



Private and Confidential

Dear Client

REGULATORY LETTER OF INTRODUCTION & DISCLOSURES

1. Financial Advisors Regulated in Terms of FAIS Act

In complying with the FAIS Act (Financial Advisory and Intermediary Services), Kanaan Trust is required to bring certain information concerning its business entity and its employees to your attention. Before financial advisors were not regulated like lawyers, doctors and auditors have been. A Doctor for example must at least have a M.B.Ch.B degree, with the necessary experience and must be registered at the medical and dental board of South Africa. Financial Advisors are now also required to be licensed and there are thus 3 aspects concerning themselves that they are supposed to explain to you, namely:

- 1.1 The academic qualifications of our Key Individuals
- 1.2 Their experience concerning the products they give advice on.
- 1.3 Whether they are licensed to give advice on these products.

2. Our Key Individuals, Analysts, Representatives and Compliance Officer are:

Andre Delport (CEO/ Fund manager)

B.luris (UP) degree, with a minimum of 5 years fund management experience and a Category IIA license (which includes the Category I and II licenses).

Gert Delport (Financial Manager/ Fund Manager /Analyst/Representative)

B.Com (Fin) degree and studying towards his CFA (Chartered Financial Analyst) with a minimum of 5 years fund management experience and a Category IIA license (which includes the Category I and II licenses).

Andries van Tonder (Analyst/Representative/ Compliance Officer)

B. Sc (Chemical Engineering) degree and studying towards his actuarial degree, has 3 years fund management experience and a Category I license, which also reflects on the website of the FSCA (Financial Sector Conduct Authority). He has also completed his Post Graduate Diploma in Financial Planning at the University of the Free State in 2017.

Maria Delport (Administrator/Representative)

FSCA RE 1 Representative license.

Jennifer Delport (Office Manager)

B.Com (Econ) degree.

3. Approved financial service provider

Kanaan Asset Managers is an approved financial service provider (FSP 528) and has a licence to advise, with intermediaries to deliver the service according to the following categories.

- | | |
|---------------|--|
| Category I | Long Term Insurance Category C, Retail Pension benefits participatory, interests in collective investment schemes. Act also as a (IFA) Independent financial adviser. Independent Financial Advisor fees on investments under management, fluctuate between 0.5% to 1% per year and are usually more expensive than FA's (Financial Advisors) whose fees are limited by the institution for which they work, namely Old Mutual, Sanlam or Nedbank etc. |
| Categorie II | Long term insurance Category B and C, retail pension benefits, pension, fund benefits, money market instruments, participatory interests in collective, investment schemes. Act also as a DIMM (Discretionary Investment Manager). Although financial advisors like Kanaan Asset Managers which act as DIM's, need to have the same minimum qualifications and licences as the institutions such as Old Mutual, Sanlam and the banks, they usually do not have the same experience and training in terms of buying and selling shares. We therefore do not manage share portfolios on behalf of clients, but rather we manage portfolios of investments in terms of fund of funds and wrap funds taking into consideration the clients risk profile and circumstances, with the emphasis on risk management. |
| Category II A | Hedge funds FSP (Financial service provider) Act also as a DIMM (Discretionary Investment Manager) |

A copy of the licence with the content of the financial services for which Canaan is authorised, as well as exemptions, is available on request.

4. Check that your Financial Advisor have the right qualifications

It is important that you, as an investor, find out whether a financial advisor, who approached you or who you approached, have the necessary academic qualifications, experience and licence to give the applicable advice to invest or withdraw out of a unit trust or hedge fund investment.

5. Visit the Financial Sector Conduct Authority (FSCA) Website

You can check whether the applicable FSP (Financial Services Provider), has the necessary CAT 1, CAT II or CAT IIA license by visiting <https://www.fsca.co.za/Pages/Default.aspx> and click on:

- 5.1 Regulated Entities
- 5.2 List of Regulated Entities and Persons - FAIS
- 5.3 Financial Service Provider (FSP)
- 5.4 FSP Number, or FSP name (and example. Type:Kanaan Trust)
- 5.5 Submit
- 5.6 Details
- 5.7 Contact Details

- 5.8 Click on “Key Individual”, scroll down to products and click on it. At this stage you will see the products for which the specific key individual is licenced.
- 5.9 Products

If you as shown above have visited the FSCA website, you would have seen the products are categorised in categories and subcategories. Category one means that the applicable key individual and his marketers can market the applicable product. Category two implies that the applicable key individual can market and manage the applicable product. For instance, in the case of pension funds and collective investment schemes (Unit Trusts) the applicable key individual and his personnel can manage Fund of Funds, are allowed to make the necessary changes, are allowed to buy and sell the underlying funds, and switch to cash without obtaining the clients permission. We act here as a DIM (Discretionary Investment Manager). The category 2 licence has been very important to us since we have setup our funds during 1995 as that has afforded us the opportunity so switch to cash two weeks before the far east pacific share market crash, timeously before the IT bubble crash in 2000, timeously timeously during the 2008 Credit crunch crash. However, we do not guarantee that we will always switch timeously.

Lastly you will notice on the FSCA website CAT II A, for Hedge Funds. If you do not see Cat II A under the name of the applicable key person, it means that the applicable key individual is not allowed to manage Hedge Funds.

Members of the public are of course allowed to invest in any one of the mentioned products regulated in South Africa as well as in offshore investments not regulated in South Africa but regulated offshore, if they feel they have the necessary qualifications, time, experience and confidence to invest directly and manage these investments themselves. They will then not have to pay a financial advisory fee.

6. Product Suppliers

Where clients and prospect clients have accepted this letter of introduction/disclosures and allowed Kanaan Asset Managers to do an analysis of their immediate, intermediate and retirement capital requirements, Kanaan may accordingly advise various investments and or financial security products via the following institutions, in terms of its service level agreement with these institutions.

- 6.1 Absa Investment Management Services
- 6.2 Boutique Collective Investments
- 6.3 Momentum Life, Momentum Wealth
- 6.4 Old Mutual
- 6.5 Sanlam/Glacier
- 6.6 Investec
- 6.7 PSG Asset Management
- 6.8 Metropolitan Life
- 6.9 International Assurance Ltd
- 6.10 Sanne

7. Indemnity Cover

Kanaan Trust holds adequate professional indemnity insurance through Marsh, contact person Margaret Nel (Margaret.Nel@marsh.com).

8. Compliance

Compliance with the FAIS Act is monitored by Michael Denenga, an external compliance practice and compliance officer approved by the Financial Services Board. His email address is mdenenga@corporatetechnical.co.za.

9. Client Confidentiality

Kanaan Trust wishes to advise that all information obtained or acquired about you shall remain confidential unless you provide Kanaan Trust with written consent, or unless Kanaan Trust is required by any law to disclose such information.

10. Complaints

If you are dissatisfied with any aspect of Kanaan Trust's service, you should address your complaint in writing to me at Postnet suite 71, Private Bag X01, Umhlanga Rocks. A copy of Kanaan Trust's Complaints Resolution Policy is available on request.

11. Fees

11.1 Comprehensive Financial Advice

For comprehensive financial advice therefore Kanaan charges 1% per annum, levied monthly in arrears from the units of the investment's clients made through Kanaan Asset Managers or managed by Kanaan Asset Managers. Where Kanaan Asset Managers process applications for life cover and disability cover on behalf of the client, Kanaan Asset Managers receives commission according to the prescribed commission's payable by the relevant company. Kanaan receives 5% upfront commission on investments made which is negotiable. Kanaan Asset Managers does not receive income for services rendered and does not invoice clients for financial advice in terms of the following:

The below-mentioned advice includes, but is not limited to:

- Immediate Capital Planning
- Intermediate Capital Planning
- Retirement Capital Planning
- Income Tax Planning
- Estate Duty Planning
- Family Trust Will
- Rebalancing of investment portfolios
- Advice concerning small business management and strategic planning
- Active Fund Management
- Passive Fund Management

11.1.1 What is Active Fund Management?

There has been an ongoing debate for decades amongst academics whether active fund management or passive fund management is the best. Passive fund management has the strategy of 'buy and hold' and "don't try to time the markets". Growth investments over the long term usually do substantially better than interest related investments. Growth investments, for

instance property and shares can increase in value, as well as decrease in value. In one month a growth investment can increase more than what an interest related investment can produce in one year, but the same growth investment can decrease in value with a similar amount in one month.

This monthly, quarterly and yearly volatility of the price is normal in the case of growth investments, which are unpredictable, and we agree that one should not try to time the day of one's entry or exit on a monthly or a quarterly basis. If you have the timing wrong you will sell too late after the fund has already dropped in value and then you sell at a loss and also, the chances are that when you want to buy the growth investment again, you may buy too late, when the price had already moved up, eventually causing you to lose ground.

On average there are usually one worldwide share market crash once every ten years, when markets can drop in value with more than 50%. Markets usually come back to their value before a crash within one or two years and usually thereafter grow quite fast and investors who do not try to time their entry or exit, in or out of the market, following a strategy of 'buy and hold' over the long term, are usually better off than those investors who stay in interest related investments, as well as those who try to time the markets.

However, we here at Kanaan Trust saw the US share market crash of October 1987 coming, because of the clear indicators of high price earnings ratios, high inflation and eventual resultant high interest rates. When the South African share market that morning, dropped in value with +/- 5%, since we did not have a fund management license, we had to contact the few clients we had in growth funds to come and see us to get them to sign the necessary documents for them to cash in their growth funds. At that stage we believed that the 5% that they would lose, would be nothing compared to the +/-20% per annum, which their funds had grown, considering that the market could crash with a further 50%, which in fact eventually happened.

Today we realise that 'buy and hold' is still better for investors with advisors who do not have the necessary insight of when to sell and when to buy again after a crash. However, the 'buy and hold' strategy can be very harmful to pensioners who cannot continue because they need an income.

We realised, at that stage, that in future once we had hundreds of clients, we would not be able to switch clients timeously to cash and therefore during 1995 we acquired our Cat II – Fund management license.

The question then is why do the big institutions not switch to cash before or during a crash? It is not because they do not have the necessary experience and qualifications to identify a crash, the problem is that institutions with many billions of Rands in their funds, cannot liquidate these funds over night without crashing the market even further.

Our active fund management strategy does not comprise the trading of shares. We pick the underlying funds of our fund of funds according to the mandates of our fund of funds. From time to time, we will also get rid of a fund that continues to underperform in its group.

We had managed to switch the funds under our management two weeks before the Far-East Pacific crash of 1998, as well as during the IT Bubble Crash of 2000, the Currency Crash of 2001 and the Credit Crunch Crash of 2008, but we do not guarantee that we will always be able to do it timeously and therefore we encourage clients not to put all their eggs in one basket by investing everything in just one of our fund of funds.

We manage fund of funds in each of three main asset classes, namely equities (Kanaan Bci Balanced FoF), Alternative Assets (Kanaan Hedge FoF) and offshore assets (Moriah Global Fund). It is important for clients to get diversified, as it is very unlikely that when one asset class is affected that the others will also be affected. The various asset classes usually do not correlate with each other.

To be able to manage our Kanaan Hedge FoF as well as our Moriah Global Fund) we had to acquire our Cat II A license.

11.1.2 Possible Conflicts of Interest

As mentioned previously, we have been adapting our services and products since 1987 according to the need of our portfolio of mainly mining engineers and other professions in the mining industry, therefore our approach became more complex and, in many cases, different from the advice of other financial advisers. Because of the need to protect our client's investments against the big market corrections and to manage the fund of funds in various asset classes simultaneously, for a situation where we could not switch one of our fund of funds in an asset class to cash timeously, we had to acquire a Cat II, as well as a Cat II A fund management license. This can cause a possible conflict of interest and it can therefore be said that we are not independent financial advisers in the true sense of the word, where we advise our clients to invest in our three Fund of funds mentioned below.

Of course, we argue that we acquired the various underlying funds of our fund of funds, independently from any influence, merely based on our research, in terms of what we believe is best suited for our various fund of funds, namely:

We manage our wrap funds through our segregated mandate for active management or passive management depending on the needs of the client.

- 11.1.2.1 Kanaan Bci Balanced FoF (In the Equity asset class)
- 11.1.2.2 Kanaan Hedge FoF (In the alternative asset class)
- 11.1.2.3 Moriah Global (In the offshore asset class)
- 11.1.2.4 Offshore, through Moriah Global, we are allowed to include alternative assets (hedge funds), growth funds and shares in one fund.
- 11.1.2.5 In the case of our wrap funds which we manage on behalf of clients in South Africa as well as overseas, conflict of interest is not a problem as those funds are not registered as separate funds.

11.2 Limited Financial Advice

Clients who prefer Kanaan's financial advice and services limited to the processing of predetermined investments and or financial security products where the client's risk and investment portfolio will not be managed actively by Kanaan Asset Managers, Kanaan will still receive commissions from life offices relevant to the applicable life and disability products purchased, but in the case of investments Kanaan will charge only an ongoing fee of 0.5% per annum, levied monthly in arrears, excluding a performance fee through our segregated mandate for passive management, where (through our wrap funds in South Africa and offshore) we choose certain government bonds, industrial bonds, income funds and certain hedge funds, in an effort to outperform the current South African or overseas money market rates, depending on which is applicable.

Maximum upfront commission is 5% of the investment amount before units are allocated.

Client can change any time from limited financial advice to active financial advice, totally or proportionally, in agreement with Kanaan Asset Managers.

11.3 Fund Management Fees

As the appointed fund manager of the following funds:

- 11.3.1 Kanaan BCI Balanced FoF
- 11.3.2 Kanaan SANNE Fund of Hedge Fund
- 11.3.3 Moriah Global Fund of Fund
- 11.3.4 Wrap Funds

	TYPE OF FUND	DIM/ ONGOIN G FEE	PERFORMANCE DRIVEN FEE (PDF)	IFA/ ONGOING FEE	INITIAL FEE
11.3.1	Kanaan BCI Balanced FoF	1% (Exc. Vat)	15% (Exc. Vat) of performance above (Inflation + 3%) according to the high- water mark principle yearly in arrears and calculated for 28 Feb.	1% (Exc. Vat)	5% (Exc. Vat)
11.3.2	Kanaan SANNE Hedge FoF	1% (Exc. Vat)	15% (Exc. Vat) of performance above (Inflation + 3%) according to the high- water mark principle monthly in arrears.	1% (Exc. Vat)	5% (Exc. Vat)
11.3.3	Moriah Global FoF	1% (Exc. Vat)	15% (Exc. Vat) of performance above (Inflation + 3%) according to the high- water mark principle monthly in arrears.	1% (Exc. Vat)	5% (Exc. Vat)
11.3.4	Kanaan Active Wrap (Active management):	0.6% (Exc. Vat)	15% (Exc. Vat) of performance above (Inflation + 3%) according to the high- water mark principle monthly in arrears.	1% (Exc. Vat)	5% (Exc. Vat)
	Kanaan Passive Wrap (Passive Management):	0.3% (Exc. Vat)	0%	0.5% (Exc. Vat)	5% (Exc. Vat)

- DIM (Discretionary Investment Manager)
- IFA (Independent financial adviser)

The PDF (Performance Driven Fee) is levied as follows. If the inflation rate was 7%, the high-water mark for the applicable year will be $7\% + 3\% = 10\%$. If the applicable fund returned 20% for the applicable year the performance fee will be levied from the performance higher than the mentioned high water mark, which is in this example 10% and as the total return in

this example is more than 10%, the performance fee will be levied on the additional 10%, which will be 1.5% ($20\% - 10\% = 10\% \times 15\% = 1.5\%$). The client will, this example, thus in not earn 20%, but $20\% - 1.5\% = 18.5\% - 1\%$ management fee = 17.36%, except for the fee of the IFA (Financial Advisor) as mentioned in par. 10.1. The abovementioned PDF is levied from the fund service account in the case of the FoF's, before the calculation of the NAV, but against the units of the funds in the case of segregated funds, after the calculation of the NAV.

The fees as mentioned in par.11.1 and 11.2 is deducted from units in the fund but the fees as mentioned in par 11.3 and 11.4 (except in the case of segregated funds) are not deducted from the units in the fund, but seen as expenses and are deducted, before the daily performances of the funds are announced to the media and in the case of Kanaan Hedge Fund and Moriah Global, monthly on the Kanaan Trust website.

For more information concerning the fund management fee, you can visit our website Par 10 (portfolio information) on the applicable fact sheet. www.kanaantrust.com.

11.4 Collective Investment Scheme Manager/MANCO and Administrators Fee (CIS) Manager usually acts in the case of voluntary contribution funds also as the administrator not for an additional fee, for a minimum of 0.35% (not $0.35\% + 0.35\%$)

In the case of Kanaan Balanced, Boutique Collective Investments is the CIS manager who owns the funds, handles the compliance, fund administration and investor administration of the funds. BCI does not charge any initial fee but charges an ongoing administration fee of a minimum of 0.35% per annum, levied monthly in arrears which can become more depending on the size of the book, but the investor does not pay additionally for this fee. Kanaan pays it out of its abovementioned fund management fee of 1% per annum as mentioned above in par. 11.3.

In the case of Kanaan Hedge Fund, the administrator of the fund is IDS. IDS receive fees according to the table below. **This fee is also paid by Kanaan out of the abovementioned fund management fee of 1% p/a as mentioned in the above par.11.3.**

Fund value	Basic fee	Per investor
<R15m	R5 000	15 Investors included
R15m to R30m	R7 500	
>R30m	R7 500 plus 0.015% of the fund value in excess of R30m	Additional Investors at R75 each

11.5 Linked Service Provider/Administrator Fees (LISP)

Where clients have their compulsory funds like LA's, RA's and preservation funds invested in our Kanaan Bci Balanced FoF, the law requires them to make use of an administrator other than the abovementioned CIS, like for instance AIMS of ABSA, Glacier of Sanlam, Mass of

Momentum, Met of Momentum, PSG or Investec Bank. These services provide a platform of which we must make use of in the case of Segregated funds (personalised fund management) as mentioned in Par 11.3 where we select for certain clients according to their risk profiles various unit trusts, which we manage accordingly discretionary in terms of our CAT 2 Licence. They charge an ongoing annual fee levied monthly in arrears, on a sliding scale dependent on the size of the investment of +/- 0.25% The details of these fees can be found on the applicable application form of the applicable LISP/Administrator.

11.6 Distribution/Rebates

No distribution fees or rebates will be paid to entities or independent financial advisers promoting our funds to encourage them to invest in our funds. Financial advisers are supposed to invest in our funds because of their performances and their risk profile which might suit the needs of some of their clients.

11.7 Underlying Fund Fees

Above mentioned Kanaan Funds do not invest directly into shares equities or derivatives but other funds. These underlying funds charge their own fees on the investment that is made in their funds and they deduct it from the investment made into these funds before the calculation of our applicable fund NAV and their fees therefore do not result in the repurchasing of the investors units in our funds.

11.8 Additional Fees

Fees may be levied if the client requests a new or enhanced service that is not contemplated by the current fee structure.

Undersign Document:

1. CLIENT:



FULL NAMES:

DATE: _____/2020

2. FINANCIAL ADVISOR:

FULL NAMES: **ANDRE DELPORT**

DATE: _____/2020