Association for Monitoring and Advocacy of Government Pensions (AMAGP)

NPO Registration No: 198-822

SEMPER VIGILANS

The Association for Monitoring and Advocacy of Government Pensions: A volunteer independent group of pensioners and civil servants concerned about the long term viability of the GEPF and sustainability of its return on investments.

www.AMAGP.co.za

GEPF Watchdog - Waghond

GEPF Forum

GEPF your investment, your future

NEWSLETTER NO 1of 2022

AMAGP – Association for Monitoring and Advocacy of Government Pensions
AR – annual report
BOT – Board of Trustees [of the GEPF]
FSCA – Financial Sector Conduct Authority [previously the FSB]
GEPF - Government Employees' Pension Fund
PIC – Public Investment Corporation
PSA – Public Servants' Association
ROI – return on investment
SCOF – Standing Committee on Finance
SCOPA - Standing Committee on Public Accounts
SOE – state owned entity

The Government Employees Pension Fund (GEPF) is Africa's largest pension fund. We have more than 1.265 million active members, in excess of 473 312 pensioners and beneficiaries, and assets worth more than R2.09 trillion. GEPF is a defined benefit pension fund that was established in May 1996 when various public sector funds were consolidated. Our core business, which is governed by the Government Employees Pension Law (or GEP Law), as amended, is to manage and administer pensions and other benefits for government employees in South Africa. https://www.GEPF.gov.za/ dd 3 January 2022.

We are the owners of the GEPF, and we have the right to expect the GEPF Board of Trustees and the PIC to manage and invest OUR money in a responsible and profitable way, to the advantages of members and pensioners.

The AMAGP remains in dire need of dedicated persons to share in the burden of AMAGP. People who aren't afraid to work for the common good of members and beneficiaries of the Fund. **YOU**

The Editor's Word

Note. The Fund's investment values used in the newsletter are from the 2021 GEPF Annual Report.

The 2021 GEPF AR has been released; to read it go to https://www.gepf.co.za/annual-reports/, click on the 2020/21 report. More information about AMAGP's understanding of the AR will follow in due course. Keep in mind the statistics will be about a year old, reflecting estimated actual value at about January 2021.

The real estate list in the list in the 2021 GEPF AR is quite clear, but there is no inkling whatsoever of the income per property, only the probable value. It is essential to know what the ROI per property is, or increase in the property's value is, to dispose of those with no ROI. Makes you wonder about the value of the plethora of asset managers, doesn't it?

Some information from the 2021 GEPF AR:

We seem to have 36 fund managers in addition to the PIC.

"3. MEMBERSHIP
The GEPF membership as at 31 March 2021 consisted of 1 265 406 (2020: 1 269 161) government and parastatal employees from participating employers, as well as 479 485 (2020: 480 615) pensioners and orphans receiving monthly annuity benefits.

4. ACTUARIAL VALUATION
An actuarial valuation of the GEPF is conducted at least once every three years as prescribed in Section 17(3) of the GEP Law. The latest actuarial valuation was performed by Alexander Forbes Financial Services (Pty) Ltd as at 31 March 2018 based on the funding level policy adopted by the Board in consultation with the Minister of Finance. This funding level policy provides for evaluation of the liabilities on a long-term best estimate basis and the establishment of a solvency reserve to allow for funding, investment risks and uncertainty relating to future public service remuneration and employment. The required level of solvency was calculated independently by RisCura (Pty) Ltd based on a detailed asset liability study. In terms of the Fund's own funding level policy, the Fund was considered to be financially sound as at 31 March 2018 in that assets were equal to accrued liabilities and 19.1% of the desired level of solvency and contingency Reserves".

[Comment: The actuarial valuation is now four years old! In my opinion it doesn't really mean anything now, except as a basis for the next valuation.
What is the real solvency of our Fund, seeing the shortfall in funding and payments reported in the 2021 AR? See AP Stemmet's letter below.]

"5.1 Impact of COVID-19
…
During the current financial year, the Fund saw a substantial improvement in its value from R1.6 trillion as at 31 March 2020 to R2.1 trillion as at 31 March 2021. The improvement was mainly driven by fair value gains as a result of improved performance in financial markets that more than reversed the prior year fair value losses triggered by the onset of the Covid-19 pandemic."

[Comment: Assets improving in value by 27,5% in one year, when the economy was known to be down, makes me feel uncomfortable without a detail explanation why.]

"5.2. Valuation of unlisted investments
The GEPF, via the PIC, appoints external valuators who work independently of each other and their valuations are combined to arrive at the total fair value for unlisted equities, properties and other investments. The valuations were performed on an open-market basis with consideration to the future earnings potential and are supported by market evidence.

The external valuator favoured discounted cash flow valuation methodology and Earnings Multiple in the current year, which allows for the impact of the Covid-19 pandemic on various assumptions included in the valuations to be taken into account.

The valuations of the Fund's unlisted portfolio are inherently subject to a significant degree of judgement in respect of certain assumptions used in the valuations, including judgement in respect of the determination of future cash flows/earnings and appropriate capitalisation discount rates and earnings multiple. As a result, the valuations are subject to a degree of uncertainty, and assumptions may prove not to be accurate."

[Comment: This means the sudden improvement in the Fund's assets is the opinion of the external valuator …
The external evaluator is appointed by the PIC. Makes me feel uneasy again.]

From the Wikipedia, the "free encyclopedia". "By 2018 a large proportion of the PIC's investment in Sekunjalo were written off." I wonder where the Wikipedia got this information…

Dear reader, I'm sure most of us have little knowledge about the company news included in the newsletter, that is why the internet is so helpful. The company news enables us to understand the GEPF/PIC management of our Fund better.

Now for news from the media

Some advice from Alexander Forbes on planning to retire. It is never too early to plan for retirement. However, it is often too late.

Business Maverick again talks us through the debt trap that is the SOE, discussing the Auditor-General's 2020/21 'Public Finance Management Act audit outcomes general report'. Yes, all those words.

BHP is still expanding. News about BHP a adding company we didn't know even existed.

Our investment in Sasol is recovering in value but is still facing challenges in its Secunda operations.

Hulamin has posted a loss again, but less than the previous reporting period. Getting there it seems.

Ellies is struggling and won't be paying dividends this year.

AP Stemmet's letter in the Rapport raises some pertinent unanswered questions, which we all need reminding of. In goeie Afikaans.

Spear REIT is providing good ROI, another good investment.

Old Mutual Private Equity has made an offer for Long4life, which another well-performing company.

African Rainbow Minerals has announced a deal to acquire all the shares in Bokoni Platinum Mines, which belongs to Anglo Plats. Seems like another good deal.

Brait has raised R3bn to solve its financial challenges. Hopefully its challenges will go away now.

To close off, more advice on retirement and what not to do. Good reading.

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Synopsis

On track for retirement? Check with these 8 steps

Supplied

Alexander Forbes
10 December 2021
By Shelley van der Westhuizen

Preparing for retirement or any big life event means you can have more confidence in your chance of financial success. Gathering your information and going through several steps will help you build a full picture of what to expect in retirement.

Being prepared and proactive is a good idea, whether you are in the first 10 years of your working life or your last 10. In fact, the further you are away from retirement the more options you have.

Do you want to plan for your retirement, understand your pension options and get ready to make decisions that are right for you? Alexander Forbes has eight steps for you to take to build your personal retirement picture.

Step 1: Decide to be prepared

Become aware that you are on a journey to a time when you will have to live on your savings, no matter your age. The purpose of saving for the future is so that you can buy yourself a pension one day when you can no longer work. Taking the first step to build your future financial picture starts with a decision to be prepared.

Step 2: Save more

Look at how much you're currently earning, and what portion you're saving for retirement. You'll find this information easily on your payslip. Look for places in your budget where you can save more. According to Alexander Forbes research, you need to save at least 17% of your salary for 40 years to achieve a pension amount that is similar to your salary just before you retire.

Step 3: Estimate your expected pension

You can find out what pension you're on track for based on:

1. Your age,
2. The amount you've already saved, and
3. The amount you're saving each month.

People are always keen to know this amount. Sometimes it can be a bit of a shock if it's much lower than the amount you're currently earning.

Step 4: Look at your monthly expenses

Monthly expenses are often linked to how much you are currently earning. They are likely to be more than the monthly pension you can expect. Take some time to think about how you might reduce your expenses after you retire if it's only a few years away.

People with more time should look at their current expenses to see where they can reduce or delay expenses to save more. Remember to put some money aside for emergencies or unexpected events. Having savings when things go wrong helps to reduce stress and keep you on track to achieve your goals.

Step 5: Assess if you are on track

You've compared your expected monthly pension in retirement to the expenses you think you'll have after you retire in the previous step. Now you'll be able to assess if you are on track to receive a pension you can live on. If so, you can keep going.

If you're not on track, look at ways to improve your future picture by:

- Decreasing your expenses;
- Thinking about working longer;
- Finding other sources of income;
- Saving more

This is a critical part of retirement planning and gives you your best chance of reaching your goals. The earlier you start, the more ways you have available to you to improve your future picture.

Knowing where you stand and what you have to work with as you get ready to retire will give you the best chance of reaching your goals.

Step 6: Find out about different pensions

If you're closer to retirement, you can start exploring different types of pensions and weigh up their advantages and disadvantages.

Step 7: Review your full retirement picture

Once you have gone through these steps, you should have your full retirement picture. It shows the importance of being aware of where you stand, knowing all your relevant information and keeping track of your progress.

Your picture is something that you should write down and revisit at least once every two to five years if you're far away from retirement and more often if you're closer. Having it all written down will help you set goals and make plans to stay on track. You can keep making improvements that get you closer to having enough to live on in the future.

Step 8: Get help from an expert

Share your retirement picture with your loved ones, as well as a licensed financial adviser. Advisers are professionally trained to help you with your financial planning and make decisions that are right for you based on your personal circumstances. Having expert help with your finances gives you the best chance of success.

Alexander Forbes has developed a free gamified retirement planning tool, My Retirement Picture, which takes users through the above process.

Comment

These steps are vague but rightly so. You have to fill in all the detail yourself. After all, it is your retirement we are talking of.
It seems inappropriate to plan for retirement, in effect doing nothing, when you are still in the first flush of working and earning. Trust me, your retirement may possibly be just about the same length of time as your working life. Except if you plan a second career.

Synopsis

Parastatal paralysis: South Africa's state-owned enterprises are debt traps and urgent intervention is necessary

Business Maverick
By Xolisa Phillip
10 Dec 2021

SOE remain the South African government's problem child. With each passing financial year-end cycle, these entities are experiencing more financial woes, worsening mismanagement and weakening balance sheets. Worryingly, executive oversight is missing in action. And the Auditor-General has called for urgent intervention to stop the slide.

SOE make up a not-so-modest share of the government's liabilities but have few tangible returns to show for the generous financial safety net provided to them.

For entities that pose a significant risk to the country's debt profile, the deep-rooted rot within SOE is now endemic. Good governance and sound financial management systems remain threadbare and elusive. Rising losses, rapid institutional decline, loss of market share, despite monopoly status in some sectors, and increasingly shaky balance sheets are the order of the lot. The income statements are equally distressing.

The return on investment for the government is a rolling loop of bad organisational performance, loss of talent and capacity, and a bottomless pit of financial losses. There is no room to hide behind Covid-19 and point an accusing finger at the pandemic for the poor state of SOE. The crisis is far deeper and more sinister than the coronavirus outbreak.

The systemic decline of SOE. Most disturbing is that the contagion effect is catching on, and well-governed entities are becoming outliers instead of being the norm. The overall picture of parastatals is coloured by years of decline punctuated by a sustained lack of consequences.

Any day now, expect more SOE to be closed off from the capital markets. The signs are already there, all it takes is a cursory glance at capital markets and assess which entities have been successful. It wouldn't be surprising to see banks and other funders shutting off SOE from short term and long term credit facilities because of the rising financial risks associated with these entities.

The main underlying assumption of lending is a borrower's ability to service the principal debt and interest imposed. Weak balance sheets, an inability to generate revenue and poor financial fundamentals strengthen the case against advancing more loan facilities to these institutions.

Furthermore, environment, social and governance (ESG) demands on financial institutions are becoming onerous. In the realm of ESG, the governance component is especially exacting. Most SOE cannot stand up to scrutiny on the governance pillar.

Moreover, with limited fiscal room for guarantees and bailouts, the outlook is bleak for most of the country's SOE.

The Auditor-General, the International Monetary Fund (IMF) and S&P Global Ratings have all identified the country's parastatals as a problem. The overall sentiment among all three is that SOE have been turned into repositories where "misuse and leakage of public funds" are commonplace. That is polite-speak for rampant corruption.

In the Auditor-General's 2020/21 Public Finance Management Act audit outcomes general report, Auditor-General Tsakani Maluleke dedicates a segment to SOE, explaining the drivers of the decline and noting patterns underscoring the deterioration.

In its concluding statement on South Africa's Article IV mission, which constitutes a preliminary view of the IMF staff responsible for the process, the IMF notes the "continued worsening performance of SOEs". The IMF advises the government to carry out a "full inventory of all SOEs".

There is also a suggestion that entities which carry out government business ought to be incorporated into the relevant departments.

SOE boards, collectively the accounting authorities at the entities, are not much use in reversing the slide. At least, that is what can be deduced from the Auditor-General's report. Executive oversight is not much help either.

In the report, the Auditor-General notes: "The audit outcomes of SOEs have regressed due to weak controls… over financial and performance management, as well as compliance."

The deteriorating financial health of SOE has increased the financial burden on the government. In addition, "these concerns spill over into the ability of SOEs to fulfil their mandates and directly affect the South African economy".

The Auditor-General says: "[It] is… important for the executive and oversight to pay attention [and address] … the deficiencies at SOEs and ensure appropriate interventions are urgently implemented to enable [SOEs] to fulfil their mandates."

It's over to the executive, then, which is ultimately responsible for all the moving parts of government. **BM/DM**

Comment

Keep in mind there are about 131 SOE, such as the Breede-Gouritz CMA, National Peace Accord Trust, Export Credit Insurance Corporation. Look them up.
The SOE seem to be a sinecure for incompetence if the report is taken at face value. It seems many of them can/should be privatised, taken up in local municipalities or amalgamated with other existing organisations, thus removing direct 'government' intervention and sinecure. Or just dissolved.

Synopsis

TITBITS

Ince/Connect
The Finance Ghost

14 December 2021

The **Adapt IT - Volaris** deal has taken a significant step towards completion, with approval received from Zimbabwean competition authorities. The company expects remaining conditions to be fulfilled by 30th December, which would result in the delisting of Adapt IT on 4th January.
We have about R10,5mn in AdaptIT.

MTN Nigeria has been successful in its bid for one of the two 100MHZ spectrum licences in the 3,5GHz spectrum band auctioned by the Nigerian Communications Commission. This will enable the rollout of 5G services to MTN Nigeria's customers. It's been a huge year for the yellow telecoms giant, with the partial sell-down of the stake in Nigeria in its final stages.
We have about R145bn in MTN Nigeria.

A dealings announcement caught my eye. **Italtile** CEO-designate Lance Foxcroft will take over from Jan Potgieter on 1 January 2022. He's put nearly R4,8 million of his own wealth behind the company by buying Italtile shares, as confirmed by a SENS announcement yesterday.

We have about R137,7 in Italtile. The CEO putting his own money into his company indicates the trust he has in its profitability.

Telkom CEO Sipho Maseko will step down from the role on 31 December 2021 and will stick around until June next year to help CEO-designate Serame Taukobeng settle in.
We have about R4,5bn in Telkom.

20 December

African Equity Empowerment Investments (AEEI) has been trading under cautionary while it was negotiating a proposed B-BBEE transaction at Premier Fishing SA, a wholly-owned subsidiary of Premier Fishing and Brands. The cautionary has been lifted as negotiations have been terminated due to "complexities regarding the implementation" of such a deal.
We have about R52mn in Premier. AAEI is a subsidiary of Sekunjalo Investment Holdings (Pty) Ltd. Both companies are Survé's.

Another critical document is EPP's delisting circular related to the Redefine offer. This is the deal that has seen Redefine spend a lot of time driving a narrative around how awful EPP is, as a precursor to offering to buy the company. If you are an EPP shareholder (or Redefine shareholder for that matter), make sure you give it a proper look.
We have about R539,9mn in EPP and about R2,9bn in Redefine.

In other property news, Texton jumped 9,7% on the news that it has sold Wale Street Chambers, Foretrust Property and Loop Street Properties. This is a major transaction as these properties represent a combined 19% of the South African portfolio's value. In each case, the price is above the book value as at 30 June 2021, which is why the share price increased.
We have about R169,9mn in Texton property.

Industrial REIT shareholders should note that they need to choose between a cash dividend and a scrip dividend i.e. receiving more shares instead of cash.
We have about R360mn in Industrials.

In case you're trying to keep track of the Royal Bafokeng share register, the company has announced that Impala Platinum holds 35,23% of the shares and the PIC has decreased to 9,692%.
We have about R3,9bn in RBH.

Barloworld has decided to delist from the Namibian Stock Exchange, based on a cost-benefit analysis. This will leave the JSE listing as Barloworld's only listing.
We have about R3,1bn in Barloworld.

Moneyweb
20 December

Vivo Energy delisting
Vivo only debuted on the local market via a secondary listing in 2018.
It owns a network of 2 400 fuel stations across 23 countries on the continent, which operate under the Shell and Engen brands. The offer from the Vitol Group of the Netherlands is at £1,39, equal to roughly R29 a share.
This gives Vivo a value of more than R36bn, not far off Imperial Logistics and Liberty combined.
Vitol, the world's largest independent oil trader, tried to buy Vivo in February with an offer of £1,13 per share. This was rebuffed by the board. Vitol memorably tried to acquire then Gupta-owned Optimum Coal's 7,61% interest in Richards Bay Coal Terminal in 2017 but terminated the transaction.
We have about R10mn in Vivo.

Long4Life, which has received a R4bn approach from Old Mutual Private Equity, will also disappear from the market in the first half of next year. The company is yet to publish a circular.
We have about R99,5mn in Long4life.

Prosus has appointed Sharmistha Dubey as an independent non-executive director. This is notable because Dubey is the CEO of Match Group (Tinder etc.). Is Prosus planning a move into the online dating space? After all, they need to keep thinking of innovative ways to invest those Tencent dividends rather than paying them to shareholders
We have about R22,9bn in Prosus.

Basil Read Holdings, which is suspended anyway and in business rescue, has been the victim of a cyberattack. Those criminals should've Googled first, as Basil Read isn't exactly flush with cash and ready to pay a ransom.

We have about R3,5mn in Basil Read.

Zeder has been trading under cautionary since 27 May, based on approaches from parties interested in acquiring portfolio investments. We are now on the sixth cautionary announcement since then, noting that Zeder continues to engage with these parties. Those hoping for a value unlock are having to exercise extreme patience
We have about R332,2mn in Zeder.

Investec's buyout of its preference shareholders has achieved all required approvals and will be implemented in the next couple of weeks.
We have about R1,8bn in Investec Ltd and R3,9bn in Investec Plc.

Comment
Some titbits to keep you informed about happenings to our investments.

Synopsis

BHP takes a punch from Wyloo

14 December 2021
INCE|Community
By The Finance Ghost

BHP's intended takeover of Noront has hit a significant stumbling block. The mining giant has been battling against Australian company Wyloo to acquire Canadian firm Noront.

Noront is developing its nickel, copper, platinum and palladium deposit, which puts it firmly in the "green metals" space and makes it hot property at the moment. The company also has chromite deposits with phenomenal names including Blackbird, Black Thor and Big Daddy, all located in the Ring of Fire!

The boardroom battles also feel like a ring of fire currently. Wyloo is the largest shareholder in Noront and has increased its bid for Noront to CAD1,10 per share. BHP is offering CAD0,75 per share and requires at least 50% of shareholders to accept the offer. Wyloo's stake is 37%, so the refusal by the Australians to accept the offer and even worse, to make a much higher offer, is now a major hurdle for BHP.

Still, BHP has the support of Noront's board of directors, which has encouraged shareholders to accept the offer from BHP.

This is an important transaction for BHP as it looks to move further into the green metals space. The move away from fossil fuels is being assisted by the deal to merge its oil and petroleum business with Woodside, thereby creating one of the largest independent energy companies in the world.

Noront shareholders have until 14 January to accept BHP's offer. The share price has climbed to CAD0,70 off the back of Wyloo's increased offer.

Comment
We have about R19,9bn in BHP.

Synopsis

Sasol shareholders take pain from Suckunda

15 December 2021
INCE|Community
By The Finance Ghost

Sasol got the day off to a bad start on the JSE. A drop of over 6% wasn't what the Sasol bulls expected to see in their stock that has enjoyed considerable momentum in an environment of higher inflation and energy prices overall, assisted further by weakness in our currency.

The cause of the sell-off was a poor trading update related to the operations in Secunda. This must be the most hated industrial plant in the world by environmentalists, as it is the world's largest source of single-site emissions.

Honestly, I can't resist renaming things that are causing trouble. Suckunda it shall be, and not many Sasol shareholders will disagree with me after yesterday. It's better to try and laugh about problems than cry about them.

Sasol has previously raised the risk of production issues in this operation linked to unforeseen delays in the September shutdown, interruption of power supply from Eskom (obviously), poor coal quality and other operational challenges.

The latest update is that the operational instabilities have been largely resolved and there have been improvements in coal quality. Unfortunately, production incidents in the mining business resulted in more than 1 million tons of lost coal production.

Half of that shortfall is a result of three safety incidents: a fire at the Shandoni mine, an underground water reservoir incident at the Bosjesspruit mine and a high wall failure at the Syferfontein mine. Tragically, the reservoir incident resulted in three fatalities.

Other issues included wet weather which impacted operations as well as coal supply from Sasol's long-standing coal commercial supplier. This hampered Sasol's ability to blend coal, which drove lower yield rates in the gasification process at Secunda.

Production run-rates decreased to a level that forced Sasol to utilise its coal stockpile, so that has now dropped below the targeted stock level as well.

Secunda production rates have been decreased until the mining productivity improves and the coal stockpile is above threshold requirements. The production shortfall will also be managed by purchasing coal on the open market.

The original expected production volume range for Secunda this year was 7,4–7,5 million tons. This has been reduced substantially to 6,7–6,8 million tons.

Although this announcement is full of negatives, it's worth reminding ourselves that the Sasol share price has still nearly doubled in 2021. It is 9 times higher than it was in March 2021.

Comment

We have about R22,5bn in Sasol.
Good news about the share price improving.
Sasol has really been a troublesome share in the last five years.

Synopsis

Hulamin: a second half to forget

15 December 2021
INCE|Community
By The Finance Ghost

Hulamin has released a trading statement for the year ending December 2021.

Compared to last year, the loss has narrowed. The problem is that there is still a loss. Headline loss per share improved from -68 cents last year to -54 cents this year. That's a bit like moving from Stage 4 load shedding to Stage 3: it's better, but still sucks.

Hulamin also discloses a "normalised headline loss per share" which is a company-specific calculation rather than a calculation governed by accounting rules. For example, this excludes metal price lag and any material non-trading expenses or sources of income. The company sees this as a more useful way to assess the earnings.

Sadly for shareholders, the normalised number is worse than the regulated version of headline loss per share, coming in at -72 cents vs. -91 cents last year.

In the interim period ended June, headline earnings per share was 15 cents and the normalised headline loss per share was -9 cents. The group has had a terrible second half to the year to turn that interim profit into a substantial loss.

The announcement highlighted lockdown restrictions and the need to implement plant upgrades and equipment maintenance programmes once the restrictions were lifted. This led to a 12-day maintenance shutdown in late March, which Hulamin believes "laid the foundation for further operational performance enhancements" as the business ramps up to full capacity. That maintenance downtime would've been in the interim result.

The company goes on to talk about how the divisions (Hulamin Rolled Products and Hulamin Extrusions) have performed well in 2021, driven by strong demand in most markets, a rising aluminium price in London and improving plant performance. Even the currency went the right way for Hulamin as the rand weakened in recent months.

So, how did the decent interim result get blown up into this full year disappointment?

We will have to wait for detailed results to find out. In manufacturing operations with substantial fixed costs, disruptions like civil unrest etc. can be enough to cause havoc. Even then, there is some head-scratching in the market around this one.

Comment

We have about R8,9mn in Hulamin. The loss doesn't look good for our dividends, does it? Not like AYO with a massive loss and very good dividends.

Synopsis

Ellies is banking on load shedding

15 December 2021

INCE|Community

By The Finance Ghost

After a horrible trading statement sent the Ellies share price into a tailspin last Friday, Ellies has released its detailed set of interim results.

Revenue decreased by 26,4% and EBITDA was smashed by 141,7%. Yes, that means that the company has swung into an operating loss of R19,5 million vs. an interim operating profit in the comparable period of R46,8 million.

The further down the income statement you look, the worse it becomes. The loss after tax was R20,2 million vs. a profit of R12,9 million last year.

There's really no good news in these numbers I'm afraid. Headline earnings per share has lost the E in that acronym, with a headline loss of -4,36 cents vs. HEPS of 2,37 cents last year.

Obviously, there's no dividend.

If you read the commentary in the result, the themes are roughly:

- Old inventory has been written-off in prior periods, so write-offs are now negligible.
- Progress has been made in collecting receivables.
- Lack of investment in IT has hurt the business and it is finally playing catch-up with proper ERP systems.
- The main source of revenue is satellite dish installations, which have declined based on competition from streaming alternatives *(duh).*
- Several legal legacy issues have been solved, but the group is still defending claims of over R32mn in aggregate from two parties and is trying to collect R22mn from Beyond Platinum.

.

At this stage, the only bullish commentary is around load shedding, as Ellies supplies alternative energy products. The problem is that supply chain shortages mean that Ellies can't get enough stock. Still, sales for November of R147mn were 38% higher than November 2020 and December has continued that trend.

The silver lining for this group is load shedding. Beyond that, it's difficult to see how Ellies is effectively positioning itself for the future.

Comment

We have about R5,6mn in Ellies.
Not a good year for Ellies or us, no dividends, not like AYO with a massive loss and very good dividends.

Samevatting

GEPF Swyg Gerieflik oor die Sakies

Rapport
Deur AP Stemmet
12 Desember 2021

Die Staatsdienspensioenfonds het onlangs sy 2021-jaarverslag met groot fanfare bekend gemaak. ‘n Toename van 27,5% in sy bates tot meer as R1 duisend miljard. Sjoe, maar dit is goed!

Kyk ‘n mens mooi na die verslag, lyk dinge egter nie so rooskleurig nie. Onlangs nog het die bates op R1,8 duisend miljard gestaan. Om die een of ander rede, wat net die GEPF kan verklaar, het dit van R1,8 duisend miljard tot R1,6 duisend miljard gedaal.

Hoekom daal bates in een jaar met R200 miljard net om die volgende jaar met R400 miljard te styg?

Wat egter verstommend is, is dat die inkomste uit beleggings, ten spyte van die reuse styging in bates, die afgelope jaar met 10% van R89 miljard na R79 miljard gedaal het. Uitbetalings aan pensioentrekkers het vir dieselfde tydperk R106 miljard beloop. Waaruit die tekort van R27 miljard betaal is, is nog nie duidelik nie.

Die jaarverslag swyg ook oor belangrike aspekte soos dié:

- Wat het geword van die 74 vrae wat parlementslede reeds op 19 Februarie 2020 by SKOF van die parlement ingedien het? Onder die mat ingevee?
- Hoekom hoor ons niks van die uitvoering van die Mpati-kommissie se aanbevelings nie.
- Hoeveel van die geld, wat volgens de Mpati-kommissie teruggevorder moet word, is al verhaal?
- Wat is die gemiddelde wagtyd vir pensioene?

Twaalf maande? In 2020 was daar tussen 4 000 en 5 000 sulke gevalle. Hoeveel rente is daar in die 2021 boekjaar vir sulke laat betalings betaal?

Kommentaar

‘n Baie kort stukkie oor die AJV.

Synopsis

An ever-sharpening Spear

20 December 2021
INCE|Community
By The Finance Ghost

Spear is a Cape Town-focused REIT that is well-respected among investors despite its diminutive size vs. many of the other funds. I live in Cape Town and wholeheartedly agree with management's view that the city is well-positioned for a significant recovery in tourism. We just need the UK to stop "red listing" us for no reason.

Spear's market cap is nearly R1,6bn and the share price is up more than 33% this year.

The company has released an operational update for the three months to November. I'm seeing increasing adoption of voluntary quarterly updates by JSE companies, which I think is fantastic. I wish that quarterly reporting would become mandatory on the JSE in line with the exciting approach taken in the US market.

The fund's total gross lettable area (GLA) is 471 317m^2 of which over 55% is in the industrial portfolio, which has been the best-performing property asset class throughout the pandemic. The commercial (i.e. office) portfolio is unfortunately the next largest, contributing 28,5% of the portfolio.

By the end of the financial year in February, Spear will have zero exposure to variable income producing assets. This has been achieved with the disposal of the Double Tree by Hilton property. From an investor perspective, this helps reduce earnings risk in the fund.

The letting of vacancies is running ahead of management expectations. The office portfolio obviously has the highest vacancy rate of 4,19%, while industrial is at 1,75% and retail is at 0,58%. The hospitality portfolio is now very small and fully let.

The company notes that there have been "limited significant negative rental reversions" at portfolio level. The numbers seem to support this, with negative reversion of -6,26% in the office portfolio for November year-to-date. That's far better than many other funds are managing. Reversions of -2,98% in industrial and only -1,17% in retail are impressive in this environment.

The group is successfully renewing its funding and is achieving interest rate savings due to the lower rate environment. Where possible, variable debt is being renewed at fixed rates, which makes sense to me given the likely rate cycle in the next couple of years.

After the disposal of the Double Tree property and the net equity proceeds of R30mn (after settling the debt specific to that property) being used to settle variable debt at group level, Spear's loan-to-value ratio will be 44,84%. Fixed debt is just under 60% of total debt and the weighted average expiry is 31 months.

Overall, the balance sheet is in good shape and the company expects to maintain a payout ratio of between 85% and 95%.

The only blemish on the face of this update is that the sales of Island Business Park and Blackheath Park for a combined price of R160mn have fallen over. The buyer was happy with the due diligence but was unable to meet a condition precedent related to pre-sales of section title units. This gives an indication that the property market is still nowhere near the levels seen in the run-up to the pandemic.

The management team has guided distribution per share growth of 6-8% for FY22. One of the critical assumptions behind this guidance is South Africa remaining off the red lists, with an associated recovery in inbound travel. I'm not sure this will happen as quickly as we hope it will.

Comment

We have about R12,4mn in Spear.

Synopsis

Long4Life's take-private process is official

21 December 2021
INCE|Community
By The Finance Ghost

Take-privates have been the flavour of the past couple of years on the JSE. Companies have struggled to trade at high multiples, which makes them sitting ducks for opportunistic buyers. Long4Life is just the latest company in this saga.

An offer has been made to acquire all the Long4Life issued shares at a price of R6,20 per share, which is higher than the price has been at any stage since 2018. As at 31 August 2021, the financials reflected a net asset value per share of R7,27, so the acquirer has made an offer at a discount of nearly 15% to what the directors have been telling the market that the company is worth.

The acquirer is Old Mutual Private Equity (OMPE), which has executed 31 deals since 2000 and 19 exits. The fund claims to have one of the best private equity track records in South Africa over a 20-year period. Notably, the portfolio companies of the fund benefit from 37% flow-through of B-BBEE credentials.

The original proposal submitted by OMPE was for only R5,80 per share. Subsequent negotiations with Long4Life increased this number to R6,20 per share.

PSG has acted as independent expert and has already provided a report to the independent board that the offer is fair and reasonable.

To give an idea of how profitable a take-out basket can be for investors, the offer is represents a 59% premium to the price on 19 April, the day before Long4Life informed the market that a strategic review of the business was underway. There was still plenty of time to get in for those who were happy to stomach the risk, as the offer is a 39.3% premium to the price on 13 October, just before interim results were released and shareholders were informed that an unsolicited expression of interest had been received.

There's an important condition in the announcement related to the Competition Commission. If any conditions imposed by the authorities create costs of at least 5% of EBITDA or if Long4Life needs to sell companies which contribute more than 5% of EBITDA, then OMPE can walk away.

There are many other conditions related to the usual regulatory approvals and other legal concepts. A further commercial condition is that the balance sheet at the last month-end before the deal must reflect working capital of at least R591mn, normalised capital expenditure for the year ended February 2022 of not less than R123,4mn, unencumbered cash of at least R750mn and the ownership of a distribution centre in the group valued at no less than R70mn. These conditions are there to protect OMPE from bad behaviour where companies strip out cash and assets and cut back on capital expenditure ahead of a deal closing.

The working capital conditions also allow for an effective change to the deal price if the company performance is so poor that it eats into its balance sheet between now and the deal closing.

Interestingly, holders of only 14,11% of shares in issue have provided irrevocable undertakings. That's a long way off the level required to approve this scheme of arrangement, so the shareholder vote isn't a foregone conclusion by any means

Comment

We have about R99,5mn in Long4life. Seems the shareholders doesn't want to let go of their shares, as the company is performing really well.

Synopsis

Can ARM extract some life out of Bokoni Platinum?

21 December 2021
INCE|Community
By The Finance Ghost

African Rainbow Minerals (ARM) has announced a deal to acquire all the shares in Bokoni Platinum Mines (Pty) Ltd, which is 49% owned by a subsidiary of Anglo American Platinum (Amplats) and 51% owned by a subsidiary of Atlatsa Resources Corporation.

It's a very risky deal in my opinion. This asset commenced operations in 1969 but has been under care and maintenance since October 2017 due to "unfavourable market conditions" (the wording in the ARM announcement) or "several years of significant cash losses under difficult market conditions" if you read the Amplats announcement which doesn't sugar-coat it.

ARM will need to develop the asset in coming years and only expects to achieve steady-state production by 2028, which is perilously close to when some people believe the internal combustion vehicle will die off. I don't share that view, as I think the electric vehicle play is very overdone, especially for emerging markets.

Bokoni has the second largest PGM resource in South Africa. It has a measured, indicated and inferred resource of 153 million 4E PGM ounces. The measured resource is 55 million ounces. 64% of the resource is UG2 grade, which has a split of 49% palladium, 41% platinum and 8% rhodium. This is where ARM will focus its attention.

There is significant infrastructure in place, which ARM plans to use as part of its business plan for the asset. The development of Bokoni will create 5 000 jobs, of which 2 500 are expected to be permanent. Local communities, employees and Black industrialists will own 15% of the mine.

The deal ticket is R3,5bn, payable in cash. ARM has sufficient existing cash resources to fund the transaction and expects to invest another R5,3bn over three years to mechanise the mine and move ARM down the PGM cost curve.

A Sale of Concentrate Agreement has been entered into between Bokoni and the Amplats subsidiary, covering a contractual period of 23 years.

Mining operations will only start in 2023, as a Definitive Feasibility Study is required along with the extensive regulatory approvals for the mine to transfer.

Comment

We have about R5,2bn in ARM and R23,8bn in Anglo Plats.

Synopsis

Brait successfully raises capital

21 December 2021
INCE|Community
By The Finance Ghost

As a quick refresher, lockdown hammered Brait's balance sheet. To be fair, the investment group didn't go into the pandemic in great shape at all, so this was really the nail in the financial coffin.

At the time of the initial capital raise announcement, Brait had a market cap of R6bn and would need to raise R3bn in hybrid equity capital. The share price tanked nearly 10% on the day in response to the news. It has subsequently almost recovered to the November levels before the announcement, so there was a tidy profit to be made there for traders.

The R3bn capital raise is structured as "exchangeable bonds", convertible instruments that pay a coupon of 5% per annum and can be exchanged into Brait ordinary shares. They will be separately listed on the JSE.

The maturity date is in December 2024 and the bonds will be structurally senior to Brait's existing convertible bonds but subordinated to the revolving credit facility.

The issue price of R4,37 represents a 5% discount to the five-day VWAP of Brait prior to the announcement. Committed capital from Ethos, Rand Merchant Bank and Titan Fincap Solutions (a Dr Wiese entity) was R2,7bn, so there was very little risk of the full R3bn not being raised.

As expected, there were substantial "excess applications" i.e. there was more demand for the new bonds than supply. Investors applied for approximately 10% more bonds than were issued, leading to pro-rata allocations to shareholders.

This means Brait has been successfully recapitalised. The bigger question is: will this finally be enough to get the company through tough times?

Comment

We have about R486,5mn in Brait.

Synopsis

Beware of bad advice on retirement financials

City Press
10 October 2021
Maya Fisher-French

Members of the (GEPF) are being approached by financial advisers to consider resigning before retirement.

Their proposal is that they should resign from the fund and transfer their benefits, tax-free, to an approved preservation pension fund. A member then retires from the preservation fund, usually taking a third of the fund as a withdrawal and uses two-thirds to purchase a living annuity.

The argument is that, by doing this, a member can leave their children a legacy as, unlike a guaranteed annuity paid by the GEPF, the capital in a living annuity can be left to your family.

The rules of the GEPF provide that the first five years of the annuity are guaranteed. This means that, if the member passes away within the five years, the beneficiaries will receive the balance of the annuity payments, up to the end of the five-year period, as a lump sum. However, after five years, only the spouse will receive a spousal pension, unless there are children who are younger than 22.

While it may appear attractive to use a living annuity to provide an inheritance, it is important to fully understand the consequences of this decision:

- A living annuity cannot guarantee your income for life. As a living annuity invests in an investment portfolio, the income will be determined by market returns. Poor market performance can result in a drop in income compared with the guaranteed income offered by the GEPF.

- There are significant costs related to living annuities that could reduce your retirement benefit. An upfront advice fee of up to 1,5% may be charged by the adviser over and above the product fees.

The adviser can also charge an annual fee of 1% – again, over and above the product fees. This creates a perverse incentive for financial advisers to recommend living annuities. On a capital amount of R1mn, an adviser can earn up to R15 000 upfront, plus R10 000 a year for every R1mn of value. When combined with the product fee, it is not unusual to see living annuities costing as much as 2% a year – or R20 000 per R1mn invested.

As the GEPF does not pay retail prices for annuities, it is able to provide better value than if the member had to purchase an annuity with a resignation benefit.

- To not run out of money, it is only advised to draw down 5% of your capital from a living annuity. The adviser should provide a full comparison between your GEPF pension income and a 5% withdrawal rate from your living annuity – the net of costs.

You will probably find that you receive a better income from the GEPF due to the cost savings.

- If you decide to opt for a higher withdrawal rate, the adviser must show you a graph to indicate at what age you will run out of money. According to the Association of Savings and Investments SA, if you withdraw 10% a year, your income will start to reduce by year five.

- You will lose your GEPF benefits, which include a spousal pension and funeral benefits.

- You will lose your state medical aid subsidy if applicable. If your dream is to leave your children a legacy, then you could invest the gratuity.

For example, if you received R500 000 as your lump sum benefit and invested it for 20 years with an average return of 4% above inflation, it would be worth R1,1mn at today's value. You do not have to opt for an expensive living annuity to provide your children with a legacy.

Some members plan to resign before retirement to access the full cash value of their retirement fund. If they do this, not only do they lose the benefits of the GEPF, but they also pay a significant amount of tax.

For example, a member who resigns with a cash benefit of R3mn could pay R832 500 in tax. The member would still need to invest the money to generate an income, but now their income would have significantly reduced due to the lower capital value.

Comment

If you work to leave money for somebody else, when are you going to enjoy all the years of saving to be on pension?
Why would you want to leave all your pension money to your children? They must work for their own pension!

THE GEPF WATCHDOG/WAGHOND FACEBOOK PAGE

Welcome to our page – please help us to get thousands more GEPF members to join this page and the AMAGP, so that we will have the required bargaining power. **We are the owners of the GEPF**, and we have the right to expect the GEPF Board of Trustees, and the PIC, to manage and invest OUR money in a responsible and profitable way. To the advantages of members and pensioners!

The GEPF Watchdog/Waghond Facebook page is the social media platform of the non-profit organisation "The Association for the Monitoring and Advocacy of Government Pensions" (AMAGP). The AMAGP has only one agenda point – safeguarding the GEPF against looting and mismanagement.

Most of our GEPF members are content with the fact that pensioners still get their monthly pension (and some increases annually), and they are convinced by GEPF newsletters and ambitious GEPF Annual Reports that our Pension Fund is in a superb condition. There is, however, another side to the coin! The AMAGP newsletters and press releases tell a different story.

Our Facebook and AMAGP are together more than 58 000 members and continually growing, but this isn't enough. However, the continued growth confirms the ever increasing concern pension fund members and pensioners have about the future of their pensions.

As a member of the GEPF (working or retired), this Facebook page will keep you updated about any developments affecting the health of YOUR Pension Fund. It also provides you with the opportunity to participate in the debate and raise issues of concern. Although it is not part of the core business of this page, you may also raise matters regarding the day to day management of your pension administration, which we will gladly refer to the Government Pensions Administration Agency (GPAA). Please read the articles that are posted on the wall, BUT also "re" and "Files". You can get further information on our website – there is no reason to be in the dark regarding our/your Pension Fund, and what you must do as a member.

This page will only have any value for you if you join the AMAGP. Note there are no membership fees. You don't have to do any work for the AMAGP if you do not wish to do so – BUT your membership will add one more voice to AMAGP convince the government our pensions remain ours, not theirs to misuse. You can complete the online registration form under "Announcements" (English and Afrikaans) at the top of the Facebook page, or you can visit our website at www.AMAGP.co.za, and complete the online application form that you will find under "Membership".

The AMAGP does not want any GEPF member to leave the Fund, because it still is the best pension fund in the RSA – BUT, we as members and owners of the Fund have to protect it against abuse.

VRYWARING

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