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 your investment, your future

NEWSLETTER NO 9 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 entities

The Government Employees Pension Fund (GEPF) is Africa's largest pension fund. We have more than 1,2 million active members, around 406 395 pensioners and beneficiaries, and assets worth more than R1,6 trillion. https://www.GEPF.gov.za/

IMPORTANT - PLEASE READ AND ACT

Please note membership of Watchdog and FORUM does not automatically make you a member of AMAGP, you have to join AMAGP separately. Please join urgently and it is free, we need your membership to strengthen our official position. The procedure is:
1. Go to the link, click and open the page https://www.amagp.co.za/
2. In the top left hand corner you will see the link 'Membership registration', click on this link, a new page will appear where you can choose either Afrikaans or English, make your choice and click.
3. Complete the application form that appears and submit.
4. You are now a member of AMAGP and membership is free.

There are no obligations to fulfil, except joining and being concerned about your pension.
Thanks

The Editor's Word

The big news is undoubtedly the looting and infrastructure destruction. Don't call it protest action, otherwise there would have been no looting. Legal proceedings subsequently won't repair the damage to the small businesses and the loss of livelihood. We, too, have become losers in this infrastructure devastation, which destroyed part of our investment portfolio, to my mind an intended consequence of political party faction infighting.

The influence on the economy, in which our Fund has a massive shareholding - Woolworths, Truworths, Tongaat, Standard Bank, Spar, Foschini, Shoprite, Spur, Pick 'n Pay, Mr Price, Massmart, FNB, Famous Brands, Dischem, Clicks, Cashbuild, Absa, to name just a well-known few of our hundreds of investments - is a general drop of between 5% and 10% in share price and subsequent value of the GEPF.

The immediate implication to our Fund is a severe drop in the value of its investments [share prices], with a longer term drain to reconstruct shopping malls. The ensuing drop in the economy and economic growth might lead to a very small or no increase in monthly pension next year. Etc.

We accept SASRIA will make good losses, but how many and how much and when? And the 'government' is the sole owner of SASRIA. To which all of use with short term insurance pays a monthly amount. However, SASRIA and short term insurance companies have already confirmed their SASRIA claim procedures are ready and waiting.

Funding to re-establish the SMME brutalised by this political faction rumpus, and the shopping malls, of which we own quite a few, must be found. This isn't going to happen overnight, so where is the 'government' going to look? We would like the perpetrators of this dastardly deed to pay, but they are going to appeal up to the Constitutional Court and spend all their money on lawyers. What is left?

This is the time for the BOT to be Trustees and stand firm, for our Fund not to be looted too. The Fund's members and beneficiaries stand sympathetic towards the very severe losses but their future well-being depends on the Fund.

The fiscal position and the government's own public finances: "This has been dwindling over time. But think about it. Today, 18 million people are on social grants, with 14 million taxpayers. 20 years ago, this was reversed, with just 2,5 million people on social grants, and 12 million formally employed. The situation now is unsustainable."
Nkosana Mashiya, executive of Risk Management at Capitec.
The 'government' wants the minority of people [we tax payers – members and pensioners] to pay the majority of people to do nothing [social grants].

Vukile Property Fund's disposal of the King Senzangakona Shopping Centre to Community Property Fund, controlled by Old Mutual, has been given the all clear by the competition authorities.
We hold about R2,3mn shares in Vukile.

Now for the newsletter

The announcement of an ombudsman for the GEPF is long overdue. Its role is clear, but we will have to see how much value it will really add. At the same time the Minister of Finance has appointed an advisory board to the GPAA. What the real reason for this board is, isn't clear yet, irrespective of what the press release says.

Some news about our investments.

Ellies has evidently secured a very good B-BEE deal, improving its value and, of course, its ROI for us. Yes, we have shares in Ellies, although the share price has dropped seriously since 2018.

The Steinhoff saga is wending its laborious way through the courts, with lawyers being huge winners. It's still going to take years to resolve.

A Dubai based company is set to acquire Imperial, in which we have about R1,4bn. Means delisting.

Prosus and Naspers have a complicated relationship, each owning part of the other.

Read more about these complications and the role of shareholder activism. Interesting reading, especially the Chinese aspect.

Standard Bank intends to buy the remaining shares [46%] of Liberty and delist it. This improves Standard's financial services and makes sense as it already owns 54% of Liberty.

The 'government' has amalgamated its four petroleum companies into one, claiming maximum value for the country. I trust it won't have more employees after amalgamation than before.

Some new information about the 'government's' intention to amend Regulation 28, from pension funds themselves.

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Synopsis

GEPF OMBUDSMAN (GEPO)

1 July 2021
By GEPF

The GEPF today officially launched the Government Employees Pension Ombud (GEPO).

The Ombud, an independent internal structure of the GEPF, has been set up to deal with administrative complaints against the GEPF from its members, pensioners and beneficiaries. GEPO is independent from line management of GEPF and GPAA and reports directly to the Board.

"The purpose of the GEPO is to facilitate, investigate, determine and resolve complaints lodged by members, pensioners and beneficiaries of the GEPF in a fair, impartial and timely manner", says the Chairperson of the GEPF, Dr Renosi Mokate.

"Furthermore, the GEPO provides an informal yet accessible and cost-effective alternative to other remedies, such as court proceedings.

Advocate Makhado Ramabulana will act as the Ombud effective from 1 July 2021.

Amongst others, the Ombud will engage on matters related to:

- Unreasonable delays in processing of payments that are due.
- Failure of officials to perform their duties in terms of the Fund's law and rules.
- Breaking of a commitment without a justifiable reason.
- Providing incorrect or misleading information.

Detailed guidelines on how to lodge a complaint is available on the GEPO website at www.gepo.co.za with the option to lodge the complaint on the website.

Complaints can also be submitted in writing or emailed to the**:**

Office of the Ombudsman Attention:
Complaints Manager, PO Box 11005 Hatfield, Pretoria, 0028
Email: enquiries@gepo.co.za
Telephone: 012-110-4950

Comment

About time. The creation of an ombudsman for the GEPF has been in process for more than five years. We trust this will add value to the GEPF and speed up resolving pension issues.

Synopsis

Mboweni names board to advise on pensions

IOL
5 July 2021
By Dineo Faku

The Finance Minister has appointed an advisory board to the Government Pensions Administration Agency (GPAA) for a three-year term, the Finance Ministry said on Friday.

The GPAA reports to the Minister of Finance and administers funds and schemes on behalf of the GEPF.

The Pension Funds Adjudicator, Muvhango Lukhaimane, has been named as the board's chairperson. The other appointees to the board are the deputy chairperson of the board of the Trans-Caledon Tunnel Authority, Maemili Ramataboe; a chief director: risk management in the Office of the Accountant-General, Beerson Baboojee; and Higgo du Toit, a retired public servant with a career that spans more than 43 years in various roles within the Finance Ministry.

"The Advisory board will advise the minister on pension administration matters, the performance, governance and operations of the GPAA, and any specific issue that the Minister may determine in writing," the Finance Ministry said in a statement.

The appointment of the advisory board comes as the National Treasury has opposed the Pension Funds Amendment Bill that aims to make it possible for members of pension funds to borrow against their retirement savings. The Treasury said most retirement fund members were already overly indebted, and household debt was a staggering 77,1% of nominal disposable income last year, with household debt servicing at 8,5% of disposable income.

"Incurring further debt could have a significant impact upon members' financial security over the long term, including into their retirement years," said the National Treasury.

The recent 10X 2020 South African Retirement Realities Survey found that 49% of people surveyed said they did not have a retirement plan.

Comment

Wonder what was the reason for the board? We might be seeing interesting recommendations in the future, emanating from this board. Interesting the GPAA doesn't report to the GEPF but to the Ministry of Finance.

Synopsis

STATEMENT (R10/21)
Issued by the Association for the Monitoring and Advocacy of Government Pensions. (AMAGP)

Cape Town
6 July 2021

WHY AMAGP SAYS NO TO THE PROPOSED TAKATSO (HARITH) TAKEOVER OF SOUTH AFRICAN AIRWAYS (SAA)

Indeed, the Association for the Monitoring and Advocacy of Government Pensions (AMAGP) and all its members are up in arms!

It seems that the public and some of the members of the GEPF find it difficult to comprehend why AMAGP is so up in arms about the latest SAA "deal" that features Harith General Partners (HGP) as the major partner in Takatso, the consortium aiming to take a 51% share in SAA.

THIS IS WHY:

Harith was established in 2006 with 100% seed capital from the Public Investment Corporation (PIC):

- In 2019, the PIC's financial statements reflects that it had a 30% share in Harith General Partners (HGP), as well as a 46% share in Harith Fund Managers (Harith). There is no indication of how the rest of the seed capital (24%) was spent.
- The PIC acknowledges that it still owns 30% of HGP.
- The GEPF denies that it is involved in the funding of SAA.
- As the GEPF is the largest investor in the PIC, it is highly unlikely that the PIC's funding of Harith could not include GEPF funds.

FACT: The GEPF thus will have a stake in SAA, whether it admits so or not.

The Mpati Commission of Inquiry was appointed into allegations of impropriety regarding the PIC, this as a result of pressure on the government by worried pensioners, including AMAGP. The Commission was scathing in some of its findings regarding the establishment and management of Harith.

The Commission even used the term "legal corruption". It also recommended that the PIC and GEPF together appoint an independent investigator “as soon as possible" to investigate certain matters concerning Harith.

That was more than a year ago, on 12 March 2020.

- To date, there has been no return on the PIC (GEPF) investment in Harith – nor is there likely to be.

- If this deal goes ahead, there is a huge chance that the shortfall in current funding for the Takatso deal will have to come from or via the PIC.

- Neither the PIC nor the GEPF have done much to address the findings and recommendations of the Mpati Commission.

The United Democratic Movement (UDM) is of the view that the Parliamentary Standing Committees for Public Enterprises and Public Accounts have been side-lined. It is now calling for a special review by the Standing Committee on Public Accounts (SCOPA) to address the whole Harith debacle – including the SAA deal, but with much, much more to be investigated. AMAGP supports this move.

However, AMAGP cannot rely on others to fight our fight. GEPF Pensioners should unite in their efforts to safeguard our pension fund.

We are also of the opinion that the PIC and GEPF should be required by SCOPA to report on their progress, if any, regarding their compliance with the recommendations of the Mpati Commission.

The GEPF is not secure against further “looting” for the SAA deal. Therefore, our concerns are not at all far-fetched.

THAT IS WHY AMAGP IS UP IN ARMS!

Adamus P Stemmet
Spokesman AMAGP

Comment

Expanding on the previous press release, more detail. The UDM letter https://udm.org.za/200701-3/ is voluminous and raises serious concerns, which this press release supports. Please read the letter, it explains Harith and its background clearly and in detail. Eminently readworthy.

Synopsis

Ellies achieves a non-dilutive B-BBEE deal

7 July 2021
INCE|Community
by The Finance Ghost

There was a time on the JSE when B-BBEE deals kept corporate advisors busy, especially the advisors who weren't making money from property fund capital raises. With the revised B-BBEE Codes, many companies had to top-up on ownership deals.

They are less frequent these days, with deals occasionally being rolled or restructured. New deals are rather unusual.

Ellies has a market cap of just R62mn. The share price is less than a third of what it was at the start of 2018. Ellies was in really bad shape from a B-BBEE perspective, listed as non-compliant and thus unable to win business that requires a decent B-BBEE rating. This deal was desperately needed.

B-BBEE Ownership transactions are usually expensive for current shareholders. Shares are issued at a discount and there's typically a bank guarantee of some sort as well. However, Ellies has managed to pull off the "cheapest" B-BBEE deal I've ever seen.

The B-BBEE partner is the Imvula Education Empowerment Fund Trust, which suggests that broad-based ownership points will also be scored by Ellies.

In this case, the B-BBEE shares are being issued at 10 cents per share, which was the prevailing market price before the announcement. This definitely isn't the norm, with such deals usually concluded at a 10%

discount. This helps to lock in the net equity value points for the first year, in an attempt to avoid the nasty penalty level drops in the Codes.

In fact, these shares are being issued at a slight premium to the 30 day VWAP (volume weighted average price). That's extraordinary for a B-BBEE deal.

There's a 10-year lock-in period, which is definitely towards the upper end for these deals. In fact, I can't recall seeing a lock-in longer than this. With such a long lock-in, I'm even more surprised that the shares have been issued at the prevailing market price rather than a discount.

It gets more interesting after that. Imvula will fund the subscription price from its own cash resources, with no funding required from Ellies. Ellies will receive a genuine cash injection from this transaction of around R18,5m.

This takes Ellies from non-compliant to Level 4, via an issue at a premium to VWAP with no vendor assistance and a 10-year lock-in. Next time you need to negotiate your lobola payments, I highly recommend sending a representative from Ellies. I don't think I've ever seen a B-BBEE Ownership deal on such favourable terms to the company being empowered.

What's in it for the B-BBEE partner, I hear you ask? Well, the Trust achieves a significant stake in the company which would otherwise be impossible to build in an illiquid small cap without sending the share price to the moon. Also, the Trust has numerous social objectives at its core and will be allowed to identify beneficiaries to receive the other types of B-BBEE spend that Ellies is required to execute, like skills and supplier development spending.

It's not surprising that the Ellies share price jumped 20% on the day. They've empowered the business at literally no cost to existing shareholders.

Comment

I trust that the transaction is understandable. It means Ellies managed to upgrade its B-BEEE status without it costing a lot.

We have about R10,45mn in Ellies. Good to know of an investment that is performing.

Synopsis

Appeal against Steinhoff withdrawn in Holland

8 July 2021
INCE|Community
by The Finance Ghost

Steinhoff is fighting legal battles on both fronts, with mixed results.

Steinhoff desperately needs to achieve a legal settlement before it can go about cleaning its balance sheet. Although the underlying operations are posting decent results at the moment, the overall group debt is completely unsustainable.

This risk is why the share price is more erratic than a Jack Russell on heat, posting huge intraday gains and losses. It's a trader's dream at the moment.

Hamilton (not Lewis) has been fighting in court on behalf of large South African asset managers, hoping to get a better offer from the company vs. the current settlement offer on the table.

In Holland, Steinhoff is following a Dutch suspension of payments process as part of trying to reach a legal settlement. Hamilton lost out in court on that front and appealed the ruling, but has now withdrawn the appeal.

Why, you ask?

Steinhoff doesn't say as much in the SENS, but I suspect this is because of the substantial hiding that the South African courts dished out to Steinhoff last Friday, which is what caused the precipitous drop at the start of this week.

I'm no lawyer, but if the s45 resolution to restructure the debt was void under the Companies Act (as the local court has ruled), then Hamilton has made substantial progress in sending Steinhoff back to the negotiating table.

I can only see two potential outcomes here. The first is that Steinhoff spreads the breadcrumbs more evenly among the creditors. The second is that Steinhoff enters liquidation proceedings.

The company is quick to remind everyone that a settlement is a better outcome overall. That's true, provided creditors are treated fairly.

The current anger from the likes of the Tekkie Town founders (who sold to Steinhoff in exchange for shares) and the large asset managers (represented by Hamilton) is that creditors who should've known better (like Christo Wiese) were in line to receive a higher quality settlement than those who sold businesses to Steinhoff or invested based on publicly-available information.

I can't blame them for being angry.

Comment

The saga continues, we have lost most of the value in Steinhoff, but hopefully dividends will continue. The only winners will be the lawyers.

Synopsis

Government is preparing to establish a new state-owned oil and gas sector

IOL
By Dineo Faku
8 July 2021

The Department of Mineral Resources and Energy (DMRE) said yesterday that it planned to collapse existing state-owned entities in the oil and gas sector into a new national oil company that would become a key player in the entire value chain.

The department said the entity, to be called the South African National Petroleum Company, would be formed from the merger of Central Energy Fund (CEF) subsidiaries PetroSA, IGas and the Strategic Fuel Fund (SFF) into the single entity.

Ntokozo Ngcwabe, DMRE deputy director-general: mineral policy and promotions, said the new company would ensure that South Africa played in the petroleum space and maximised value of its own resource potential. Ngcwabe said the department wanted the company to play in the upstream space.

“In the upstream space we are looking at becoming a leader in terms of exploration activities for the country. We are looking at playing in the midstream space, and in the long term we are also saying we are looking at possibilities to play in the downstream space,” Ngcwabe said. “I must say that we are doing this on the back of thorough research – and benchmarking what we have done with major oil producing countries.”

Ngcwabe said the trend among major oil producing countries was to establish a single national company that ensured maximum value was derived from the resources of those countries.

“A lot of questions that we get have a lot to do with the shift from high carbon to low carbon emissions and the scarcity of funding towards oil projects.” “We are saying we are wanting to do this, keeping in mind the need to deploy clean technologies. It sits very well within the country’s ocean economy agenda,” Ngcwabe said.

The CEF board last month gave management the green light to kickstart the process of consolidating the three entities.

While IGas was liquid, PetroSA has been struggling with liquidity and insolvency challenges, and an SFF forensic report said that it had sold 300 000 barrels of oil without proper approvals, and was with the Hawks for further investigation.

Mineral Resources and Energy Minister Gwede Mantashe told the virtual energy policy conversation that the DMRE was awaiting Cabinet approval.

Mantashe said the department had done its first phase with various options at its disposal. He said once the Cabinet approved the proposal, the department would move into the formation of the new company.

“We looked into the state of the State-owned entities in our portfolio, and one of the shocks that I found was that a company called IGas had a Board and was operating fully,” he said. “When we looked closely, we saw it had a Board of eight people and was employing two people. We said it is not working and not sustainable,” Mantashe said.

He said that PetroSA was a typical example of asset stripping. “In 2014 PetroSA had R27bn reserves; when I walked in there it had no reserves, it was battling to cope with the day-to-day costs. There was a strong proposition to sell it. We said no, if we sell it, we will meet the objectives of the asset strippers – they want us to sell PetroSA for a song and they go to the other side and make a killing out of it.”

Comment

Even the Minister notes that the SOE weren’t working, but doesn’t seem to be doing anything about bringing the culprits to justice. An SOE with two employees and paying eight board members sounds like a typical SOE, or am I being too cynical? It seems we are going to have one new SOE to replace the others that weren’t working.
It seems the ‘government’ wants to compete with the private sector with this new SOE. Why?
According to the internet it was going to be launched on 1 April, hopefully not April Fool’s day.

Synopsis

What the Gatekeepers think of Reg 28 Amendments

9 July 2021
DealMakers
Michael Avery

Last year, government unveiled 50 strategic infrastructure projects (Sips) and 12 special projects involving a total investment of R360bn, as the first tranche of a massive infrastructure expenditure programme to drive the post COVID-19 economic recovery effort.

These initial Sip projects are expected to create an estimated 275,700 jobs in six sectors: water and sanitation, energy, transport, digital infrastructure, agriculture and agro-processing, and human settlements. However, a major question mark remains over how these projects will be funded.

In April 2020, we had calls from the private equity industry to increase prudential limits on asset allocation imposed by Regulation 28 of The Pension Funds Act, and to split the asset class from hedge funds.

The conversation became poisoned by the spectre of prescribed assets. However, done the right way, it could present a pathway to prosperity and out of South Africa's COVID-induced economic depression. The waiting is finally over. National Treasury released its draft amendments to Regulation 28 of the Pension Funds Act on 26 February 2021.

It is fundamentally about making it easier for retirement funds to increase investment in infrastructure and improve the measurement of infrastructure investment by the Financial Sector Conduct Authority (FSCA).

The amendments refer to infrastructure investment already permitted through various asset classes and suggest unbundling the asset category related to "hedge funds, private equity funds and other assets". Delinking this asset category will make private equity a separate asset class with a higher investment limit.

What do the pension funds and the so-called gatekeepers, their asset consultants, think of the proposals?

Soyisile Mokweni, Chairman of the Consolidated Retirement Fund, one of the fastest growing local government retirement funds in South Africa, which boasts approximately 52,000 members and roughly R32bn in assets under management, and one of the leading investing funds in alternatives, welcomes the move. It is admittedly one of the more progressive funds in the country when it comes to private equity, with 18,4% of its funds invested in alternatives.

"Given the fact that during the last six years, the JSE has been moving sideways, if you can't find Alpha in the places where you traditionally find the returns, you need to look elsewhere with your investment strategy, and that is the journey we started way back when Regulation 28 was amended in 2011," explains Mokweni.

The CRF is advised by Shainal Sukha, Managing Director of Sukha and Associates, an independent and black-owned asset consulting firm. These are the so-called 'gatekeepers'.

Sukha welcomes the Amendments, in that they will now allow greater transparency, especially for funds that were previously invested through collective investment schemes, which are generally pooled funds and life policies, as that exemption has been removed.

"And so, under Regulation 28, if the current amendments go through, funds will receive greater transparency in terms of their underlying holdings in those life policies and collective investment schemes, which will allow funds to better track the overall allocation to infrastructure, whether it's through equity, debt, property or any other asset class," explains Sukha. "I think it improves transparency, and it also allows government and other stakeholders, like the regulator, to be aware of the amount that retirement funds are actually already investing in infrastructure."

Though Sukha feels the definitions require some tightening.

"I think that the definition [of infrastructure] needs to be expanded. Our understanding, at this stage, is that it only covers public infrastructure, and perhaps the definition needs to be expanded to cover all the infrastructure, including privately financed infrastructure. As you know, many retirement funds, including CRF, participated in a highly successful government program, the renewable energy program. So based on understanding, it seems that the REIPPP programme may not be recognised as infrastructure because it's privately financed. So, we would want to see that definition just expanded slightly."

Anne-Marie D'Alton, CEO of Batseta, believes that one of the most important outcomes is that there is now an opportunity to mobilise retirement funds to approach this investment into infrastructure as a collective effort, to create that environment where funds can collaborate without compromising a decent, risk adjusted financial return, "where you can make sure that the investments really have an impact, that the jobs are created where they're supposed to be created, and finally, that the retirement funds still have the right to decide whether they want to invest or not.

In a world where JSE listings are declining and investors are increasingly finding that the listed environment doesn't afford the levels of protection one used to find comfort in, alternative assets are increasingly receiving consideration as suitable replacements for the long-term needs of pension funds. And the amended Regulation 28 looks likely, once the issues around definitions are addressed, to accelerate this trend.

Michael Avery is the Editor of Catalyst, DealMakers' Private Equity publication.
This article first appeared in Catalyst.

Comment

The gatekeepers seem to be positive about the regulation change. We will have to see what the final version is, as well if the BOT is going to agree to the changes.

Synopsis

Dubai's DP World goes all in on South African logistics company

The Continent Issue 53
10 July 2021

Dubai-based DP World, a multinational logistics company, is set to acquire South African logistics company Imperial after making an all-cash offer of R12,73bn ($887mn) as it seeks to expand its footprint in Africa. The publicly listed Imperial will be delisted from the Johannesburg Stock Exchange when the deal goes through. DP World already has operations in Algeria, Angola, Djibouti, Egypt, Mozambique, Nigeria, Rwanda, Somaliland and South Africa.

Comment

We have about R1,4bn invested in Imperial. I have no idea what happens to our shareholding after the delisting and sale, but *believe the shareholding will change as part of the sale of the company.*

Synopsis

The public vote on Prosus was closer than you think

12 July 2021

INCE|Community

By the Finance Ghost

If you read the announcement from Prosus on Friday, you'll see that the company announced a 90,1% vote in favour of the transaction to create a convoluted cross-holding structure between Naspers and Prosus.

Technically that's true. Before you conclude that the shareholder activism efforts were a waste of time, let's unpack the voting structure of Naspers and Prosus.

I'll start with Naspers.

There are two classes of shares in Naspers. The N ordinary shares have one vote per share and are listed on the JSE. At 31 March 2021, there were 435,511,058 such shares in issue. There are also unlisted A shares, which carry one thousand votes per share but only have one-fifth economic participation. At the same date, there were 961,193 such shares in issue.

So, if we count voting rights, there were a total of 1,396,704,058 available votes of which the A shares control 961,193,000 or 69%. Clearly, the A shares control Naspers. Even if you held an outright majority of the listed N shares in Naspers, you wouldn't control the company.

With that out the way, we can now take a look at Prosus.

There are 1,624,652,070 Prosus N shares in issue, which are the listed shares that you and I can buy. There are 3,511,818 Prosus A1 shares in issue, which carry one vote per share despite only representing one-fifth economic participation vs. ordinary shares.

Prosus is similar to Naspers in terms of two different shares, but here the A1 shares only carry one vote instead of the one thousand votes per share as in Naspers.

Naspers holds 1,180,250,012 of the N shares in Prosus. Even if we don't bother adjusting for treasury shares (shares that Prosus bought back from the market and which thus don't carry any rights but haven't been cancelled yet) or the voting rights on the N shares, Naspers holds 72% of Prosus.

The Naspers A shareholders are in control of Naspers and Naspers is in control of Prosus. Thanks to this dual-voting structure, this behemoth of a company is controlled by a very small group of people, even though their economic interest is a fraction of the size of the group.

But wait, there's more.

If Naspers ever loses the right to control Prosus, then the A1 shares in Prosus convert to A2 shares which carry 1,000 votes per share. This is known as the "Prosus Protection Structure" and you can decide for yourself who the structure is protecting.

In simple terms, the votes for these types of transactions are utterly pointless. Of the total votes that could be cast at the Prosus meeting, a whopping 1,183,761,830 belonged to Naspers and the small group of people that control it.

A total of 1,350,716,564 votes were in favour of the deal to create a cross-holding structure, which the market consistently criticised over recent weeks. Strip out the Naspers vote (which is controlled by the Naspers A shareholders) and only 166,954,734 votes were cast in favour by the public shareholders.

And votes against? 146,977,968.

In reality, only 53% of public shareholders in Prosus voted in favour of this transaction. Achieving a 47% public vote against the deal may not have stopped it going ahead, but the activism efforts were certainly not wasted, with a clear message sent to the board and the management team.

Of course, you won't find that narrative anywhere in the Prosus or Naspers SENS announcements on Friday.

As we stand today, many South Africans are either directly or indirectly (via the JSE index) invested in Naspers-Prosus, with a dual voting governance structure at the top and Chinese regulatory risk at the bottom in Tencent. In case you wondered why there is a massive discount to NAV in this group, now you know.

Comment

The Fund has about R231bn share in Naspers. This article gives you, dear reader, an idea of the inside activities of large companies's acquisitions and mergers.

Synopsis

Standard Bank Group announces firm offer to buy 100% of Liberty Holdings

Standard Bank
15 July 2021

Highlights of the proposed transaction:

- The integration closer of Standard Bank Group and Liberty's products and services will create a strong and established, unified financial services powerhouse in Africa.
- Represents a natural evolution of the successful and strategic relationship between the two entities.
- Enhances scale and competitiveness, providing the best financial services offerings to clients through the most effective means.
- The offer will be made through a combination of Standard Bank Group shares and cash consideration, representing a premium of over 32% to Liberty's current share price.

Standard Bank Group (SBG) is proposing to buy 100% of Liberty Holdings Limited (Liberty) and to integrate Liberty more closely into the greater group. This will, subject to shareholder and regulatory approvals, lead to the de-listing of Liberty and Liberty becoming a wholly owned subsidiary of SBG. SBG currently owns 54% of Liberty's issued ordinary shares.

SBG and Liberty have enjoyed a long-standing strategic relationship, with Standard Bank as a majority shareholder, as well as a highly successful and valuable bancassurance arrangement. The proposed transaction is a natural progression in this special relationship, increasing our ability to collaborate to provide the best financial service offerings to our clients through the most effective means.

SBG CEO Sim Tshabalala said; "The integration of Liberty into Standard Bank Group enhances our ability to meet our clients' financial needs, making possible holistic advice and competitive solutions for them, especially during major transition points in their lives. This transaction creates significant opportunities to find for capital efficiencies and to grow the united group by providing a fully integrated set of client offerings throughout SBG's operations across Africa".

He added: "We are creating a more united Group that will bring our banking, insurance and asset management businesses much closer together to create something really special. This will be a whole that will be much greater than the sum of its parts".

Liberty Group CEO David Munro said, "The proposed transaction is a strong vote of confidence by SBG in the strength of Liberty's business, its client franchise, and, very importantly, its adviser networks and teams of people."

The Independent Board of Liberty intends to recommend that the Ordinary Shareholders and Preference Shareholders vote in favour of the Ordinary Scheme and the Preference Scheme as outlined in the firm intention announcement.

Salient details of the transaction

If the transaction is implemented, Liberty's minority shareholders will receive a cash consideration of R25,50 per share, together with 0,5 Standard Bank shares per Liberty share held. This represents a premium of 40,5% to Liberty's 30-day VWAP prior to the announcement of the transaction, and of 32,6% to the closing price on 14 July 2021.

The transaction will require the approval of Liberty's minority shareholders as well as regulatory approval across numerous jurisdictions, including the SARB Prudential Authority, the JSE, the Competition Commission and the Takeover Regulation Panel in South Africa.

The decision has been approved by the Boards of Standard Bank Group and Liberty. It was also supported by a preliminary independent fair and reasonable assessment which has been undertaken by an independent expert.

Should Liberty's minority shareholders approve the transaction, it is expected to be finalised by the first quarter of 2022.

The group's largest shareholder is the Industrial and Commercial Bank of China (ICBC), the world's largest bank, with a 20,1% shareholding. In addition, Standard Bank Group and ICBC share a strategic partnership that facilitates trade and deal flow between Africa, China and select emerging markets.

Comment

We have about R36,53bn in Standard Bank Group and about R1,48bn in Liberty Holdings. Now we probably will have a larger share in Standard Bank. Looks like a good move with good ROI.

Synopsis

Standard Bank taking Liberty

16 July 2021

INCE|Community

The Finance Ghost

If someone asks me what I do for a living these days, I may as well say that I comment on JSE delistings and other corporate events. Without doubt, this narrative cannot be ignored. The JSE is shrinking by the month.

Liberty was a bit of a sitting duck to be honest. Before the pandemic, it went mostly sideways for several years. Since the pandemic, it bounced around but didn't register much of a recovery. Standard Bank has decided to take action through a buyout offer for the approximately 46% of Liberty that it doesn't already own.

The Standard Bank-Liberty relationship has been in place since 1974, in a classic example of a bancassurance model. This is a fancy word to describe a business model in which banks sell insurance products to clients. In practice, these relationships are often high on gumph and low on execution. It's very easy to talk about cross-selling to clients. It's incredibly difficult to achieve in practice.

However, if Liberty becomes a subsidiary of Standard Bank, the strategy does stand a better chance of success. Clearly, it's much easier to integrate under these circumstances. This opens up new African markets to Liberty and brings additional product opportunities to Standard Bank, especially in the private client space.

We've seen a fair bit of dealmaking in this sector recently. For example, Old Mutual announced recently that it would unbundle more than half of its remaining stake in Nedbank. Sanlam announced the acquisition of the group risk and retail life business of Alexander Forbes.

One wonders if Sanlam might make a play for Alexander Forbes. One wonders if this Liberty deal might encourage such a move. For now, that's purely speculation.

Shareholders representing 35,4% of the Liberty ordinary share voting pool have given letters of support that they will vote in favour of the transaction.

Importantly, the deal is dilutive at earnings level for Standard Bank, which means earnings per share would be lower for the group had it owned Liberty since the start of 2020 (the basis on which the announcement presents this calculation. To be fair, this is based on a watershed year for the life insurance industry that has been dominated by the pandemic.

Standard Bank shareholders don't get the opportunity to vote on the deal as this is a Category 2 transaction. Liberty shareholders will be asked to vote on the scheme, but the strong support from asset managers suggests that deal success is more likely than not.

With the likes of Goldman Sachs and Merrill Lynch advising on the deal, I'm expecting some big fees to be disclosed in the transaction circular when it becomes available.

Comment

Another view of the Standard Bank-Liberty transaction. Adding value to our shareholding in SBG.

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 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 read items saved under "Announcements" 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". There are also registration forms in English and Afrikaans that you can print, complete and return to us under "Files" on the Facebook page.

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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