>Service charges</b>            1.00% ex VAT</p>	<p><b>Service charges</b> (unchanged)            1.00% ex VAT</p>
<p><b>Performance Fees</b></p>	<p><b>Performance Fees</b> (unchanged)</p>



15% above CPI for all urban areas plus 3% pa, calculated over a rolling 2-year period, capped at 2% p.a.	15% above CPI for all urban areas plus 3% pa, calculated over a rolling 2-year period, capped at 2% p.a.
<b>Distribution declaration dates</b> 28 February, 31 August	<b>Distribution declaration dates</b> (unchanged) 28 February, 31 August
<b>ASISA Category</b> SA Multi Asset Flexible	<b>ASISA Category</b> SA Multi Asset High Equity
<b>Impact on investors:</b> <ul style="list-style-type: none"><li>• Kanaan BCI Balanced Fund of Funds' investors: none</li><li>• Kanaan BCI Flexible Fund of Funds' investors: since the main differential between the 2 portfolios are that the Kanaan BCI Balanced Fund of Funds is complying with prudential investment guidelines and the Kanaan BCI Flexible Fund of Funds is not, it will result in the Kanaan BCI Flexible Fund of Funds investors experiencing a lower than current risk profile in future which should result in potentially lower investment returns, but with lower volatility. In future Kanaan BCI Flexible Fund of Funds' investors will be able to allocate 100% of their retirement monies to the portfolio as the Kanaan BCI Balanced Fund of Funds is 100% compliant with prudential investment guidelines.</li></ul>	





**Annexure B: Ballot form: Proposed Kanaan fund of funds amalgamation**

**I, the undersigned,** .....  
(please print full names\*)

account number .....

date of birth/registration number.....

Linked Services Product company name, if any: .....

+ Fund name: Kanaan BCI Balanced FOF .....

do hereby vote to accept/reject the proposed amalgamation as set out in annexure A to the ballot letter (please mark with a "X" .:

	ACCEPT	REJECT
Amalgamation of the Kanaan BCI Flexible Fund of Funds with the Kanaan BCI Balanced Fund of Funds	X	

SIGNED AT Mt Edgecombe on this day of June 2017

\_\_\_\_\_  
(please sign in full)

+ If you are signing in a representative capacity, please insert your own name and the name of the person / trust / deceased estate / company / close corporation on whose behalf you are signing.

Note: Please complete, sign and return the ballot form to our auditors in the enclosed pre-paid, self-addressed envelope or via email to [bciballot@kpmg.co.za](mailto:bciballot@kpmg.co.za), to reach them by no later than midnight on 21 July 2017.