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 17 of 2021

AMAGP – Association for Monitoring and Advocacy of Government Pensions
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 1,2 million active members, in excess of 450 000 pensioners and beneficiaries, and assets worth more than R1,61 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 5 September 2021

IMPORTANT TO GEPF MEMBERS AND PENSIONERS

MANY GEPF MEMBERS AND PENSIONERS HAVE SPENT THEIR ENTIRE ADULT LIFE IN A CAREER IN ONE OF THE MANY STATE DEPARTMENTS OR WILL STILL DO SO. PENSIONERS DESERVE TO BE ABLE TO RELAX WITH THE EXPECTATION THAT THEIR PENSION WILL GROW AND KEEP UP WITH THE INCREASE IN THE COST OF LIVING.

THERE IS A GROUP OF PENSIONERS GIVING FREELY OF THEIR TIME AND ENERGY TO KEEP TRACK OF THE WAY OUR PENSION FUND IS BEING MANAGED BY THE GEPF BOARD OF TRUSTEES (BOT) AND THE PUBLIC INVESTMENT CORPORATION (PIC). THIS GROUP ESTABLISHED A NON-PROFIT ORGANISATION, WHICH IS KNOWN BY THE ABBREVIATION AMAGP (ASSOCIATION FOR THE MONITORING AND ADVOCACY OF GOVERNMENT PENSIONS).

AMAGP RESEARCHES AND MONITORS THE PERFORMANCE OF OUR PENSION FUND TO MAKE SURE THAT OUR PENSIONERS RECEIVE THEIR RIGHTFUL PENSION AND THAT THE FUND STAYS SUSTAINABLE. ALSO, TO EXPOSE ANY ATTEMPT AT USING THE FUND FOR ANY OTHER REASON THAN FOR THE BENEFIT OF ITS MEMBERS AND PENSIONERS. THE AMAGP HAS ALSO COMMUNICATED WITH AND RECEIVED CO-OPERATION FROM OTHER INSTITUTIONS THAT HAVE AN INTEREST IN THE GEPF, FOR THE PURPOSE OF PROTECTING AND PROMOTING THE INTEREST OF ALL THE GEPF MEMBERS AND PENSIONERS.

WHEN AMAGP WANTS TO NEGOTIATE ON BEHALF OF MEMBERS AND PENSIONERS OF THE GEPF, IT NEEDS A LARGE MEMBERSHIP, TO LEND CREDIBILITY TO ITS NEGOTIATIONS AND TO PROVE REPRESENTATION.

GEPF MEMBERS AND PENSIONERS ARE KINDLY REQUESTED TO JOIN THE AMAGP BY COMPLETING AN APPLICATION FORM THAT IS AVAILABLE ON THE WEBSITE www.amagp.co.za, OR THE FACEBOOK PAGE GEPF WATCHDOG. THE APPLICATION FORM CAN BE COMPLETED ONLINE OR PRINTED. APPLICATION FORMS WILL BE SENT BY E-MAIL TO ANY PERSON THAT SUPPLIES AN E-MAIL ADDRESS.

ENQUIRIES CAN BE ADDRESSED TO AS KLEYNHANS AT as.kleynhans@outlook.com

The Editor's Word

Note. The Fund's investment values used in the newsletters are from the 2019 GEPF Annual Report, said values probably in 2018 terms as the figures in the Fund's AR are usually a year or more old.

Reminding all Fund members and pensioners. Vote on 1 November. Keep in mind if you don't vote you can't complain about what the 'government' does, as you didn't vote! This is an opportunity that doesn't come that often. Vote for the party [DA, Freedom Front, EFF, ACDP, Inkatha, UDM, Good, etc] or movement [ANC is still a movement and not a party] that you think will ensure your Fund remains viable for you to retire comfortably. As well as govern, not rule, our country responsibly.

Now for news from the media

AMAGP questions politicians' commitment to fight corruption. It seems that politicians set the example for corruption, the media is awash with examples. Read the latest AMAGP press release.

Transaction Capital is buying WeBuyCars, increasing the number of its subsidiaries. Transaction Capital is one of our good investments.

Research indicates that about 20% of the JSE listed companies deliver all the dividends, while the bond market outperformed 80% of the shares on the JSE. What are we paying our asset managers for?

SAA has started flights again, down from 46 to 6 aircraft. The talk is big on the new! SAA! Only time will show.

Read a Twitter from parliamentarian Alf Lees about AYO.

Some more Titbits, brief stuff to keep you up to date on many of the things influencing our Fund's investments.

It seems against all expectations SA's income exceeded its expenses in the first quarter of this financial year. A couple billion only but it helps. Remember income = taxes.

There are two articles about REIT and where we stand with the Fund's income from them. Good – OK - and not good news.

The deal between Heineken and Distell is still being negotiated. Some months to go still I believe before we reach that point of money changing hands.

The IDC is bragging about a huge loss turnaround, investment developments not starting yet, others starting. It seems one of our SOE is starting to work.

Lastly, comment about the prolonged recovery in real estate, transport and hospitality sectors. Yes and no.

Happy reading!

NEWSNUUSNEWS NUUSNEWSNUUS

Synopsis

STATEMENT F13/2021

ISSUED BY THE ASSOCIATION FOR MONITORING AND ADVOCACY OF GOVERNMENT PENSIONS (AMAGP)

Cape Town
21 September 2021

CORRUPTION: WHERE IS THE CHAMPION'S KNOCK-OUT BLOW?

In a statement on 17 September 2021 the Presidency blew its trumpet on how well the President and his government fared in its battle against corruption. They are even called champions.

We at AMAGP are grateful for steps already taken to counter corruption. **However, to be a champion requires a knock-out blow. Is it still lacking? Or are we simply missing it?**

In the statement, amongst others, it is mentioned that the Mpati Commission was constituted by Mr Ramaphosa to investigate irregularities at the PIC and to make recommendations in this regard. The PIC, a state corporation and as such under the President's control, is also the GEPF's investment agent.

We are thankful for the work done by the Commission to expose irregularities, some of which AMAGP has complained about for years. Quite correctly comprehensive recommendations were made by the Commission to expose and bring to book those responsible, and to recover billions of rands lost due to corrupt transactions.

Pity that after almost two years since the release of the Mpati Report no visible progress is noticeable regarding the implementation of recommendations. If there is any progress it is being kept secret. The inevitable perception exists that the findings and recommendations have been swept under the carpet. Everything at the PIC is dead quiet – business as usual. No court action, no reports of arrests made by the Hawks. No information pertaining to the recovery of money lost by the pension fund, pensioners and workers. IS THE PRESIDENCY AWARE OF THIS? WE ARE STILL MISSING THE PRESIDENT'S KNOCK-OUT BLOW.

We are now relying on the President to ensure that the recommendations of the Mpati Commission are executed.

Maybe the time is now ripe to address shortcomings in the Act on Commissions, 1947, by inserting an amendment to the effect that those involved be obliged to regularly report to the Presidency on progress made with regard to the implementation of recommendations made by commissions.

Adamus P Stemmet
Spokesperson AMAGP,

Comment

So true.
However, be aware that solid evidence is essential to take a case to trial. As we don't know the status of corrective actions resulting from the Mpati Commission, we can't comment on them. We can certainly comment on the lack of information and vagueness about such actions, especially the decided and clear lack of will to hold those responsible accountable for their actions or lack of. The latest information [6 months ago] was that implementation was 60% complete, which is the same as saying we are busy implementing. It means nothing without referring to the Mpati recommendation and clearly stating what has been done.

Die Afrikaanse weergawe is op die laaste bladsy.

Synopsis

Transaction Capital can't get enough of WeBuyCars

23 September 2021
INCE|Community
By The Finance Ghost

The management team at Transaction Capital doesn't mess around. When they invest in a company with serious potential, they do it properly. The WeBuyCars deal is a textbook example of how to do M&A correctly.

As capital allocators go on the JSE, this company is among the very best. Transaction Capital is a core part of my portfolio and one of the few shares that I feel I can truly buy and forget about.

The initial deal with WeBuyCars was for a 49,9% stake in the company and was concluded 12 months ago. Things moved quickly after that, with agreements concluded in May 2021 that would allow Transaction Capital to move to a 74,9% shareholding. That deal is still being implemented and Transaction Capital expects it to be closed in early October.

Now, a put and call option structure has been introduced which will give Transaction Capital full ownership of the business by September 2026. The founders have agreed to stick around until then, which is ideal as the keys to the business can be handed over in a smooth transition.

Both parties would like the certainty of WeBuyCars eventually becoming a wholly-owned subsidiary of Transaction Capital. The founders will now hold a put option, which means they can force Transaction Capital to buy their shares. Conversely, Transaction Capital will hold a call option, which means it can force the founders to sell their shares.

The options are exercisable in tranches, starting in September 2023. The founders would reduce their stake to 17,6% in 2023, 10,1% in 2024 and nil by September 2026.

The price payable will be based on a Price/Earnings ratio of between 9x and 10,5x to the adjusted profits after tax of WeBuyCars and its subsidiaries, excluding the properties. The properties will be priced based on fair market value at the time, less any outstanding debt. Adjustments will also be made for excess working capital.

There is an absolute nugget of information in the final section of the calculation, which talks about the embedded value of a cell captive arrangement concluded between Guardrisk and WeBuyCars, which would give WeBuyCars a share of the economic profits of the insurance business introduced by the company to Guardrisk. In other words, the business model of WeBuyCars looks set to include value-added services alongside the sale of vehicles.

WeBuyCars grew its headline earnings by 38% for the six months to March 2021. The company is absolutely flying and generates a sizable return on assets, with interim headline earnings of R257mn off a tangible asset base excluding the properties of just R611mn. Those two numbers aren't quite comparable, as the headline earnings number would need to be adjusted for rent payable if being compared to an asset base without properties.

There are a couple of conditions to be fulfilled before these options become legally binding, but none of them look to be of any concern. This has been an excellent play by Transaction Capital and I am a very happy shareholder.

Comment

We have about R460mn in Transaction Capital. Another good investment.

Synopsis

Only 22% of shares on the JSE deliver bond-beating returns – study

IOL
23 September 2021
By Martin Hesse

A reason that many equity fund managers don't beat market indices over the long term may be because such a small portion of shares on the stock market deliver higher returns than bonds.

A landmark study in the US, by Professor Hendrik Bessembinder of the University of Arizona, showed that between 1926 and 2016 just 4% of listed companies accounted for the entire excess return of the US stock market relative to that of US government bonds. Recent research by Morningstar this year showed a trend along the same lines.

Now research by Old Mutual Investment Group (OMIG) portfolio manager Maahir Jakoet and performance analyst Zaahidah Waggie shows that, while not as extreme, the same phenomenon applies to the JSE. Jakoet and Waggie conducted a study looking back 10 years comparing the FTSE/JSE All Share Index (Alsi) and the All Bond Index (Albi), to assess the similarities between the South African market and the US when it came to the small percentage of stocks that have delivered market outperformance over time.

They found that almost 80% of the shares on the JSE underperform the bond market, while offering a higher level of risk or, to put it another way, 22% of shares were responsible for the Alsi's performance relative to the Albi over 10 years.

Thus, the secret to fund managers achieving market-beating returns, according to OMIG, is to have an actively managed concentrated portfolio with a clear focus on identifying future market winners as an investment strategy, rather than avoiding the losers.

OMIG's research shows that a concentrated, actively managed equity strategy that seeks to identify the ultimate winners over time has the potential to beat standard market indices by 50% annually.

The findings highlighted that it was the more stable and quality-driven companies in the market that drove outperformance and it is these companies that have stood the test of time and will continue to do so.

Over the 10-year period studied by Jakoet and Waggie, of a total of 265 shares, 88 shares remained in the index for the full period (permanent residents). Of these permanent residents, only 35 (40%) outperformed the Albi on an individual basis.

"Furthermore, we looked at what the best 10% (nine shares) of the permanent residents contributed to the performance by constructing an equally weighted buy-and-hold portfolio," says Jakoet. "The portfolio over the 10 years would have returned 21% annualised, outperforming the Albi by 13%."

Over the same period, of the full basket of 265 shares, only 22% (58 shares) outperformed the Albi.

Jakoet says while a diversified portfolio can have benefits for certain investment appetites, it can be considered a "glorified index", because holding so many shares essentially mirrors the index's trajectory. "But a concentrated active portfolio is made up of a portfolio manager's best ideas, which can comprise of this small handful of outperforming stocks, rather than a broader number of stocks, which risk bringing down the portfolio's average performance," he says.

Comment

Good to know, but where does this leave the Fund's investments? With 32 asset managers being paid billions each year we could expect awesome ROI. It doesn't look likely.
Bonds such as government bonds, SOE bonds, etc. Whenever they mature.

Synopsis

SAA takes to the skies after being grounded for 544 days

Moneyweb
By Akhona Matshoba
23 Sep 202

Image: Moneyweb

South African Airways (SAA) is back in business. Thursday morning sees the slimmed-down airline operate its first flight – from Johannesburg to Cape Town – after the airline was grounded in March last year.

SAA CFO Fikile Mhlontlo said in a media briefing on Wednesday that South Africans can lay their fears of travelling in old aircraft to rest, as the airline has signed new leases that come with new aircraft.

The airline will resume regional operations next week.

SAA interim CEO Thomas Kgokolo told parliament at the beginning of the month that SAA will operate return flights on the popular Johannesburg-Cape Town route three times a day.

Interim CEO Thomas Kgokolo pictured on Thursday. Image: Moneyweb

Its regional service will include daily return flights between Johannesburg and Harare in Zimbabwe, with three return flights a week to Accra in Ghana, Kinshasa in the DRC, Lusaka in Zambia and Maputo in Mozambique.

At the relaunch of the airline, Kgathatso Tlhakudi, Deputy Ddirector-general in the Department of Public Enterprises, said there is no longer room for bailouts for the national carrier and restoring the airline's financial position will now lie squarely at the feet of SAA's proposed new owners, the Takatso Consortium.

DPE Deputy director-general Kgathatso Tlhakudi Image: Moneyweb

Return to profitability will take time

Takatso was announced as the preferred bidder in SAA three months ago, setting out to invest R3bn over the next three years to turn the airline around and make it profitable.

The last time the national airline reported a full-year profit was a decade ago. It has since been entangled in a distressing web of mismanagement that has cost taxpayers hundreds of millions of rands in bailouts.

Mhlontlo said given that the Covid-19 pandemic has put the aviation industry and the wider travel and tourism sector under significant strain, it will take a while before the airline starts making a profit. "We are coming from being an airline which [had] about 46 aircraft to an airline that is starting very small – starting with about six aircraft."

He added that while aviation is a "difficult industry" the new team has done a host of things to at least start in a direction where the airline "really stands a chance".

Good governance and no political interference

SAA interim board chair Geoff Qhena said the board, as a transitional structure, is focused on instilling a culture of good governance at the airline and is optimistic that political interference will be a thing of the past.

"The ethos of management where you have government and changing political leadership of the airline from one minister to the other – that will no longer have that kind of an impact as we've had previously," Qhena said.

"The appointment of senior leadership and the appointment of board members [is] going to be based strictly on merit, where the private sector shareholder of course has a stake in the success of the industry, and they will be much more aggressive in ensuring that is done," he added.

Mango

Mhlontlo was tight-lipped about SAA subsidiary Mango. The low-cost airline's flights were grounded for the second time after it failed to honour outstanding payments to Air Traffic Navigation Services and went into business rescue at the end of July.

Mango had also halted flights briefly in April because of outstanding payments to Airports Company South Africa.

Comment

Our share in SAA is through Takatso through Harith, [in which we have billions locked in with no ROI] which is a major shareholder.
No political interference? Let's start with the free flights for politicians and work from there. And the 'government's' veto right included in the agreement with Takatso.

Synopsis

AYO Reminder

Twitter
24 September 2021
Alf Lees

"PIC invested R4,3bn in AYO when R43/share. Now down to R3! None who authorised clear malfeasance yet held to account! Mpati's 18month old recommendation to investigate Surve/Matjila transactions ignored? No court action to recover R4,3bn. What fun to be an ANC cadre."

Comment

Quite so.

Synopsis

TITBITS

InceConnect
The Finance Ghost
27 September 2021

Grindrod is on a mission to dispose of non-core assets and has benefitted from an eye-watering run in the **Grindrod Shipping** share price. Grindrod has now disposed of its entire 9,6% stake in Grindrod Shipping through a public offering, at a 14% discount to the market price and raising over R368mn in the process. Grindrod closed 6% higher and Grindrod Shipping closed 8,8% lower.
We have about R25mn in Grindrod Shipping and R553,7mn in Grindrod holdings

In pharmacy sector news, **Dis-Chem** has finally received approval from the Competition Tribunal for its acquisition of the Medicare chain for R250m. The pharmacy market is far more fragmented than most people realise, with considerable room for further consolidation in my view. **Clicks** CEO Vikesh Ramsunder won't get to find out, as he is leaving Clicks with a "heavy heart" and a heavier bank balance in a decision to emigrate to Australia. Bertina Engelbrecht will take the top job at Clicks, in an internal appointment that sends an encouraging message about the depth of talent in the group.
We have about R1,38bn in Dis-Chem and R5,8bn in Clicks.

Steinhoff is up 60% in the past 90 days and released yet another SENS about its Dutch court proceedings, which have been a success for the group. The major risk is still the liquidation hearing in the Western Cape High Court.
Not sure what the value of our share in Steinhoff really is but the AR says R652mn.

MultiChoice Group announced that French media company Groupe Canal+ SA has increased its interest to 15.,7% of the group. Naturally, the possibility of a future takeout offer is top-of-mind for investors in the DSTV operator.
We have about R8,7bn in MultiChoice.

Fairvest and **Arrowhead** have released a joint firm intention announcement for their merger. Although Fairvest is leading the acquisition, the structure of the deal is that Arrowhead will acquire Fairvest, thereby achieving a single-step merger, as Arrowhead has two different classes of shares. Arrowhead as an entity will continue to exist but will be renamed to Fairvest after the transaction.
Leaving the structuring complexities aside, the companies have pointed out that the combined REIT will be the largest exclusively SA-focused REIT with a portfolio of around R12,74bn, of which R9,3bn is currently in Arrowhead. Despite the sizes of the portfolios, the Fairvest management team will take the reins here.
Holders of 65% of Fairvest and over 50% of Arrowhead have already pledged their support for the transaction.
We have about R359mn in Arrowhead, which will become Fairvest.

Adapt IT is back in the news, announcing that holders 9,83% of shares in issue have already made the "exit election" i.e. will accept the R7 cash offer from **Volaris**. The deal will happen faster if the minimum threshold (more than 50%) is achieved sooner, so Adapt IT is encouraging shareholders to make their elections.
We have about R10mn in AdaptIT. Volaris is a Canadian company intending to take over AdaptIT.

30 September
Curro's acquisition of HeronBridge College has been approved by the Competition Tribunal. This will bolster Curro's Select business, which doesn't rebrand or change the ethos of the schools acquired. Curro's valuation crashed down to earth after the exuberance of 2016 but is now trading at similar levels to the net asset value (NAV) and I think it has reasonable prospects from here. It takes a long time to build an education business and the market got way ahead of itself in 2016.
We have about R514mn in Curro Holdings.

1 October
In property news, **Lighthouse Capital** and **Resilient** closed the deal for four French shopping centres, in which they took 75% and 25% stakes respectively. **Accelerate Property Fund** released a pre-close update, noting that vacancies have risen to 16,5%, most of which are in B- and C-grade office space.
We have about R154mn in Lighthouse, R1,83bn in Resilient, and R257mn in Accelerate.

Hyprop Investments' 60% held Hystead, has concluded an agreement with Balkans Real Estate, a wholly owned subsidiary of Centurion Venture Capital, to dispose of its indirect stake in Delta City which owns Delta City Mall in Belgrade Serbia for €115 million.
We have about R2,3bn in Hyprop. Interesting the Serbian shopping mall we had an interest in.

Comment

Keeps us up to date about happenings in the economy that influence our Fund's investments and their ROI.

Synopsis

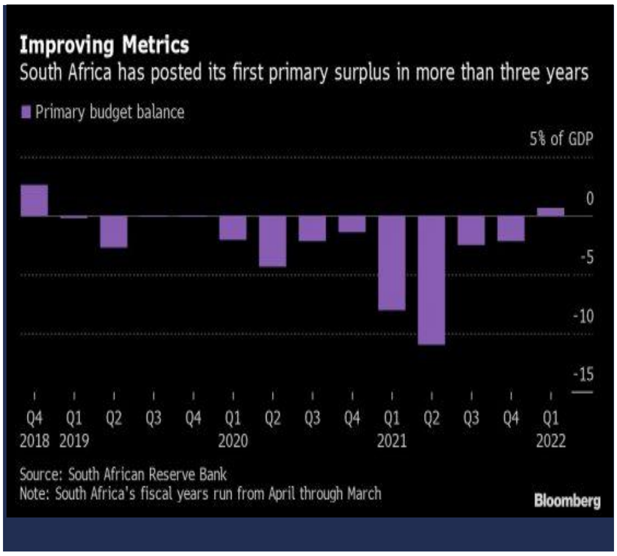
SA has first quarterly primary surplus in three years

Moneyweb
By Prinesha Naidoo,
Bloomberg
28 Sep 2021

Image: Waldo Swiegers/Bloomberg

South Africa recorded its first quarterly primary budget surplus since 2018 in the three months to June, a sign that the National Treasury's efforts to bring spending in line with revenue are succeeding.

The government's primary balance swung to a surplus of R9,8bn, or 0,6% of gross domestic product, in the first quarter of the 2022 fiscal year, compared with a deficit of 2,2% of GDP in the previous three months, according to the South African Reserve Bank's Quarterly Bulletin published on Tuesday. A primary surplus, which excludes interest costs, suggests the state can extract resources from the economy necessary to service debt.



The Treasury this year shifted focus to make a primary budget surplus its most critical fiscal anchor, instead of a spending ceiling.

In February, the Treasury projected a primary surplus of 0,1% of GDP in 2024-25, targeted a positive balance of 0,3% of GDP in the long run and saw debt stabilising at 88,9% of GDP in 2026 fiscal year. The medium-term budget scheduled for 4 November is likely to show an improvement in these metrics, after changes to the way GDP is calculated showed the economy is bigger than previously estimated and with tax revenue overshooting estimates because of a windfall in mining profits.

The government is "on track" to achieve a primary surplus by the middle of the decade, Edgar Sishi, acting head of the Treasury's budget office, said last week at a tax conference.

While the latest data reflects an improvement in economic activity from the height of restrictions to curb the coronavirus pandemic, South Africa remains stuck in its longest downward cycle since World War II.

Weakening cycle

The central bank monitors more than 300 indicators representing economic processes such as production, sales, employment and prices to determine the direction of the trend and is partially waiting for revised data to identify a turning point, it said. The last major declining cycle in the economy lasted 51 months between 1989 and 1993.

Comment

Good signs of slow improvement of the economy, let's hope it continues. ROI will improve if the economy improves.

Synopsis

REIT investment properties losing value, outlook uncertain

IOL
By Edward West
28 September 2021

Property investors would have shuddered as the value of most of their properties were written down by billions of rand through the Covid-19 pandemic, putting the balance sheets of their REIT investments, already struggling just to collect rents, under additional pressure.

Declining property valuations have been a feature of the results of many of the REITS reporting their financial results in the past year. Although these write-downs have not led to any bankruptcies with loan-to-values generally healthy, property analysts believe the bottom has not yet been reached on property valuations.

Not all REITS are similarly affected though, cautions Reitway Global's chief executive Greg Rawlins, who said that, for example, the limited self storage and logistics focused companies in South Africa were following global trends and growing in value and returns much faster than other traditional property asset types.

One of the biggest companies to recently have the value of its properties written down is Growthpoint Properties, which is also the largest South Africa primary listed REIT, with a diversified local portfolio of retail, office and industrial properties.

Over the past two years, its latest results show, the value of its South Africa portfolio has been written down by R12,5bn due to the poor property market fundamentals, driven mainly by income uncertainty from the country's economic challenges and the impact of Covid-19.

And in the 12 months to 31 June, the value of all its assets was written down by 8,4% to R152,8bn from R166,7bn at the end of the prior financial year.

Another local heavyweight among the REIT's is Attacq, which is focused on Waterfall City and which owns a portfolio of retail, light industrial, office, hotels and residential assets. It said that the negative movements in the fair value on investment property during the year to 31 June amounted to R1,5bn, while in 2020, the negative value was R1,6bn.

Resilient, another REIT that focuses on dominant regional shopping centres with national tenants, saw its assets revalued upward by 2,2% in the year to 30 June, following a very limited downward valuation the previous year, as footfalls at its centres tended to decline less as shoppers needed to go there to do essential shopping.

Vukile's chairperson, Nigel Payne, said Covid-19 had increased the pace of change in retail over the past year. Changes such as the shift to online shopping escalated through pandemic lockdowns to radical changes in the way customers work, socialise and live.

He said in the annual report, however, that physical retail space, however, will remain critical to the use of omnichannel services by retailers.

South Africa Property Owners Association chief executive Neil Gopal said property valuations were a function of income streams, and with the negative impact of Covid-19 on income streams, "we would need economic growth to address this".

He said the influence of online shopping did not necessarily have an impact on property valuations because South Africa had not seen as big an uptake of online shopping trends as has been the case in more developed countries such as the US and EU.

South Africa ranks sixth in the world for its number of shopping centres, with more than 24 million square metres of combined floor space.

Rawlins said three ingredients were required for successful property investment: good management, good properties and a growing macroeconomic environment, and in South Africa, the economy, with its steadily declining consumer disposable incomes, “is just crushing” for the local commercial property sector.

And while he did foresee the local commercial property market rebound, it would be off a low base. He did not see a point in the near future where they would be able to produce the growth and returns of some other REITS in other parts of the world.

Comment

We have invested about Growthpoint R9,7bn, Attacq R983mn, Resilient R1,8bn, Vukile R2,1bn. Good news about REIT is good news for our ROI. This over and above our own real estate ownership pf about R14,6bn.
REIT – real estate investment trust

Synopsis

Redefining the retail property sector

29 September2021
INCE|Community
The Finance Ghost

Redefine has released analysis on the post-pandemic retail landscape. We aren't quite in post-pandemic phase yet, but goodness knows there are enough green shoots for us to start to believe that normality could return.

Before diving into that, it's great to see that the fund plans to expand solar capacity by a further 13,4 megawatt peak due to the lifting of the 1 megawatt restriction by government. Along with existing projects, the solar investment of R170mn will achieve annual electricity cost savings of R36,5mn at a yield of 21,5%. This means that solar projects probably offer the best investment opportunity currently available to South African REITs.

Using Nedbank data, Redefine notes that total in-store card volumes decreased 7% in 2020 vs. 2019. Based on the first eight months of 2021 vs. the last eight months of 2020, volumes grew 8%. In other words, the data shows that in-store volumes are returning to pre-Covid levels.

Digital card volumes have approximately doubled since 2019, but still only make up 12% of total card purchase volumes. This ties in with the reports we've seen from major retailers, confirming huge growth in ecommerce but cautioning that it remains a very small part of total sales. The Redefine report claims that only 2.8% of total retail sales in South Africa are online.

To respond to the online shift, Redefine is partnering with Quench to bring an omnichannel offer to customers that will allow them to shop multiple stores from Redefine malls on a single platform. This is a fascinating trend and consumers can only win going forward, as companies compete for our hearts and wallets with innovative platforms, specials and lower delivery fees.

Trading density is a critical measure for retailers. The ratio is calculated as annualised sales per square metre, which puts a value on the space and the products being sold in that space. Encouragingly, MSCI Real Estate estimates that trading density has returned to pre-Covid levels, after being smashed in the worst of lockdown last year.

A further trend of interest is that foot count is way below pre-Covid levels. This means that spend per trip has gone up overall. People are going to the shops less frequently and are buying more each time.

When you break the trading density trend down by type of centre, you see that only the Community shopping centres are trading ahead of pre-Covid levels. Small Regional centres have been hit the hardest, as shoppers chose convenience above limited choice. Super Regional centres were more defensive, offering destination shopping experiences.

Unsurprisingly, the rental reversion trend (renewals of leases at lower rates) has not been as painful in Community centres as it has been in Super Regionals. When centres are busy, the landlords have more power. The property game is simply about where the negotiating power sits between tenants and landlords.

The impact of significant lease restructuring and negative reversions means that the gross rent to sales ratio (which measures how expensive the lease is for retailers) has almost dropped back to 2020 levels:

Despite these promising signs, the vacancy rates are still substantial. At the start of December 2019, the vacancy rate was only 3,8%. It spiked to 6,3% by June 2021. When viewed by category of retailer, the clear trend is that apparel stores have given up space and homeware stores have taken a bigger share than before.

When measuring turnover by type of tenant for the 12 months to July 2021 vs. the 12 months to July 2019, hardware and homeware are the stand-out winners with 45% growth. Sit-down restaurants were down 5%, while takeaways and fast-food were up 26%.

Comment

We have about R7,1bn in Redefine.
The influence on ROI is immense, given that we have about R14,6bn invested in real estate. Not good for our Fund's funds.

Synopsis

Distell's deal cocktail is still being mixed

3 September 2021
INCE|Community
The Finance Ghost

The potential transaction with Heineken is still being negotiated. To be fair, this will be a massive transaction if it happens, as Distell's market cap is around R41bn. Heineken's market cap is €51bn, which is nearly 22x larger than Distell. Heineken isn't exactly betting the farm on this deal, but it's still large enough to matter.

Distell had hoped to provide detailed information by now. That clearly isn't going to happen, so the company released an update noting that "satisfactory progress has been made with regards to the discussions with certain issues still to be agreed".

I can only speculate whether the recent approach by the Competition Commission to the Burger King South Africa deal may be impacting discussions. Ironically (and I can hardly believe I'm having to say this), Distell benefits from *not* being held by a Black-Owned investment entity.

We live in strange times.

Distell's business has performed remarkably over the pandemic. Return on invested capital in the most recent financial year was 10bps higher than pre-Covid levels. Headline earnings per share is materially ahead of 2019 profitability. It's not difficult to see why Heineken is willing to look past the risks of operating in South Africa.

It's still entirely possible that this deal could fall over. If it does, the dividend that Distell will be able to pay shareholders (as it was withheld as part of negotiations) won't make up for the pain that the share price will take.

Distell is up over 91% this year. Sounds great, until you see that the company is up only 6,4% over 5 years.

2016 really was a horrible vintage for investing on the JSE.

Comment

We have about R8,9bn in Distell. We will have to wait and see if the transaction proceeds to final sale.

Synopsis

IDC slashes losses from over R3bn to R33m

Moneyweb [SAFM]
By Fifi Peters
29 September 2021

FIFI PETERS: The Industrial Development Corporation, the IDC, will be a key partner in funding South Africa's Economic Reconstruction and Rebuild Programme. The development finance institution is one of the lenders where small- to medium enterprises generally go to get funding for their development projects.

We have the CEO of the IDC, TP Nchocho, joining us on the Market Update for more, just to tell us how the development objectives at the IDC are going. TP, it has been a long time. Thanks for joining the Market Update.

TP NCHOCHO: Thanks for inviting me, Fifi.

FIFI PETERS: I see that the IDC released its [annual] results yesterday and things are looking a lot better compared to the previous year. But what stands out for me is the improvement in your annual loss from R3,7bn to R33mn this time around. It came at a significant cost regarding how many businesses you were able to provide new funding [to], is that a correct assessment?

TP NCHOCHO: I would say yes. We had to manage the organisation prudently in order to return to profitability. You should have seen in the results that the IDC turned the loss around this year by more than 200% to a profit at the IDC of R3,3bn. It was only after the consolidations of our loss-making subsidiaries that we narrowed at a consolidated group level, to a loss of R33mn that you're talking about.

So, the IDC itself is standing strong and we are grateful for the recovery that we have seen, but it did come at the expense of new advances. The point that we made at our results presentation was that the economy was very difficult to lend into.

The IDC invests in the real economy. It is extremely difficult to sustain high levels of investment flows into the economy when businesses themselves are pulling back.

Over R9bn transactions that we had already approved the year before were cancelled during last year. Companies [were] simply saying: "No, we're holding back our expansion plans and our growth plans."

So largely the state of the economy, really low business confidence, low capital formation and all these factors, I would say.

FIFI PETERS: Yes. Just looking at that funding value chain, as you rightly mentioned you had to exercise prudence. I did see that funding towards black industrialists over the period was down, towards women was down, and towards youth entrepreneurs was also lower. You do mention that some of the transactions that had been approved [for] companies pulled back.
But how much of this was you as the IDC also having to show tough love and to reject proposals?

TP NCHOCHO: In an environment of economic decline, with more than 7% of the economy shrinking last year, there were applications that came through. As we did our credit assessments, to be honest there were indeed a significant number of applications that we declined, because we believe it is only responsible lending to say if the liability prospects of a business are really, really poor in our assessment, we shouldn't just do lending for the sake of lending. It is important that we stay with our current strategy of development finance, which is sustainable in the long term. So yes, a greater selectivity in our credit granting was a factor.

FIFI PETERS: Let's talk about the current strategy then, because the IDC is expected to play quite a big role in the rebuild programme. A big chunk of that rebuild programme is centred around infrastructure. We have heard of various deals on the table and in the pipeline. Can you just give us a sense of how much you are setting aside as the IDC, or how much you have dispersed towards the rebuild?

TP NCHOCHO: The priority sectors, Fifi, yes, infrastructure, and in the second instance energy; we are also looking as a priority sector at the chemicals and the pharmaceuticals environment, and agriculture and agro-processing are right up there in the priority list. The automotive sector as well is very high up there.

Recently the European Union said by 2030 they will be stopping cars that are fuel-fired, and so there is a massive adaptation that has to happen in the automotive sector in South Africa, and this is where we see investment activity.

At the moment, Fifi, we are just over halfway in the year and we have already granted in excess of R6bn into the economy. We have a pipeline that we are evaluating at the moment, which is just over R7bn. But in addition to that, there are many other medium to long-term prospects, amounting to R24bn or so, that we are looking at.

In the energy sector we are seeing a wide spectrum of opportunities that have come out of the changing policies regarding self-generation. In that sector alone we are evaluating R8bn worth of opportunities that will come in tranches. We will do some this year, some will mature maybe in 12 months' time, and so on. That's where the priority areas are.

FIFI PETERS: Lots of billions there that you've mentioned. I suppose the hope is that they translate into real outcomes of growing the economy and creating a jobs.

TP, we will have to leave it there. Thanks so much for joining the Market Update. That was TP Nchocho, CEO of the IDC

Comment

We have about R5,5bn in IDC bonds, etc. Of course, one will have to peruse its Annual Report to see how the turnaround happened. It might be that a lot of cross subsidising is taking place, the profitmaking developments being used to pay for the losses. Let's take the statement at face value and trust this is one SOE performing as it should.

Synopsis

BER warns of a prolonged recovery in real estate, transport and hospitality

IOL
By Siphelele Dludla
30 September 2021

The Bureau for Economic Research (BER) has warned of a prolonged recovery in industries including real estate, transport and hospitality due to continued subdued activity even after the easing of lockdown restrictions.
The BER yesterday said harsher lockdown and unrest had hit transport, real estate and hospitality industries in the three months to September, in spite of confidence in the other services sector rising for the fifth consecutive quarter.

Data from the BER showed that confidence in the other services sector rose from 34 index points in the second quarter to 37 index points in the third quarter of 2021. The "other services sector" is made up of the hotels, restaurants, transport, real estate and business services, to distinguish them from the retail, wholesale and motor trade sectors.

BER's deputy director, George Kershoff, said although the increase was encouraging, the current reading nevertheless indicated that only slightly more than one third of respondents were satisfied with business conditions in the third quarter.

Kershoff said the overall results hid a divergence among the sub-sectors as confidence and volumes deteriorated in all the sub-sectors except for business services. He said although the continued improvement in business volumes in the crucial business services sector was encouraging, it could not make up for the declines in all the other sectors.

"In addition to the third Covid-19 wave and looting in July, the continued lack of international tourists and business travellers kept on stifling the accommodation sector," Kershoff said. "The resumption of limited indoor dining in August supported restaurants, but household income pressures and reduced patronage kept a lid on improvement."

In the transport sector, Kershoff. said passenger land transport, travel agencies and tour operators continued to take strain owing to the third Covid-19 wave and the absence of international tourists.

Recent tourist accommodation statistics have shown a gradual recovery since February, but the move to stricter lockdown restrictions had a severe impact on the hospitality industry. Statistics SA recently revealed that seasonally adjusted income for tourist accommodation plunged by 52,8% month-on-month in July. Hotels and guest houses/ farms were hardest hit, with income declining by 60,3% and 60,6%, respectively.

When compared to the same month in 2019, total income for the industry was down by 74,2%. In addition, occupancy rates stood at only 16% in July. To put this into perspective, in 2019, the average occupancy rate for the full year was 46,6%.

Kershoff said the absence of international tourists, Covid-related restrictions and consumer anxiety continued to hurt the hospitality, conferencing, exhibition and passenger transport industry in particular. "A stronger, sustainable recovery in these industries is only likely to start in 2022 once vaccinations have been rolled out more widely and international travel resumes," Kershoff said. "Property management and business services are likely to trail the recovery of the rest of the economy."

Comment

Important to note that the GEPF has sizeable investments in all these sectors. Slow recovery is better than no recovery but doesn't really help the Fund or its future beneficiaries.

THE GEPF WATCHDOG/WAGHOND FACEBOOK PAGE

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 briefings by the GEPF Board of Trustees 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 57 000 members and continually growing, but this isn't enough. However, this 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".

We remain 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.

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.

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 and the power to force 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, not looters and mismanagers!

VRYWARING

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VERKLARING. F 13/ 2021

UITGEREIK DEUR DIE VERENIGING VIR DIE MONITERING EN BEVORDERING VAN STAATSDIENSPENSIOENE (AMAGP)

Kaapstad
21 September 2021

KORRUPSIE: WAAR IS DIE KAMPIOEN SE UITKLOPHOU?

In ʼn verklaring op 17 September 2021 het die Presidensie die beuel geblaas omtrent hoe goed die President en sy regering gevaar het in die stryd teen korrupsie. Hulle word selfs kampioene genoem.

Ons by AMAGP is dankbaar vir die stappe wat reeds gedoen is om korrupsie te bekamp. Om 'n kampioen te wees, verg egter ' n uitklophou. Ontbreek dit nog? Of sien ons dit net nie?

In die mediaverklaring is onder andere genoem dat die Mpati Kommissie van Ondersoek deur mnr. Ramaphosa aangestel is om ongerymdhede by die Openbare Beleggingskorporasie (OBK) te ondersoek en aanbevelings te maak. Die OBK, ʼn staatskorporasie en dus oorhoofs onder die President se beheer, is die Staatswerknemerspensioenfonds (GEPF) se beleggingsagent.

Ons is dankbaar vir die werk wat die Kommissie gedoen het om ongerymdhede oop te krap, sommige waaroor AMAGP al jare gekla het. Heeltemal tereg is omvattende aanbevelings gemaak om die betrokkenes aan die pen te laat ry en miljarde rande wat deur korrupte transaksies verloor is, terug te vind.

Net jammer dat in die byna twee jaar sedert die Mpativerslag vrygestel is, geen sigbare vordering met die uitvoering van die aanbevelings gemaak is nie. As vordering gemaak is, word dit geheim gehou. Die persepsie is onvermydelik dat die bevindings en aanbevelings onder die mat ingevee is. Alles is doodstil by die OBK – besigheid soos normaal. Geen daadwerklike hofaksies nie, geen berigte van inhegtenisnemings deur die Valke nie, geen inligting oor terugvorderings van geld wat in verliese deur die pensioenfonds, pensionarisse en werkers gely is nie. IS DIE PRESIDENSIE BEWUS HIERVAN? ONS MIS NOG DIE PRESIDENT SE UITKLOPHOU.

Ons maak nou op die President staat om toe te sien dat die aanbevelings van die Mpatikommissie uitgevoer word.

Miskien het die tyd ook nou aangebreek om 'n leemte in die Wet op Kommissies, 1947, reg te stel deur 'n bepaling in te voeg om betrokkenes te verplig om gereeld aan die Presidensie verslag te doen oor die vordering wat met die uitvoering van aanbevelings deur kommissies gemaak is.

Adamus P Stemmet