

Section 12J

GUIDANCE NOTE





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HIGHLIGHTS



Opportunity to materially reduce tax payable – Up to 45% of capital invested (28% for corporates)



A fully empowered structure offers private investors a key competitive advantage



Contribute towards building the economy through meaningful job creation in the SMME sector



Investments managed by a FSCA registered and reputable fund manager with a track record spanning over 20+ years



Access to private equity investments not typically available to individual investors

SUMMARY OF SECTION 12J



S12J rewards South African taxpayers for investing in the SMME economy through a regulated structure

What is a Section 12J (or S12J) company?

S12J refers to a section of the Income Tax Act created specifically to encourage SA-resident taxpayers to invest in small-to-medium sized enterprises in South Africa. Investors into a S12J company are entitled to claim a 100% deduction on capital invested, thereby achieving a once-off reduction in tax payable of:

- + up to 45% on the investment in the case of individuals / trusts
- + 28% in the case of companies

How do I obtain my Tax Relief?

The Leaf 12J Fund will provide each investor with a tax certificate (which may be requested by SARS as evidence of your investment into a S12J company). Investors claim the tax relief by either:

- + reducing their estimate of taxable income when submitting provisional tax returns; or
- + by obtaining a tax refund through an income tax assessment

Is there a recoupment when I exit?

There is no recoupment if an investor holds their shares for more than 5 years, but the investment will be subject to CGT with an assumed base cost of zero:

- + The initial deduction and eventual CGT event translates into an IRR uplift of c. 8.0%

Tax benefit example(s)

Individual or Trust	No Investment	Max Investment
Taxable income	5 000 000	5 000 000
S12J Investment	-	(2 500 000)
Revised taxable income	5 000 000	2 500 000
Income tax payable	(2 086 508)	(961 516)
Effective tax rate	42%	19%
Net cash position	2 913 492	1 538 484
S12J asset	-	2 500 000
Net asset position	2 913 492	4 038 484

Corporate	No Investment	Max Investment
Taxable income	10 000 000	10 000 000
S12J Investment	-	(5 000 000)
Revised taxable income	10 000 000	5 000 000
Income tax	(2 800 000)	(1 400 000)
Effective tax rate	28%	14%
Net cash position	7 200 000	3 600 000
S12J asset	-	5 000 000
Net asset position	7 200 000	8 600 000

Individual tax circumstances and benefits are case dependant - We would be happy to personalise the above workings to help with your understanding

QUANTIFYING THE S12J TAX BENEFIT



Under simplified assumptions the return uplift attributable to the S12J tax saving is around 8.0%

Assuming a simplified example of equal investment and exit values (and zero dividends) we are able to isolate and quantify the **S12J tax benefit**

The adjacent example yields an IRR of 8.0% and, accordingly, highlights how the **tax benefit of S12J** is quantified to be in the region of 8.0% *

* Assuming a 45% marginal tax rate

Investment assumptions:

Invest: R1.0m

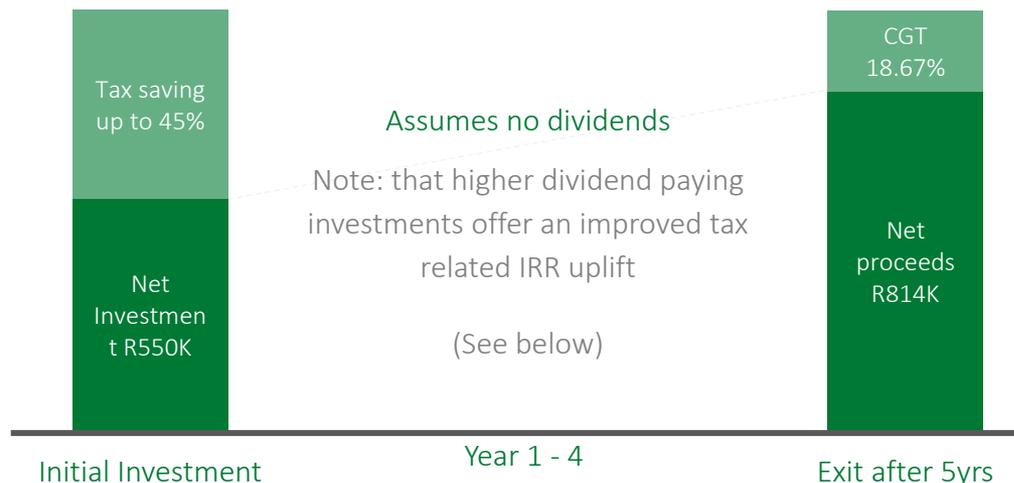
Tax saving: R450K

<< held constant >>

Exit assumptions:

Exit: R1.0m

CGT: R186.7K



Adjusting the above assumptions to account for dividends or changes in exit value confirms that **the tax uplift is around the 8.0% mark**

Key Example:

An investment that usually yields a 20% IRR would, assuming the same fundamentals, yield a c. 28% IRR if invested through a S12J structure

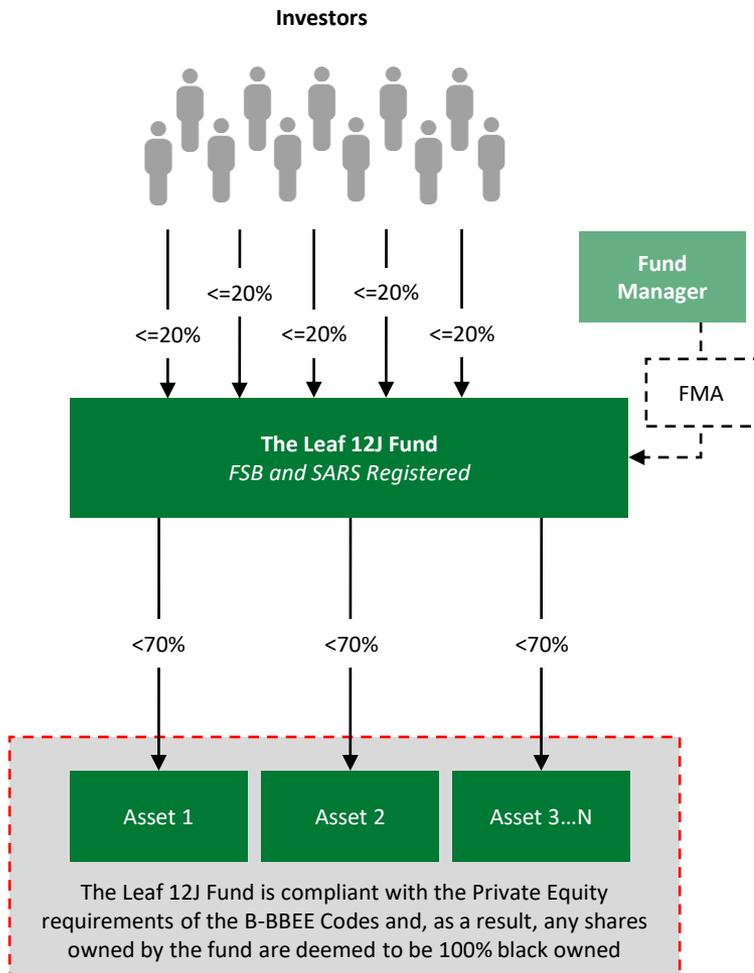
Sensitivity Analysis – IRR Uplift from the S12J Tax Benefit

		Gross Exit Value				
		R0.8m	R0.9m	R1.0m	R1.1m	R1.2m
Dividend yield p.a.	0.0%	7.8%	8.0%	8.1%	8.6%	9.1%
	2.5%	8.0%	8.1%	8.3%	8.8%	9.2%
	5.0%	8.2%	8.3%	8.5%	8.9%	9.3%
	7.5%	8.3%	8.5%	8.6%	9.1%	9.5%
	10.0%	8.5%	8.6%	8.7%	9.2%	9.6%

STRUCTURE FUNDAMENTALS



The Leaf 12J Fund offers all investors, in addition to the tax uplift, a fully empowered investment vehicle



Investor restrictions ¹:

- + No investor should hold more than 20% of any share class / silo (after 36+ months)
Impact: Shareholding must be spread across at least 5 investors (per share class / silo)
- + Tax benefits are limited to taxable income during the year of investment ²
Impact: If total earnings / gains are R1.5m, then a R2.0m investment will achieve a R1.5m tax deduction
- + Individuals are limited to a R2.5m investment per annum (Corporates limited to R5.0m)
Impact: If an investors taxable income is R1.5m, then a R2.0m investment will achieve a R1.5m tax deduction in the current year ²

Investment restrictions ¹:

- + The fund cannot hold more than 69.99% in any one investment
Impact: Fund investments must, at minimum, have 1 other shareholder
- + Cannot invest more than 20% of the total investor funds in any single asset (36+ month target)
Impact: At least 5 investments of equal quantum are required, although ideally 6+ investments would be more practical
- + No investment can engage in an impermissible trade (e.g. property trade, sin-industries etc)
- + Investee companies must have no more than R50m of Book Value at the date of investment
Impact: The fund can invest a maximum of R50m at any point in time and established investments can accept limited amounts of capital (depending on the pre-investment total asset value)
Note: This limitation does not limit an investee companies total capital raise if structured correctly
- + Investments must conduct the majority of their business in RSA
Impact: Foreign businesses are largely excluded
- + No more than 20% of the investee company's income can be generated from "investment income" (i.e. the aggregate of all dividends, interest, property rental)
- + Shares must be subscribed for and not purchased
Impact: Additional structuring may be required if the fund is looking to acquire an asset / investment outright

Note: (1) Not intended to be a comprehensive list of all S12J restrictions, rules and/or limitations – Interested parties should engage the fund / fund manager directly in relation to the specific requirements of S12J in relation to any opportunity

(2) Companies are able to roll-over excess S12J deductions to future taxable periods

INVESTMENT SILOS



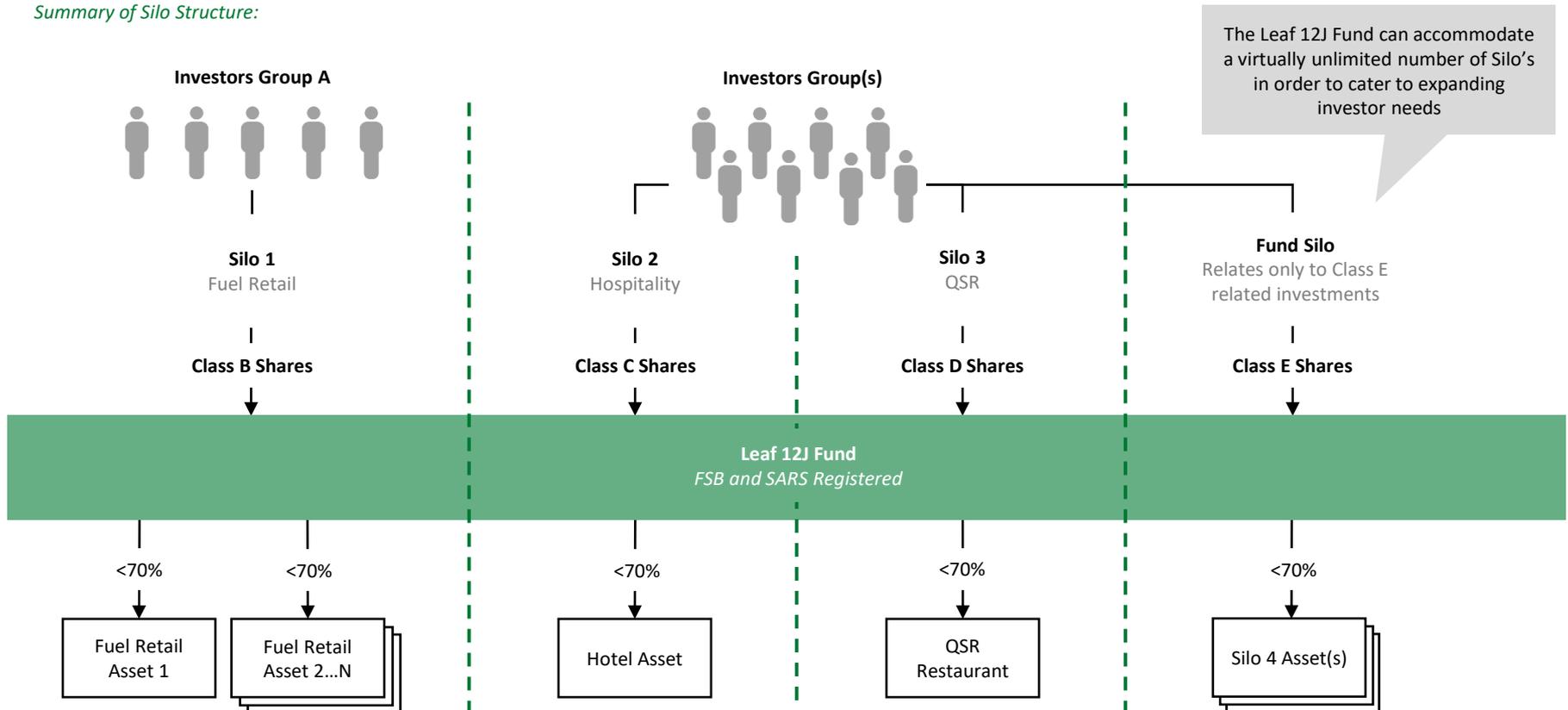
Investments (and their related investors) are structured through Silos in order to reduce compliance costs and mitigate tax risks

- The Leaf 12J Fund has been formed with multiple share classes (or “Silos”) each attributable to a single group of assets
- This allows an investor group to gain access to a single asset or group of assets respectively:

For example: Investor X can limit their exposure to the Hotel Asset and the QSR Restaurant by investing in Class B and Class C shares only
 (from below) Note: Investor X can hold no more than 20% in any single share class (i.e. a minimum of 5 investors required per silo)

- Any class of share can have a “general” mandate to source investments and deploy funds into assets within a specific mandate (See Fund Silo / Class E Shares below)

Summary of Silo Structure:



FUEL SILO EXAMPLE



The Leaf 12J Fund utilises a “Silo” through which investors can get exposure to fuel retail assets



Each investor will subscribe for a single class of shares with exposure to the Leaf 12J Funds’ unique “Fuel Retail Silo”

- Investment by taxpayer must be executed before the tax year end (28 Feb) to count towards the applicable tax year (up to a 45% saving on the investment from tax)
- Receive a unique S12J tax certificate and shares relating to the Leaf S12J Fund’s Fuel Retail Silo

Each Silo has a separate group of investors...

Leaf 12J Fund
(RF) Ltd

Fuel Retail Silo
Class F Shares

Silo 2/3/4/5 etc...



Fuel Station
Assets



&
Fuel Retail
Assets



The fund will deploy capital in fuel related retail assets selected on a case-by-case basis

- Decisions guided by clear & measurable KPI’s
- Appropriate gearing raised from leading banks
- Invest in operations
- Primary focus on fuel station with ad hoc investment in ancillary retail where appropriate

The fund will look to co-invest with store management and/or other strategic investors

- S12J limits the Fund’s shareholding to a maximum of 69.99%

... unique
investment
goals and assets



MANAGEMENT & CONTACT DETAILS



The Leaf 12J Fund's investment team brings an strong mix of executive level and private equity experience



Keletso Modise (Fund Executive)
CA (SA), Candidate QS
A former Audit Manager at Ernst & Young, Keletso was previously a candidate QS before embarking on a career in finance



Jacqui Hathorn (Non-Exec Director)
BCom CAIB
Jacqui held several senior roles in BoE (ex-Nedbank) before co-founding Leaf Capital and Infinitus Holdings

Fund support:

When required the Leaf Capital team assists management with asset selection and deal execution

Leaf Capital support team:



Tom Van Vlaanderen
Head of SA Property



Lauren Knox
Corporate Finance Executive



Simon Berrangé
Corporate Finance Executive

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This booklet does not include asset related information – Asset specific booklets available on request



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