



# Momentum Investments

## Further communication regarding Steinhoff

Dear clients, consultants and partners,

Following the collapse in the Steinhoff share price in December 2017 caused by the announcement of alleged financial irregularities, the withdrawal of the audited financial statements for 2016 and 2017, and the resignation of the CEO, Chairman and additional executive and non-executive directors who served on the firm's advisory board, a group of institutional shareholders formed a loose and voluntary association with the purpose of:

1. Working constructively and expeditiously to protect our clients remaining interests in the firm.
2. Engage constructively and on an ongoing basis as a Shareholder Group with the remaining members of the Supervisory Board of the Firm to understand the financial position of the organisation to the extent that is possible; assist with the reconstitution of the Supervisory Board and curtail activity we do not believe is in shareholders' interests; and to ensure the Annual General Meeting (AGM) could be conducted effectively, with the proposed resolutions receiving the necessary shareholder support to be passed.
3. Examine the various legal options through the Dutch courts that remain open for shareholders to pursue to recover damages for losses suffered as a result of alleged fraudulent and/or negligent conduct by the Firm's directors and officers from their insurance cover as well as from the firm's auditors and advisers.

The decision to act collectively is motivated by the following considerations:

1. Our collective holdings will give us more say in redressing the above matters than if we were to act individually;
2. A better outcome for our clients is possible given our shared client relationships;

3. We are motivated to act collectively in terms of responsible ownership commitments in terms of King IV and the Code for Responsible Investing in South Africa; and
4. We send a clear collective signal to the market that unethical behaviour and poor governance practices will not be tolerated.

The purpose of this document is to provide a general update to clients from the Institutional Steinhoff Equity Shareholder Group (the Shareholder Group) regarding engagements with Steinhoff since December 2017 and the efforts being applied to protect and recover our clients' interests in the firm.

We appreciate that clients whose portfolios were exposed to Steinhoff have suffered losses, are disappointed and may feel discouraged with the absence of financial detail available, as well as the progress being made regarding establishing the future financial viability of the Firm and the consequences that will be faced by the perpetrators of the alleged fraud. We share this frustration, but also appreciate the complexity of the task faced in unravelling the intricacies implemented during the last 10 years. A simple illustration of this complexity is that it appears there were loans from no less than 152 banks in Europe alone!

The following is a brief update on the most pressing matters:

1. **Supervisory Board:** This has been reconstituted with appropriately experienced candidates to examine the various matters as they emerge and to take the appropriate decisions.
2. **Executive Directors:** Danie van der Merwe remains the acting CEO. A dedicated restructuring officer has been appointed.

3. **Financial position:** This remains unclear and will remain so until the following milestones are reached:
  - a) 18 May 2018: Debt holders meeting by which time the Firm hopes to have achieved 'financial stability'.
  - b) June 2018: Publication of unaudited interim financial statements for the six-month period to end March 2018, as well as an unaudited balance sheet at 30 September 2017. An announcement of additional impairments of intangible and other assets needed will also be made.
  - c) Late 2018: The anticipated publication of the PWC forensic investigation.
  - d) December 2018: The anticipated publication of revised audited financial statements for the years ended 30 September 2017 by Deloitte.  
At the 20 April AGM, the financial update provided by management was reassuring, but lacking in specific financial detail and also stated that the firm's position remains "very challenged".  
Notwithstanding, progress continues to be made through asset realisations, debt programme repayments, operating cost and capital expenditure reductions and re-financing of existing debt terms.
4. **Outstanding legal matters:** The dispute with the previous JV partner in one of the German businesses has been resolved. The tax dispute in Germany remains outstanding.
5. **Christo Wiese claim:** The previous Chairman of the company has filed notice of a claim contending that the sale of his interest in Pepkor Europe should be unwound. In our view, this is an unfortunate action as it is a fact that the acquisition of Pepkor Europe, his appointment as Chairman of Steinhoff, his decision to maintain his proportional interest through financial leverage in Steinhoff equity in order to avoid dilution following the Mattress Firm acquisition were all driven and motivated by Christo Wiese himself. He, in fact, remained at all times a close insider to the process. Although the losses suffered by Christo Wiese are severe, our opinion is that it is unlikely that his personal interests will enjoy preferential treatment over those of the remaining minority shareholders. Steinhoff has indicated that the Firm will vigorously defend this legal action. This claim forms one of many actions that Steinhoff will be facing.
6. **Additional claims:** GT Ferreira, as well as the founders of Tekkie Town have also lodged claims against Steinhoff. We expect further claims to emerge.
7. **Class Action claims:** The Shareholder Group continue to evaluate the various options available regarding joining a class action lawsuit through the Dutch courts to recover losses suffered as a result of alleged fraudulent and/or negligent actions committed by the firm, its directors, auditors and advisers. The priority is not to compromise the financial viability of the Firm, nor to burden the Firm with undue costs and demands on management time. Shareholders are faced with various legal options including joining the Dutch Shareholders Association (VEB) claim, or launching a privately funded legal claim through a Special Purpose Vehicle. As is evident from media reports, the VEB, whose legal process follows a special Dutch legal route, has already launched its legal process, which may still be joined. The alternatives offer a myriad of outcomes to consider, each with its own advantages and disadvantages. In some cases, our client mandates do not allow us to undertake a claim of this nature on their behalf. In addition, we have been advised that the legal process itself could take many years to conclude. We are arranging a follow-up meeting with all the relevant parties in early June and hope to make a decision on which legal route we recommend clients follow within the next month. Where applicable, we will also explain to shareholders outside this working group on how to join the action, or how to mandate their investment manager to do so on their behalf.
8. **Criminal pursuit of directors:** We fully support and continue to insist that the firm shares all relevant data and records with the appropriate authorities, which could potentially result in the criminal prosecution of directors and officers of the firm who may have committed criminal offences.

We hope this document provides clients with some clarity regarding the current state of their exposure to the Firm's equity as well as the ongoing efforts being made individually and collectively by professionals at the investment management firms to safeguard client assets and to fulfill our fiduciary responsibilities.

We welcome all additional questions clients may have and commit to communicating as regularly and openly as possible regarding all of the above matters.

